Estimates

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Allowance for Impairment Losses on Receivables. The Group maintains allowance for impairment losses on receivables at level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited, to the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates.

Allowance for impairment losses on trade and other receivables as at December 31, 2012 and 2011 amounted to P14.9 million and P11.1 million, respectively (see Note 10).

The carrying amount of trade and other receivables amounted to P42.6 million and P36.5 million as at December 31, 2012 and 2011, respectively (see Note 10).

Allowance to Reduce Inventories to NRV. The Group maintains an allowance to reduce inventories to NRV at a level considered adequate to provide for potential obsolete inventories and other factors based on specific identification and as determined by management for inventories estimated to be unsalable in the future. The level of this allowance is evaluated by management based on the movements and current condition of inventory items.

As at December 31, 2012 and 2011, the Group assessed that the carrying amount of its inventories amounted to P23.7 million and P19.5 million, respectively (see Note 11).

Estimating Useful Lives of Property and Equipment. The Group estimates the useful lives of property and equipment based on the year over which these are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on the factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation and decrease noncurrent assets.

As at December 31, 2012 and 2011, the carrying amount of property and equipment amounted to P62.9 million and P53.1 million, respectively (see Note 15).

Estimating Useful Lives of Intangible Assets. The Group assesses that its intangible assets have finite useful lives and amortization method of intangible assets based on the year and pattern in which the future economic benefits from a particular game are expected to be consumed to which the intangible assets pertain to. The estimated useful lives and amortization period of intangible assets are reviewed at each reporting date and are updated if there are changes in estimates embodied in the intangible assets. Actual results, however, may vary due to changes in estimates brought about by changes in the estimates used.

The carrying amount of intangible assets with finite lives amounted to P16.2 million and P7.0 million as at December 31, 2012 and 2011, respectively (see Note 17).

Impairment of Non-financial Assets. The Group assesses impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of nonfinancial assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquires assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group recognizes impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the assets belongs.

The Group recognized impairment loss on intangible assets amounting to P7.4 million for game licenses that were terminated for the year ended December 31, 2011(see Note 24).

Management assessed that there were no impairment indicators on other nonfinancial assets.

The carrying amounts of non-financial assets of the Group as at December 31, 2012 and 2011 are as follows:

	2012	2011
Investment in an associate and a joint venture	**P123,570,911**	P49,359,504
Investment properties	**71,266,954**	-
Property and equipment	**62,949,880**	53,063,265
Goodwill	**26,080,634**	61,833,139
Intangible assets	**16,227,586**	6,980,871

Retirement Benefits Cost. The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expenses and recorded obligation in such future period.

Retirement benefits liability amounted to P19.2 million and P22.5 million as at December 31, 2012 and 2011, respectively. Retirement benefits charged to operations amounted to P1.3 million and P2.2 million in 2012 and 2011, respectively (see Note 26).

Realizability of Deferred Tax Assets. The Group reviews the carrying amounts of deferred tax asset at each reporting date and reduces the carrying amount 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. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses is based on the projected taxable income in the following periods.

As at December 31, 2012 and 2011, deferred tax assets amounted to P4.8 million and P4.2 million, respectively (see Note 29).

Fair Value of Investment Properties. The fair value of investment properties presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

The carrying amount of investment properties as at December 31, 2012 amounted to P71,266,954 (see Note 14).

Principal Assumptions for Management's Estimation of Fair Value. The Group tests whether investment properties have suffered any impairment, in accordance with the accounting policy. The determination of the fair value of investment properties is dependent on the selection of certain assumptions used by qualified independent appraisers and agreed by management in calculating such amounts using the Income Approach method. This method requires a preparation of an estimate of the annual gross rent potential of the land and typical cash expenses to be incurred in its operation, if any.

Key assumptions used in determining the fair value of investment properties using the income approach are as follows:

	2012
Gross potential income	**P9,215,482**
Occupancy rate	**100%**
Escalation rate	**10%**
Capitalization rate	**5.68%**

Gross potential income is the annual revenue to be earned based on the total leasable land area which the Group can lease to tenants.

The occupancy rate used is determined by computing the actual leased land over the total leasable land area.

The escalation rate is based on the rate indicated in the lease agreements to account for future changes in time value of money. This is effective after every 5 years of the lease term.

The capitalization rate is based on the average monthly lending rates for 2012 as published in the BSP website.

