



GIN SMS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended December 31, 2013 and 2012

Prepared February 28, 2013

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**SECTION 1.1: DATE AND GENERAL INFORMATION**

This management's discussion and analysis ("MD&A") of GINSMS ("GINSMS" or the "Company") has been prepared by management and should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company for the period ending June 30, 2013 which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Specifically they have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The Company's Audit Committee has reviewed and approved this MD&A.

This MD&A was prepared as of February 28, 2013. Additional information regarding the Company is available on SEDAR at www.sedar.com. All monetary amounts set forth in the MD&A are expressed in Canadian dollars, except where otherwise stated.

Caution Regarding Forward-Looking Information

Certain information included in this MD&A may contain forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", or "continue" or the negative thereof or variations thereon or similar terminology. These statements are not historical facts, but reflect management's current beliefs and are based on information currently available to management regarding future results and events. Particularly, these forward-looking statements are based on management's estimate of future events based on technological advances relating to the Company's services, current market conditions and past experiences of management in relation to how certain contracts will affect revenues. Forward-looking statements, by their very nature, involve significant risks, uncertainties and assumptions.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to dependence on major customers, system failures, delays and other problems, increasing competition, security and privacy breaches, dependence on third-party software and equipment, adequacy of network reliance, network diversity and backup systems, loss of significant information, insurance coverage, capacity limits, rapid technology changes, market acceptance, decline in volume of attractions, retention of key members of the management team, success of expansion into Chinese markets, credit risk, consolidation of existing customers, dependence on required licenses, Hong Kong's economy and politics, conflicts of interest and residency of directors and officers. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Company cannot assure the reader that actual results will be consistent with these forward-looking statements.



In particular, forward-looking statements include the following assumptions:

- the Company's belief that the availability of 3G/4G services in China will boost the demand for data related services
- management's belief that the Company is able to generate sufficient amounts of cash to fulfill the working capital requirements of its present operations

These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by law. Accordingly, readers should not place undue reliance on the forward-looking statements. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

Preface

GINSMS Inc. was incorporated on March 20, 2009 and owns through its wholly-owned subsidiary, Global Edge Technology Ltd. ("GET"), all of the issued and outstanding shares of GIN International Ltd. ("GIN"). GIN is a technology services company, focused on providing inter-operator short messaging services ("IOSMS") to mobile telecom operators in Hong Kong. GIN was founded in 2002 and received a public non-exclusive telecommunications service license ("PNETS") from the Office of the Telecommunications Authority ("OFTA"), the governing body for the telecommunications sector in Hong Kong, to provide IOSMS in Hong Kong. On 21st December 2009, this license was replaced by a Service-Based Operator (SBO) Class 3 license issued by the Office of the Communications Authority ("OFCA") of Hong Kong that is renewable annually.

GINSMS also owns since September 28, 2012 all of the shares of Inphosoft Group Pte Ltd ("Inphosoft"). Inphosoft is a private company limited by shares incorporated on September 18, 2009 under the Singapore *Companies Act* (Cap. 50, Statutes of the Republic of Singapore). Inphosoft is headquartered in Singapore with subsidiaries in Malaysia and Indonesia.

The activities of Inphosoft consist in providing mobile data service and solutions with a principal business focus in the following areas:

- a. Provision of products and solutions to mobile operators in the areas 3G/4G mobile data value-added services like mobile entertainment and mobile advertising.
- b. Provision of products and solutions to enterprise to implement mobile Enterprise Resource Planning, Customer Relationship Management and mobile marketing and machine -to-machine applications.
- c. Provision of products and solutions to banks to implement mobile payment and banking services.

IOSMS is a short message services ("SMS") gateway providing connections between all mobile and fixed line operators. The gateway identifies the recipient's operator ID and delivers the message to the corresponding operator's SMS gateway. IOSMS' function is to identify and deliver an SMS correctly. GINSMS has agreements with various telecommunications operators in



Hong Kong. These operators are charged a fee based on traffic relayed through GIN's IOSMS gateway.

SECTION 1.2: OVERALL PERFORMANCE – DESCRIPTION OF THE BUSINESS

In late 2008, GIN carried out a series of system upgrades to improve business efficiency and system capability. The new system became fully operational in the first quarter of fiscal year 2010 and is capable of handling 10 times as much traffic as compared to the previous IOSMS system. The acquisition of this new system was funded through internally generated funds.

After raising approximately \$1.7 million in December 2009 through an Initial Public Offering ("IPO") of common shares, the Company has predicated on capturing a growing share of the Hong Kong market and penetrating the China market for inbound traffic into the country. With the formation of a Wholly-Owned Foreign Enterprise ("WFOE") in China in July 2010, the Company has positioned itself to potentially benefit from the advantages and the flexibility such a vehicle offers to expand into the China market either directly or through partners or through acquisitions. On July 22, 2010, the Company opened an office in Guangzhou, China and in so doing, acquired some equipment for the office. Capturing additional market share in Hong Kong, however, has proven to be more difficult than expected because of aggressive pricing on the part of Company's competitor. In fact, the Company lost market share and, with a new competitor now on the scene in Hong Kong, the viability of GINSMS' IOSMS platform could be compromised. Therefore, more efforts have been devoted toward growth through mergers and acquisitions as evidenced by the recent acquisition of Inphosoft Group Pte Ltd on September 28, 2012.

Until recently, there were only two IOSMS hubs in Hong Kong, namely GINSMS and CITIC Telecom International ("CITIC") (formerly CITIC 1616 Holdings Limited). CITIC is a subsidiary of CITIC Pacific Limited, a large and strongly capitalized public company with a large portfolio of diversified businesses operating around the world. This landscape is now challenged by the text-based short message service hub operated by M800 Limited ("M800"), a new competitor. M800 was founded in 2007 by the Ganges Group in Hong Kong. The Ganges Group is headquartered in Beijing, has offices in Shanghai and Guangzhou and through M800 offers international toll free services as well as mobile value-added and data services. GINSMS' market share over the past several years has generally declined due to CITIC's strong human and financial resources. However, GINSMS has been able to operate profitably for the most part since its formation in 2002 but starting in fiscal 2011 when expenses relative to the acquisition of Inphosoft started to accumulate, combined with the recent decline in SMS traffic, the Company reported losses both in fiscal 2011 and fiscal 2012 as well as during the past quarters in fiscal 2013.

GINSMS has always maintained a close relationship with its customers but is faced by an increasingly competitive market which makes it extremely difficult for a single-purpose platform to continue to attract enough traffic to generate a profit. The acquisition of Inphosoft took longer than anticipated and GINSMS did not have the time to introduce and adequately market crucial value-added services before a third competitor entered its space. As a result of this, the Company has signed new contracts for a period of two years effective March 1, 2013 with the six Mobile Network Operators ("MNOs") under terms and conditions which threaten the viability of the



IOSMS platform. The contracts no longer include bundle fees and per-message service fees are much lower as compared to those negotiated under the previous contracts. The relay costs alone are likely to make the platform unprofitable unless substantially more traffic is generated. In the contract agreements, the Company is obliged to keep the platform operational for a period of at least two years regardless of the volume traffic and the MNOs are under no obligation to direct any traffic to its platform.

Given a strong expansion of global SMS transmission and taking into account the opportunities brought about by the coming on stream of 3G and 4G technologies and the potential of this for value-added services (VAS), management believes that keeping the IOSMS platform operational is paramount to its strategy of focusing on the needs of the enterprise messaging market for mobile marketing and advertising services, mobile payment services, mobile banking and machine-to-machine applications.

Inphosoft Group Pte Ltd

The activities of GINSMS now includes those of its recently acquired subsidiary, Inphosoft Group Pte Ltd. Formed in May 2002, Inphosoft entrenched itself in the mobile ecosystem having completed a vast array of wireless projects in the Asia Pacific region and is recognized for helping to accelerate mobile data adoption and revolutionizing mobile data applications. Contributing to this is the more than 100 deployments among mobile operators, financial institutions, media companies and enterprises. In the field of telecommunications, through its carrier-grade service delivery platform, Inphosoft has helped mobile operators to maximize profit and drive growth through the development of highly complex customer-oriented mobile portals and the managing of solutions assisting customers to unlock and protect the full potential of their mobile communication channels.

History

As a middleware solutions developer, Inphosoft main targets include MNOs, financial institutions, media companies and enterprises. Prior to 2008, the business of Inphosoft was limited to mobile telecom customers in Singapore, Indonesia and Malaysia. In 2008, two major events occurred: (i) an in-house product called Mobile Campaign Manager version 1.0 (“**MCM 1.0**”), was developed. At the time, this new software was considered to be a state-of-the-art mobile advertising platform; and (ii) key relationships with a few companies were established with a few company which, today, are still considered by management as global leaders in the telecommunications industry. The usual modus operandi of the working relationships with each of the partner companies usually involves: (i) identifying an opportunity to submit a bid or tender; (ii) determining the role to be played by the Inphosoft and the partner company; (iii) preparing the bid tender documents which will be submitted in the name of the partner company; and (iv) where the bid or tender is successful, entering into an agreement where Inphosoft plays the role of sub-contractor. A global distribution agreement was subsequently signed with Acision. Acision is a global leader in mobile messaging operating in 100 countries across six continents and a portfolio of products and services which Acision estimates reach some 1.8 billion subscribers. This relationship has helped Inphosoft increased its visibility considerably at a global level and is highly valued by management.

Sources of revenue



Inphosoft generates its revenue from three main revenue streams: (i) professional services; (ii) software license fees; and (iii) support and maintenance services. At present, approximately 89.8% of Inphosoft's revenues are derived from Singapore, the rest about 9.9% from Malaysia and 0.3% from Indonesia.

Professional Services

Professional services comprise of design and development of bespoke software utilizing mobile technology and proprietary know-how and also performs system integration work which includes providing customized green field software solutions to customers or providing customized solutions that are coupled with the deployment of products or third party products, or both. Customers are mainly MNOs located globally.

Software License Fees

Inphosoft researches and develops its own products and licenses these products for a fee to customers for their own use. The license fees are charged based on a right-to-use ("RTU") structure which depends on the amount of capacity purchased. Capacity is measured by a measurement unit known as transaction-per-second ("TPS"). One TPS means that the software is able to support one transaction per second. A transaction can represent different thing for different product. For example, in a system that sends out SMS, a transaction can be defined as one SMS sent out from the system. A customer who buys a 300 TPS RTU license of a product effectively purchases the right to use the software up to the capacity of 300 TPS. To increase the capacity of the system, the customer would have to purchase more licenses.

Support and Maintenance Services

Inphosoft charges a fee to customers who have elected to purchase after sale support and maintenance services. The fee is usually charged on a yearly basis pre-paid in advance. Support and maintenance is provided round the clock seven days a week to customers who have purchased Inphosoft's products or bespoke software, or both, and the support and maintenance services. Occasionally, Inphosoft will also provide managed services to customers. Managed services are typically in the form of operating and maintaining software solutions for the customer in return for a monthly fee and a setup fee, where applicable. The solution may be housed at the customer's premise, or housed externally with a data centre provider. The customer would be able to access services hosted externally via the web browser or through specific application-programming-interface ("API") via web services.

Macroeconomic factors, currency risks, and emerging market considerations

The performance of each segment depends on macroeconomic factors. With the on-going economic crisis in Europe and the United States, management foresees revenue from end customers in these countries to remain weak. Increased competition from local and international competitors will also weigh on performance. Inphosoft's financial performance will also depend on internal factors such as the ability to retain its staff using reasonable means and the ability to continuously innovate and design products that are embraced by its customers as break-through products. At present Inphosoft employs an average of 38 full-time employees consisting of 24 software engineers and project managers, 9 marketing and sales representatives and 5 employees involved in the general administration. None of the employees are unionized. Management considers the relationship with its employees to be very good.



