

COVER SHEET

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S.E.C. Registration Number

I P E - G A M E V E N T U R E S , I N C . A N D
S U B S I D I A R I E S (A S u b s i d i a r y o f
I P E G l o b a l H o l d i n g s
C o r p o r a t i o n)
(Company's Full Name)
2 / F B o n i f a c i o T e c h n o l o g y
C e n t e r , 3 1 s t S t r e e t C o r n e r
2 n d A v e n u e , B o n i f a c i o G l o b a l
C i t y , T a g u i g C i t y
(Business Address : No. Street Company / Town / Province)

| |
|------------------|
| Miguel B. Ladios |
|------------------|

Contact Person

| |
|---------------|
| (02) 976-4777 |
|---------------|

Company Telephone
Number

| | | | |
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Month Day

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| SEC Form 17-A |
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FORM TYPE

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| 0 | 6 | 0 | 6 |
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Month Day
Annual Meeting

Secondary License Type, If Applicable

| | | |
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| S | E | C |
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Dept. Requiring this Doc.

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|-------------|
| Article VII |
|-------------|

Amended Articles
Number/Section

| | |
|---|---|
| 2 | 3 |
|---|---|

Total No. of Stockholders

| | |
|----------------------------|---|
| Total Amount of Borrowings | |
| P- | - |

Domestic Foreign

To be accomplished by SEC Personnel concerned

| | | | | | | |
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File Number

LCU

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Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

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

1. For the fiscal year ended December 31, 2012
2. SEC Identification Number CS200518779
3. BIR Tax Identification No. 242-246-380
4. Exact name of issuer as specified in its charter IP E-GAME VENTURES, INC.
5. **Metro Manila, Philippines**
Province, Country or other jurisdiction of incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. **2/F Bonifacio Technology Center, 31st St. Cor 2nd Ave., Bonifacio Global City, Taguig City**
Address of principal office
- Postal Code 1630
- Issuer's telephone number, including area code +63 2 976 4777
8. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.
9. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---------------------|---|
| <u>Common</u> | <u>30,000,000,000</u> |

10. Are any or all of these securities listed on a Stock Exchange.

Yes [x] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange Common Shares

11. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x] No []

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

Yes [x] No []



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

The aggregate market value of the voting stock held by non-affiliates of the Company as of December 31, 2012 is ₱393,045,338 (15,721,813,511 shares @ ₱0.025/share).

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulations Code and Section 141 of the Corporation Code, this report, the **ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2012** (SEC Form 17-A) is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, Philippines on **MAY 15, 2013**.

IP E-GAME VENTURES, INC. AND SUBSIDIARIES

Issuer

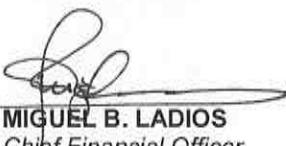
By:



JAIME C. GONZALEZ
Chairman of the Board



JAIME ENRIQUE Y. GONZALEZ
Chairman & Chief Executive Officer



MIGUEL B. LADIOS
Chief Financial Officer

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

SUBSCRIBED AND SWORN TO before me this **MAY 15, 2013**, the following persons exhibiting me their Tax Identification Numbers, as follow:

| | Tin No. | Date of Issue | Place of Issue |
|---------------------------|-------------|---------------|----------------|
| Jaime C. Gonzalez | 171-457-049 | | |
| Jaime Enrique Y. Gonzalez | 201-868-133 | | |
| Miguel B. Ladios | 139-534-890 | | |

Doc No. 917
Page No. 81
Book No. X1
Series of 2012.


JOSÉ VOLTAIRE A. BAULISTA
NOTARY PUBLIC

Until December 31, 2013
3668480 CERTIFIED ON 1-2-13 AT MAKATI
SC POLL NO 199491

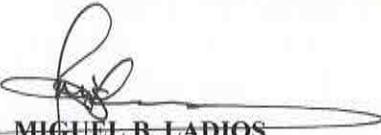
REPUBLIC OF THE PHILIPPINES)
)S.S.

TREASURER'S CERTIFICATION

I, **MIGUEL B. LADIOS**, of legal age, Filipino and with office address at the 34F RCBC Plaza Tower 2, Ayala Avenue, Makati City, after being sworn in accordance with law, hereby certify that:

1. I am the Treasurer of **IP E-Game Ventures, Inc. and Subsidiaries** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines under SEC Certificate of Registration No. **CS200518779** with principal office address at 34 Floor RCBC Plaza Tower 2, Ayala Avenue, Makati City.
2. The Financial Statement ("F/S") diskette submitted contains the exact data stated in the hard copies of the F/S of the Corporation.
3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the SEC.

WITNESS MY HAND on this MAY 15 2013 day of May 2013 at Makati City.


MIGUEL B. LADIOS
Treasurer

SUBSCRIBED AND SWORN TO before me this MAY 15 2013 day of May 2013, the following person exhibiting me his Tax Identification Number:

| | Tin No. | Date of Issue | Place of Issue |
|------------------|----------------|----------------------|-----------------------|
| Miguel B. Ladios | 139-534-890 | | |

Doc. No. 890;
Page No. 81;
Book No. X1;
Series of 2012

W.M.L.
JOSE VOLTAIRE A. MAUTISTA
NOTARY PUBLIC
Until December 31, 2013
ID No. 3660860 ISSUED ON 12-13 AT MAKATI
SC POOL NO. R9991

"ANNEX C", AS AMENDED

(SRC Rule 12)

NON-FINANCIAL DISCLOSURE REQUIREMENTS

PART I BUSINESS

(A) Description of Business

(1) Business Development

IP E-Game Ventures, Inc. (the Company) is the leading on-line game publisher in the Country, with a portfolio of massively multiplayer online role-playing games (MMORPG) and casual online games. The Company pioneered the "free-to-play" business model, wherein gamers are not required to pay a subscription fee to play online games. Gamers are given the option of purchasing "in-game items" to enhance their gaming experience by using virtual currency (e-Points), which the Company sells.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on November 22, 2005;

Commercial operations began on March 31, 2006. Since then, the Company has launched 6 MMORPGs and 3 casual games, and currently have a network of 28 main distributors and approximately 20,000 outlets (comprised mainly of internet cafés, independent kiosks and mini-marts) that cover the entire Philippine market.

In October 16, 2007, the Company was registered, with Certificate No. 2007-183, with the Board of Investments (BOI) as a New Information and Communication Technology (ICT) Export Service firm (non-pioneer) in the field of application software/systems development for on-line computer systems. This entitles the Company to certain fiscal and non-fiscal incentives, including, but not limited to: a four-year income tax holiday and an option to avail of bonus years for entitlement of income tax holiday; simplified procedures for the importation of equipment, spare parts, raw materials and supplies with the Bureau of Customs; ten-year exemption from wharfage dues, any export tax, duty, imposts and fees; option to qualify for importation of capital equipment, spare parts and accessories at zero duty; and employment of nationals. Except with respect to the enjoyment of the income tax holiday, these fiscal and non-fiscal incentives shall terminate after a period of not more than ten years from the start of commercial operations.

In August 2008, based on a survey conducted by AE Research Exponents, Inc., the Company operates three of the most often played on-line Games in the Philippines, RAN Online, CABAL Online and Audition, respectively. RAN Online and CABAL Online are the most often played MMORPGs, and Audition is the most often played casual online game, in the Country.

On January 1, 2010, Dragonica, our latest MMORPG title started its alpha testing phase. The game is three dimensional and features an eight-way side-scrolling system. The game is easy to learn and intuitive even for first-time MMOG players.

On January 8, 2010, Runes of Magic, one of our latest high-fantasy MMORPG, started its open beta testing phase and started commercial operations February 11, 2010.

On April 10, 2010, we staged Domination IV, our annual gaming event and anniversary celebration at the SMX Convention Center at the SM Mall of Asia Complex in Pasay City. The event drew around 23,000 gamers.

In May 2010, X-Play started the mall tour for the latest addition to the "Hottest Gaming Barkada" initiative for its hit online dance game Audition Dance Battle. The endorser of this initiative was The Pop Girls, a local girl band. This band released a repackaged version of their album featuring the song, "Sige Sayaw", which was released exclusively for Audition.

X-Play also released its localized EDSA map for its first-person shooting game, Operation7. A pipeline of customized maps, weapons and ammunitions patches will be introduced to gamers.

On July 19, 2010, Dragonica started its close beta testing phase and started commercial operations on September 2, 2010.

In August 2010, X-Play has tied up with Coca-Cola, the leader in the global beverage industry, for X-Play's online karaoke game, Super Star Online. The new game merges reality entertainment and online gaming with the Super Star Online's Singing Star Search. The talent search is expected to reach more potential singers with the combined efforts of Coca-Cola, and started its open beta testing phase on September 1, 2010.

On September 7, 2010, BandMaster, X-Play's band-theme music rhythm game title, started its open beta testing phase. It was thereafter launched commercially on October 12, 2010.

On September 11, 2010, E-Games, together with IAH of Singapore and Korean game developer Barunson Interactive, brought the commercial launch for Dragonica at the Cyberzone Area of SM Annex North Edsa in Quezon City. More than 700 people attended the event and experienced the full blown launching of the new casual MMORPG title.

On September 30, 2010, the Board of Directors approved the grant of an additional option in favor of IPVG to subscribe to 16,000,000 common shares in order to prevent the dilution of IPVG with respect to its option to subscribe to 4,000,000 common shares which was granted to IPVG pursuant to the Option Agreement dated September 17, 2009. The Company plans to hold a stockholders' meeting to seek shareholders' ratification of the said additional grant.

On December 29, 2010, IPVG Employees Inc. (IEI) sold 1,022,255 shares held indirectly through the PCD Nominee Corporation.

In January 2011, we conducted a rights offering and offered 134,182,216 Common Shares ("Rights Shares") to our stockholders as of January 3, 2011 ("Record Date"). The Rights Shares were offered at the offer price of P1.00 per share and each eligible holder of Common Shares was entitled to subscribe to four (4) Rights Shares for every one (1) Common Share held as of the Record Date. The Rights Offering was fully subscribed and the Rights Shares were listed on the Second Board of the PSE on February 4, 2011.

Likewise, on April 1, 2011, we executed a Software Development and License Agreement with Zepetto Co., a South Korean company which owns the worldwide and exclusive right to market and distribute Point Blank, a casual FPS game. Pursuant to the agreement, we were granted the exclusive, royalty-bearing and non-transferrable license for the use, promotion, distribution and marketing of the localized version of Point Blank for a period of three years from the date of commercial launch. We launched the game commercially on July 8, 2011.

On April 1, 2011, we acquired 97,557,504 shares of DPI from ePLDT, Inc. for a consideration of P145 million, or approximately P1.49 per share. The acquired

shares constitute 75% of the outstanding capital stock of DPI, a corporation engaged in the business of providing shared community access through the Internet, computer leasing, desktop publishing and other Internet-related activities.

