## IP E-GAME VENTURES, INC. AND SUBSIDIARIES

Supplementary Schedules
Required by the Securities and Exchange Commission
*As of December 31, 2012*

### SCHUEDULE E - Long Term Debt

| Title of Issue and type of obligation (1) | Amount authorized by indenture | Beginning Balance 2012 | Amount of payment | Amount shown under caption "Long-Term Debt" in related balance sheet (3) |
|---|---|---|---|---|
| December 28, 2010 - to establish an escrow account for the acquisition of DPI.<br><br>Interest rates for the loans range from 5% to 7% per annum, repriceable on the second year.<br><br>The principal is payable in five (5) equal quarterly installments starting December 29, 2011 until December 28, 2012. | 70,000,000 | 56,000,000 | (56,000,000) | - |
| | **70,000,000** | **56,000,000** | **(56,000,000)** | **-** |

## IP E-GAME VENTURES, INC. AND SUBSIDIARIES

Supplementary Schedules
Required by the Securities and Exchange Commission
*As of December 31, 2012*

**SCHUEDULE F - Indebtedness to Related Parties**
**(Long-Term Loans from Related Companies)**

| Name of related parties (1) | Balance at beginning of period | Balance at end of period (2) |
|---|---|---|
| Not Applicable | | |
| | - | - |

**IP E-GAME VENTURES, INC. AND SUBSIDIARIES**

Supplementary Schedules
Required by the Securities and Exchange Commission
*As of December 31, 2012*

**SCHUEDULE G - Guarantees of Securities of Other Issuers**

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding (2) | Amount owned by person for which statement is filed | Nature of guarantee (3) |
|---|---|---|---|---|
| | Not Applicable | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

## IP E-GAME VENTURES, INC. AND SUBSIDIARIES

Supplementary Schedules
Required by the Securities and Exchange Commission
*As of December 31, 2012*

### SCHUEDULE H - Capital Stock

| Title of issue | Number of shares authorized | Number of shares issued and outstanding at shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties (3) | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common | 30,000,000,000 | 30,000,000,000 | - | 14,408,643,689 | 19,542,500 | 15,571,813,811 |

## IP E-GAME VENTURES, INC. AND SUBSIDIARIES
## SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✔ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✔ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✔ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✔ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✔ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✔ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✔ |
| | Amendments to PFRS 1: Government Loans | | | ✔ |
| **PFRS 2** | Share-based Payment | | | ✔ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✔ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✔ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✔ |
| **PFRS 4** | Insurance Contracts | | | ✔ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✔ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | ✔ | | |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 7** | Financial Instruments: Disclosures | ✔ | | |
| | Amendments to PFRS 7: Transition | ✔ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✔ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✔ | | |
| | Amendmentsto PFRS 7: Improving Disclosures about Financial Instruments | ✔ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✔ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✔ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✔ | | |
| **PFRS 8** | Operating Segments | ✔ | | |
| **PFRS 9** | Financial Instruments | ✔ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✔ | | |
| **PFRS 10** | Consolidated Financial Statements | ✔ | | |
| **PFRS 11** | Joint Arrangements | ✔ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✔ | | |
| **PFRS 13** | Fair Value Measurement | ✔ | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✔ | | |
| | Amendment to PAS 1: Capital Disclosures | | | ✔ |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✔ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✔ | | |
| **PAS 2** | Inventories | ✔ | | |
| **PAS 7** | Statement of Cash Flows | ✔ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✔ | | |
| **PAS 10** | Events after the Balance Sheet Date | ✔ | | |
| **PAS 11** | Construction Contracts | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 12** | Income Taxes | ✔ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✔ |
| **PAS 16** | Property, Plant and Equipment | ✔ | | |
| **PAS 17** | Leases | ✔ | | |
| **PAS 18** | Revenue | ✔ | | |
| **PAS 19** | Employee Benefits | ✔ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✔ | | |
| **PAS 19 (Amended)** | Employee Benefits | | ✔ | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✔ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✔ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✔ |
| **PAS 23 (Revised)** | Borrowing Costs | ✔ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✔ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✔ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✔ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✔ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✔ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✔ |
| **PAS 31** | Interests in Joint Ventures | ✔ | | |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✔ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✔ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✔ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✔ | | |
| **PAS 33** | Earnings per Share | ✔ | | |
| **PAS 34** | Interim Financial Reporting | | | ✔ |
| **PAS 36** | Impairment of Assets | ✔ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✔ | | |
| **PAS 38** | Intangible Assets | ✔ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✔ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✔ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✔ |
| | Amendments to PAS 39: The Fair Value Option | | | ✔ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✔ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✔ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✔ | | |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✔ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✔ |
| **PAS 40** | Investment Property | ✔ | | |
| **PAS 41** | Agriculture | | | ✔ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✔ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✔ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | | | ✔ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✔ |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✔ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✔ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✔ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✔ |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✔ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✔ |
| **IFRIC 11** | PFRS 2 - Group and Treasury Share Transactions | | | ✔ |
| **IFRIC 12** | Service Concession Arrangements | | | ✔ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✔ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-21** | Income Taxes - Recovery of Revalued Non-Depreciable Assets | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