Until the acquisition of Inphosoft, all of the Company's revenue and a majority of its expenses were generated and incurred in Hong Kong dollars ("HKD"). Now that Inphosoft is part of the Company, a significant part of its future revenues and expenses will also be generated in Singapore dollars (SGD) and also, albeit to a lesser extent, in Indonesian Rupiah (IDR) and Malaysian ringgit (MYR). Inphosoft also does business using US dollar. As a result of this and the unpredictable fluctuations in those currencies, the risks associated with an investment in the Company have increased substantially as it becomes much more difficult for management to maintain a stable environment in this regard. Currently, all of the assets and liabilities as at September 30, 2013 are also either in HKD, SGD, IDR, USD or MYR, except for cash balances kept in Canada and those current liabilities incurred toward service providers in this country.

Because of the geopolitical situation in the countries in which the Company's subsidiaries operate, GINSMS is considered an emerging market listed issuer by regulatory authorities in assessing risks and complying with securities laws. Indeed, the Company operates in countries where risks related to political, economic and legal factors could hinder the Company's ability to maintain a stable environment for investors. Management is cognizant of this and intends to develop policies or enhance existing ones to minimize risks.

Management also refers the reader to Section 1.17 of this document for a list of many other risks associated with the business of Inphosoft.

Commercialization and Marketing

Inphosoft intends to market its products and services to more customers and to reduce the dependency on its major customers. To achieve this goal, Inphosoft intends to improve its capability of selling directly to customers by increasing its sales and marketing headcount. It will also identify potential partners and seek to increase its channel partnership network to include more partners globally. Management also intends to be creative in its pricing and revenue model and will look into entering revenue sharing agreements with customers with minimal upfront charges to the customers in return for long-term revenue sharing with the customers on the revenue generated through the use of Inphosoft proprietary's products and solutions. It is expected that this strategy will positively impact revenue generated through professional services and software licenses.

In addition to mobile data applications, Inphosoft's other compatible platforms include:

- a. **InphoAd:** Mobile advertising platform that supports multi-channel advertising campaigns from customer profiling to ad delivery to rewards management and analytics.
- b. **InphoConnect:** Mobile social media platform that connects telecom messaging networks to popular social media sites such as Facebook and Twitter;
- c. **InphoTransact:** Mobile banking and payment platform that allows financial institutions to offer mobile banking and payment services to customers, including payment gateway, OTP (one-time password) system, e-wallet, SMS/WAP/Mobile Client banking; and
- d. **InphoManager:** Mobile Service Delivery Platform that allows mobile telecom operators to offer 3G/4G value added services like video streaming and music download to their customers.



- e. InphoM2M – a machine-to-machine service delivery platform capable of connecting wirelessly widely dispersed assets to the enterprise. More specifically, InphoM2M is a piece of middleware that lets the user build configurable business transaction flows in M2M (machine-to-machine) deployment, thereby removing the business logic from the end devices and consequently removing the need to change software on the devices as a result of a change in business transaction flows, hence improving the maintainability of M2M operations.
- f. InphoMaxx - a digital media signage software; and Diet Analyzer, a software platform dedicated to analyzing dietary components to encourage responsible, health eating habits.
- g. InphoShop - InphoShop is a generic smartphone application coupled with a backend system that organizes directory information and allows the end user to discover, via the application, the information through search and location. The backend also manages promotions, rewards and coupons associated with shops listed in the directory and it allows the end user to discover such benefits via the application. InphoShop can be customized and white-labeled to cater to different customers and industry domains.

After the completion of the research and development work, it will take approximately one month to prepare for commercialization of the product including preparation of sales and marketing materials and the setting up of demonstration systems.

In mobile advertising, Inphosoft intends to capitalize on the nascent but growing Asia Pacific market, focusing on operating ad network to provide value to inventory owners, namely telecom operators and banks. In systems integration (SI) which comprises providing green field software solutions or customized solutions which are coupled with the deployment of proprietary or third-party products, Inphosoft worked independently from but also with Acision, a major partner in that space. The relationship with Acision enhances Inphosoft global visibility and offers the opportunity to leverage on this track record to potentially increase its share of the SI market. Critical engines in the near to medium terms include smart phones (iOS, Android, Windows Phone) application expertise, messaging systems and subscription and charging systems.

Business Process

Products are all designed in-house by in-house product architects, software designers and software developers and programmers based in Inphosoft offices located in Singapore, Malaysia and Indonesia. Before each product is slated for production, each product has to go through a research and development phase.

The finished software products are then sold based on a RTU model. Under the RTU model, the customer will pay a license fee for the right to use the software. The customer will not have the right to re-sell the software or to modify the software without the permission of Inphosoft. Under the RTU model, Inphosoft retains sole ownership over all intellectual property rights of the software sold.

Professional services to customers are sold primarily in the telecommunication industry which consists of the design and development of specialized or customized software to meet the customers' unique requirements. Inphosoft may also be engaged to perform certain customizations to customers' existing software products to meet the customers' changing needs. Usually, Inphosoft charges a customer a project fee based on the labour required to complete the



project. Management believes that the labour rates are competitive with market rates for similar services. When engaged in a professional services project, Inphosoft will follow a standard methodology termed Software Development Life Cycle (“SDLC”). The processes of SDLC are described below:

Step 1: User Requirements Study (“URS”)

During this stage of the development process, Inphosoft will gather the specific requirements of the customer and create a URS document for the customer to approve sign-off. This will form the agreed specifications of the software to be developed.

Step 2: Detailed Design (“DD”)

Based on the requirements specified in the URS document, Inphosoft’s solution architect will proceed to work on a detailed design of the software using Object Oriented methodology. The detailed design document (“DDD”) will specify the methods and programmatic design of the software with sufficient detail that allows implementation to proceed.

Step 3: Coding and Unit Testing

Based on the DDD, software developers and programmers will begin implementation of the software design. A piece of software is usually broken down into modules in which coding and testing of each module is conducted separately. All the coding is completed in this phase followed by testing of each unit software module.

Step 4: System Integration Test (“SIT”)

The entire software is put together and system integration testing involving all other elements like third party software products and network elements is conducted. A SIT script will be written to cover all the potential test scenarios. This is the final phase of integration and testing that is conducted before the software is handed over to the customer for acceptance testing.

Step 5: User Acceptance Test (“UAT”)

This is the final phase of testing by the end customers to determine if the software meets all the specifications defined during the URS. The customers will run through a thorough UAT test plan that covers all realistic scenarios for the usage of the software. Upon passing UAT, the customer will sign-off and the software will be ready to be deployed for commercial use.

Step 6: Warranty

After UAT, Inphosoft usually provides a warranty for a limited period ranging from three months to one year. During this warranty period, Inphosoft will provide rectification services to the customer free of charge if there is any problem with the software delivered. After the warranty period, if the customer requires continued support and maintenance services, the customer will have to enter into a support and maintenance contract with Inphosoft.

Inphosoft’s Competitive Conditions

In Southeast Asia, Inphosoft faces competition from small-sized local software developers that provide bespoke software development services. These companies include Connected Machines



Pte. Ltd., Tech Studio Pte. Ltd. and Orange Gum Pte. Ltd. Inphosoft maintains its competitiveness by having highly skilled software development teams that are well trained to respond to the particular needs of the mobile telecommunication industry in Malaysia and Indonesia, two countries where skilled labor is cheaper than in Singapore. This helps the Inphosoft to deliver world class service expected from Singapore technology companies at a cost base that is on average 30% lower than its competitors based in Singapore and other developed countries.

Globally, through its partnership with Acision, Inphosoft is facing competition from other global players when marketing its products. These players include Comverse Inc., Huawei Technologies Co. Ltd., ZTE Corporation and Business Logic Systems Inc. Management believes that the quality of its products is on par with these competitors. Globally Inphosoft further differentiates itself by having a flexible pricing model and the ability to customize its products to customers' needs. Inphosoft intends to stay competitive by maintaining a high quality of service and keeping its costs low. This will be achieved through the continuous execution of an internal training and recruitment program for staff located in countries with lower costs namely Indonesia and Malaysia.

Synergies

One of Inphosoft's plan is to use GINSMS' SMS gateway operations to open up new innovative campaign services which could be offered to Inphosoft's existing customers in Northeast Asia, potentially achieving synergies with its own lines of products in this part of the world, including the areas where it has a direct presence with locations in Singapore, Indonesia and Malaysia.

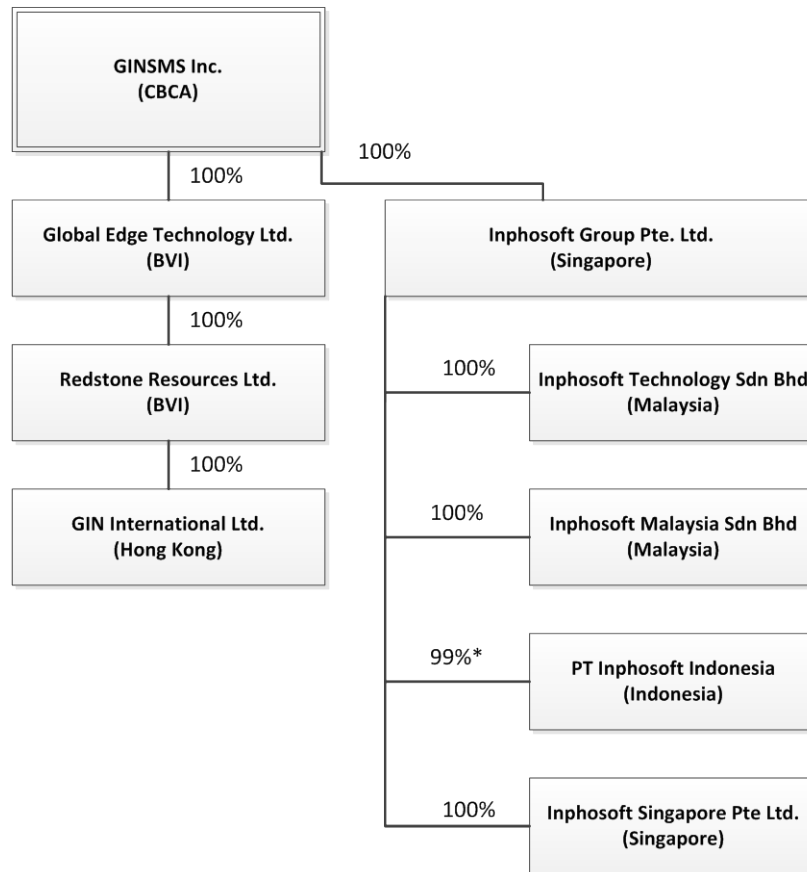
Management hopes to establish a footprint in China by leveraging on Inphosoft's proprietary technology in SMS message routing, allowing GINSMS to scale up without major investment in technology.

The acquisition of Inphosoft allows both, vertical and horizontal diversification. Vertical because it brings endogenous value-added services downstream in GINSMS's current market by taking on or adopting the functions of Inphosoft's businesses and, horizontally, because it allows GINSMS to diversify away and independently from SMS into to a large variety of SMS related services in the mobile market.



Intercorporate Relationships

The following shows the corporate structure of GINSMS following the acquisition of Inphosoft:



*The remaining 1% is held by Joel Chin Siang Hui.