On April 13, 2011, our Board approved the transfer of our 40% stake in First Cagayan Converge Data Center, Inc. (FCCDI) to IP Converge Data Center, Inc. (IPCDCI). The transfer, which was done in three tranches, was part of the IPVG Groups' thrust to rationalize and consolidate its interests and business operations into the respective subsidiaries and affiliates.

On July 8, 2011, we commercially launched Point Blank, a first person shooter game whose active user base has surpassed the performance of our flagship MMORPGs in terms of number of users and growth rate.

In July 2011, we entered into a memorandum of agreement with RS Concepts whereby the parties agreed to enter into a reseller agreement allowing RS Concepts to sell E-Games' available advertising inventory. The specific terms and conditions of the agreement are subject to further discussion and negotiations. RS Concept is a non-traditional advertising company.

On September 2, 2011, we purchased 60% of Webworx, Inc., owner and operator of the CYBR Internet café chain with 23 Internet cafés (18 company-owned branches and 5 franchised branches located in Luzon).

On October 18, 2011, the Company entered into a Licensing and Distribution Agreement with Blizzard Entertainment International granting the Company exclusive license to market, sell and distribute physical boxed versions of World of Warcraft, Starcraft, Legacy Products and Diablo.

On October 19, 2011, GNMI executed a Subscription Agreement with the Company wherein the Company committed to allow GNMI to subscribe to Offer Shares worth P130 million as part of the Company's complying public offer. On the same date, the GNMI and E-Games executed an Option Agreement relative to their shares in X-Play.

On November 15, 2011, GMA provided a sponsorship certification of P30 million to X-Play for development of advergaming assets to be used by GMA in their digital advertising efforts.

On December 3, 2011, the Company subscribed to 60,000 common shares of AB Fiber Corporation at P100 per share or a total subscription price of P36 million, P6 million of which was paid for by applying the Company's dividend payable from FCCDCI. The Company's stake in AB Fiber was subsequently transferred to IPCDCI.

On December 27, 2011, the SEC approved the reduction in the Company's par value from P1.00 per share to P0.01 per share. With the decrease in par value, the authorized capital stock of the Company of P300 million is now divided into 30 billion shares.

No bankruptcy, receivership or similar proceedings have been filed by the Company since its registration.

Since the Company's start of commercial operations in 2006, it has launched seven MMORPGs and five casual games in the Philippine market.

On February 14, 2012, the BOD approved the amendment in the Articles of Incorporation to change the corporate name and primary purpose of the Company to allow it to engage in the business of food and beverage, entertainment, hotel and leisure.

On June 28, 2012, the BOD approved the amendment of Article Seventh of the Amended Articles Incorporation, to increase the authorized capital stock of the Corporation from ₱300,000,000, divided into 30 billion shares with par value of ₱0.01 each, to ₱1 billion, divided into 100 billion shares with par value of ₱0.01 each.

The BOD likewise approved the issuance and listing of up to 40 billion shares out of the increase in authorized capital stock, subject to the final terms and conditions of the subscription.

On July 31, 2012, during the Regular Stockholders Meeting, the Corporation approved the amendment of Article Third of the Amended Articles of Incorporation to change the principal office of the Corporation to 2/F Bonifacio Technology Center, 31st Street Corner 2nd Avenue, Bonifacio Global City, Taguig City, Metro Manila.

On October 25, 2012, the BOD approved to amend the Articles of Incorporation, increasing the authorized capital stock of the Company to P9 billion divided into 900 billion shares. On the same date, the BOD approved to issue shares out of the increase in authorized capital stock, the proceeds of which shall be used to buy into a larger gaming and resort development project.

In November 5, 2012, the BOD approved a modification on the approval made on October 25, 2012 to amend the Company's Amended Articles of Incorporation. The modification made is to amend the Corporation's Amended Articles of Incorporation, increasing the authorized capital stock to P50 billion divided into 5 trillion shares.

On March 22, 2012, during the Shareholders' Meeting, the minority and unrelated shareholders approved the waiver of the requirement to conduct a rights or public offering in relation to the additional listing of the above shares because the 10% required public ownership has already been attained by the Company.

We have become one of the leading online games publishers in the country, garnering a community of over 15.9 million registered gamers and 447,055 active users per month that play our online games. In line with our efforts to increase market share, we have entered into discussions for a possible merger with our biggest competitor, LUI. The aim is to combine gaming assets with LUI and substantially increase our gaming community, distribution and reach to the market. On March 31, 2012, we completed our merger with LUI.

Starting April 1, 2012, the Company diverted its business operations from online games to distribution of box games through its accredited distributions.

On March 2, 2012, the Company acquired a 25% stake in Cosamera, a company with primary business in the Cagayan Special Economic Zone and Freeport. Cosamera is in the business of hotel and resort facilities which shall serve tourists frequenting the Cagayan Economic Zone Authority including visitors to its gaming facilities.

On January 9, 2012, the Company executed a Content License and Distribution Agreement with NBAP for the right and license to operate the official website of the NBA targeted at the Philippine market. NBAP is a company based in New York that operates various commercial activities of the NBA around the world, outside of Greater China. The agreement is binding and effective until September 30, 2014 unless earlier terminated. The rights granted under this agreement shall not be assigned, sublicensed or subcontracted without the prior written consent, which consent may, in the sole discretion of NBAP, (i) be contingent upon a fee payable by IPE or the transferee, and/or (ii) impose other terms and conditions upon the assignment or transfer. The Company has plans of transferring the content license to X-Play Online Games, Inc.

On November 14, 2011, DPI secured loan with HSBC in the amount of P200 million, to be backed by a guarantee from the Philippine Export-Import Credit Agency (PHILEXIM). The proceeds of the loan shall be used for the expansion and development of DPI's internet café chain. On December 20, 2011, the Parent Company paid in advance the guarantee fee amounting to P5.3 million as required by PHILExIM to secure the term loan facility from HSBC.

The first draw on the term loan facility was made on March 19, 2012.

On March 8, 2012, The Company and X-Play signed an exclusive local publishing agreement with Take-Two for online sports and social web game. The said online social web game will be locally hosted and operated in the Philippines. Take-Two, a subsidiary of Take-Two Interactive Software, Inc., is a leading developer, marketer and publisher of interactive entertainment for consumers' world-wide.

Pursuant to the approval of the Company's BOD on May 9, 2012, the Company, through RAN Online, Inc., (ROI) a wholly-owned subsidiary of E-Games, acquired a 36,000 square meters of property in Cagayan Ecozone for a purchase price of P70.0 million, through combination of cash and shares of stock. As of December 31, 2012, Transfer Certificates of Title covering a total of 26,405 square meters of the total lot area being purchased have been issued to ROI with total cost recorded per books amounting to P37.3 million.

On April 30, 2012, the Board authorized the Company to enter into a surety agreement in relation to the loan of IPVI with China Banking Corporation.

(2) Business of Issuer:

(a) Description of Registrant

IP E-Game Ventures, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group" were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates.

The Group is principally engaged in the business of interactive gaming and content distribution to the local, regional and global market. We also provide Internet, intranet, extranet and other related value-added services to any and all types of information technology users related to interactive computer games and content distribution.

Since starting commercial operations in March 2006, we, together with X-Play have published 20 online games, including RAN Online, Granado Espada, CABAL Online, Audition Dance Battle, Band Master and Point Blank. After the merger with LUI, the Company diverted its business operations to distribution of box games.

We started as an online games publisher and we are in the process of transforming into a fully integrated digital consumer platform with businesses encompassing three core activities: online games content publishing, Internet café retail operations, and digital advertising.

The Company is 35% owned by IPE Global Holdings Corporation ("IPE Global" or "parent company"), a company incorporated in the British Virgin Islands (BVI), while IPE Global is 71% owned by IPVG Corp. ("IPVG" or "ultimate parent company"), a company incorporated in the Philippines whose shares are also listed in the Philippine Stock Exchange (PSE)

The Company is the leading on-line game publisher in the Country, with a portfolio of massively multiplayer online role-playing games (MMORPG) and casual online games. The Company pioneered the "free-to-play" business model, wherein gamers are not required to pay a subscription fee to play online games. Gamers are given the option of purchasing "in-game items" to enhance their gaming experience by using virtual currency (e-Points), which the Company sells.

We have become one of the leading online games publishers in the country, garnering a community of over 15.9 million registered gamers and 447,055 active users per month that play our online games. In line with our efforts to increase market share, we merged with our biggest competitor, Level-Up! Games. The aim is to combine gaming assets with Level-Up and substantially increase our gaming community, distribution and reach to the market.

As part of our strategic acquisitions, we acquired two of the largest Internet café chains, Digital Paradise, Inc., which owns and operates Netopia, and Webworx, Inc. Today, a majority of Internet users access the Internet through Internet cafes and more than 90% of our online gamers play at Internet cafes. These acquisitions are in line with our plan to be the leading digital consumer platform in the Philippines, providing content, retail access and advertising platforms to Internet users.

These strategic acquisitions of Internet café chains are in line with our plan to be the leading digital consumer platform in the Philippines, providing content, retail access and advertising platforms to Internet users.

In October 16, 2007, the Company was registered, with Certificate No. 2007-183, with the Board of Investments (BOI) as a New Information and Communication Technology (ICT) Export Service firm (non-pioneer) in the field of application software/systems development for on-line computer systems. This entitles the Company to certain fiscal and non-fiscal incentives, including, but not limited to: a four-year income tax holiday and an option to avail of bonus years for entitlement of income tax holiday; simplified procedures for the importation of equipment, spare parts, raw materials and supplies with the Bureau of

Customs; ten-year exemption from wharfage dues, any export tax, duty, imposts and fees; option to qualify for importation of capital equipment, spare parts and accessories at zero duty; and employment of nationals. Except with respect to the enjoyment of the income tax holiday, these fiscal and non-fiscal incentives shall terminate after a period of not more than ten years from the start of commercial operations.

Subsidiaries and Affiliates

Digital Paradise, Inc. ("DPI")

Digital Paradise, Inc. was incorporated in the Philippines and registered with the SEC on July 23, 2002 to establish, purchase or otherwise acquire, develop, transfer, assign, or license a distinctive business format or system in rendering internet, desktop publishing and other related services to the public. It has an authorized capital stock of 190,000,000 shares with a par value of P1.00 per share and subscribed capital of 130,078,756 shares, or P130,078,756. We acquired 75% ownership of DPI on April 1, 2011.

On June 22, 2010, the SEC approved and issued the Certificate of Amendment of the Articles of Incorporation, reflecting the change in DPI's primary purpose to engage in, conduct and carry on the business of providing

shared community access through the internet, computer leasing, desktop publishing and other Internet-related activities.