# COVER SHEET

CS200518779

S.E.C. Registration Number

IP E-GAME VENTURES INC. AND SUBSIDIARIES

(Company's Full Name)

2nd Floor Bonifacio Technology Center, 2nd Ave. cor. 31st Street, Bonifacio Global City

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

Miguel B. Ladios

Contact Person

(02) 976-4784

Company Telephone Number

12 31

*Month* *Day*

AAFS

FORM TYPE

*Month* *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

23

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

# IP E-GAME VENTURES INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
(With Comparative Figures for 2011 and 2010)

KPMG

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

Branches: Bacolod · Cebu · Iloilo · Subic

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IP E-Game Ventures Inc.
2nd Floor, Bonifacio Technology Center
2nd Ave. Cor. 31st Street
Bonifacio Global City

We have audited the accompanying consolidated financial statements of IP E-Game Ventures Inc. and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

*Basis for Qualified Opinion*

We were unable to obtain audited financial statements supporting the Group's equity in losses on the investment in associate amounting to P12,392,630, which is included in the Group's net loss for the year ended December 31, 2012 and the carrying amount of the investment of P80,273,407 as at December 31, 2012 because audit of the 2012 financial statements is still on-going. The Group has no control on the finalization of the associate's audited financial statements. We were also unable to satisfy ourselves as to the equity in losses on the investment in associate or its carrying amount by alternative auditing procedures. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

*Qualified Opinion*

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of IP E-Game Ventures Inc. and Subsidiaries as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Philippines Financial Reporting Standards.

*Other Matter*

The consolidated financial statements of IP E-Game Ventures Inc. and Subsidiaries as at and for the year ended December 31, 2011 were audited by other auditors whose report thereon dated April 30, 2012 expressed an unqualified opinion on those statements.

**MANABAT SANAGUSTIN & CO., CPAs**

TOMAS G. MAHINAY
Partner
CPA License No. 0024593
SEC Accreditation No. 1035-A, Group A, valid until September 29, 2013
Tax Identification No. 121-597-818
BIR Accreditation No. 08-001987-21-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3669516MC
Issued January 2, 2013 at Makati City

May 15, 2013
Makati City, Metro Manila

Manabat Sanagustin & Co., CPAs
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# REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
IP E-Game Ventures Inc.
2nd Floor, Bonifacio Technology Center
2nd Ave. Cor. 31st Street
Bonifacio Global City

We have audited the accompanying consolidated financial statements of IP E-Game Ventures Inc. and Subsidiaries (a subsidiary of IP Ventures, Inc.) as at and for the year ended December 31, 2012, on which we have rendered our report dated May 15, 2013.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has thirteen (13) stockholders owning one hundred (100) or more shares each.

**MANABAT SANAGUSTIN & CO., CPAs**

TOMAS G. MAHINAY
Partner
CPA License No. 0024593
SEC Accreditation No. 1035-A, Group A, valid until September 29, 2013
Tax Identification No. 121-597-818
BIR Accreditation No. 08-001987-21-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3669516MC
Issued January 2, 2013 at Makati City

May 15, 2013
Makati City, Metro Manila

## *IP E-GAME VENTURES, INC. and SUBSIDIARIES*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **IP E-Game Ventures, Inc. and Subsidiaries** (the Group), is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2012 and 2011**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

**Manabat Sanagustin & Co., CPAs** and **Reyes Tacandong and Co.,** the independent auditors appointed by the stockholders for the period end December 31, 2012 and 2011, respectively, have examined the financial statements of the Group in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

**JAIME C. GONZALEZ**
*Chairman of the Board*

**JAIME ENRIQUE Y. GONZALEZ**
*Chairman & Chief Executive Officer*

**MIGUEL B. LADIOS**
*Chief Financial Officer*

Signed this __ day of May 2013

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

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

| | 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. 399;
Page No. 81;
Book No. XI;
Series of 2013.

JOSE VOLTAIRE A. BAUTISTA
NOTARY PUBLIC
Until December 31, 2013
PTR No. 3668970 ISSUED ON 1-2-13 AT MAKATI
SC ROLL NO. 49491

**IP E-GAME VENTURES INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**DECEMBER 31, 2012**
(With Comparative Figures for 2011)