**SECTION 1.3: PERFORMANCE HIGHLIGHTS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2013:**

- The acquisition of Inphosoft Group Pte Ltd (“Inphosoft”) was completed on September 28, 2012. GINSMS’s income statement for the three and nine months ended December 31, 2013 includes the operating results of Inphosoft Group Pte Ltd and its subsidiaries resulting in total revenue of \$254,327 and \$911,652 respectively, compared to \$477,240 and \$784,237 for the corresponding three and nine months in the previous year.
- Activities for the three-month and nine-month period ended December 31, 2013 resulted in a net loss of \$772,639 and \$2,086,759 respectively, including a non-realized exchange loss of \$10,928 and \$7,797 respectively and a non-cash charge to earnings of \$324,826 and \$924,277 respectively representing accretion on obligations related to the convertible debentures and promissory notes issued in connection with the acquisition of Inphosoft. For the three and nine months ended December 31, 2012, the Company recorded a net loss of \$343,627 and \$816,810 respectively.
- EBITDA of negative \$268,623 and \$664,667 respectively for the three and nine months ended December 31, 2013. This is a deterioration of \$312,544 and \$286,935, compared to EBITDA of positive \$43,921 and negative \$377,732 respectively during the corresponding three and nine months in the previous year. The lower EBITDA principally reflect much higher losses due to lower revenue generated by IOSMS platform despite higher revenue contributed by the Inphosoft Group Pte Ltd and its subsidiaries. There are also higher costs incurred by the whole group in relations to the salaries & wages, amortization & depreciation and accretion costs of debenture and notes payables.
- Volume of inter-SMS traffic for the three-month period ended December 31, 2013 was down by 69.5% to 6,138,264 from the same period the previous year. When compared to the previous quarter ended September 30, 2013, traffic was down by 5.7%. This downward trend in SMS traffic is largely caused by cellphone users migrating to mobile instant messaging (“MIM”) applications and the removal of bundle fees in the new agreements signed with the mobile network operators that came into effect on the 1st March 2013.
- Liquidity deteriorated considerably with cash on hand of \$179,334, down 81.4% from March 31, 2013. Net current liabilities as at December 31, 2013 were \$70,694, compared to net current assets of \$797,995 as at March 31, 2013.

SECTION 1.4: RESULTS OF OPERATIONS

| Financial Highlights | Three-month period ended | | Nine-month period ended | |
|----------------------|--------------------------|-----------|-------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues \$ | 254,327 | 477,240 | 911,652 | 784,237 |
| Cost of sales \$ | (97,328) | (108,731) | (342,297) | (246,671) |



**GINSMS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Three and Nine-Months Ended December 31, 2013 and 2012

| | | | | |
|----------------------------------|-----------|-----------|-------------|-----------|
| Gross profit \$ | 156,999 | 368,509 | 569,355 | 537,566 |
| Gross margin % | 61.7% | 77.2% | 62.5% | 68.5% |
| EBITDA (1) \$ | (268,623) | 43,921 | (664,667) | (377,732) |
| EBITDA margin | (105.6)% | 9.2% | (72.9)% | (48.2)% |
| Net earnings \$ | (777,639) | (343,627) | (2,086,759) | (816,810) |
| Net earnings margin | (303.8)% | (72.0)% | (228.9)% | (104.2)% |
| Net earnings (loss) per share \$ | | | | |
| Basic | (0.01) | (0.01) | (0.04) | (0.02) |
| Diluted | (0.01) | (0.01) | (0.04) | (0.02) |

(1) EBITDA is a non-GAAP measure related to cash earnings and is defined for these purposes as earnings before income taxes, depreciation, amortization and the accretion on obligations.

| | | |
|--------------------------------|---|--|
| | Consolidated as at December 31, 2013 (unaudited)⁽¹⁾ | Consolidated as at March 31, 2013 (Audited)⁽¹⁾ |
| Total assets \$ | 5,057,488 | 6,686,027 |
| Total liabilities \$ | 7,332,427 | 7,056,584 |
| Shareholders' equity \$ | (2,274,939) | (370,557) |

(1) The figures reported above are based on the consolidated financial statements of the Company which have been prepared in accordance with International Financial Reporting Standard.

Financial Review for the Three- and Nine-Month Period ended December 31, 2013

The table below outlines the changes in the major categories:

| | Three months December 31, 2013 \$ | Three months December 31, 2012 \$ | Nine months December 31, 2013 \$ | Nine months December 31, 2012 \$ |
|-------------------------------|--|--|---|---|
| Selling, General & Admin | 425,622 | 324,588 | 1,234,022 | 915,298 |
| Amortization | 179,325 | 40,887 | 493,490 | 93,301 |
| Net Earnings (loss) per share | | | | |
| Basic | (0.01) | (0.01) | (0.04) | (0.02) |
| Diluted | (0.01) | (0.01) | (0.04) | (0.02) |

Revenue for the 3 months and 9 months ended December 31, 2013 was \$254,327 and \$911,652 respectively, representing a decrease of 46.7% and increase of 16.2% respectively, compared to \$477,240 and \$784,237 during the corresponding periods the previous year. The increase of 140.3% in revenue from Inphosoft for 9 months to \$810,450 is mainly due to the inclusion of full 9 months of revenue for the period ended December 31, 2013 as compared to the inclusion of only 3 months of revenue from Inphosoft for the period ended December 31, 2012. However, revenue from Inphosoft for 3 months ended December 31, 2013 declined by 32.6% to \$227,311 is mainly due to the company has concentrated in the development of two applications i.e. InphoShop GoMall Happy Hours V2 and InphoChat Here Messenger in the current quarter. The development of the two applications have not completed yet. Revenue from the Company's IOSMS activities, taken separately, declined by 80.7% and 77.4% for the 3 months and 9 months the previous year. The decline in the revenue generated from the IOSMS platform is due to the



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less favourable terms of the contracts signed with mobile network operators that came into effect on 1st March 2013 as well as a 69.5% drop in SMS traffic during the quarter ended December 31, 2013, compared to the corresponding quarter the previous year.

This is a significant drop given that the latest available statistics from the Office of the Communications Authority (OFCA) in Hong Kong covering the periods up to and including August 2013 continue to show a considerable increase in all categories of customers in the 2G to 3G/4G space. In spite of this, however, overall traffic of both sent and received short messages are trending downward. By way of an example, during November of 2013, the average traffic sent and received per mobile customers averaged 17 and 28 messages respectively. This is the sixth consecutive monthly decline. For all of 2012 the average traffic sent and received averaged 42 and 33 messages respectively.

| Comparisons of Traffic (Inter-SMS) for the Past Eight Quarters | | | | | | | | |
|--|------------|------------|------------|------------|------------|-----------|-----------|-----------|
| | Q4/FY12 | Q1/FY13 | Q2/FY13 | Q3/FY13 | Q4/FY13 | Q1/FY4 | Q2FY14 | Q3FY14 |
| Traffic | 25,013,562 | 23,784,375 | 24,371,935 | 20,117,592 | 13,419,073 | 5,543,603 | 6,506,168 | 6,138,264 |
| % variance | -11.4% | -4.9% | 2.5% | -17.5% | -33.3% | -58.7% | 17.4% | -5.7% |

As mentioned before, GINSMS believes that the lower trend in SMS traffic is partly caused by cellphone users migrating to OTT (over-the-top) applications such as Research in Motion's BBM, Apple's Imessage or other cross-platform mobile messaging applications such as WhatsApp, Line, WeChat, IM+, Skype or Google Talk. This migration enables smart phone users to send messages using device data channel or WI-FI. Given that most smart phone users now have inclusive data plans they can forward their messages at a fraction of the cost required to send an SMS. Also, as reported in previous quarters, during the last two years, Hong Kong MNOs have been upgrading their networks causing network downtimes and interruptions. As at November 2013, over 98% of mobile customers were connected via 3G/4G networks, up from 84% at the end of 2010. Finally, aggressive relay fee promotions adopted by GINSMS's competitors added additional downward pressure on SMS traffic volume.

Inphosoft is now GINSMS' main subsidiary. GINSMS' consolidated results for the 3 and 9 months ended December 31, 2013 comprise a full 3 and 9 months of operations from Inphosoft. Revenue from Inphosoft for the 9 months aggregated \$810,450 is broken down as follow: Professional Services - \$457,336 (56.4%), License fees - \$38,120 (4.7%), and Support and Maintenance (S&M) -\$314,994 (38.9%). Professional Services essentially represent contract work provided customers for an array of software services and solutions including software installation services, software customization services, or the design and development of bespoke software solutions for customers.

The Company's largest customer is Acision, an Anglo-Dutch privately held communications network company specializing in mobile messaging. It is estimated that revenue from Acision which provides an extensive portfolio of messaging solutions, products and services to customers in over 100 counties represents about 75.5% of Inphosoft revenue. This high level of sales concentration into one single customer is mitigated by the fact that the customers of Acision are mobile operators globally. When these operators purchase software platforms from Acision, they usually keep them running for a minimum of 5 years. In cases whereby the platforms form part of



the mobile operators' core infrastructure like SMSCs (small message service centres), the most common outcome is that they remain active for as long as this infrastructure is kept in place. Contract termination would therefore be exceptional. In this context, the support and maintenance programs offered by Inphosoft have taken on added significance and became an essential part of Acision's service offerings to enhance and maintain a high-quality relationship with the MNOs. For this reason, contract agreements in regard to these programs are more predictable and their value is increasing.

The mobile service supply chain has developed unique characteristics including mechanisms of coordination and harmonization between the parties. The nature of the increasingly intertwined relationship from the content/service provider to the owner of the network platform is leading into new models of cooperation in order to meet the insatiable demand for new services and applications at the lowest cost possible. New revenue sharing agreements are taking shape and this tends to bring the content/service provider into more focus. Reliability and quality of service are essential. The support and maintenance programs form the base of Inphosoft's business and generate a source of recurring income which originates from professional services and/or license sales through variation orders or capacity upgrades. Contractual agreements between Acision and Inphosoft remain essential in this relationship but through them Inphosoft is effectively contracting indirectly with each mobile operator, mitigating risk.

Software License Fees are derived from products developed by Inphosoft and which are then licensed for a fee based on a right-to-use ("RTU") structure which depends on the amount of capacity purchased. Managed Services comprise support and maintenance services provided for the customers on a yearly basis. Managed services are typically in the form of operating and maintaining software solutions for the customer in return for a monthly fee and a setup fee, where applicable. In some cases, the first year of service is provided free securing in the process a recurring fee structure applicable to future periods. The solution may be housed at the customer's premise, or housed externally with a data centre provider. Inphosoft's focus, however, is currently on mobile advertising and services based on a revenue sharing model. This model offers the ability of optimizing revenue for both the content provider and the owner of the network platform long term while increasing customer loyalty. This model also offers the opportunity to secure a collaborative relationship with the MNOs which is apt to generate more opportunities to collaborate further as new products are developed.

As the IOSMS platform continues to lose ground, the timing of the acquisition was critical to allowing GINSMS to continue offering a service which could become unprofitable on and by itself as the new contracts now being negotiated no longer offer bundle fees, the core revenue stream of the IOSMS platform. With the recent arrival of a new competitor, M800 Limited (see page 5 for details), in GINSMS space, it became obvious that the Company could not retain the bundle fees and hope to keep a relationship with the MNOs. In order to avoid a scenario whereby we would lose our close collaborative affiliation with the MNOs, management has decided to maintain the IOSMS platform operational even though it could become, depending on the level of traffic it generates, a de facto loss leader. It is expected indeed that this affiliation will serve as a platform to stimulate the sales of other products and services and eventually contribute incrementally to the profitability of the Company. In the meantime, measures were undertaken to reduce operating costs in this area of activity including lower salaries and moving to new office space at about half the cost of the previous rental arrangements.