DPI uses the brand Netopia and EGG for its chain of Internet Café in the Philippines. As at December 31, 2012, the Company has 59 company-owned and 22 franchised branches (94 and 31 as at December 31, 2011, respectively) located in major malls and near schools.

RAN Online, Inc.

RAN Online, Inc. was incorporated on August 3, 2006. It has an authorized capital stock of ₱1 million divided into one million common shares, and a subscribed capital of ₱250,000. It is a wholly-owned subsidiary that was incorporated to provide information technology support services to third party gaming companies as well as our affiliates.

X-Play Online Games Incorporated ("X-Play")

On December 20, 2007, we signed a Shareholders' Agreement with GNMI creating and operating a joint venture company, X-Play, which will engage in the business of designing, operating and maintaining casual online gaming and casual online gaming related portals. X-Play was incorporated on June 12, 2008 with an authorized capital stock of 8 million common shares with a par value of P100 per share, subscribed capital of P200 million, and paid in capital of P100 million, equally owned with GNMI. Our contribution to capital was in the form of cash and certain online gaming assets. GNMI contributed cash and advertising airtime.

The formation of X-Play allowed us to expand our casual games platform to the mainstream television market. We hope to recruit new players for our casual games from the television viewing public. We will have access to the website development, talents and advertising spots of GMA Network, Inc.

X-Play has expanded its focus from operating primarily casual games to publishing top tier game titles and other online content such as those from Blizzard, Take-Two Interactive and NBA.Com.

WebWorx

On September 2, 2011, the Company subscribed to 375,000 primary shares of Webworx, equivalent to 60% of the latter's increased outstanding capital stock, at a total subscription price of P48 million or P128.00 per share. Of the P48 million, P33.6 million was paid on September 2, 2011 while the balance of P14.4 million is payable on the earlier of December 31, 2011 or 10 Business Days after the mandatory initial public offering is completed. On January 19, 2012, the parties revised the Subscription Agreement to provide that the balance of P14.4 million shall be paid as follows (i) P 7.2 million to be paid within 10 business days from receipt by E-Games of Webworx's financial statements showing a trailing six months, commencing on February 1, 2012, EBITDA of P6 million and (ii) P7.2 million to be paid within 10 business days from receipt of the financial statements showing a trailing six-months, ending on January 31, 2013, EBITDA of P6 million. The amendment further provides that should Webworx's EBITDA for both period fall below P6 million, the balance due to the Webworx's shall be subject to a downward adjustments in accordance with an agreed formula.

Webworx was incorporated on August 17, 2011 with the primary purpose of operating internet cafes in the Philippines. It has acquired all or substantially all of the assets that CyberOne Computer Technology Corp used in operating the CYBR chain of Internet cafes. Webworx has a current authorized capital stock of P1 million divided into 1,000,000 shares with a par value of P1.00

per share. As part of the acquisition, the parties have signed agreements regarding rights of first refusal and drag along rights over the shares as well as for the governance of Webworx. Pursuant to such agreements, E-Games was given the right to nominate three out of the five directors in Webworx's board and the right to appoint its chairman, chief finance officer/treasurer and corporate secretary for as long as it has majority ownership. Franchising will also be supervised by E-Games.

Level Up! Inc. ("LUI")

In the first quarter of 2012, the Company and LUI successfully merged their Philippine online game publishing business. Selected E-Games' game titles and assets were acquired by LUI in exchange for 30% stake in LUI and cash consideration. LUI is a corporation organized and existing under and by virtue of the laws of the Republic of the Philippines.

Acquisition of shares in Cosamera

On March 2, 2012, the Company acquired a 25% stake in Cosamera, a corporation duly organized and existing under Philippine law with primary business in the Cagayan Special Economic Zone and Freeport. Cosamera is in the business of hotel and resort facilities which shall serve tourists frequenting the Cagayan Economic Zone Authority including visitors to its gaming facilities.

- (i) Principal products or services and their markets;

The Company's MMORPG and Casual Online Games which are delivered via internet game portal to end-customers is now being managed and operated by LUI in exchange for 30% ownership of the Company over LUI, after March 31, 2012. There is a potential base of over 24 million customers in the Philippines.

The Group sells prepaid cards and prepaid PINs that are used to purchase in-game virtual items such as performance-enhancing accessories, pets, weapons, and other virtual items that make the gaming experience more enjoyable.

Our virtual currency (e-Points) may be purchased by our players either via acquisition of prepaid cards, or they may opt to load e-Points via an electronic load system. Prepaid cards are available in denominations of P20, P50, P100, P200, P300 and P1,000.

We follow the "item based" or micro-transaction revenue model. To successfully operate in this kind of business, it is critical that we understand the price points at which we achieve optimum customer satisfaction and at which our customers feel comfortable buying items.

To identify the price points at which revenues are maximized, we carry out the following sequence of analyses:

"Cost of Living Index" and the "Big Mac Index": Since the games we license have usually been implemented successfully in other markets, we request that the developer give us the prices of the items in those markets. We then determine the initial pricing for the Philippine market based on the Cost of Living Index and the Big Mac Index. The indices are measurements of comparable costs of living in various countries.

Price Point Analyses: We move the price up and down through promotions, and we also conduct gamer surveys during weekly focus group discussions. From these two activities, we are able to further fine tune the price points. We monitor sales figures and gauge the impact of price changes to derive the optimum price point.

In 2008, the Company spun off its casual gaming segment into X-Play, our joint venture with GNMI.

- **MMORPG** is a genre of online computer role-playing game (RPG) in which a large number of players interact with one another in a virtual world. As in all RPGs, players assume the role of a fictional character or an "avatar", which serves as their online alter ego. These avatars can be realistic, fantastic or even cartoon-like, depending on the genre of the game. MMORPGs are distinguished from single-player or small multi-player RPGs by the number of players and by the game's persistent world, usually hosted by the game's publisher, which continues to exist and evolve even while the player is away from the game. This segment of online games targets hardcore gamers. Please refer to **TABLE 1** for the list of licensed MMORPGs:

RAN Online

A modern campus-based MMORPG set in a mythic post-apocalyptic Asia with elements of fantasy and magic. Players assume the roles of students in various campuses, faced with conflict. Characters vary, from brawlers, swordsmen, archers or shamans. It was customized for the local market by injecting Filipino characterization of mobs and monsters.

To enhance the overall gaming experience, players may interact with the virtual characters of other players, making it more enjoyable. From this feature, collective groups of players within the game (guilds) are formed. These groups have a broad range of structures and goals, with members ranging from a few friends to as much as 1,000 members. Altogether, they constitute the "Guild Congress", an online community of regular players. Part of the game's success is attributable to the Guild Congress,

Over 350 virtual items (i.e. battle gear, accessories, potions and other enhancements) are currently offered in the RAN Online item store, with prices ranging from ₱1 to over ₱1,000, to improve a character's capabilities. The Company generates game play revenues with the sale of these virtual items.

To maintain gamer interest and further increase player base for the game, developers continue to update and provide new game content. These updates may include introduction of new: skill levels; maps to work with; monsters to fight against; items to purchase; pets that provide assistance; gender classes; vehicles that increase speed (e.g. hover board); class features, and other innovations.

RAN Online has been the Company's strongest game, in terms of revenue contribution, since its introduction in April 2006, although the Company believes that the game has arrived at the maturity stage of its life cycle in the local market, the game still retains a substantial user base.

Granado Espada

Developed by Hakkyu Kim, creator of "Ragnarok" and set in the fantasy world of "Orpesia", players assume the roles of settlers embarking on the

colonization of a newly discovered continent. Character types include fighters, musketeers, wizards, scouts and elementalists. Each type of character has its own advantages and disadvantages which make for varied player experiences. Upon character creation, gamers can begin to interact with the virtual world of Orpesia.

The game won the Korean Game Award's Presidential award for "Best Game and Best Graphics in 2006" and attracts players interested in games that simulate the exploration and settlement of new lands.

Over 250 virtual items (i.e. costumes/vanity items to change the appearance of a gamer's avatar, experience boosters, and potions) are currently offered in the Granado Espada item store, with prices ranging from ₩50 to over ₩740. The game also offers "Royal Services" that allow gamers to change their avatar's first name, family name or gender. The Company generates game play revenues with the sale of these virtual items and services.

CABAL Online

Set in a post-apocalyptic fantasy world called "Nevareth", the game attracts players interested in games rich in "old world" lore. Players assume the roles of Nevareth defenders and get immersed in a conflict against invaders. They choose from an array of characters (e.g. warriors, wizards, "bladers" (swordsmen), "force archers", "force shielders", or "force bladers"), each with a different set of abilities. Optimized user interface, tracking function and in-game guides allow players to quickly master game mechanics and dynamics.

CABAL Online is an internationally acclaimed MMORPG, published in various countries, developed by ESTsoft, a leading South Korean software development company.

The game's lifecycle is at its mature or post-saturation stage. While the game has historically generated a significant following, the number of gamers playing it has declined due to the introduction of new MMORPGs and casual games.

The Company, in coordination with the developer, continues to implement major content upgrades to CABAL Online in order to make the game more attractive to the existing community and draw new gamers.

Over 520 virtual items (i.e. potions to regenerate or gain strength, character customization items, pets to help fight and kill monsters, and other premium services) are currently offered in the CABAL Online item store, with prices ranging from ₩50 to over ₩740, to improve a character's capabilities. The Company generates game play revenues with the sale of these virtual items. The game also offers optional premium items or "Change Kits" that allow gamers to customize his/her in-game avatar (i.e. character name, hairstyle, hair color, gender and special costumes). These are available for use: over a seven-day or 30-day duration, or bought permanently.

Like a gamer's character, a pet also learns passive skills and progresses through various levels of the game. Special premium items (e.g. Pet Experience Beads) are, likewise, sold to boost a pet's level progression. Premium services, on the other hand, are virtual subscriptions to a particular in-game benefit that allows gamers to experience and obtain special features in-game.

The game developer is responsible for the steady stream and roll-out of items released every month.

The Tale of Nomads of Silver Spirit (Nostale)

Developed by Entwell Co., Ltd., a Korean gaming company and published by Servex Co., with license, under the On-Line Game Point Distribution Agreement, to act as game point distributor granted to the Company, the game draws players who are fond of Manhwa style comics art. Gamers begin playing as "Adventurers" and, as they advance, may choose to become "Swordsmen", "Archers" or "Sorcerers", and have their own customized virtual real estates.

It was introduced in 2006, has been successfully launched in Japan, Taiwan, India, Europe and Hong Kong and has been translated into Japanese, Chinese, German, Italian, English and French.

Zhu Xian Online (ZX Online)

Set in mythical East China, the game appeals to players who are interested in games filled with Chinese lore. Players start out as "Seekers" or "Paladins", with character classes that enable players to assume roles with varying functions (i.e. healing, magic or physical prowess).