| | *Note* | 2012 | 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *8, 32* | **P74,341,011** | P102,646,017 |
| Short-term investments | *9, 32* | **200,885,611** | 50,591,725 |
| Trade and other receivables - net | *10, 32* | **42,588,243** | 36,539,267 |
| Due from related parties | *30, 32* | **293,663,432** | 196,236,678 |
| Inventories | *11* | **23,702,257** | 19,511,270 |
| Assets classified as held for sale | *7* | **-** | 89,398,345 |
| Other current assets | *12* | **23,296,161** | 18,873,944 |
| **Total Current Assets** | | **658,476,715** | 513,797,246 |
| **Noncurrent Assets** | | | |
| Investment in an associate and a joint venture | *13* | **123,570,911** | 49,359,504 |
| Available for sale investments | *5* | **33,400,000** | - |
| Property and equipment - net | *15* | **62,949,880** | 53,063,265 |
| Investment properties | *14* | **71,266,954** | - |
| Goodwill | *16* | **26,080,634** | 61,833,139 |
| Intangible assets - net | *17* | **16,227,586** | 6,980,871 |
| Deferred tax assets | *29* | **4,833,844** | 4,198,283 |
| Other noncurrent assets | *18* | **89,307,248** | 50,912,160 |
| **Total Noncurrent Assets** | | **427,637,057** | 226,347,222 |
| | | **P1,086,113,772** | P740,144,468 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | *19, 32* | **P249,945,218** | P224,064,440 |
| Loans payable | *20* | **168,016,812** | 49,469,182 |
| Due to related parties | *30* | **81,745,395** | 22,574,806 |
| Due to stockholders | *20* | **31,500,000** | - |
| Current portion of long-term loans | *21* | **-** | 56,000,000 |
| Income tax payable | | **832,308** | 75,042 |
| Liabilities directly associated with assets classified as held for sale | *7* | **-** | 21,793,429 |
| **Total Current Liabilities** | | **532,039,733** | 373,976,899 |
| **Noncurrent Liability** | | | |
| Retirement benefit liability | *28* | **19,199,932** | 22,533,680 |
| **Total Liabilities** | | **551,239,665** | 396,510,579 |

*Forward*

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Equity Attributable to Equity Holders of the Parent** | | | |
| Capital stock | *31* | **P300,000,000** | P188,697,281 |
| Additional paid-in capital | *31* | **255,535,853** | 34,343,165 |
| Deposits for future stock subscription | *31* | **-** | 19,000,000 |
| Retained earnings (deficit) | | **(52,583,159)** | 55,914,020 |
| | | **502,952,694** | 297,954,466 |
| **Non-controlling Interests** | *31* | **31,921,413** | 45,679,423 |
| **Total Equity** | | **534,874,107** | 343,633,889 |
| | | **P1,086,113,772** | P740,144,468 |

*See Notes to the Consolidated Financial Statements.*

## IP E-GAME VENTURES INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Figures for 2011)

| | *Note* | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| **REVENUES** | *23* | **P509,456,116** | P482,206,106 | P188,596,548 |
| **COST OF SERVICES** | *24* | **396,885,174** | 323,408,244 | 94,578,211 |
| **GROSS PROFIT** | | **112,570,942** | 158,797,862 | 94,018,337 |
| **OPERATING EXPENSES** | *25* | **(195,782,910)** | (194,892,448) | (101,936,249) |
| **GAIN ON SALE OF INVESTMENTS** - Net | | **-** | 91,271,351 | - |
| **EQUITY IN NET EARNINGS (LOSSES) OF AN ASSOCIATE AND A JOINT VENTURE** | *13* | **(18,454,629)** | 3,346,356 | 6,685,746 |
| **OTHER INCOME (CHARGES)** - Net | *27* | **(12,463,380)** | (12,715,373) | 7,924,036 |
| **INCOME (LOSS) BEFORE INCOME TAX** | | **(114,129,977)** | 45,807,748 | 6,691,870 |
| **INCOME TAX EXPENSE** | *29* | | | |
| Current | | **2,369,447** | 3,142,621 | 3,584,055 |
| Deferred | | **(1,526,030)** | (2,780,006) | 51,151 |
| | | **843,417** | 362,615 | 3,635,206 |
| **NET INCOME (LOSS)** | | **(114,973,394)** | 45,445,133 | 3,056,664 |
| **OTHER COMPREHENSIVE INCOME** | | **-** | - | - |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **(P114,973,394)** | P45,445,133 | P3,056,664 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent | | **(P108,497,179)** | P47,570,497 | P3,056,664 |
| Non-controlling interests | | **(6,476,215)** | (2,125,364) | - |
| | | **(P114,973,394)** | P45,445,133 | P3,056,664 |
| **BASIC AND DILUTED EARNINGS PER SHARE** | | | | |
| Attributable to equity holders of the Parent | *31* | **(P0.006)** | P0.004 | P0.001 |