The net loss for the quarter ended December 31, 2013 amounted to \$772,639, compared to a loss of \$343,627 during the same quarter the previous year. The loss for the third quarter this fiscal year includes a net foreign exchange loss of \$10,928 and a non-cash charge to earnings of \$324,826 representing accretion on obligations related to the convertible debentures and promissory notes issued in connection with the acquisition of Inphosoft. EBITDA for the third quarter ended December 31, 2013 amounted to deficit of \$268,623 while EBITDA for the corresponding period the previous year which showed a surplus of \$43,921. These results underline a decline in gross profit with gross income decreasing by 57.4% to \$156,999 and with a lower gross profit margins hence translate into a gross margin of 61.7%, compared to 77.2% during the corresponding quarter the previous year.

Other than lower revenue generated by the IOSMS platform and the impact the foreign exchange gain have had on the results of the Company for the 9 months ended December 31, 2013, the loss of \$2,086,759 reported during the period reflects higher operating expenses. With Inphosoft, salaries and wages jumped by 211.0% to \$817,168, and general and administrative expenses are up 119.0% to \$233,214. However, consultancy fees decreased by 55.6% to \$36,423 and professional fees decreased by 72.8% to \$139,420. The decline in professional fees reflected the lower legal fees in particular following the completion of the acquisition at the end of the second quarter of the previous year. The consolidation of Inphosoft also resulted in higher amortization charges which amounted to \$493,490, compared to \$93,301 for the corresponding 9 months the previous year.

SELECTED BALANCE SHEET INFORMATION

Total assets of GINSMS including cash, accounts receivable, prepaid expenses, property and equipment, development expenditures, goodwill, intangible assets and other assets as at December 31, 2013 totalled \$5,057,488, compared to \$6,686,027, as at March 31, 2013.

Cash on hand amounted to \$179,334, compared to \$965,917, a decrease of 81.4%. The working capital ratio as at December 31, 2013 stood at 0.91 times to one, compared to 1.6 times to one as at March 31, 2013. The lower working capital position has been affected by the drop of cash in hand and accounts receivable. Current assets are less liquid with cash on hand representing 24.2% and accounts receivable 75.8%.

Shareholders' equity as at December 31, 2013, showed a deficit of \$2,274,939, down from \$370,557 at fiscal year 2013. The drop in shareholders' equity is largely due to the loss of \$2,086,759 recorded in the nine months ended December 31, 2013 reflecting the impact on results from the acquisition of Inphosoft which instigated substantial salaries & wages and general & administration expenses, combined with lower revenue from the IOSMS platform. As can be seen from the table below, with the acquisition of Inphosoft, the capitalization of the Company changed substantially and now includes the current value of the convertible debentures issued in settlement of the acquisition and which are due in three years from the date of the acquisition, namely September 30, 2012. The issue of convertible debentures in lieu of equity in compensation for the acquisition of Inphosoft accentuated the relative weakness of shareholders' equity compared to the size of the company. Note, however, that the convertible debentures are non-interest bearing and are convertible at \$0.10.



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| | December 31, 2013 (Unaudited) \$ | March 31, 2013 (Audited) \$ |
|---|--|-----------------------------------|
| Current assets | | |
| Cash | 179,334 | 965,917 |
| Accounts receivable and other | 561,382 | 1,070,793 |
| Prepaid expenses | - | 95,259 |
| | 740,716 | 2,131,969 |
| Fixed Assets | | |
| Property and Equipment | 99,726 | 32,886 |
| Development Expenditures | 605,215 | 639,341 |
| Goodwill | 2,830,364 | 2,830,364 |
| Intangible Assets - Contracts | 194,717 | 344,717 |
| Intangible Assets - Software | 586,750 | 706,750 |
| Total Assets | 5,057,488 | 6,686,027 |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 416,903 | 556,455 |
| Cash due on closing | - | 400,000 |
| Promissory Note Payable | 394,507 | 377,519 |
| | 811,740 | 1,333,974 |
| Convertible debentures | 6,393,547 | 5,595,139 |
| Deferred income tax liability | 127,470 | 127,471 |
| Total liabilities | 7,332,427 | 7,056,584 |
| Shareholders' Equity | | |
| Share capital | 1,339,386 | 939,386 |
| Subscriptions received | - | 400,000 |
| Reserves | 429,431 | 429,431 |
| Equity component of convertible debentures | 35,776 | 35,776 |
| Accumulated comprehensive loss | 150,686 | (31,691) |
| Deficit | (4,230,218) | (2,143,459) |
| | (2,274,939) | (370,557) |
| Total Liabilities and shareholders' equity | 5,057,488 | 6,686,027 |

The following table summarizes the accounts payable and receivable overdue as at December 31, 2013 compared to March 31, 2013 and March 31, 2012.

| Accounts payable (\$) | Total \$ | 30 Days \$ | 31 to 90 Days \$ | Over 90 Days |
|-----------------------|----------|------------|------------------|--------------|
| As at December 31, | 416,903 | 331,865 | 42,744 | 42,294 |



| | | | | |
|---------------------------------|-----------------|-------------------|-------------------------|-----------------------|
| 2013 | | | | |
| As at March 31, 2013 | 556,455 | 469,818 | 8,397 | 78,240 |
| As at March 31, 2012 | 149,742 | 116,404 | 23,406 | 9,932 |
| Accounts receivable (\$) | Total \$ | 30 Days \$ | 31 to 90 Days \$ | Over 90 Days\$ |
| As at December 31, 2013 | 561,382 | 514,683 | 22,826 | 23,873 |
| As at March 31, 2013 | 1,070,793 | 834,053 | 116,960 | 119,780 |
| As at March 31, 2012 | 146,238 | 146,238 | - | - |

Accounts payable arise in the normal course of business, and all amounts are due within three months or less of the statement of financial position date except for \$42,294 as of December 31, 2013 (March 31, 2013 – \$78,240) which are due between three and twelve months of the statement of financial position date. Income taxes payable are due within twelve months of the statement of financial position date.

Total accounts receivable reported in the financial statements aggregate \$561,382. Of this amount, \$76,100 is due from the MNOs for services rendered using the IOSMS platform. The rest is from Inphosoft of which \$165,108 is represented by trade receivables, \$252,588 by amounts due from customers and \$67,586 by other receivables. Receivables categorized as Amounts due from Customers represent under billings on contract work. This is calculated using a percentage calculation of contract work done. Contract work relates to professional services provided of various types including software installation services, software customization services, or the design and development of bespoke software solutions for customers. Other receivables include deposits, prepayments, sundry receivable etc.

Of significant individual accounts receivable generated from the IOSMS platform as at December 31, 2013, approximately 91.5% percent was owed from three customers out of a total of seven customers (March 31, 2013 – 60.3 percent was owed from three customers out of six customers). All customers are major mobile network operators in Hong Kong. In the case of Inphosoft, two customers account for 92.9% of total receivables of the wholly-owned Singapore based subsidiary. The largest is Acision whose accounts receivable aggregate \$138,176 for contract work in Singapore and Malaysia and the second is Starhub Ltd namely \$15,205 for professional, support and maintenance services. The contract with Starhub includes creative design to site management, statistics reporting and the management of the Starhub mobile portal overall. Starhub is the second largest mobile operator in Singapore.

The Company manages its risk of not meeting its financial obligations through management of its capital structure, and annual budgeting of its revenues, expenditures and cash flows. The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure.

Management reviews the ageing of trade accounts receivable and other factors relating to the risk that customer accounts may not be paid in full and, when appropriate, reduces the carrying value to provide for possible loss. No loss has been charged to earnings in the current period.

SECTION 1.5: SUMMARY OF QUARTERLY RESULTS



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The quarterly information set forth below has been presented on the same basis as the audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes thereto.

| \$ | Q4/FY12 | Q1/FY13 | Q2/FY13 | Q3/FY13 | Q4/FY13 | Q1/FY14 | Q2/FY14 | Q3/FY14 |
|----------------------------------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Sales | 158,652 | 157,089 | 149,908 | 477,240 | 518,678 | 445,584 | 211,741 | 254,327 |
| Operating Expenses* | 540,216 | 206,014 | 575,050 | 821,116 | 935,794 | 632,861 | 1,043,575 | 1,027,101 |
| Net Earnings Before Income Taxes | (381,564) | (48,925) | (425,142) | (343,876) | (725,110) | (477,826) | (831,834) | (772,774) |
| Income Taxes | 14,325 | (890) | 6 | (249) | (7,258) | (4,165) | (295) | 135 |
| Net Earnings | (367,239) | (48,035) | (425,148) | (343,627) | (717,852) | (481,991) | (832,129) | (772,639) |
| Net Earnings (per share) | | | | | | | | |
| Basic | 0.00 | 0.00 | (0.01) | (0.01) | (0.02) | (0.01) | (0.02) | (0.01) |
| Diluted | 0.00 | 0.00 | (0.01) | (0.01) | (0.02) | (0.01) | (0.02) | (0.01) |

* Represent the sum of cost of sales selling, general and administrative expenses, amortization and unrealized foreign exchange. For Q3-13, Q4-13 & Q1-14, for comparative purposes, the accretion on obligations related to the convertible debentures and promissory notes is excluded. Prior to that, no accretion on obligations existed.

GINSMS charges its customers based on the number of SMS sent-

| Comparisons of Traffic (Inter-SMS) for the Past Eight Quarters | | | | | | | | |
|--|------------|------------|------------|------------|------------|-----------|-----------|-----------|
| | Q4/FY12 | Q1/FY13 | Q2/FY13 | Q3/FY13 | Q4/FY13 | Q1/FY14 | Q2/FY14 | Q2/FY14 |
| Traffic | 25,013,562 | 23,784,375 | 24,371,935 | 20,117,592 | 13,419,073 | 5,543,603 | 6,506,168 | 6,138,264 |
| % variance | -11.4% | -4.9% | 2.5% | -17.5% | -33.3% | -58.7% | -17.4% | -5.7% |

Traffic volume for the three months ended December 31, 2013 was 6,138,264, down by 69.5% over the 20,117,592 reported for the corresponding period the previous year. As compared to the previous quarter, traffic increased by 5.7%. As a result of this, revenue generated from the IOSMS platform continues to decline, dropping by 77.4% to \$101,202 during 9 months ended December 31, 2013. As mentioned before in this report, the Company no longer benefits from bundle fees. The bundle fee formula was initially adopted to attract traffic and entice usage while competition intensified. It also had the advantage of protecting the business against idle or minimal usage of system capacity. The rest of the revenue of \$810,450 was contributed by Inphosoft.

With the recent arrival of a new competitor, namely M800, a company whose revenue stream is mostly derived based on an infrastructure developed for the delivery of international voice exchange services, the bundle fees inhibited rather than served as an incentive during the negotiations that took place for the renewal of the contracts with the MNOs which expires at the end of February. With three IOSMS platforms now in place in Hong Kong, the MNOs have the strong hand in such a situation and the Company had no other alternative but to eliminate the bundle fees and consent to lowering its fees per message by more than 50% and, unless traffic increases substantially, the platform will operate at a loss. Nevertheless, for the reasons explained



above, due to the quality of the relationship enjoyed by the Company with the MNOs, management opted to keep the IOSMS platform operational and remains confident that it will eventually lead to further business with the MNOs through its mobile marketing and advertising services and other value-added services now offered by the Company.