Over 123 virtual items, (i.e. instruments, treasures, costumes, lottery boxes that gives gamers a chance to win rare virtual items, mounts used for travelling, pets used to restore energy and swords) are currently offered in the Zhu Xian Online (Universe Treasury) item store. These items are denominated in a virtual currency "ingot" (equivalent to ₩1) with prices ranging from ₩15 to over ₩700. The Company generates game play revenues with the sale of these virtual items and services.

Dragonica

A three dimensional side-scrolling action fantasy adventure game, developed by Barunson Interactive, where players control characters in a three-dimensional plane, focusing movement on the horizontal axis, with limited vertical movement (much like arcade style side-scrolling classics).

With in-game action-based combat, moves are performed real-time and centered on the use of special skill sets. Players aim to prevent enemies from retaliating by performing ground and aerial fight combinations, act as healer or supporter, when necessary.

The game has a large number of missions and scenarios where players compete cooperatively with others (e.g. dungeons), while having up to four separate modes of advancement, with increasing difficulty, accessible after completion of current level.

- **Casual Online Games** is a genre of online computer games targeted at a mass audience. It has a few simple rules and an engaging game design, making it easy for a new player to begin playing the game. It requires no long-term time commitment or special skills to play, and represent comparatively low production and distribution costs for the producer. Please refer to **TABLE 2** for the list of licensed Casual Games:

PointBlank

Point Blank is a fast paced online first-person shooter casual game. Players join either the Free Rebels or CT-Force team. Each team attempts to complete their mission objective and/or eliminate the

opposing team. Each round starts with the two teams spawning simultaneously, usually at opposite ends of the map from each other. A player can choose to play as one of four different default character models (Acid and Sharp Eyes for CT-Force and Aurochs and Tarantula for the Free Rebels). There are four purchasable deluxe character models: Fennec and Pit Viper for CT-Force or Cheshire and Shadow for the Free Rebels. Players are generally given a few seconds before the round begins or before the respawning to change the weapons and/or equipment. Game points are awarded for winning a round, losing a round, killing an enemy, making a headshot, and killing other team's players in a row, etc.

Audition Dance Battle

A leading global online casual game, with more than 300 million registered users, allowing players to perform dance moves using keystrokes, timed to a musical beat.

Virtual vanity and social function items, (i.e. clothes and accessories to improve one's appearance, Premium Messenger and Premium Messenger Plus to improve a character's social interaction and Nickname Change) are currently offered in the Audition item store, with prices ranging from ₱15 to over ₱700. The Company generates game play revenues with the sale of these virtual items and services.

Operation7

A first person shooter game, launched on October 13, 2009. It caters to address the potential market of first person shooters in the Philippine gaming market. It balances realism and exaggerated gameplays and would most likely appeal to gamers who play local area network-based first person shooter games.

BandMaster

The only band-themed online music rhythm game available in the Philippines, developed by Dyson Interactive and distributed by YD Online, both Korean companies. The game was commercially released by X-Play in the first quarter of 2010.

The game's song library contain hits from various music eras and requires users to have an ear for rhythm, and good eye-hand coordination, to ensure that the right notes are hit at the right time.

Super Star Online (for release)

An online karaoke game, developed by Shanda [NYSE: SNDA]. It measures voice pitch and timing to determine precise performance scores. It provides an engaging and interactive game environment where gamers choose from various roles (i.e. star, host, judge, singer, stylist, or fan) and take on different paths as the game progress. The game was launched to attract the Philippines' mass market and bank on Filipinos' talent and affinity for singing.

Our spending for development activities match the life cycle of our titles and growth of our core business. In 2011 and 2010, the Company spent ₱23.8 million and ₱39.9 million, respectively, or 8.0% and 21.2% of revenues, respectively, for the continuous infrastructure upgrade as well as acquisition of new titles.

In terms of online games most often played, CABAL Online was the market leader, with 21.0% of the online gaming population claiming to be

regular players. RAN Online followed with 15.0%, and Audition with 8.0%. Altogether, we estimate our market share to be 52.0% of the games most often played based on the survey conducted by AE Research Exponents, Inc.

- (ii) All of the Company's sales or revenues and net income is contributed by local sales;
- (iii) Distribution methods of the products or services;

We have 28 main distributors through which we cover the entire country, with a network spanning approximately 20,000 outlets such as internet cafés, independent kiosks, mini-marts, and computer shops.

New Products and Services

Internet Café Retail Business

We have invested in two of the largest internet café chains in the country. Internet cafes are used by 70% of internet users in the country as their primary source of internet access; and 90% of internet usage is for playing online games, providing clear synergies between the publishing and retail business units. With Internet users projected to grow to over 65 million users by 2015, we aim to be the primary point for accessing the Internet.

- *Digital Paradise, Inc. (Netopia)*

Primary Business

- PC Rental at the following rates:
 - Member - P40.00/hour
 - Non-Member - P50.00/hour
 - Promo-Rate (Off-Peak) - P30.00/hour

Secondary Business

- Desktop Publishing and Printing
- Electronic Load (Pre-Paid Call and Text Load, Gaming Loads, others)
- Payment Center
- Money Remittance and Foreign Exchange
- Corporate PC Rental -companies that rent out PCs for training and other activities. Under this business line, a minimum number of PCs is rented out for a specific time period.
- Advertising -Both physical and virtual spaces in the internet café, such as wall space, countertops, screensavers and desktop wallpapers have been converted to advertising inventory and sold to product advertisers.

- *Webworx (CYBR)*

Primary Business:

- PC Rental at the following rates:
 - Early Bird rate (10:00 a.m. to 12:00 p.m.)
 - Night Owl rate (7:00 p.m. to 9:00 p.m.)
 - Play-All-You-Can (P150/day)
 - Defense Of The Ancients (DOTA) Play (P 20 to P25/hour)

*Prices for the Early Bird and Night Owl rates vary per branch

Secondary Business:

- Desktop Publishing and Printing
- Photo Printing
- Facsimile

- Electronic Load

Gamebox distribution

- *IP E-Game Ventures, Inc.*

In 2012 after the sale of gaming assets to LUI, the Company started focusing on box games distributions. Average suggested retail price per box is P2,495. These boxes are distributed through the Company's accredited retailers in exchange for retailer's discount. In 2012, major game titles distributed are Diablo 3 and NBA 2K13.

Leasing

- *Ran Online, Inc. (ROI)*

In August 2012, ROI started leasing its newly acquired investment property in Cagayan. The lease agreement is for a period of 20 years with total annual rent income amounting to P9.2 million escalating by 10% every five years.

(iv) Competition

We compete with online game operators who offer their services in the Philippines. There are currently other local online game publishers in the Philippines which publish or distribute MMORPGs and casual online games. We also face competition from international online game operators whose games are available in the internet. In addition, we compete with operators of offline games, including PC games, console games, arcade games and handheld games, as well as other forms of traditional online entertainment.

Our competitors in the local online gaming market include LUI (prior to merger), Amped Games, Z-Zone On Line Philippines, Inc., and Asian Media Development Group, Inc.

We consider LUI, the company that launched the game Ragnarok, to be our closest competitor. LUI has been acquired by ePLDT, and continues to offer new titles both in the MMORPG and casual games genre.

On March 31, 2012, the Company merged selected gaming content and operations with LUI. The combined products and operations of two of the largest online games companies has created the undisputed no. 1 gaming company in the country with unprecedented market share and unparalleled distribution in the online games sector.

The new Level-Up creates the preferred partner for game developers and gives the merged entity leverage on negotiating terms and costs for new content pipeline. It will also provide unique synergies to the Company's network of internet café that supports our operations and franchising efforts.

Competition in the internet café industry

There are currently no government regulations on pricing or service standards for internet café services in the country. Many single-branch operators can readily put up outlets near our locations and offer lower pricing.

We have the single largest network of internet cafes in the country. With a network of 123 outlets, the company has a sizeable lead over the next largest competitor. Being one of the leading online games publishers in the country, we also have the advantage of publishing some of the online games played at the internet cafes. We are therefore able to offer more comprehensive services, promotions or gaming-related deals to our customers.

Competition from other entertainment choices

Traditional forms of entertainment such as television, movies, radio, and others remain to be options for on-line gamers.

The Yahoo Nielsen Net Index 2010 shows that among Filipinos between 10 to 29 years of age, which comprise a significant portion of the country's population, television as a choice of entertainment has become almost fully saturated with internet reaching up to 40% of those aged 30 and below. We believe that with consumer trends favoring more digital forms of entertainment, we are well positioned to mitigate this competitive risk.

Please refer to **TABLE 3** for the comprehensive list online games currently published by other online gaming publishers in the Philippines:

- (v) Sources and names of principal suppliers;

We have existing agreements with companies from whom we lease servers and other computer equipment necessary for our operations.

Because of the nature of our business we have no major trade suppliers. However, we are dependent on licensors or developers for our online games, and these licensors or developers may be considered our major suppliers.

Note that the Company's contracts with the suppliers for MMORPG and Casual games were likewise transferred with LUI pursuant to the gaming assets sale.

| Game Title | Genre | Supplier |
|--|--------|---|
| CABAL Online | MMORPG | ESTsoft Corp. |
| RAN Online | MMORPG | Min Communication, Inc. |
| Dragonica | Casual | Cyber Gateway (L) Pte. Ltd. |
| Runes of Magic | MMORPG | Tahadi Games Ltd. |
| 02 Jam | Casual | Nowcom Co., Ltd. |
| Zhu Xian Online | MMORPG | Beijing Perfect World Software Co. Ltd. |
| NBA 2K | Casual | Take Two International S.A. |
| Granado Espada | MMORPG | Infocomm Asia Holdings Pte. Ltd. |
| Point Blank | Casual | Zepetto Co. |
| | | |
| World of Warcraft, Starcraft, Legacy Products and Diablo | MMORPG | Blizzard Entertainment International |
| NBA 2K13 | MMORPG | Epicsoft |

Below are the various suppliers of our internet cafes:

| Supplier | Address | Type |
|--|---|------------------------|
| PC Express | 2/F Diane Bldg., Rizal Ave., Caloocan | computer |
| Net Essentials Corp. | 173 CSP Building, EDSA, Mandaluyong | computers |
| Elite Lumber | 236 McArthur Highway, Valenzuela | construction materials |
| KarrglassSaftey Glass Inc. | 49 Banaue St., Quezon City | construction materials |
| World Class Laminate Inc. | 88 Jenny's Ave., Maybunga, Pasig | construction materials |
| Lei Glass AluminumEnt. | 623 McArthur Highway, Malanday, Val | construction materials |
| IlawAtbp | Unit 11 G/F HowardTower, Rizal Ave., Caloocan | construction materials |
| Lexus Industrial | 62 J. Villa Ortigas, Santolan Road, Quezon City | construction materials |
| Buildmate Marketing | 47-A Pablo St., Karuhatan, Valenzuela | construction materials |
| JAF Enterprises | 1147 Masangkay St., Sta. Cruz, Manila | office supplies |
| Gold Ever Merch. Corp. | 267-269 EDSA, Caloocan | construction materials |
| New Oakland Industrial Sales (formerly Lanhoc) | 213 Rizal Ave., Caloocan | construction materials |
| Lestones Floor Center | 1240 EDSA, Balintawak, Quezon City | construction materials |
| Lendrop Ads Concept | 1531 Ma. Clara St., Manila | construction materials |
| S One Supplies Corp. | 192 9th Ave., Ma. Clara St., Caloocan | office supplies |
| Turbo Large Format | 24 Sct. Madrinian St., Quezon City | marketing materials |
| Wall Crown Design | 295 Boni Serrano Ave., Quezon City | construction materials |
| Philcopy Corporation | 793 JP Rizal Ave., Makati | toner, photocopier |
| 5 Com Enterprises | 87 Arandia St., Tunasan, Muntinlupa | toner |
| Alluway Trading | 125-B Samson Road, Caloocan | construction materials |

None of our directors, their associates or our shareholders, owning more than 5.0% of our issued share capital, has any interest in any of our suppliers.