*See Notes to the Consolidated Financial Statements.*

**IP E-GAME VENTURES INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
(With Comparative Figures for 2011)

| | *Note* | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| **CAPITAL STOCK** | *31* | | | |
| Balance at beginning of year | | **P188,697,281** | P33,545,559 | P21,045,559 |
| Issuances of shares | | **111,302,719** | 155,151,722 | 12,500,000 |
| Balance at end of year | | **300,000,000** | 188,697,281 | 33,545,559 |
| **ADDITIONAL PAID-IN CAPITAL** | *31* | | | |
| Balance at beginning of year | | **34,343,165** | 16,219,189 | 16,219,189 |
| Premiums received | | **221,192,688** | 18,123,976 | - |
| Balance at end of year | | **255,535,853** | 34,343,165 | 16,219,189 |
| **DEPOSITS FOR STOCK SUBSCRIPTIONS** | *31* | | | |
| Balance at beginning of year | | **19,000,000** | 30,000,000 | 12,500,000 |
| Additional deposits | | **-** | 36,093,487 | 30,000,000 |
| Issuances of shares | | **-** | (47,093,487) | (12,500,000) |
| Reclassifications | | **(19,000,000)** | - | - |
| Balance at end of year | | **-** | 19,000,000 | 30,000,000 |
| **RETAINED EARNINGS (DEFICIT)** | | | | |
| Balance at beginning of year | | **55,914,020** | 8,343,523 | 5,286,859 |
| Net income (loss) for the year | | **(108,497,179)** | 47,570,497 | 3,056,664 |
| Balance at end of year | | **(52,583,159)** | 55,914,020 | 8,343,523 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **502,952,694** | 297,954,466 | 88,108,271 |
| **NON-CONTROLLING INTERESTS** | *31* | | | |
| Balance at beginning of year | | **45,679,423** | - | - |
| Effect of business combination | *5* | **-** | 47,804,787 | - |
| Net loss for the year | | **(6,476,215)** | (2,125,364) | - |
| Derecognition for the year | | **(7,281,795)** | - | - |
| Balance at end of year | | **31,921,413** | 45,679,423 | - |
| | | **P534,874,107** | P343,633,889 | P88,108,271 |

*See Notes to the Consolidated Financial Statements.*

**IP E-GAME VENTURES INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
(With Comparative Figures for 2011)

| | *Note* | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | **(P114,129,977)** | P45,807,748 | P6,691,870 |
| Adjustments for: | | | | |
| Gain on sale of investments - net | | **-** | (91,271,351) | - |
| Depreciation and amortization | *15, 17* | **40,151,084** | 60,240,211 | 28,139,379 |
| Interest expense | *27* | **28,471,071** | 14,703,080 | 4,941,747 |
| Impairment losses on: | | | | |
| Inventories | | **7,532,014** | - | - |
| Intangible assets | *17* | **-** | 7,441,435 | - |
| Trade and other receivables | *10* | **4,196,057** | 5,740,413 | - |
| Equity share in net loss (income) of an associate and a joint venture | *13* | **18,454,630** | (3,346,357) | (6,685,746) |
| Retirement benefit expense (income) | *28* | **(1,473,000)** | 2,190,435 | 1,286,889 |
| Interest income | *27* | **(2,205,203)** | (1,916,083) | (136,318) |
| Unrealized foreign exchange loss (gain) | | **(1,510,198)** | 297,681 | 261,547 |
| Gain on disposal of property and equipment | *27* | **(19,710,414)** | (73,864) | (641,995) |
| Operating income (loss) before working capital changes | | **(40,223,936)** | 39,813,348 | 33,857,372 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | **(10,536,013)** | (16,057,915) | 19,363,355 |
| Inventories | | **(11,775,446)** | (2,351,479) | 5,003,663 |
| Other current assets | *12* | **(4,185,986)** | (7,116,734) | 214,364 |
| Increase (decrease) in trade and other payables | | **24,395,467** | (52,182,890) | 8,455,023 |
| Net cash generated from (used in) operations | | **(42,325,914)** | (37,895,670) | 66,893,777 |
| Interest paid | | **(28,471,071)** | (14,299,004) | (4,941,747) |
| Income taxes paid | | **(2,231,233)** | (3,309,579) | (1,665,688) |
| Interest received | | **771,143** | 1,916,083 | 136,318 |
| Benefits paid | | **(1,860,748)** | - | - |
| Cash flows provided by (used in) operating activities | | **(74,117,823)** | (53,588,170) | 60,422,660 |

*Forward*

| | Note | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Intangible assets | *17* | **(P16,539,056)** | (P30,730,655) | (P16,000,621) |
| Property and equipment | *15* | **(58,038,956)** | (12,296,739) | (25,693,872) |
| Investment property | | **(71,266,954)** | - | - |
| Investment in an associate and a joint venture | *13* | **(92,666,037)** | - | - |
| Proceeds from: | | | | |
| Sale of investments | | **-** | 65,000,000 | - |
| Dividend received | | **-** | 18,300,000 | - |
| Disposal of property and equipment | | **89,475,054** | 221,094 | 794,905 |
| Reclassification | | **(1,085,585)** | - | - |
| Acquisition of business - net of cash acquired | *5* | **-** | (28,555,424) | - |
| Decrease (increase) in: | | | | |
| Other noncurrent assets | | **(58,855,754)** | 114,678,835 | (148,850,789) |
| Due from related parties | | **(97,426,754)** | (88,878,038) | 7,013,656 |
| Short-term investments | | **(148,859,826)** | (50,591,725) | - |
| Cash flows used in investing activities | | **(455,263,868)** | (12,852,652) | (182,736,721) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments of: | | | | |
| Short-term loans | | **-** | (30,000,000) | (20,101,728) |
| Long-term loans | | **(56,000,000)** | (14,000,000) | - |
| Loans payable | | **(49,469,182)** | - | - |
| Dividends | | **-** | (14,000,000) | - |
| Proceeds from: | | | | |
| Issuances of shares of stock | | **332,495,407** | 126,182,216 | - |
| Availments of short-term loans | | **-** | 34,656,667 | 75,210,000 |
| Deposits for stock subscriptions | | **-** | 36,093,487 | 30,000,000 |
| Availments of loans payable | | **212,016,812** | - | - |
| Availments of long-term loans | | **-** | - | 70,000,000 |
| Increase (decrease) in: | | | | |
| Due to related parties | | **60,523,450** | 24,820,273 | (8,555,732) |
| Obligations under finance lease | | **-** | (14,523,024) | (16,008,615) |
| Cash flows provided by financing activities | | **499,566,487** | 149,229,619 | 130,543,925 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH** | | **1,510,198** | 9,199 | (171,273) |
| **NET INCREASE (DECREASE) IN CASH** | | **(28,305,006)** | 82,797,996 | 8,058,591 |
| **CASH AT BEGINNING OF YEAR** | | **102,646,017** | 19,848,021 | 11,789,430 |
| **CASH AT END OF YEAR** | | **P74,341,011** | P102,646,017 | P19,848,021 |