SECTION 1.6/7: LIQUIDITY & CAPITAL RESOURCES

GINSMS is in a weaker financial position with current assets, including Inphosoft, of \$740,716 as at December 31, 2013, compared to \$2,131,969 as at March 31, 2013. Current assets are distributed with cash on hand of \$179,334 – 24.2% and accounts receivable of \$561,382 – 75.8%. The working capital ratio of the Company as at December 31, 2013 stood at 0.91 times to one. One of the factors that lead to a lower working capital ratio is the decrease in cash on hand as the operating costs increase.

Cash flow from operations during the quarter ended December 31, 2013 was a deficit of \$257,560, compared to a deficit of \$4,129 during the corresponding period the previous year. As can be seen from the table below, overall cash flow activities resulted in a decrease in cash of \$266,179. Other than the net loss of \$772,639 and the effect of exchange rate on cash of \$12,501, the largest items affecting cash flow is the accretion charge related to the convertible debentures which amounted to \$324,826, amortization of \$179,325 and the foreign exchange loss of \$10,928 resulting from the weakening of the Singapore dollar relative to the U.S. dollars that started in the month of September 2013, reversing the strengthening process that started since the start of first quarter ended 30 June 2013. A large part of the business generated by Inphosoft is in that currency. The working capital ratio of the Company as at December 31, 2013 stood at 0.91 times to one as compared to 1.6 as at March 31, 2013. The development expenditures of \$79,437 were incurred by Inphosoft primarily in connection with its program to update its software based on new market trends in the mobile service supply chain.

Cash flow from operations during the nine months ended December 31, 2013 was a deficit of \$661,195, compared to a deficit of \$418,966 during the corresponding period the previous year. As can be seen from the table below, overall cash flow activities resulted in a decrease in cash of 786,583. Other than the net loss of \$2,086,759 and the effect of exchange rate on cash of \$25,105, the largest items affecting cash flow is the accretion charge related to the convertible debentures which amounted to \$924,277 and the amortisation of \$493,490. The development expenditures of \$202,712 were incurred by Inphosoft primarily in connection with its program to update its software based on new market trends in the mobile service supply chain.

Changes in non-cash working capital for the quarter ended December 31, 2013 primarily reflect a slight decrease in accounts receivables of \$52,679 and a slight increase in account payable of \$41,233. The decrease in accounts receivables is the result of decreased activities generated from the IOSMS platform and decrease in the billings of Inphosoft. Inphosoft group is concentrating in developing new applications for the market in the quarter. The increase in accounts payable is the result of the Company stretch the credit tem for settlement of obligations. Going forward, revenue from the IOSMS platform will decline substantially if traffic routed from the MNOs does not significantly increase following the signing of the new contracts which took effect on March 1, 2013. The reason for this is the absence of bundle fees. In the existing contracts bundle fees are collected insuring the availability of the platform regardless of traffic volume which over the past several quarters have declined substantially



As mentioned above, with the arrival of a new competitor, namely M800, the operators are no longer willing to pay any bundle fees, the core of the IOSMS income stream. With Inphosoft, now the Company's main subsidiary, the loss of revenue from the IOSMS platform will impact cash flow operations but is not expected to cause any liquidity deficiency as a result. The Company as at December 31, 2013 had cash on hand of \$179,334 and a working capital ratio of 0.91 times to one. This and the growth opportunities offered by the activities of Inphosoft enhance the Company's going concern qualities and therefore its liquidity.

| | Three months ended December 31 | | Nine months ended December 31 | |
|-------------------------------------|-----------------------------------|----------------|----------------------------------|------------------|
| | 2013 \$ | 2012 \$ | 2013 \$ | 2012 \$ |
| Cash, beginning of period | 445,513 | 714,599 | 965,917 | 548,752 |
| Net loss for the period | (772,639) | (343,627) | (2,086,759) | (816,810) |
| Deferred income tax (recovery) | - | 14 | - | (4,054) |
| Exchange loss /(gain) | 10,928 | (48,313) | 7,797 | (48,313) |
| Share-based compensation | - | - | - | 10,000 |
| Accretion on obligations | 324,826 | 346,910 | 924,277 | 346,910 |
| Amortization | 179,325 | 40,887 | 493,490 | 93,301 |
| Changes in non-cash working capital | 93,912 | 9,208 | 484,866 | 77,291 |
| Cash flow from operations | (257,560) | (4,129) | (661,195) | (418,966) |
| Financing activity | - | - | (400,000) | -- |
| Investing activity* | (115,032) | (109,118) | (235,359) | 400,471 |
| Effect of exchange rate | 12,501 | 71,805 | 25,105 | 74,817 |
| | | | | - |
| Cash, end of period | 179,334 | 682,365 | 179,334 | 682,365 |
| Total Cash Used (Provided) | 266,179 | 32,234 | 786,583 | (133,613) |

GINSMS is not subject to any liquidity risks associated with any financial instruments and any balance sheet items that might affect liquidity. The company does not have any long term debt, capital lease obligations, operating lease obligations, purchase obligations, or other long term obligations except for the lease of its office space, data lines and data centre facilities to host the IOSMS system.

SECTION 1.8: OFF BALANCE SHEET ARRANGEMENTS

GINSMS does not utilize off-balance sheet arrangements.

**SECTION 1.9: TRANSACTIONS WITH RELATED PARTIES**

The Corporation had the following related party transactions that have been recorded at their exchange amounts for the three-month and nine-month periods ended December 31, 2013 and 2012:

| For the periods ended December 31 | Three-month period ended | | Nine-month period ended | |
|---|---------------------------------|----------|--------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Consulting fees paid to a company controlled by a director or a shareholder | - | \$13,941 | \$33,000 | \$109,495 |
| Consulting fees paid to directors | 2,841 | 6,712 | 8,432 | 20,278 |
| Management salaries paid to directors of a subsidiary | 55,207 | 77,457 | 162,899 | 77,457 |
| Management salaries paid to officers | 35,420 | 15,342 | 126,263 | 46,349 |
| Rent charges by a family member | 2,841 | 7,670 | 8,423 | 23,174 |

Included in accounts payable and accrued liabilities is an amount of \$18,309 (March 31, 2013 - \$15,622) owed to related parties.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SECTIONS 1.10, 1.11, AND 1.12: NOT APPLICABLE**SECTION 1.13: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CHANGES) AND BASIS OF PRESENTATION AND ADOPTION OF IFRS**

The significant accounting policies used in the preparation of the audited consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended March 31, 2013. There have been no changes to our accounting policies since March 31, 2012.

SECTION 1.14: FINANCIAL INSTRUMENTS

Financial instruments of GINSMS consist of cash, account receivables, accounts payable and accrued liabilities. GINSMS limits exposure to credit loss by placing its cash with high credit quality financial institutions.

The carrying amounts of cash, accounts receivable and other accounts payable and accrued liabilities approximate their values due to the short-term nature of these instruments. The functional currency of GET is the HKD. In the case of Inphosoft, the functional currency is principally that of the Singapore dollar but also the Indonesian rupiah and the Malaysian ringgit. In accordance with the Canadian GAAP, the consolidated financial statements of GINSMS,



which are prepared using the functional currencies, have been translated into Canadian dollars. Assets and liabilities are translated at exchange rates applicable at the balance sheet dates; revenues and expenses are translated at the average exchange rates applicable during the period covered by the financial statements; and capital and statutory capital reserves are translated at historical exchange rates.

SECTION 1.15: SHAREHOLDERS' EQUITY & DISCLOSURE OF OUTSTANDING SHARE DATA

Share Capital

| | December 31, 2013 | March 31, 2013 |
|--|------------------------------|---------------------------|
| Share capital | 1,339,386 | 939,386 |
| Subscriptions received | - | 400,000 |
| Reserves | 429,431 | 429,431 |
| Equity Component of Convertible Debentures | 35,776 | 35,776 |
| Accumulated comprehensive loss | 150,686 | (31,691) |
| Deficit | (4,230,218) | (2,143,459) |
| | (2,274,939) | (370,557) |

Shareholders' equity as at December 31, 2013 is a negative amount of \$2,274,939 compared to a negative amount of \$370,557 as at March 31, 2013. The deterioration in shareholders' equity is due to a large extent to the loss of \$2,086,759 recorded in the nine months ended December 31, 2013 reflecting the impact on results resulting from the acquisition of Inphosoft and the deterioration of business in Hong Kong. The issue of convertible debentures in lieu of equity in compensation for the acquisition of Inphosoft accentuated the relative weakness of shareholders' compared to the size of the company. Note that the convertible debentures are non-interest bearing and are convertible at \$0.10.

On April 5, 2013, GINSMS closed a private placement by issuing 8,000,000 common shares at a price of \$0.05 per share for total gross proceeds of \$400,000 which were received in full as of March 31, 2013.

Authorized

Unlimited common shares, unlimited preferred shares, non-voting, non-participating, non-cumulative dividends, redeemable and retractable. The table below summarizes the issued and outstanding shares of the Company for the six months ended September 30, 2013 versus the March 31, 2013 year-end totals:

| Issued | December 31, 2013 | | March 31, 2013 | |
|--|-------------------|----------------|-------------------|----------------|
| | Shares | Amount (\$) | Shares | (\$) |
| Balance, beginning of period | 43,537,499 | 939,386 | 43,337,499 | 929,386 |
| - Issued as compensation for transaction | | | 200,000 | 10,000 |
| - Issued to directors and officers | | | | |
| - Value assigned to warrants | | | | |



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| | | | | |
|-------------------------------|-------------------|------------------|-------------------|----------------|
| - Share issue costs | 8,000,000 | 400,000 | | |
| Balance, end of period | 51,537,499 | 1,339,386 | 43,537,499 | 939,386 |

Information on the Company's capital, including the numbers of common shares issued outstanding is detailed in the Company's audited consolidated financial statements which are available at www.sedar.com.

During fiscal year 2010, the Company completed its IPO by issuing 11,337,500 units at \$0.15 per unit with each unit consisting of one common share and one-half of one common share purchase warrant. During the three month period ended December 31, 2011, 5,668,750 share purchase warrants exercisable into common shares at a price of \$0.20 per share and 907,000 broker warrants exercisable into common shares at a price of \$0.15 per share expired unexercised.

During fiscal year 2010, 233,333 shares were issued to directors and officers for gross proceeds of \$35,000.

In 2012, 200,000 were issued to the Sponsor of GINSMS as part of its compensation in connection with the acquisition of Inphosoft.

On April 5, 2013, the Company closed a private placement by issuing 8,000,000 common shares at a price of \$0.50 per share for total gross proceeds of \$400,000.

Share purchase warrants

A summary of warrants as at September 30, 2013 and March 31, 2013, and the changes during the periods then ended is as follows:

| | September 30, 2013 | March 31, 2013 |
|--|-----------------------|-------------------|
| Balance, beginning of the year | \$ - | \$ - |
| Transfer to reserves on expiry of warrants | - | - |
| Balance, end of period | \$ - | \$ - |

During the three month period ended December 31, 2011, 5,668,750 share purchase warrants exercisable into common shares at a price of \$0.20 per share and 907,000 broker warrants exercisable into common shares at a price of \$0.15 per share expired unexercised.