(vii) *Dependence on MMORPGs*

Our business, financial condition and results of operations could be adversely affected by: (a) any reduction in the number of players of our online games, particularly MMORPGs, which are main contributors to our revenues; (b) reduction in the propensity of gamers to buy virtual items for these games; (c) any failure by the game developers to make improvements, upgrades or enhancements to these games, or provide other forms of support services, in a timely manner; (d) any lasting or prolonged server interruptions due to network failures or other factors; or (e) any other adverse developments specific to these games.

To mitigate our dependence on MMORPGs, we plan to introduce social media games to the market. We intend to capitalize on the fast-growing population of social media sites such as Facebook by launching our games across these mediums. We still plan to continue introducing new top-tier MMORPGs and casual games to the local market.

Dependence on Telecommunications Infrastructure

Our ability to provide online gaming and Internet café services is heavily dependent on the telecommunications infrastructure and the performance or non-performance of ISPs. As a publisher, we have no control over the investment commitments made by ISPs to ensure satisfactory quality of Internet connections to its customers.

However, being an emerging broadband market, we expect ISPs in the Philippines to continuously upgrade their networks and infrastructure.

Dependence on Third Parties for Distribution of our Prepaid Cards and box sales

We rely on the services of third party distributors to deliver and sell our prepaid cards to customers, and if these are not widely available and easily accessible, our customers may cease or reduce their purchases of our prepaid cards.

To maintain the loyalty of our distributors, our product management team works towards increasing item sales within the games to increase the demand for our prepaid cards and correspondingly increase the business volume of our distributors. We also offer competitive incentives to our distributors to maintain their loyalty and ensure that they continue to distribute our prepaid cards.

Business dependence on single or relatively few customers;

We have 28 main distributors who resell our prepaid cards to retailers of game cards and cellular cards. These retailers include internet cafes, convenience stores, mini-stops, sari-sari stores and kiosks. In addition to prepaid cards, PINs are also sold via Load Central, an online distribution system available at leading convenience stores located all over the country.

Business dependence on two lessees

ROI's rental revenue with contracted term of 20 years over its investment properties is with the two lessees only. To maintain the good business relationship with the lessees, the escalation on lease contracts are made at a reasonable level.

Dependence on Third Parties for Game Enhancement

We rely on game developers for upgrading and implementing new patches and providing local customization for our online games. Since we do not have development capabilities and we do not own the right to modify the titles we publish locally, we have no control over the enhancements or upgrades to our game titles. Should our game developers fail to provide timely support services, our gamers may migrate to other online games, which may materially and adversely affect our operating results and financial condition. We go through a regular market monitoring process to provide feedback to our game developers on the appropriate enhancements and upgrades to our game titles.

Our licensing agreements with the game developers include payment of royalties based on game revenues. It is therefore in the game developers' best interests to ensure that enhancements, upgrades and other support activities address the requirements of our gamers in a timely manner. We may not renew licenses for games where the developer's support is considered to be inadequate.

Dependence on Key Personnel

We depend on the continued services of our key executives and employees. Some of our executives and employees have specific expertise in online gaming, information technology, marketing, business development, management and other aspects related to our business. There can be no assurance that we will be able to retain these executives and employees. If many of our key personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to replace them easily, resulting in the significant disruption of our business and materially and adversely affecting our operating results and financial condition. There is no assurance that we will be able to attract and retain the key personnel we need to achieve our business objectives.

Our standard employee contracts have non-compete clauses that prevent our employees from joining our competitors within one year after separation from the Company. We observe industry best practices in compensation and benefits and strive to provide the best employment experience for our employees.

We estimate that our coverage reaches over 20,000 retailers throughout the country, of which 67.0% are located in Luzon, with 41.0% located in the National Capital Region ("NCR"). The network also covers Visayas with 21.0% and Mindanao with 12.0%.

No single distributor accounts for more than 20% of our sales of prepaid cards, PINs and boxed games.

- (viii) Transactions with and/or dependence on related parties;
Refer to PART IV (D) for transaction and balances between related parties as of and for the period ended December 31, 2012 and 2011.
- (ix) Principal terms and expiration dates of all patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held;

Patents

We currently have no registered patents with the Philippine Intellectual Property Office.

Trademarks

Please refer to **TABLE 4** for all trademarks registered with the Philippine Intellectual Property Office.

Copyrights

Please refer to **TABLE 5** for all Copyrights registered and deposited in the National Library.

- (x) Effect of existing or probable governmental regulations on the business;
Both E-Games and DPI are classified as a "Value-Added Service Provider" under the Public Telecommunications Act of the Philippines (Republic Act No. 7925) (the "Act"), defined as an entity which, relying on the transmission, switching and local distribution facilities of the local exchange and inter-exchange operators, and overseas carriers, offers enhanced services beyond those ordinarily provided for by such carriers. As a Value-Added Service Provider, we are under the supervision and regulation of the NTC.

Pursuant to its rule-making power under the Act, the NTC issued the following guidelines (under Memorandum Circular No. 05-2008, Series of 2008) relating to the provision of value-added services:

- No entity shall provide value-added service without a valid certificate of registration from the NTC. The Certificate of Registration shall be valid for a maximum period of five years.
- A duly registered Value-Added Service Provider: (a) may utilize its own equipment capable of only of processing, routing and storing messages in whatever format; and (b) shall strictly comply with the service performance standards under NTC Memorandum Circular Nos. 10-17-2000 and 19-12-2004, and other applicable standards prescribed by the NTC.
- The rates for value-added services shall be deregulated. The Value-Added Service Provider shall inform the NTC of the rates for each of the value-added services offered at least seven days prior to the offering of such value-added service. Value-Added Service Providers seeking increases in rates for existing services shall inform the NTC of the details of such increases prior to the implementation of the increase. The NTC, in the exercise of its mandate to protect consumers, may not allow the increase.

We were issued a Certificate of Registration as a Value-Added Service Provider on August 23, 2006 which is valid unto August 22, 2016.

The Company, since it is engaged in advertising, is also subject to the nationality restriction under the 1987 Constitution. Article XVI Section 11(2) of the Constitution provides that only Filipino citizens or corporations or associations at least 70% of the capital of which is owned by such citizens shall be allowed to engage in the advertising industry. The Company is currently owned by Filipino nationals to the extent of 99.12% of its issued and outstanding equity

(xii) Research and development activities;

Our spending for development activities match the life cycle of our titles and growth of our core business. In 2011 and 2010, the Company spent ₱23.8 million and ₱39.9 million, respectively, or 8.0% and 21.2% of revenues, respectively, for the continuous infrastructure upgrade as well as acquisition of new titles.

In 2012, in line with the gaming asset sale to LUI, and diversion of business operations to game box selling, no heavily engaged capital expenditures is necessary for research and development. However, game boxes acquired for reselling are paid up front before these are delivered to the Company. These however are considered inventories and later go to cost of goods sold.

(xiii) Employees;

As of December 31, 2011, we had a total of 118 employees, including 110 regular employees, 7 probationary employees and 1 contractual employee. Our plantilla is grouped by business division/function as follows:

| Business/Function | FTE |
|--------------------------|-----|
| Executive Office | 12 |
| Finance | 7 |
| HR and Admin. | 6 |
| Standard and Compliance | 3 |
| Game Operations | 9 |
| Applications Development | 5 |
| Information Security | 2 |
| MIS Engineer | 2 |
| Systems Administration | 1 |
| Infrastructure | 3 |
| Service Delivery | 7 |
| Database Administration | 1 |
| Communications | 2 |
| Creatives | 3 |
| Marketing | 2 |
| Events and Promotion | 3 |
| Product | 20 |
| Sales and Distribution | 30 |
| Total | 118 |

With the completion of the transaction with LUI, E-Games' headcount was significantly reduced with the exception of key management and personnel.

As of December 31, 2012, we had a total of 34 employees, comprising 29 regular employees, and 5 probationary employees.

We have outsourced certain activities to consultants in the areas of media production and performance management.

As required by law, our employees are registered with the Social Security System, PhilHealth, and Pag-Ibig Fund programs and are entitled to benefits and privileges under these programs. Our employees are also entitled to 13th month pay, paternity leave, and service incentive leave. In addition, our employees are entitled to meal and transportation allowance, discounts on our e-Points and merchandise sold by our item stores, health benefits, and availments from a Company-provided loan facility.

Our employees are not unionized nor are they party to collective bargaining agreements with us.

(xiv) Major risks involved in each of the businesses of the company and subsidiaries;

Risks Relating to Our Internet Cafe Business

Investments in and/or acquisitions of Internet Café Chain Operators

In order to broaden our revenue base and achieve cost efficiencies, one of our strategies is to invest in and/or acquire businesses that will enhance our ability to become the leading digital consumer platform in the Philippines. There is no certainty that our management will be able to implement such

investments or acquisitions, or successfully execute our plans for such investments.

In April 2011, we entered the business of operating internet cafes through our acquisition of 75% of the outstanding capital of DPI. In September 2011, we acquired 60% of Webworx. In addition, we are still in the process of evaluating other internet café chain acquisitions.

While we have a limited operating history in the internet café industry, we have working relationships with approximately 6,000 internet cafes throughout the country. We believe these relationships have provided us with adequate exposure to the internet café industry. These relationships enable us to promote our content through the Internet café network by providing game installations, collaterals and other marketing events.

Furthermore, our first acquisition, DPI, which has been operational since 1997, has an established brand name and operates Internet cafes nationwide under the name Netopia. To date, DPI owns 100 Internet cafes. Between DPI and CYBR, we control 123 Internet café outlets.