*See Notes to the Consolidated Financial Statements.*

## 1. Reporting Entity

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

| | | Percentage of Ownership | |
|---|---|---|---|
| | Principal Activity | **2012** | 2011 |
| Ran Online, Inc. (ROI) | Interactive gaming and content distribution | **100%** | 100% |
| Digital Paradise, Inc. (DPI) | Computer leasing | **75%** | 75% |
| Webworx Computer Technology Corporation (Webworx) | Computer leasing | **60%** | 60% |

*IP E-Games Ventures, Inc.*
The Parent Company was incorporated and registered with SEC on November 22, 2005 to engage in the business of interactive gaming and content distribution, catering to local, regional and global market.

On January 27, 2010, the Philippine Stock Exchange (PSE) approved the Parent Company's application for Listing by Way of Introduction with the PSE's Secondary Board of 33.54 million of its common shares. Listing by Way of Introduction is a listing process that does not involve an initial public offering of securities. The Company will be conducting a follow-on offering in compliance with the Company's previous Listing By Way of Introduction.

In July 2011, the Company is 69.75%-owned by IPE Global Holdings Corporation (IPE Global or Parent Company), a company incorporated in the British Virgin Islands and 23.59%-owned by IPVG Corp. (IPVG), a company incorporated in the Philippines and whose shares are also listed in the PSE. IPE Global was 71%-owned by IPVG, making IPVG the ultimate parent of the Company. On the same date, the shareholders and the Board of Directors (BOD) of IPVG approved IPVG's Restructuring Plan, which aims to increase shareholder value and potentially generate cash for IPVG. As part of the Restructuring Plan, IP Ventures Inc. (IPVI) was incorporated in the Philippines on September 16, 2011. IPVI is owned by the same shareholders of IPVG in the same proportion as their shareholdings in the latter. Following the formation of IPVI, IPVG transferred substantially all its assets and liabilities, including its equity interest in shares of stock of the Company pursuant to the Asset Purchase Agreement (APA) dated September 28, 2011. As a result of the APA, IPVI became the ultimate parent of the Company.

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.

Throughout 2012, the Company listed additional shares for public ownership. As a result, the controlling interest vested in the Parent Company was removed and diversified into various stockholders.

Registration with the Board of Investment (BOI)
The Parent Company registered with BOI on October 16, 2007 under the Omnibus Investments Code of 1987 as a New Information Communications and Technology Export Service Firm in the field of application/systems development for the on-line computer systems.

As a registered enterprise, the Parent Company is entitled to certain tax and nontax incentives which include, among others, income tax holiday for a period of four years until October 15, 2011. In 2011, no tax incentives were availed of by the Parent Company.

The registered office address of the Parent Company is at 2nd Floor, Bonifacio Technology Center, 2nd Ave. Cor. 31st Street, Bonifacio Global City.

*Ran Online, Inc.*
ROI was incorporated in the Philippines and registered with SEC on August 3, 2006 to engage primarily in the business of interactive gaming and content distribution, catering to the local, regional and global market; provide internet, intranet, extranet and other related value services to any and all types of information technology users related to interactive computer games and content distribution, including but not limited to, manufacturing, assembling, processing, producing, inventing, developing, and/or importing programs and equipment and other components thereof, and provide management, technical and maintenance report and services. During 2012, the Company started leasing properties to third parties whose line of business includes operating casino and other related online gaming.

*Digital Paradise, Inc.*
DPI was incorporated in the Philippines and registered with 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.

On June 22, 2010, the SEC approved the amendment to DPI's Articles of Incorporation, which amend the DPI's primary purpose into engaging in the business of providing shared community access through the internet, computer leasing, desktop publishing, and other internet-related activities. On February 9, 2012, DPI further amended its Articles of Incorporation to include as its secondary purpose, the business of establishing, operating, and maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges and carter foods and drinks.