Stock-based compensation plan

On May 13, 2009, the Company adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the TSX Venture Exchange requirements, grant to directors, officers, employees and consultants of the Company and its subsidiaries, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the total issued



**GINSMS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Three and Nine-Months Ended December 31, 2013 and 2012

and outstanding common shares of the Company, for a period of up to ten years from the date of the grant. It is at the discretion of the Board of Directors of the Company to determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

Options granted to consultants performing investor relations activities will contain vesting provisions such that vesting occurs over at least twelve months with no more than $\frac{1}{4}$ of the options vesting in any three month period. The number of common shares reserved for issuance to any individual director or officer of the Company will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants, if any, will not exceed 2% of the issued and outstanding common shares.

If an optionee ceases to be a director, officer, or technical consultant of the Company for any reason other than death, the optionee may exercise options at the date of the cessation of the optionee's position or arrangement with the Company, provided that if the cessation of such position or arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

During the period ended March 31, 2012, the Corporation granted 1,375,000 options at \$0.10 per share to directors and officers of the Corporation exercisable for a period of 10 years. The fair value is recognized as share-based compensation over the related vesting period of the options which is one half on each of the first two anniversary date of the options. On January 5, 2012, the Corporation passed a resolution making all 1,375,000 outstanding directors and officers options immediately vested and exercisable. All other terms of the options remained unchanged from the original grant.

| | September 30, 2013 | | |
|---|---------------------------|--------------------------|----------------------------|
| | Exercise Price | Number of options | Fair value recorded |
| Balance, March 31, 2012 and 2013 | | | |
| Issued to directors and officers | \$0.10 | 1,375,000 | \$429,431 |
| Cancellation of options | | (500,000) | - |
| Balance, June 30, 2013 | | 875,000 | \$429,431 |
| Balance, September 30, 2013 | | 875,000 | \$429,431 |
| Balance, December 31, 2013 | | 875,000 | \$429,431 |

During the three months ended June 30, 2013, 500,000 stock options of a director and officer were cancelled in exchange for the payment of \$5,000 which has been expensed and included with professional fees for the period ended.

As at December 31, 2013, the weighted average remaining contractual life for the 875,000 options outstanding to directors and officers is 7.6 years with all options being fully exercisable.



SECTION 1.16 BUSINESS ACQUISITION

Share purchase agreement

The Corporation on September 28, 2012 completed an arm's length share purchase agreement with Inphosoft Pte. Ltd. ("Inphosoft"), a private corporation governed by the laws of Singapore, to acquire all of the issued and outstanding shares of Inphosoft's wholly owned subsidiary, Inphosoft Group Pte. Ltd., for a total consideration of \$11.3 million. The purchase consideration consists of the following:

- \$400,000 in cash due on closing, for which the cheque was issued subsequent to period end.
- \$10,500,000 in convertible debentures, \$6,500,000 of which to be issued to Inphosoft, and \$4,000,000 to be issued to Inphosoft and delivered to the agent, both of which are due three years after closing
- \$400,000 in a non-interest bearing promissory note payable after the first year anniversary date of the closing date. The note has a present value of \$377,358 based on a discount rate of 6%.

Each non-interest bearing debenture shall be issued for a term of three years and may not be converted at any time if as a result the debenture holder will hold more than 10% of the issued and outstanding shares or with any person or group acting jointly or in concert will hold more than 20% of the issued and outstanding common shares of the Corporation.

The convertible debentures are redeemable at \$0.10 per common share by the Corporation at any time prior to their maturity. The payment shall not be made by GINSMS prior to ten (10) Business Days from the delivery of a redemption notice to Inphosoft; during which period Inphosoft can convert all or any part of the principal amount of convertible debentures into common shares.

In addition, debentures in the principal amount of \$4,000,000 will be deposited at closing in escrow and will be released upon the achievement of certain established profit levels over the next two years. The first \$ 2 million will be released if profit of \$600,000 is obtained per the December 31, 2011 audited financial statements of Inphosoft, which was successfully obtained. The remaining \$ 2 million will be released if profit of \$1,250,000 is achieved per the March 31, 2013 audited financial statements, otherwise, for every \$1 of profit, \$1.60 of escrowed debentures will be released.

All costs of the transaction, including expenses in respect of legal, accounting, professional advisory fees, transfer agent, and other were expensed during the three and six months ended September 30, 2012 including the issuance of 200,000 common shares at a fair value of \$10,000.

The proceeds described above have a total present value of \$6,079,241 has outlined below based on the convertible debentures having a three year repayment schedule and an implicit rate of 25.32% determined based on a valuation report incorporating a discount rate for similar obligations and the contingent nature of a portion of the debentures. This present value represents the acquisition price at September 28, 2012 by the Corporation of all the issued and outstanding shares of Inphosoft. The preliminary purchase price allocation for the acquisition is as follows:

Identifiable assets (liabilities acquired)

| | | |
|-------------------------------|----|-----------|
| Cash | \$ | 513,211 |
| Accounts receivable | | 978,039 |
| Prepaid expenses | | 37,713 |
| Property and equipment | | 17,506 |
| Development expenditures | | 510,451 |
| Intangible assets – contracts | | 444,717 |
| Intangible assets – software | | 786,750 |
| Goodwill | | 2,830,364 |



**GINSMS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Three and Nine-Months Ended December 31, 2013 and 2012

| | |
|--|--------------|
| Accounts payable and accrued liabilities | (238,745) |
| Deferred tax liabilities | (126,476) |
| | <hr/> |
| | \$ 5,753,530 |
| Consideration given up | |
| Cash due on purchase | \$ 400,000 |
| Convertible debentures | |
| Issued to vendor | 3,730,064 |
| Issued to escrow agent | 1,221,167 |
| Equity portion of debentures | 35,776 |
| Promissory note | 366,523 |
| | <hr/> |
| | \$ 5,753,530 |

Business combinations are accounted for under the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Corporation at the date control is obtained. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than share and debt issue costs, are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The excess of the consideration transferred over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill.

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SECTION 1.17 OTHER MD&A REQUIREMENTS

Risks and Uncertainties

Through its operations, the Company is exposed to various business risks and uncertainties which could have an impact on its capacity to achieve its growth objectives. Consequently, the following factors should be taken into account when evaluating the Company's future prospects:

Dependence on Major Customers

The Company depends on major customers for a significant portion of its business and the loss of any of such customers could materially and adversely affect the Company, and hence the Company's business and financial position. A significant portion of GINSMS' revenue has been



and is expected to continue to be, derived from a limited number of customers. Most of these customers are major operators of telecom services in the Asia Pacific region. There can be no assurance that GINSMS' major customers will continue to use GINSMS' services. In the event that any of these customers cease to use the services of GINSMS and GINSMS fails to replace such customer(s), the Company's business and financial position may be materially and adversely affected.

System Failures, Delays and Other Problems

System failures, delays and other problems could harm the Company's reputation and business, cause it to lose customers and expose GINSMS to customer liability. GINSMS' system architecture is contingent on its ability to process a high volume of transactions in a timely and effective manner. GINSMS may experience failures or interruptions of its systems and services, or other problems in connection with its operations as a result of, amongst others things:

- damage to or failure of its computer software or hardware or its infrastructure and connections;
- data processing errors by its systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events; and
- failure of GINSMS to adapt to rapid technological changes in the telecom industry.

If GINSMS cannot adequately ensure that its network services perform consistently at a high level or otherwise fails to meet its customers' expectations:

- it may experience damage to its reputation, which may adversely affect its ability to attract or retain customers for its existing services, and may also make it more difficult for GINSMS to market its existing or future services;
- it may suffer significant damage or expose itself to customer liability claims, under its contracts or otherwise, including the requirement to pay penalties relating to service level requirements in its contracts;
- its operating expenses or capital expenditures may increase as a result of corrective actions that GINSMS must perform;
- GINSMS' customers may reduce their use of GINSMS' services; or
- one or more of its significant contracts may be terminated early, or may not be renewed.

These or other consequences would adversely affect the Company's revenue and performance.

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These or other consequences would adversely affect the Company's revenue and performance.

Security and Privacy Breaches

Security or privacy breaches may result in an interruption of service or a reduced quality of service, which could increase GINSMS' costs or result in a reduction in the use of GINSMS' services by its customers. GINSMS' systems may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorized users gain access to GINSMS' databases, they may be able to steal, publish, delete or modify sensitive information that is stored or transmitted on GINSMS' networks and which GINSMS is required by its contracts to keep confidential. A security or privacy breach could result in an interruption of service or a reduced quality of service. Confidential information internal to GINSMS may also be disclosed to unauthorized personnel who may use such information in a manner adverse to the interests of GINSMS. Hackers may attempt to "flood" the network, thereby preventing legitimate network traffic or to disrupt the connection between two machines, thereby preventing access to a



service or preventing a particular individual from accessing a service. The Company may therefore be required to make significant expenditures in connection with corresponding corrective or preventive measures. In addition, a security or privacy breach may harm GINSMS' reputation and cause its customers to reduce their use of GINSMS' services, which could harm the Company's revenue and business prospects. In addition, GINSMS' revenue may be adversely affected by un-captured usage, in the event that GINSMS' system is "hacked" into, resulting in transmissions that may not be detected by its billing system. Further, the increase in traffic as a result of such unauthorized "hacking" may slow or overload GINSMS' transmission network, thereby adversely affecting the overall quality of services which GINSMS provides to its paying customers. GINSMS' exposure to telecom security concerns is heightened as Hong Kong and Chinese laws relating to liability under such circumstances are relatively new. In addition, GINSMS does not carry "errors and omissions" or other insurance covering losses or liabilities caused by computer viruses or security breaches, which under such circumstances could mitigate damages that GINSMS may suffer. If GINSMS incurs any such losses or liabilities, the Company's operating results, financial condition, business and prospects may be adversely affected.

Adequacy of Network Resilience, Network Diversity and Backup Systems

Inadequate network resilience, network diversity and backup systems may result in service disruptions. Any failure of GINSMS' backup systems or any insufficiency in GINSMS' redundancy capacity may disrupt GINSMS' operations. GINSMS regularly reviews its network and assesses its vulnerability to such outside factors. However, there can be no assurance that GINSMS' existing alternative routes and cable diversity will provide adequate backup for all types of service interruptions that may occur. Moreover, even with these contingency measures, service disruptions could last for a considerable period of time before complete service can be restored. This may cause customers to reduce their use of GINSMS' services, which could harm the Company's revenue and business prospects.

Loss of Significant Information

Loss of significant information may adversely affect the Company's business. In cases of a failure of GINSMS' data storage system, GINSMS may lose critical network or billing data, source code, proprietary production system designs or important email correspondence with its customers and suppliers.

Decline in Volume of Transactions or Profit Margin

A decline in the volume of transactions GINSMS handles or a decline in its profit margin may have an adverse effect on the Company's operations results. Although GINSMS charges a minimum fee, GINSMS earns revenue mostly on a usage basis. As such, GINSMS is not protected against the potential adverse effect on its revenue of a decrease in the transaction volumes provided by its customers or pricing pressures imposed directly by its customers or indirectly by its competitors. In addition, if Hong Kong current licensing rules are abolished or changed to permit telecom operators to enter into peer-to-peer contractual agreements for direct links with their counterparts, or if the cost of using GINSMS' services makes it uneconomical for a telecom operator to use GINSMS' services, GINSMS may experience a reduction in its business volume.

***Consolidation of GINSMS' Customers***

Consolidation among GINSMS' customers may cause GINSMS to lose transaction volume. As a hub-based service provider, the business of GINSMS is derived from exchange of voice and data transmission between telecom operators. Consolidations, mergers and acquisition activities among telecom operators typically reduce their need for interconnection services. Therefore, these types of corporate activities may cause GINSMS to lose transmission volume or may cause GINSMS to reduce per-transmission prices for its services.