Risk of Higher Computer Ownership/household Penetration

Although the primary access for Internet usage in the Philippines is through internet cafes, there is an observed shift towards home access.

The Yahoo!-Nielsen Net Index 2010, which studied Internet usage in the Philippines across 22 major cities in the country, indicates that the percentage of Internet users in the Philippines who access the web through Internet Cafes has declined from 71% in 2009 to 69% in 2010, while the percentage who access through home connections has grown from 27% in 2009 to 31% in 2010. As computer prices and Internet services become more affordable to the mass market, there is a risk that Internet cafes will no longer be the primary point of access for the Internet.

However, computer prices may still remain restrictive to a majority of Filipinos who belong to the C-D market, who are generally expected to continue to purchase access to the Internet through micro-transactions, i.e., in smaller and more affordable denominations, rather than subscribe to monthly subscriptions provided by ISPs.

Abundance of illegal Internet café operators

Based on our internal market surveys, many Internet cafés in the country are small-scale Internet café operators. Typically, these types of Internet café outlets operate using illegal or unlicensed software, enabling them to reduce their pricing.

For our Internet café outlets, we plan to provide an unparalleled Internet and gaming experience, which we believe our smaller competitors are unlikely to provide, rather than compete with their pricing.

There has also been a concerted effort between Internet café operators, government agencies and software manufacturers to address the use of illegal or unlicensed software.

Competition in the Internet café industry

There are currently no government regulations on pricing or service standards for Internet café services in the country. Many single-branch operators can readily put up outlets near our locations and offer lower pricing.

We have the single largest network of internet cafes in the country. With 59 company-owned and 22 franchised branches, the Company has a sizeable lead over the next largest competitor. Being one of the leading online games publishers in the country, we also have the advantage of publishing some of the online games played at the Internet cafes. We are therefore able to offer more comprehensive services, promotions or gaming-related deals to our customers.

Risks in reference to relationships with Franchisees

In the offering of franchises of our business there is a risk in not being able to maintain the same standards throughout the entire chain. This is a common risk among all leading consumer retail brands. Thus, it is essential that the franchisee is in complete alignment with the franchisor in terms of operations.

In order to mitigate this risk, the company has established a dedicated franchisee development group whose sole focus is identifying franchisees, maintaining good working relationships with them and negotiating the terms and conditions of franchising agreements and ensuring compliance of the same.

Unregulated industry might lead to further government regulations

There are currently no national government regulations existing in the Internet café industry. However, there are local government units that implement ordinances that limit Internet usage by students at certain times of the day. As the Internet cafe industry and the population of Internet users in the Philippines grow, there is the possibility that the government may impose certain regulations which may include limiting the number of hours students can go to Internet cafes (this will also affect our gaming business), regulating the distance of Internet café locations from schools, or regulating the content available in the Internet cafes.

We do not believe that these types of regulations would significantly affect our business. Our Internet cafes cater not only to the youth but also to a broader demographic group, which includes young professionals, call center applicants, and small business owners.

Ability to maintain good working relationships with lessors of our Internet café locations

A significant portion of our Internet cafes is located in major malls. Our ability to maintain good relationships with our lessors is key to our ability to secure strategic locations for new Internet café outlets and renew our existing lease contracts at attractive terms and in preferred locations.

In addition to maintaining good business relations with our lessors, another key strategy employed by the company is to open branches simultaneously with the opening of new malls thereby exhibiting our commitment to support and work with mall operators.

Competition from other entertainment choices

Traditional forms of entertainment such as television, movies, radio, and others remain to be options for on-line gamers.

The Yahoo Nielsen Net Index 2010 shows that among Filipinos between 10 to 29 years of age, which comprise a significant portion of the country's population, television as a choice of entertainment has become almost fully saturated with Internet reaching up to 40% of those aged 30 and below. We believe that with consumer trends favoring more digital forms of entertainment, we are well positioned to mitigate this competitive risk.

*Risks Relating to Our Online Games Business
Acquisitions, Spin-Offs and Business Combination*

In any acquisition, spin-off and/or business combination, a successful integration of operations is a critical component in ensuring the viability of the combined businesses moving forward. In certain instances, synergies have not been fully exploited due to the unsuccessful implementation of the integration plan.

In order to mitigate such risks, the Company and LUI developed a separate and distinct Integration team has been created composed of key personnel from each organization supported by seasoned operations and human resource personnel.

Market Preference

We face the risks of changing consumer preferences and uncertainty of market acceptance of our new games. Numerous factors may affect customer preferences which are beyond our control, such as: (a) the introduction, pricing, timing and popularity of new online games being launched and distributed by our competitors, (b) timing of upgrades that extend and expand the life span of our online games and maintain our competitive position in the online game market, (c) general economic conditions that may affect consumers' propensity to spend and spending patterns, (d) changes in customer tastes and preferences, and (e) availability of other entertainment forms.

We consider our knowledge of the local market and our ability to choose online games that we believe will be successful locally to be key strengths that will help us remain competitive in this industry. The Company will focus on introducing top-tier titles such as World of Warcraft, Diablo, and Starcraft which have had successful track records worldwide. In addition, the Company will be publishing an online version and an SNS (Social Networking Site) version of a popular sports game developed by Take-Two Interactive.

Dependence on MMORPGs

Our business, financial condition and results of operations could be adversely affected by: (a) any reduction in the number of players of our online games, particularly MMORPGs, which are main contributors to our revenues; (b) reduction in the propensity of gamers to buy virtual items for these games; (c) any failure by the game developers to make improvements, upgrades or enhancements to these games, or provide other forms of support services, in a timely manner; (d) any lasting or prolonged server interruptions due to network failures or other factors; or (e) any other adverse developments specific to these games.

To mitigate our dependence on MMORPGs, we plan to introduce social media games to the market. We intend to capitalize on the fast-growing population of social media sites such as Facebook by launching our games across these mediums. We still plan to continue introducing new top-tier MMORPGs and casual games to the local market.

Ability to Acquire New Games and Maintain Existing Games

We need to continually acquire new licenses for new games that are attractive to the local gaming market. This requires us to anticipate and adapt to rapidly changing consumer tastes and preferences and technological advances. Also, to maintain the lifespan of our online games, we closely coordinate with game developers to ensure that they continuously release upgrades that will help maintain gamers' interest in our games. There is no

assurance that all game choices of our selections of new games and content will succeed commercially and financially.

To mitigate this risk, we undertake market research to spot emerging genres and trends or changes in the preferences of our gamers. We consider market feedback in setting out our new content pipeline. We believe that our ability to acquire new games that are attractive to the local gaming market and maintain the lifespan of our existing games has been one of the critical success factors that differentiate us from our competitors.

Dependence on Third Parties for Game Enhancement

We rely on game developers for upgrading and implementing new patches and providing local customization for our online games. Since we do not have development capabilities and we do not own the right to modify the titles we publish locally, we have no control over the enhancements or upgrades to our game titles. Should our game developers fail to provide timely support services, our gamers may migrate to other online games, which may materially and adversely affect our operating results and financial condition. We go through a regular market monitoring process to provide feedback to our game developers on the appropriate enhancements and upgrades to our game titles.

Our licensing agreements with the game developers include payment of royalties based on game revenues. It is therefore in the game developers' best interests to ensure that enhancements, upgrades and other support activities address the requirements of our gamers in a timely manner. We may not renew licenses for games where the developer's support is considered to be inadequate.

Illegal activities by hackers may reduce demand for the publishing business

In any business that relies on Internet connection to sustain its operations, there is a constant risk of hackers performing illegal activities. In the online gaming business, some of these illegal activities have included hackers stealing customers' passwords and other customer account information, items being stolen from customers' inventory, characters being deleted, etc.

We employ third party security providers that provide regular software updates to prevent hackers from performing illegal activities. In addition, we have our own in-house customer service team that handles all customer complaints and provides resolutions to customer issues.

Illegal Activities of Gamers

A number of gamers have gained an unfair gaming advantage by installing cheating tools such as bots, which are programs designed to speed up character progression, and hacks, which are used to manipulate the game environment. In response, we have established mechanisms to detect and ban these gamers. We have installed software patches designed to prevent the reoccurrence of these illegal and unauthorized modifications of our system. However, there can be no assurance that these cheating incidents will be fully prevented in the future.

Our games may also be affected by illegal game servers, unauthorized character enhancements or other infringements of our intellectual property rights, which may harm our business and reputation and adversely affect the results of our operations. We continually upgrade our network security system to prevent the theft of source codes, which is integral to the setting up of illegal private servers.

However, there can be no assurance that we are protected from all such risks due to the evolving sophistication of such illegal activities.

New Technology and Upgrade Cycles

Our business is subject to rapid technological change. Our business may be harmed if our technology becomes obsolete or if our system infrastructure fails to operate efficiently. We are highly dependent on our infrastructure for delivering our services and for maintaining our payment and collection systems. Our business may be adversely affected if we are unable to upgrade our services in a timely manner to handle our concurrent user traffic.

We are continually testing and exploring new technologies together with our bandwidth providers and data center provider to improve our product features and delivery. We also have regular upgrade cycles for our servers and computers to ensure that we constantly provide the best service possible.

Programming Errors

Undetected programming errors or bugs in our online games could harm our reputation or decrease market acceptance of our games and materially and adversely affect the results of our operations.

We go through a constant testing process before and after the launch of any new games or patches or enhancements of our existing games. We also constantly monitor the games internally and externally and immediately report any abnormalities to the game developers so that these may be addressed in a timely manner.

Risks Related to the Tourism Business

The success of our future tourism/hospitality business will be partly dependent on the influx of foreign tourists. As such this business may be affected by external factors such as global economic conditions and the peace and order situation in the region.

We expect most of our customers in this business to be tourists from Asian countries whose respective economies continue to be resilient vis-a-vis the United States and Europe.

Tourism, being recognized as a growth industry, has attracted a significant number of participants and competitors.

E-Games, as a newcomer, has opted to initially take a minority stake in the hotels segment of the industry.

Key Personnel, Political and Economic Risks

We depend on key personnel who have expertise in the online gaming and Internet café industries. Furthermore, we are incorporated in the Philippines and all of our operations are conducted, and all of our facilities and other assets are located, in the Philippines. As a result, our financial condition and results of operations will be influenced by our ability to retain or replace key personnel, the political and social situation in the Philippines, as well as the general state of the Philippine economy.

Dependence on Key Personnel

We depend on the continued services of our key executives and employees. Some of our executives and employees have specific expertise in online gaming, information technology, marketing, business development, management and other aspects related to our business. There can be no assurance that we will be able to retain these executives and employees. If

many of our key personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to replace them easily, resulting in the significant disruption of our business and materially and adversely affecting our operating results and financial condition. There is no assurance that we will be able to attract and retain the key personnel we need to achieve our business objectives.