On April 1, 2011, the Parent Company acquired 97,557,504 shares of DPI from ePLDT, Inc. representing 75% of the outstanding capital stock of DPI. Following the said acquisition, DPI became a subsidiary of the Parent Company.

*Webworx Computer Technology Corp.*
Webworx was registered with SEC on August 17, 2011 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, buying, selling, distributing, marketing, at wholesale and retail insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description, of computer products, and to enter into all kinds of contracts for the provision of such services. Webworx is 60% owned by the Parent Company.

## 2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs includes statements named PFRSs and Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements of the Group as at December 31, 2012 were authorized for issuance by the BOD on May 15, 2013.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Parent Company. Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity, and items included in the consolidated financial statements of each entity are measured using that functional currency. All financial information expressed in Philippine Peso has been rounded off to the nearest peso, unless when otherwise indicated.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and its Subsidiaries, which it controls as at December 31 of each year. Control is normally evidenced when the Parent Company owns, either directly or indirectly, more than 50% of the voting rights of an entity's capital stock.

The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Parent Company. Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity, and items included in the consolidated financial statements of each entity are measured using that functional currency.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions including inter-group unrealized profits and losses are eliminated in preparing the consolidated financial statements.

The financial statement s of the subsidiaries are included in the consolidated financial statements from the date when the Parent Company obtains control and continue to be consolidated until the date when such control ceases. The results of operations of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are presented in the consolidated financial statement separately from equity attributable to equity holders of the Parent. This includes the equity interests in DPI and Webworx not held by the Parent Company.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the consolidated financial statements by the Group, except for the changes in accounting policies as explained below.

Adoption of Amendments to Standard and Interpretations
The Group has adopted the following amendments to PFRS 7 and interpretation starting January 1, 2012 and accordingly, changed its accounting policies.

- Amendments to PFRS 7, *Disclosures - Transfers of Financial Assets*, which requires additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of these financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

- PIC Q&A No. 2011-03, *Accounting for Inter-company Loans*, provides guidance on how should an interest free or below market rate loan between group companies be accounted for in the separate/stand-alone financial statements of the lender and the borrower: (i) on the initial recognition of the loan; and (ii) during the periods to repayment. This interpretation is effective for annual financial statements beginning on or after January 1, 2012.

The adoption of the above amendments to PFRS 7 and interpretations did not have a material effect on the Group's financial statements. Additional disclosures required by the amendments to PFRS 7 and interpretations were included in the financial statements, where applicable.

*New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted*
A number of new and revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates:

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. These amendments are effective for annual periods beginning on or after July 1, 2012.

- Disclosures: Offsetting Financial Assets and Financial Liabilities *(Amendments to PFRS 7).* These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position. These amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively.

- PFRS 10, *Consolidated Financial Statements,* introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements* and Philippine Interpretation Standards Interpretation Committee (SIC) - 12, *Consolidation - Special Purpose Entities.* The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC - 13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers.* The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) the effects of those interests on the entity's financial position, financial performance and cash flows. The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosure. The new standard is effective for annual periods beginning on or after January 1, 2013.

- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance *(Amendments to PFRS 10, PFRS 11, and PFRS 12).* The amendments: (a) simplify the process of adopting PFRS 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities; (b) simplify the transition and provide additional relief from the disclosures that could have been onerous depending on the extent of comparative information provided in the consolidated financial statements; and (c) limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. The amendments are effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group is currently reviewing its methodologies in determining fair values. The new standard is effective for annual periods beginning on or after January 1, 2013.

- PAS 19, *Employee Benefits* (amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Group is currently assessing the impact of the removal of the accounting policy choice for recognition of actuarial gains and losses and the impact of the change in measurement principles of expected return on plan assets. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The amendments are effective for annual periods beginning on or after January 1, 2013.

- *Improvements to PFRS 2009-2011* contain amendments to five (5) standards with consequential amendments to other standards and interpretations. The following are the said amendments to PFRSs and interpretation:

  - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1)*. This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs. For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present: (a) other primary statements for that additional comparative period, such as a third statement of cash flows; or (b) the notes related to these other primary statements. The amendments are effective for annual periods beginning on or after January 1, 2013.

  - Presentation of the Opening Statement of Financial Position and Related Notes *(Amendments to PAS 1)*. This is amended to clarify that: (a) the opening consolidated statement of financial position is required only if: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 34, *Interim Financial Reporting.* The amendments are effective for annual periods beginning on or after January 1, 2013.

- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment*). This is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The amendments are effective for annual periods beginning on or after January 1, 2013.

- Income Tax Consequences of Distributions *(Amendments to PAS 32, Financial Instruments Presentation)*. This is amended to clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*. The amendments are effective for annual periods beginning on or after January 1, 2013.

- Segment Assets and Liabilities *(Amendments to PAS 34)*. This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

▪ Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32)*. These amendments clarify that: (a) An entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The amendments are effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively.