Failure to Develop, Enhance or Introduce New VAS

If the Company fails to develop or introduce on a timely basis new VAS, its business will suffer. Rapid change in technology, short product life cycles, changes in customer requirements and evolving industry standards characterize the markets for the Company's products. The success of the Company depends on the Company's ability to timely develop and introduce innovative new VAS that gain market acceptance. The Company may not be successful in forecasting future customer requirements or in selecting, developing and marketing new products or enhancing the Company's existing products on a timely or cost-effective basis. Moreover, the Company may encounter technical problems in connection with its product development that could result in delayed introduction or its inability to introduce new products or product enhancements. Such cancellations or delays could result in a decrease in sales or a loss of customers, or both. The Company may also focus on technologies that do not function as expected or are not widely adopted. In addition, products or technologies developed by others may render the Company's products non-competitive or obsolete and result in a significant reduction in traffic volume from the Company's customers and the loss of existing and prospective customers.

Competition

The market for communications services is extremely competitive and rapidly changing. The Company faces competition from other providers of connectivity and value-added services, some of which are larger and may be better funded than the Company. In addition, certain telecom hubs based in Hong Kong and a few other Asian countries providing competing services have strong connections with Chinese telecom operators or are otherwise affiliated with other telecom operators. Moreover, in the areas of MVAS the Company is aware that some other companies are focusing significant resources in developing and marketing services that will compete with those of the Company. Although the Company is not a basic telecom service provider, it competes in some areas against telecom operators, communications software companies and system integrators which provide systems and services used by telecom operators to manage their networks and internal operations relating to inter-operator connections and other telecom transactions. In addition, competition also exists between certain of GINSMS' MVAS and the software developed in-house by its customers. Certain competitors may be able to respond to new or emerging changes in technology or customers' requirements more quickly than the Company. A number of the Company's current and potential competitors, such as CITIC Telecom International (formerly known as CITIC 1616 Holdings Ltd) and other major telecom operators in Hong Kong, Singapore and Taiwan may have greater name recognition and/or more extensive customer bases than GINSMS. Increasing competition could result in fewer customer orders, reduced revenue, reduced sales margins and loss of market share, any one of which could harm the business of the Company. Finally, customers may internally deploy services and technologies



which may reduce or eliminate their demand for such services and technologies from third party providers including GINSMS and further increase competitive pricing pressure.

Dependence on Third-Party Software and Equipment

The failure of third-party software and equipment which GINSMS uses in its systems may cause interruptions or failures of its systems. In addition to the use of the internet and certain telecom networks maintained by broker carriers and other third parties for the transmission of data traffic, GINSMS also incorporates hardware, software and equipment developed by third parties into its systems. As a result, GINSMS' ability to provide interoperability services depends in part on the continued performance and support of these third-party products. If these products experience failures or contain defects, and the third parties supplying these products fail to provide adequate remedial support, this may result in the interruption or unsatisfactory performance of GINSMS' systems or services.

Sufficiency of Insurance Coverage

Property "all risks" insurance and public liability insurance do not cover cyber risks and data loss. The property "all risks" insurance and public liability insurance taken out by GINSMS do not cover certain damages or losses, and contain a number of liability exclusion clauses, including exclusions for:

- damage or loss relating to the use or misuse of the Internet or similar facility, such as unauthorized access or use;
- damage to or loss of data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, corruption or deformation of the original structure, and any business interruption losses resulting from such damage or loss; and
- damage or loss resulting from an impairment in the function, availability, range of use or accessibility of data software or computer programs, and any business interruption loss resulting from such damage or loss.

As such, GINSMS may not be adequately indemnified or compensated for if it sustains any such loss or damage, which in turn may adversely affect the financial position of the Company.

Capacity Limits

Capacity limits on GINSMS' network and application platforms may be difficult to project and GINSMS may not be able to expand or upgrade its systems to meet increasing demand. GINSMS' business requires it to handle a large number of SMS transactions simultaneously. In order to manage growth in the number of such SMS transactions successfully, GINSMS needs to enhance its operational, management, financial, and information systems and controls continuously and effectively. Although GINSMS upgraded its IOSMS platform, it is difficult to predict when the capacity limits on GINSMS' network and application platforms will be reached, given that the usage requirement of GINSMS' services depends on the demand from the telecom operators or the telecom operators' choice of a hubbing service provider. If GINSMS does not expand or upgrade its hardware and software quickly enough, it may not have sufficient capacity to handle the increasing traffic and this would limit the growth of its operations and improvement of its performance.

***Rapid Technological Changes***

Rapid technological changes may increase competition and render GINSMS' technologies, products or services obsolete or cause GINSMS to lose market share. The telecom industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Such changes may adversely affect GINSMS' revenue. There can be no assurance that GINSMS can improve the features, functionality, reliability and responsiveness of its interoperability, infrastructure and other services to meet the changing demands of its customers towards new communications technologies. Similarly, the technologies that GINSMS employs may become obsolete or subject to intense competition from new technologies in the future. If GINSMS fails to develop, or obtain timely access to, new technologies, or if it fails to obtain the necessary licenses for the provision of services using these new technologies, GINSMS may lose its customers and market share, and its results of operations would be adversely affected.

Market Acceptance at Desired Pricing Levels

The Company's failure to achieve or sustain market acceptance at desired pricing levels may impact its ability to maintain profitability or positive cash flow. The Company's competitors and customers may cause the Company to reduce the prices it charges for its services which in turn could adversely affect the Company's profitability and cash flow. The primary sources of pricing pressure include:

- competitors offering competing services at reduced prices, or bundling and pricing services in a manner which makes it difficult for the Company to compete; and
- customers with a significant volume of transactions may have enhanced leverage in pricing negotiations with the Company;

GINSMS may not be able to offset the effects of all or any price reductions.

Key Members of the Management Team

The loss of any key members of the management team may impair the Company's ability to identify and secure new contracts with customers or otherwise manage its business effectively. The Company's success depends, in part, on the continued contributions of its senior management. Most of them are well experienced in the telecom industry and have in depth knowledge of various aspects of the development of a telecom business.

Credit Risk of Accounts Receivable

The Company is subject to credit risk in respect of its accounts receivable. GINSMS provides credit periods to its customers, which are calculated from the dates the invoices are issued by GINSMS to the dates of payment by the customers. Although GINSMS implements credit control policies and measures, GINSMS cannot assure that these measures are adequate in protecting GINSMS against material credit risks. GINSMS may provide services to customers who do not provide sufficient deposits, advance payments or bank guarantees for GINSMS' services. Moreover, should GINSMS' customers be unable to pay in full for any reason, the Company's



profit and cash flow will be adversely affected. Any delay in the payment by customers may also adversely affect the Company's operations and financial position. The Company may have to sustain legal costs in pursuing unsettled invoices, a process which is time-consuming and may be affected by a variety of factors including any counterclaim from such non-paying customers. Even if the Company obtains favourable judgments, enforcement of such judgments may take time and may not always be successful.

Dependence on Required Licenses

IOSMS in Hong Kong is a highly regulated business activity and requires licenses from the Hong Kong Telecommunications Authority ("TA"), without which GINSMS would be unable to operate. GINSMS is subject to the rules and regulations of the TA, which regulates the telecom industry in Hong Kong, and OFTA, which assists the TA in enforcing and administering the *Telecommunications Ordinance*. The TA's authority includes regulating and licensing telecom facilities and managing the radio frequency spectrum. If the TA determines that GINSMS has violated Hong Kong's telecom laws or regulations or the conditions of its licenses, the TA may suspend or cancel GINSMS' licenses or take other action detrimental to GINSMS. GINSMS is also subject to various other rules, laws and ordinances applicable to companies operating in Hong Kong, including, for example, laws relating to obscenity and privacy. If GINSMS is found to be in violation of these laws, it may face judgments or consequences detrimental to its business. In addition, the PNETS granted by OFTA to GINSMS are normally valid for one year, subject to renewal at the discretion of OFTA and compliance of all terms and conditions of the licenses. In the event that OFTA refuses to renew any of the existing licenses of GINSMS, GINSMS' ability to offer its services will be adversely affected. The Chief Executive in Council of the OFTA may also cancel or suspend licenses if it considers that it is in the public's interest to do so. Moreover, if the TA changes its existing regulations or policies such as those governing interconnection or competition, including the requirement on GINSMS to obtain separate or further licenses for its existing operations or services, or to obtain licenses in respect of its future operations or services based on new communication technologies, the Company's results of operations, financial condition, business and prospects could be adversely affected. GINSMS may also incur extra costs in order to comply with technical specifications or other conditions resulting from any enacted or proposed changes in the applicable laws and regulations. As a result, the Company's financial condition, results of operations and/or prospects may be adversely affected. The business of the Company's customers is also subject to regulations. As a result, such regulations could indirectly affect the Company's business. As communications technologies and the telecom industry continue to evolve, the regulations governing the telecom industry may change. If this were to occur, the demand for the Company's services could change in ways that GINSMS cannot easily predict and may result in a decline in the Company's revenue.

Hong Kong's Economy and Politics

The state of Hong Kong's economy and politics may adversely affect the Company's performance and financial condition. The Company's primary facilities and operations are located in Hong Kong. Hong Kong is a special administrative region of the People's Republic of China with its own government and legislature. Under the *Basic Law* of Hong Kong, Hong Kong is entitled to a high degree of autonomy granted by the People's Republic of China under the principle of "one country, two systems". However, there is no assurance that Hong Kong will continue to enjoy its current level of autonomy from the People's Republic of China. If it does not,



this could have a material adverse effect on the Company's business, results of operations and financial condition. The Hong Kong economy has experienced considerable volatility in the last decade. Hong Kong's primary economic sectors, such as real estate, retail and finance, are volatile. Although the economy has experienced growth since 2009, it is not certain whether such growth will be sustained. As GINSMS' operations are principally conducted in Hong Kong, its financial position and results of operations are and will be affected by the state of Hong Kong's economy, which in turn is subject to many different factors that are beyond the control of the Company. In particular, the economy of Hong Kong is significantly affected by the developments in China, the Asia-Pacific region and the United States. China's economy may experience negative economic developments, and other regional economies may also deteriorate. In any such circumstances, Hong Kong's economy and hence GINSMS' operating results, financial condition, business and prospects would be adversely affected. The Company also bears risks which involve matters arising out of evolving laws and policies in Hong Kong, any future imposition of special taxes or similar charges, and the risk that changes can occur in the government of Hong Kong and a new government may void or change the laws and regulations that the Company is relying on.

Enforcement of Judgments and Residency of Directors, Officers and Others

As a Hong Kong legal entity, GINSMS is subject to Hong Kong company law and regulations. For example, provisions for the protection of shareholder's rights and access to information contained in Hong Kong company law are less developed than those applicable to companies in other countries. Substantially all of the Company's assets, through its subsidiary GINSMS, are located in Hong Kong. Hong Kong does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and as such, recognition and enforcement in Hong Kong of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or its subsidiaries would likely not be enforceable in Hong Kong.

Mr. Man Kon (Jonathan) Lai, the Chairman of the Board of Directors of the Company, Mr. Paul Fung Yuen Law, director of the Company, Mr. Chun Tat (Leo) Ho, director of the Company, Mr. Kwok Kin Suen, Chief Executive Officer of the Company, and Koon Fai (Faith) Lam, Chief Financial Officer of the Company, reside outside of Canada. Although Messrs. Lai, Law, Ho, Suen and Lam have appointed Heenan Blaikie LLP as their agent for service of process in Canada, it may not be possible for investors to enforce judgements obtained in Canada against these individuals.