Our standard employee contracts have non-compete clauses that prevent our employees from joining our competitors within one year after separation from the Company. We observe industry best practices in compensation and benefits and strive to provide the best employment experience for our employees.

Political or Social Instability in the Philippines

The Philippines has, from time to time, experienced political, social and military instability. Furthermore, the Philippines has been subject to sporadic terrorist attacks in the past several years.

There can be no assurance that the Philippines will not be subject to further acts of terrorism or negative effects of its counter-insurgency campaign in the future. No assurance can be given that the future political or social environment in the Philippines will be stable or that current or future governments will adopt economic policies conducive to sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and the operating environment in the Philippines, which could have a material impact on our business, financial condition and results of operation.

Slow Growth Rates and Global Economic Instability

We derive all of our revenues from operating locally. Participating in online games and usage of Internet cafes are discretionary in nature and may be adversely affected by weak economic conditions in the Philippines, and in other parts of the world. Our future growth depends in large part on continued economic growth in the Philippines.

The Philippines has experienced periods of slow or negative growth, high inflation, significant depreciations of the Philippine peso and debt restructuring, and has been significantly affected by global and Asian economic volatilities. There can be no assurance that the Philippines will not experience similar or more serious economic downturns.

Historically, the Philippines has experienced volatility in the exchange rate between the Philippine peso and the U.S. dollar, as well as against other currencies. The Philippines has also experienced volatility of the prices of shares traded on the domestic stock market. We cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power or product preferences, which could materially and adversely affect our financial condition and results of operations.

Foreign Exchange Controls

Currently, the Philippines has liberal foreign exchange controls. The BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or

- require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings.

We acquire licenses and equipment from abroad and may need foreign currency to make these purchases. We cannot assure prospective investors that foreign exchange controls will not be imposed by the Government in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain online game licenses and other equipment from abroad, which could materially and adversely affect our financial condition and results of operations.

Occurrence of Natural Catastrophes or Blackouts

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, floods, volcanic eruptions, earthquakes, mudslides, and droughts. Natural catastrophes may disrupt our ability to deliver our services and impair the economic conditions in the affected areas, as well as the overall Philippine economy. The Philippines has also experienced power outages from power generation shortages and transmission problems, and from disruptions such as typhoons and floods. These types of events may materially disrupt and adversely affect our business and operations. We cannot assure prospective investors that the insurance coverage we maintain will adequately compensate us for all damages and economic losses resulting from natural catastrophes or blackouts, including possible business interruptions.

Risks Related to the Shares

Market Volatility and Illiquidity and Share Price Volatility

The market price of securities can and does fluctuate, and it is impossible to predict whether the price of the Common Shares will rise or fall. The relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Common Shares at a suitable price or at a time they desire. An individual security may experience upward or downward movements, and may even lose all its value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities.

Trading prices of the Common Shares will be influenced by, among other things:

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

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

Future Share Sales May Lead to Ownership Dilution

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

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

No Assurance as to Ability to Pay Dividends

Our ability to declare dividends in relation to the Common Shares will also depend on our future financial performance, which, in turn, depends on successfully implementing our development plans and strategies, and on financial, competitive, regulatory, and other factors, general economic conditions, demand and prices for our products and services, costs of licenses, operating costs and other factors specific to our industry or specific projects, many of which are beyond our control. The receipt of dividends from our subsidiaries and affiliates may also be affected by the passage of new laws, adoption of new regulations or changes to, or in the interpretation or implementation of existing laws and regulations and other events outside our control. Philippine law requires that dividends be paid only out of unrestricted retained earnings calculated according to Philippines accounting principles. In addition, restrictive covenants in bank credit facilities, convertible bonds instrument or other agreements that our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and our ability to receive distributions. These restrictions may impact our ability to pay dividends to our shareholders.

Philippine Foreign Ownership Limitations

As a general rule, companies engaged in the information technology business are not subject to any foreign nationality restriction. In our case, however, since we possess a Value-Added Service ("VAS") license or permit issued by the NTC, we are, by mandate of NTC, subject to a foreign nationality restriction of being at least 60% Filipino-owned with an allowable maximum foreign ownership of 40%. Moreover, since we have expanded into advertising, we are constitutionally mandated to limit foreign ownership to 30%. The Company is currently owned by Filipino nationals to the extent of 99.12% of its issued and outstanding equity .

As long as we possess the VAS license or permit issued by NTC, foreign ownership in the Company is limited to a maximum of 40% of our issued and outstanding capital stock entitled to vote. Accordingly, we cannot allow the issuance or the transfer of shares to persons other than Philippine Nationals and cannot record transfers in our books if such issuance or transfer would result to our breaching the foreign ownership restrictions discussed above.

Relative Limitation of Shareholder Rights under Philippine Laws

In the Philippines, the rights of minority shareholders to assert their rights as such and the fiduciary obligations of directors and majority shareholders may not be as extensive as those in Singapore, the United States or other countries, and the ability of any of our shareholders to assert any such rights or to enforce any such fiduciary obligation may be limited.

Accuracy of Market Data

Certain information in relating to the Philippines, the industries in which our businesses compete and the markets in which we develop our business and operations, including statistics relating to Internet usage patterns, Internet café market size, and other online gaming and Internet café industry data, are derived from various government and private publications, public presentations of digital media research institutions and internally generated data.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, any industry forecasts and market research, including those contained or extracted herein, have not been independently verified by us and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

(B) Description of Property.

Equipment Leases

There are currently no equipment leases being held by the Company.

Property Leases

Starting in July 2012, our principal office is leased from IPVI, as the latter is the lessee to the contract between the current lessor. As of April 29, 2013, while the final terms of cost-sharing for rental is being finalized, IPVI is initially billing the Company in proportion to the area it occupies.

Various trademarks and copyrights are registered in our name as discussed above
Company and X-Play hold and shall hold, as the case may be, rights to use and publish in the Philippines licenses for our online games.

Please refer to **TABLE 4 and 5** for all registered trademarks and copyrights.

Aside from the foregoing and other equipment and assets related to the operation of the business, including our technology infrastructure, we do not own any other property or real estate. However, X-Play may acquire equipment finance leases for the upcoming online game launches.

Insurance

Our electronic equipment is insured by Federal Phoenix Assurance Co., Inc. In addition, our motor vehicles are insured with Chinabank Insurance Brokers, Inc.

(C) Legal Proceedings.

The following are the pending material legal proceedings to which we and/or any of our affiliates are a party, or of which any of our respective properties are subject, as of December 31, 2012:

- *IP E-Game Ventures, Inc. versus Ariel Sollegue and MyGame1, Inc. (formerly, Microgaming Technology Corporation) (Civil Case No. 08-151; Regional Trial Court ("RTC") of Makati, Branch 146)*

This is a Compliant for Injunction with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with Damages which filed by the Company against Microgaming Technology Corporation, now MYGAME.PH, INC. ("MyGame") and Ariel Sollegue ("Sollegue"). The case arose from: 1) the defendants' acts, as joint tort-feasors connived and pirated or recruited employees of the Company; 2) urged them to resign; and 3) worked for Microgaming, now MyGame.

In its complaint, IPEG prayed for the following, to wit:

- (a) Damages for besmirched reputation in the amount of P5 million;
- (b) Exemplary damages in the amount of P3 million;
- (c) Attorney's fees in the amount of P2 million; and
- (d) The costs of suit.

Conversely, as counter-claims, Defendants alleged, viz:

MyGame's Counter-claims:

- (a) At least P0.5 million as moral damages;
- (b) At least P0.5 million as exemplary damages; and
- (c) At least P0.5 million as attorney's fees and for other expenses of litigation.

Sollegue's Counter-claims:

- (a) Pay sum of P50,000 as Attorney's fees and the further sum of P5,00 per hearing
- (b) Pay litigation expenses as may be proven during the trial; and
- (c) Pay the costs.

On January 24, 2013, however, the Company and MyGame entered into a Compromise Agreement and both parties mutually desisted from pursuing their respective claims and counter-claims against other. On February 19, 2013, the Company and MyGame, through respective counsels, filed a Joint Motion for Judgment based on Compromise Agreement.

With regard to Defendant Sollegue, considering that he already terminated the presentation of his evidence, on March 8, 2013, the Company filed a Motion to Submit the Case for Decision.

The above-mentioned Motions are now submitted for resolution by the trial court.

- *People of the Philippines vs. Jewoo Yeom; Criminal case No. 106096, Regional Trial Court of Mandaluyong City; Branch LX.*

This case is an offshoot of the complaint filed by IOEG with the SEC for the revocation of the corporate franchise of Microgaming. Accused Jewoo Yeom is an incorporator of Microgaming and is being prosecuted for perjury for the misrepresentations he made in incorporating the said company. It was the SEC who filed this case. Hence, IPEG's participation is limited in observing the proceedings.

On the basis of the Compromise Agreement dated 24 January 2013, IPEG undertook to exert earnest efforts in dismissing or causing the dismissal of the case.

- *IP E-Game Ventures Inc. vs. Gamesoft Technology Inc. (Administrative Case No. 2009-239; National Telecommunications Commission)*

This is a complaint filed with the National Telecommunications Commission ("NTC") on July 1, 2009 for the revocation of the Value-Added Services ("VAS") registration of Gamesoft Technology Inc., with Application for the Issuance of a Cease and Desist Order (CDO) and/or Writ of Preliminary Injunction on the ground that Gamesoft was incorporated to: (a) circumvent the nationalization laws of the Philippines; (b) circumvent the enforcement of the orders of the NTC and the SEC; and (c) for the purpose of committing a violation of the Anti Dummy Law.

Gamesoft's Motion to Dismiss and Motion for Reconsideration were denied by the NTC and a Cease and Desist Order was accordingly issued. Thus, Gamesoft assailed the denial of its Motion via Petition for Certiorari before the Court of Appeals. In the meantime, the proceedings before the NTC proceeded wherein the Company presented its first witness, Mr. George Royeca.

Pursuant to the Compromise Agreement dated January 24, 2013, and with the filing of the Parties of Joint Motion to Dismiss on February 21, 2013, the NTC dismissed the Complaint filed by the Company.

- *Gamesoft Technology Inc., vs. National Telecommunications Commission and IP E-Game Ventures, Inc.; CA G.R. SP No. 118967; Court of Appeals, Manila.*

In relation to case number No. 2009-239 hereof, Gamesoft filed a Petition for Certiorari with application for a Temporary Restraining Order and/or Writ of Preliminary Injunction before the Court of Appeals. Gamesoft alleged grave abuse of discretion amounting to lack or in excess of jurisdiction on the part of the NTC in denying its Motion to Dismiss and Motion for Reconsideration.

IPEG filed its Comment to the said petition. Thereaft, exchanges of responsive pleadings were filed by the Parties.