- PFRS 9, *Financial Instruments (2010)*, PFRS 9, *(2009)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The adoption of PFRS 9 (2010) is expected to have an impact on the Group's consolidated financial statements and could change the classification and measurement of financial assets. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

Financial Assets and Liabilities

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instruments. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit and loss (FVPL), includes transaction costs.

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

*Determination of Fair Value.* The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

The Group has no HTM investments, financial assets as at FVPL, and financial liabilities as at FVPL as at December 31, 2012 and 2011.

*Financial Assets*

*Loans and Receivable.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets as at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company's cash, short-term investments, trade and other receivables, deposits and amounts due from related parties are included in this category (Notes 8, 9, 10, 13 and 30).

*Cash.* Cash includes cash on hand and in banks which are stated at face value.

*AFS Investments.* AFS investments are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS investments are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" in the consolidated statements of comprehensive income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS investments are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

As of December 31, 2012, investments accounted for under this category amounted to P33.4 million.

*Financial Liabilities*

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

The Group's trade and other payables (excluding statutory liabilities), amounts due to related parties, due to stockholders, short-term and long-term loans are included in this category (Notes 19, 20, 21, 22 and 30).

Derecognition of Financial Assets and Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

*Assets Carried at Amortized Cost.* For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are measured at the lower of cost and net realizable value (NRV). Cost is determined based on weighted average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs to make the sale.

Assets Classified as Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Property and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Loss of Control*
  Upon the loss of the control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Investment in an Associate and a Joint Venture
Investment in an associate and a joint venture are accounted for using the equity method and recognized initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity in which is subject to a joint control.

An assessment of the carrying amount of the investment is performed when there is an indication that the investment has been impaired.

Unrealized intercompany profits arising from the transactions with the associate are eliminated.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

Investment Properties
Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost, including transaction costs, less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Investment properties are derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment properties are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner's occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of the owner's occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property and Equipment
Property and equipment are measured at cost less accumulated depreciation and any impairment loss.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. Costs of day-to-day servicing of an asset are recognized as expenses in the year in which they are incurred.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

The useful lives and depreciation method are reviewed at each reporting date to ensure that the period and methods are consistent with the expected pattern of economic benefits from the items of property and equipment.

Depreciation is computed using the straight-line basis over the estimated useful lives of the assets as follows:

| | Number of Years |
|---|---|
| Furniture and fixtures | 5 |
| Computer equipment | 5 - 10 |
| Office and network equipment | 3 - 5 |
| Transportation equipment | 3 - 5 |
| Leasehold improvements | 3 - 5 or term of the lease, whichever is shorter |

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Intangible Assets
Intangible assets consist of computer software, game licenses and goodwill.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as the date of acquisition. Following initial recognition, intangible assets with finite lives carried at cost less accumulated amortization and any impairment losses.

The useful lives of intangible assets are as either finite or indefinite.

*Intangible Assets with Finite Life.* Intangible assets with finite life pertains to computer software and gaming licenses and measured at cost less accumulated amortization and any impairment losses. Amortization is computed using the straight-line method over the estimated useful lives. The useful lives of intangible assets are assessed to either finite or indefinite. Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period, and method for an intangible asset with finite lives are reviewed annually or earlier whenever an indication of impairment exists. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization is computed using the straight-line over the estimates useful lives as follows:

| | Number of Years |
|---|---|
| Computer software | 1 - 3 |
| Game licenses | 1 - 5 |

*Intangible Asset with Indefinite Useful Life.* Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the intangible assets, liabilities and contingent liabilities. Where the costs of the business combination and the Group's interest are determined provisionally, goodwill is initially measured using those provisional values. The Group recognizes any adjustments to these provisional values and to the goodwill initially recognized, as a result of completing the initial accounting within 12 months from the acquisition date.

Impairment of Nonfinancial Assets

At each reporting date, the Company assesses whether there is any indication that any of its investments, property and equipment and intangible assets may be impaired. If any such indication exists, the recoverable amount of the related nonfinancial assets is estimated in order to determine the extent of the impairment loss if any.

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a nonfinancial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in the arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

Equity

*Capital Stock.* Capital is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares and share option are recognized as a deduction from additional paid-in capital, net of any tax effects.

*Additional Paid-in Capital.* Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any tax.

*Deposits for Stock Subscriptions.* Deposits for stock subscriptions represent funds received by the Group which it records as such with a view of applying the same for additional shares or increase in capital stock. Deposits for stock subscriptions are presented as a separate line item in the equity section of the consolidated statement of financial position.

*Retained Earnings.* Retained earnings represent the accumulated net income or losses, net of any dividend declaration.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

*Service Revenue.* Revenue is recognized based on the usage of prepaid cards sold and loaded to the gaming system by the patrons, net of re-sellers' discounts. Unearned revenue which pertain to the total value of prepaid cards sold but are not yet loaded to and used up in the gaming system are included under "Trade and other payables" account.

*Sale of Goods.* Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, title has transferred, selling price is fixed or determinable and collectability of the selling price is reasonably assured.

*Advertising Income.* Revenue is recognized in accordance with the terms of the relevant agreement and is recognized on the substance of that basis.