As British Virgin Island ("BVI") legal entities, the Company's subsidiaries, Global Edge Technology Ltd. and Redstone Resources Ltd., are subject to BVI company law and regulations. For example, provisions for the protection of shareholder's rights and access to information contained in BVI company laws are less developed than those applicable to companies in other countries. BVI does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and as such, recognition and enforcement in BVI of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or its subsidiaries would likely not be enforceable in BVI.

***Conflicts of Interest***

Certain directors and officers of the Company are also directors, officers, or shareholders of other companies that may operate in the same sectors as the Company. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict is required under the *Canada Business Companies Act* to disclose his interest and to abstain from voting on such matter.

Risk Factors Related to the Business of the Inphosoft Group Pte Ltd ("Inphosoft") Company***Adequacy of Protection on the Corporation's Proprietary Technology and other Intellectual Rights***

Inphosoft's success depends to a significant degree on Inphosoft's proprietary technology and other intellectual property. Although Inphosoft regards its technology as proprietary, it currently has no patent protection in any countries. Inphosoft relies only on a combination of know-how, trademarks, copyrights and [contractual restrictions] to establish and protect its proprietary rights. These measures, however, afford only limited protection and may not provide Inphosoft with any competitive advantage or effectively prevent third parties from misappropriating its technology or other intellectual property. It is possible that others will independently develop similar products or design around Inphosoft's proprietary rights. If Inphosoft fails to successfully enforce or defend its intellectual property rights or if it fails to detect misappropriation of its proprietary rights, its ability to effectively compete could be seriously impaired which would limit its future revenues and harm its prospects.

If Inphosoft fails to receive the trademark registrations it seeks, or if they are held invalid once issued or other problems arise with Inphosoft's intellectual property, its competitiveness could be significantly impaired and its business, operations and prospects may suffer. In addition, from time to time, Inphosoft may face challenges to the validity or enforceability of its proprietary rights and litigation may be necessary to enforce and protect such rights, or to determine the validity and scope of Inphosoft's rights and the rights of others. Any such litigation would be expensive and time consuming, would divert the attention of Inphosoft's management and key personnel from business operations and could result in the outright loss of Inphosoft's proprietary rights, and would likely harm its business, operating results and financial conditions.

Computer Viruses and Disruption to Operations

Despite Inphosoft's implementation of network security measures, its servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with its computer systems. Any such event could have a material adverse effect on its business, operating results, and financial condition. Similarly, events such as widespread blackouts could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders, its business, operating results and financial condition could be materially and adversely affected.

***Effect of Telecommunications Industry Consolidation***

Recently, there has been a trend toward industry consolidation in Inphosoft's market. Inphosoft expects this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue or expand operations. Management of Inphosoft believes that industry consolidation may result in stronger competitors and fewer customers. Consolidation among Inphosoft's customers may cause delays or reduction in capital expenditure plans or increased competitive pricing pressures, or both, as the number of available customers declines and their relative purchasing power increases. Also, consolidation among Inphosoft's customers may increase their leverage in contract negotiations which may require Inphosoft to agree to terms that are less favorable to Inphosoft than the terms of its prior agreements. This could have a material adverse effect on Inphosoft's gross margins and operating results. These customers may require Inphosoft to develop additional features and may impose penalties on Inphosoft for failure to deliver such features on a timely basis, or failure to meet performance standards. Inphosoft may agree to these less advantageous terms and conditions in order to obtain initial contracts or for other strategic reasons, which may decrease Inphosoft's revenues or increase the time it takes to convert orders into revenues, or both, resulting in decreased profitability and greater variability of Inphosoft's quarterly and annual financial results.

Inability to Satisfy Customer Demand for Performance, Price or Terms

The market in which Inphosoft operates is highly competitive, and Inphosoft expects that the level of competition on pricing and product offering will continue to be intense. Additionally, certain emerging markets, such as countries in the Middle-East, Africa, South America and Southeast Asia, are particularly sensitive to pricing as a key differentiator. Where price is a primary decision driver, Inphosoft may not be able to effectively compete or it may choose not to compete due to unacceptable margins. If Inphosoft is not able or chooses not to compete against its current and future competitors, its current and potential customers may choose to purchase similar products offered by Inphosoft's competitors, which would negatively affect its revenues or profitability, or both. The markets for Inphosoft's products are subject to rapid technological changes, evolving industry standards and regulatory developments, and its operating results depend to a significant extent on its ability to adapt to these changes. Inphosoft competes principally on the basis of: (i) product performance and functionality; (ii) product quality and reliability; (iii) customer service and support; and (iv) price. Many of Inphosoft competitors have substantially broader product portfolios and financial and technological resources, product development, marketing, distribution and support capabilities, name recognition and established relationships with telecommunications service providers than it has, and other resources that Inphosoft does not have. Certain competitors of Inphosoft may price their products at unsustainably low levels in an effort to acquire market share or delay or avoid business failures. Inphosoft may not be able to compete effectively against existing or future competitors or to maintain or capture meaningful market share, and Inphosoft's business could be harmed if its competitors' products and services provide higher performance, offer additional features and functionality or are more reliable or less expensive than its products. Increased competition could force Inphosoft to lower its prices or take other actions to differentiate its products, which could adversely affect its business.

***Failure to Develop, Enhance or Introduce New Products in a Timely Fashion***

If Inphosoft fails to develop or introduce on a timely basis new products or product enhancements or features that achieve market acceptance, its business will suffer. Rapidly changing technology, frequent new product introductions and enhancements, short product life cycles, changes in customer requirements and evolving industry standards characterize the markets for its products. The success of Inphosoft will depend to a significant extent upon its ability to accurately anticipate the evolution of new products, technologies and market trends and to enhance its existing products. It will also depend on Inphosoft's ability to timely develop and introduce innovative new products and enhancements that gain market acceptance. Finally, sales of Inphosoft's products depend on the continuing development and deployment of emerging technology and its ability to offer new products and services that comply with this new technology. Inphosoft may not be successful in forecasting future customer requirements or in selecting, developing and marketing new products or enhancing Inphosoft's existing products on a timely or cost-effective basis. Moreover, Inphosoft may encounter technical problems in connection with its product development that could result in delayed introduction or inability to introduce new products or products enhancements and the cancellation of customer orders or delays in fulfilling customer orders. Such cancellations or delays could result in the imposition of penalties or other liabilities on Inphosoft, a decrease in sales or a loss of customers, or both. Inphosoft may also focus on technologies that do not function as expected or are not widely adopted. In addition, products or technologies developed by others may render Inphosoft's products non-competitive or obsolete and result in a significant reduction in orders from Inphosoft's customers and the loss of existing and prospective customers.

Limited Number of Customers Account for a Significant Portion of Inphosoft's Revenues

In 2012, sales to Acision Nederland BV ("**Acision**") represented 72.5% of Inphosoft's revenues. Reductions or delays of orders from one or more of Inphosoft's significant customers or the loss of one or more of Inphosoft's significant customers in any period could have a material adverse effect on the operating results of Inphosoft. In order to increase its revenues, Inphosoft will need to attract additional significant customers on an ongoing basis. Inphosoft's failure to attract a sufficient number of such customers during a particular period, or Inphosoft's inability to replace a significant customer lost, could adversely affect Inphosoft's revenues, profitability and cash flow.

Since September 28, 2012 Inphosoft's business is now combined with that of GINSMS. The risk factors described above under both "Risk Factors Related to the Business of the Corporation" and "Risk Factors Related to the Business of the Inphosoft Company" now apply to GINSMS as well and could materially adversely affect GINSMS's future business, operations and financial conditions.

Control by Management

Now that the acquisition has been completed, Inphosoft the vendor may have control of the GINSMS Issuer through the aggregate number of Common Share into which the Convertible Debentures may convert into. If such conversion is achieved the Vendor will have the right to elect its nominees as directors of the GINSMS and take control of GINSMS's board of directors. If such scenario unfolds, the Vendor will be able to control the business and affairs of GINSMS.



Reliance on Key Technical Personnel

GINSMS's success will depend in large measure on certain key technical personnel. The loss of the services of such key technical personnel could have a material adverse effect on GINSMS. The contributions of these individuals to the immediate operations of the GINSMS are likely to be of central importance to its future business. In addition, the competition for qualified personnel in the information technology and telecommunications industry is intense and there can be no assurance that GINSMS will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Market for Securities

The market price of the Common Shares is affected by many variables not directly related to the corporate performance of GINSMS, including the market in which it is traded, the strength of the general economy, the availability and attractiveness of alternative investments, and the breadth of the public market for the Common Shares. The effects of these and other factors on the future market price of the Common Shares cannot be predicted.

Possible Future Dilution

The market price of the Common Shares is likely to be highly volatile and may be significantly affected by factors such as actual or anticipated fluctuations in GINSMS's operating results, announcements of technological innovations, new contracts by GINSMS, its competitors or their customers, government regulatory action, general market conditions and other factors. In addition, should GINSMS contemplate a further public or private offering of Common Shares or should the Vendor convert parts or all of the Convertible Debentures, investors will incur immediate and substantial dilution upon completion of such an offering or conversion.

International Risks

GINSMS's international operations will be significant and it intends to continue to expand these international operations, particularly in Asia. Foreign operations face additional specific local risks, which may adversely affect GINSMS, including but not limited to, change in legal and regulatory requirements, less favourable intellectual property laws, any loss of sales personnel in one GINSMS's foreign offices that could result in a significant loss of sales in that foreign country, change in local tax rates and other potentially adverse tax consequences (including the cost of repatriation of earnings), collectability of accounts in foreign jurisdictions, and burdens of complying with a wide variety of foreign laws, including changing import and export regulations. Future growth depends in large part on the ability to increase business in international markets. This will require significant management attention and financial resources, including capital to hire additional personnel and establish additional international facilities.

Successful Expansion into the Chinese Market

The strategy of GINSMS involves the growth of its operations in China mainly through the combination of its business with that of Inphosoft which will provide GINSMS with pre-requisite capabilities enabling it to better penetrate the Chinese market. Operations and business expansion plans in China are subject to additional risks, such as differences in legal, regulatory and licensing



requirements, patent protection, potentially adverse tax consequences, fluctuations in currency exchange rates, differences in legal burdens in complying with foreign laws and regulations and changes in political and economic conditions. Now that the acquisition has been completed, there can be no assurance that GINSMS will be able to receive or retain licenses or authorizations that may be required for it to provide its services in China. In addition, the GINSMS cannot ensure that it will be able to anticipate and manage all these risks and other risks associated with its expansion into the Chinese market, and the deployment of human and financial resources in pursuing such expansion may have a material and adverse impact on the business of GINSMS..

Segmented Information

Until the acquisition of Inphosoft, all of the Company's revenue and a majority of its expenses were generated and incurred in Hong Kong dollars ("HKD"). Now that Inphosoft is part of the Company, a significant part of its future revenues and expenses will also be generated in Singapore dollars (SGD) and also, albeit to a lesser extent, in Indonesian Rupiah (IDR) and Malaysian ringgit (MYR). Inphosoft also does business in US dollars ("USD"). Currently, all of the assets and liabilities as at March 31, 2013 are also either in HKD, SGD, USD, IDR or MYR, except for cash balances kept in Canada and those current liabilities incurred toward service providers in this country.

Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company. As such, the Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms.

Capital Disclosures

The Company is required to disclose information about its capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.