Pursuant to the Compromise Agreement dated 21 January 2013, Gamesoft undertook to file a Motion to Withdraw Petition for Certiorari and Prohibition.

- *IP E-Game Ventures Inc. vs. Run-Up Information Technology Corp. (Administrative Case No. 2010-062; National Telecommunications Commission)*

This is a Complaint against the Respondent for operating without the necessary VAS License with Application for Issuance of CDO and/or writ of Preliminary Injunction. IPEG filed a Motion for Leave to admit Attached Amended Complaint. Respondent, however, filed its Comment or Opposition to the same. Accordingly we filed IPEG's Reply thereto. We are currently making the necessary follow-up with the NTC for the continuation of the proceedings.

- *IP E-Game Ventures Inc. vs. Eaglegame International Limited (Philippine Branch Office) (Administrative Case No. 2010-064; National Telecommunications Commission)*

This is a Complaint against the Respondent for the operating without the necessary VAS License with the Application for the Issuance of CDO and/or writ of Preliminary Injunction. IPEG already presented its evidence in chief.

The case is now pending resolution after the Respondent filed its Formal Offer of Evidence on 28 September 2012.

- *IP E-Game Ventures Inc. vs. Christopher Martinez, et.al. (NPS-XV-05-INV-10F-0162; Office of the City Prosecutor, Makati City)*

This is criminal case for qualified theft filed by IPEG against two of its employees and a Gamer of Cabal Games, Christopher Martinez and Accused Antonio Paz Jr., and Christopher Milongo, respectively.

We are currently prosecuting the case on behalf of IPEG. IPEG seeks to recover in the form of civil liability in the amount of Two Million Six Hundred Twenty-Five Thousand and Five Hundred Pesos (Php 2,625,500.00), which was lost from its due the concerted acts of the accused in unlawfully inserting imbalanced items in the Cabal Games.

IPG already rested the presentation of its evidence. On 27 March 2013, IPEG filed its Formal Offer of Evidence.

- *People vs. Mario Munoz (Criminal Case No. 356224-25, Metropolitan Trial Court of Makati, Branch 65)*

This is a case filed by the Company against Mario Munoz for seven counts of violation of Batas Pambansa 22. Check payments were made by Mr. Munoz as payment for the pre-paid cards delivered by the Company for resale pursuant to a Distribution Agreement. The subject checks were dishonored on the grounds of Stop Payment Order and Drawn Against Insufficient Funds. The aggregate value of the checks is P1,010,173.31.

As approved by the Court on March 5, 2009, the parties entered into a compromise agreement where the Company agreed to have the case provisionally dismissed in exchange for the commitment of the accused to religiously pay his debt within the stipulated period, failure of which shall cause the revival of the case. Notwithstanding the said agreement, however, Mr. Munoz failed to fulfill his obligation and defaulted in paying two consecutive months. Demands were made but remained unheeded. Thus, the Company is constrained to cause the revival of the case, which the court granted. A writ of execution has been issued. A bench warrant for the arrest of the accused was likewise issued by the court against the accused, who remains at large. Meanwhile, the accused was archived pending the arrest of the accused.

- *IP E-Game Ventures, Inc. vs. Cubinet Interactive Phils. Corp; Admin. Case No. 2011-008; National Telecommunication Commission, Quezon City*

This is a Complaint against the Respondent for operating without the necessary VAS License with Application for Issuance of Cease and Desist Order ("CDO") and/or writ of Preliminary Injunction.

Upon the issuance of a Show Cause Order by the NTC, the Respondent filed its Answer and Motion to Dismiss. It likewise filed a Motion to Suspend/Defer Hearing. We timely opposed their Motions and Answer by filling the necessary responsive pleadings.

On 08 February 2013, the NTC denied the Motion to Dismiss of the Respondent.

- *Beijing Perfect World Software, Inc. vs E-Games (ARB049/11/MXMSingapore Arbitration International Centre)*

Related to the case before the ICC International Court of Arbitration in Hong Kong, the Company was notified of the Claimant's Notice of Arbitration dated May 9, 2011 filed by Beijing Perfect World Software ("PW") demanding that the dispute be referred to arbitration. Under its Statement of Claim, PW claims the total amount of US\$563,659.36 as outstanding obligation and US\$558,137.00 for damages. The increase in claim was brought about by the inclusion of the Anti-Hack Agreement as PW's basis. In the Revised

Statement of Claim dated May 6, 2011, however, PW removed all reference to the Anti-Hacking Agreement and retained the amount of US\$1,049,796.36 as its claim.

Under the Singapore International Arbitration Centre Rules, the Company is required to submit its Response to the Notice of Arbitration within fourteen days, or until May 23, 2011, from receipt of the notice. The Company its Response on June 7, 2011. The parties are, as of date, in the course of filing pleadings and other evidence in support of their respective claims.

- *IP E-Game Ventures, Inc. vs. Ana Grace Lao Chan (I.S. No. XV-05-INV-12C-00892, Office of the City Prosecutor of Makati City)*

On various dates, respondent Ana Lao Chan, a distributor of E-Games prepaid cards, issued and delivered post-dated checks worth around P3.7 million intended as payment for her accountabilities/indebtedness to E-Games. Said checks were dishonored by the drawee bank, hence, criminal cases for violation of B.P. Blg. 22 and Estafa were filed against respondent on March 16, 2012. Said case is now submitted for resolution before the Office of the City Prosecutor of Makati City.

- *MyGame Ph, Inc. (formerly MyGame1, Inc. and Microgaming Technology Corporation vs. National Telecommunications Commission; Civil Case No. Q-10-68265; Regional Trial Court of Quezon City, Branch 224.*

IPEG moved to intervene in this Petition for Declaration of Nullity ("Petition"). In the Petition, Mygame sought to nullify Section 19(g) of Memorandum Circular No. 02-05-2008 and Section 1(g) of Office Order No. 62-08-2006, of the NTC. The Presiding Judge of the RTC of Quezon City, however, denied: 1) IPEG's Motion for Leave to Intervene and admit Attached Motion for Reconsideration-in-Intervention; and 2) IPEG's Motion for Reconsideration. Considering that IPEG's intervention was denied, it is not considered as a proper party thereto, and as such, we have been attending the proceedings of the case as a mere observer.

This case was a subject of the Compromise Agreement between IPEG and Mygame.

- *IP E-Game Ventures, Inc. vs. Hon. Tita Marilyn Payoyo-Villordon et al.; C.A. G.R. No. 124350; Court of Appeals, Manila*

On 23 April 2012, IPEG filed a Petition for Certiorari imputing grave abuse of discretion against the Presiding Judge of the RTC of Quezon City in number (11) hereof.

Pursuant to the Compromise Agreement dated 24 January 2013, the Court of Appeals dismissed the Petition.

- *IP E-Game Ventures, Inc. vs. Gamesoft Technology, et al.; SP No. Q-11-69676; Regional Trial Court-QC, Branch 222.*

This is a Petition for Indirect Contempt filed by the Company against Gamesoft and its other officers and directors, Karla Kimberly Virtucio, Amelia B. Cruz, Rogelio Celestino II, Mary Jo Ann R. Vasquez, Irene T. Gonzales, Rachel P. Follosco, Eun Ok Park and Kil Won Lee. The Respondents blatantly disregarded and violated the Cease and Desist Order of the NTC in case number (5) hereof.

On 14 March 2013, the RTC granted the Joint Motion to Dismiss dated 19 February 2013, which was filed by the Parties. Accordingly, the complaint and counterclaim of the Parties were dismissed with prejudice.

- *IP E-Game Ventures, Inc. vs. Karla Kimberly et. al. NPS Docket No. XVI-INV-10H-00255N; Department of Justice, Manila.*

IPEG filed a Letter-Complaint dated 31 May 2010 with the National Bureau of Investigation ("NBI") against the incorporators and/or directors of Gamesoft and MyGame, for violation of the Anti-Dummy Law. The Letter-Complaint was docketed as NBI-CCN-C-10-07618. Subsequent thereto, IPEG, represented by Mr. George Royeca, filed a formal Complaint-Affidavit dated 19 August 2010, for violation of the Anti-Dummy Law ("Anti-Dummy Complaint") with the NBI. The NBI, after conducting an investigation, endorsed the Anti-Dummy Complaint with the Chief State Prosecutor of the Department of Justice ("DOJ") for preliminary investigation. After the exchange of the responsive pleadings, the Investigating Prosecutor issued a resolution against some of the Respondents. The Motions for Reconsideration of the adverse parties were denied by the DOJ on 18 April 2012.

- *CIDG vs. Wiredgames Inc. and Advantage Limited, Gamesoft et al.; Search Warrant No. 11-18499; Regional Trial Court of Manila, Branch 22.*

This is a search warrant proceedings initiated by the Criminal Investigation and Detection Group ("CIDG") by reason of IPEG's letter complaint. The Respondents are Gamesoft Technology Inc., Advantage Limited, Gameclub Philippines, Wiredgames, Inc., Infocom Technologies Inc., E-PLDT Inc.-Vitro Data Center and/or owners / managers / officers / occupants / assignees / transferees / successors-in-interest of computer servers involved in their online gaming business located at the building of e-PLDT Inc.-Vitro Data Center PLDT Bldg., Danny Floro corner CP. Garcia St., Pasig City

Respondents Gamesoft and Wiredgames filed their respective Motions to Quash and IPEG, as Private Complainant, filed its Consolidated Opposition. Thereafter, an exchange of pleadings ensued.

This case was also a subject of the Compromise Agreement dated 24 January 2013. Accordingly, IPEG undertook to exert earnest efforts for the dismissal of the case.

- *George H. Tan vs. IP E-Games Ventures, Inc., Jaime Enriquez Y. Gonzalez, et. al.; Civil Case No. 12-1018; Regional Trial Court of Makati, Branch 142.*

This is a complaint for specific performance through collection of sum of money with damages which was filed by the Plaintiff against IPEG and its Board of Directors. The Plaintiff claims that IPEG and its Board of Directors are liable to pay the amount of Four Million Pesos (Php 4,000,000.00), as cash incentive when he facilitated and negotiated for the acquisition of IPEG of the shares of the Netopia from ePLDT.

PEG and its Board of Directors will file its appropriate pleading to the Complaint on 12 April 2013.

Apart from above, we don't know of any matters involving a claim or potential claim or contingent liability by or against IP E-Games as of 31 March 2013, or arising subsequently.

There are no pending material legal proceedings to which any of our subsidiaries, directors or officers is a party, or of which any of their respective properties are subject, as of the date of this Prospectus.

Tax Assessments

In the ordinary course of our business, we receive letters of authority from the BIR authorizing its named representatives to examine our books. We intend to fully cooperate with the BIR's examination but we will contest any findings that we believe is without legal basis.