*Dividend Income.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Interest Income.* Revenue is recognized as it accrues, using the effective interest method.

*Other Income.* Revenue is recognized when the earning process is complete and the flow of economic benefit is reasonably assured.

Cost and Expense Recognition

Costs and expenses are recognized in profit or loss upon receipt of goods, utilization of the services or at the date the costs and expenses are incurred.

Expenses are also recognized in the consolidated statements of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized in the consolidated statements of comprehensive income on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Borrowing Cost

Borrowing costs are generally expensed as incurred and presented under "Interest expense" in profit or loss. Borrowing costs directly attributable to the construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on a qualifying asset is deducted from the borrowing costs eligible for capitalization.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Operating Lease - Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Operating Lease - Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

*Finance Lease - Group as Lessee.* Finance leases, which transfer to the Group substantially the risks and rewards incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized to profit or loss.

Related Parties

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. The key management personnel of the Group are considered to be related parties.

Foreign Currency Transactions

Foreign currencies transactions are recorded in Philippine Peso based on the exchange rates prevailing at the dates of the transactions. Outstanding foreign currency denominated monetary assets and liabilities are translated at the exchange rate prevailing at reporting date. Foreign exchange gains or losses arising from settlements of foreign currency transactions and translations of foreign currency denominated assets and liabilities are recognized in profit or loss.

Retirement Benefit

The Group accrues retirement benefits for its employees in compliance with Republic Act (RA) No. 7641 "Philippine Retirement Law" which requires a company to pay a minimum retirement benefit to employees who retire after reaching the mandatory retirement age of 65 years old or the optional age of 60 years old with at least five (5) years of service to the Group. The retirement benefit is equivalent to one-half month of the latest basic pay for every year of service.

The cost of providing benefits under the defined benefits retirement plan is determined using the projected unit credit method. Under this method, the current services cost is the present value of retirement benefit obligation in the future with respect to services rendered in the current year. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged in the profit or loss when the net cumulative unrecognized actuarial gains and losses at the end previous year exceed 10% of the defined benefit obligation at the date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost are recognized immediately in profit or loss, unless the changes to the retirement plan are conditional on the employees remaining in services for specified periods of time (the vesting period). In this case, past service cost are amortized on a straight-line basis over the vesting period.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets on which the obligations are to be settled directly. The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement obligation.

Income Taxes

*Current Tax.* Current income tax assets and liabilities for the current and prior years measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

*Deferred Tax.* Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

*Value-added Tax (VAT).* Revenue, expenses and assets are recognized net of the amount of VAT expect:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

*Deferred Input VAT.* In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of the Group of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding 1.0 million are claimed as credit against output VAT represents the unamortized input VAT on capital goods.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed 1.0 million, the total VAT will be allowed as credit against output VAT in the month of acquisition.

Earnings per Share

The Group presents basic and diluted earnings per share (EPS) date for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Parent Company by weighted average number of common shares outstanding during the year, adjusted for own shared held.

Diluted EPS is calculated in the same manner, adjusted for the effects of all dilutive potential common shares, adjusted for the effects of all diluted potential common shares.

As the Group has no dilutive potential common shares outstanding, basic and diluted EPS are stated at the same amount.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.

The measurement policies the Group used for segment reporting under PFRS 8, are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Reporting Date

Any event after the reporting date that provides additional information about the Group's financial position at reporting date (adjusting event) is reflected in the consolidated financial statements when material. Any event after the reporting date that is not an adjusting event is disclosed when material to consolidated financial statements.

## 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

*Determining Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the investing activities of the Group.

*Operating Lease Commitments - Group as Lessee.* The Group has entered into various lease agreements as a lessee. The Company had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases. The Group has lease agreements with third parties and sub-lease agreements with related parties. All significant risks and benefits incidental to ownership of the sub-leased properties remain with the aforementioned lessor. Accordingly, the lease is accounted for as operating lease (see Note 22).

Rent expense recognized in the consolidated statement of comprehensive income amounted to P66.6 million and P55.8 million in 2012 and 2011, respectively (see Notes 24 and 25).

*Operating Lease Commitment - Group as Lessor.* The Group has entered into a lease agreement as a lessor. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases.

Rental income recognized in profit or loss amounted to P4,455,110 for the year ended December 31, 2012 (Note 23).

*Finance Lease Commitments - Company as Lessee.* The Group has lease agreements with various leasing and financing institutions covering certain computer and network equipment. The lease provides that ownership of these assets shall transfer to the Group at the end of the lease term. Accordingly, the lease is accounted for as finance lease (see Note 22).

In 2012, there were no computer and network equipment acquired through finance lease arrangements. As at December 31, 2011, the carrying amount of the Company's computer and network equipment acquired through finance lease arrangements and the related obligations under finance lease amounted to P24.0 million and 11.9 million, respectively. Such computer and network equipment acquired through finance lease arrangements and the related obligations under finance lease are reclassified to "Liabilities directly associated with assets classified as held for sale" account in 2011 (see Note 7).