Following the income approach method and using the assumptions summarized in the preceding table, the Group's investment properties have a calculated fair value of P71 million as at December 31, 2012 which approximates the carrying amount as at December 31, 2012. Accordingly, no impairment has been recognized for the year ended December 31, 2012.

Provisions and Contingencies. The estimate of the probable costs for the resolution of possible claim has been developed in consultation with outside counsel handling the Company's defense in these matters and is based on an analysis of potential results. The Company is a party to certain lawsuits or claims arising from the ordinary course of the business. However, the Group's management and legal counsel believe that the eventual liabilities under these lawsuits or claims will not have a material effect on the Company's financial position and performance. Estimated provision for probable losses arising from legal contingencies was recognized in the financial statements amounted to P2.9 million as at December 31, 2012 and 2011.

5. Business Combination

The Parent Company acquires two internet café chains (DPI and Webworx) in line with its plan to be the leading digital consumer platform in the Philippines, providing content, retail access and advertising platforms to internet users.

Acquisition of DPI

On April 1, 2011, the Parent Company acquired from ePLDT, Inc. 97,557,504 shares of DPI, representing 75% ownership, for a total consideration of P145.0 million or P1.49 a share.

The fair values of the identified assets and liabilities of DPI at the time of acquisition and the purchase price was allocated as follows:

	Note	Amount
Cash and cash equivalents		P96,413,941
Trade and other receivables		4,298,460
Inventories		9,439,884
Other current assets		8,096,828
Property and equipment - net		54,305,912
Computer and software - net		269,177
Other noncurrent assets		35,172,276
Trade and other payables		(33,415,723)
Retirement benefit liability		(16,021,600)
Net assets		158,559,155
Percentage share of net assets acquired		75%
Net assets acquired		118,919,366
Goodwill arising on acquisition	*16*	26,080,634
Total consideration		P145,000,000

The revenue and net loss of DPI from the acquisition date until December 31, 2011 amounted to P262.5 million and P7.2 million, respectively, which were included in the Group's results of operations in 2011. If the acquisition had taken place at the beginning of the year, the revenue of the Group would have been P569.2 million and net income would have been P45.8 million.

The cash outflows on the acquisition amounted to P147.9 million which includes the P145 million acquisition cost and P2.9 million transaction costs recorded under "Outside services" line item under "Operating expenses" account in 2011 (see Note 25).

Acquisition of Webworx

On September 2, 2011, the Parent Company subscribed to P375,000 unissued shares of Webworx, representing 60% ownership interest, for a total consideration of P48.0 million or P128 a share.

The provisional fair values of the identified assets and liabilities of Webworx as at the date of acquisition and the purchase price was allocated as follows:

	Note	Amount
Cash		P48,030,785
Property and equipment - net		10,645,109
Intangible assets - net		1,935,024
Other noncurrent assets		6,504,184
Trade and other payables		(46,702,610)
Net assets		20,412,492
Percentage share of net assets acquired		60%
Net assets acquired		12,247,495
Goodwill arising on acquisition	*16*	35,752,505
Total consideration		P48,000,000

The revenue and net loss of Webworx from the acquisition date until December 31, 2011 amounted to P8.8 million and P1.8 million, respectively, which were included in the Group's results of operations. The revenue of the Group would have been P484.7 million and net income would have been P45.3 million if the acquisition had taken place at the beginning of the year.

The cash outflows on the acquisition amounted to P48.01 million, which includes the P48.0 million acquisition cost and P0.01 million transaction costs recorded under "Outside services" line item under "Operating expenses" account in 2011 (see Note 25).

In 2012, incidental to an on-going legal issues as to the control over operations of Webworx, the Company netted its investment amounting to P48.0 million against the remaining subscription payable amounting to P14.6 million. The resulting carrying value amounting to P33.4 million was reclassified as "AFS investments" account in 2012. As a result, goodwill arising from the acquisition of Webworx in 2011 which amounted to P35.8 million was derecognized in 2012 (see Note 16).

6. Operating Segments

With the acquisitions of DPI in April 2011 and Webworx in August 2011 (see Note 5), the Group is now involved in providing shared community access through the internet, computer leasing, desktop publishing and other internet-related activities. Prior to the acquisitions, the Group is involved solely in internet gaming and content distribution business.

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services that cater to different market.

Details of operating segments of the Group are as follows:

- Internet gaming and content distribution segment - this includes sale of prepaid cards for use in various on-line video games based on the usage of prepaid cards sold and loaded to the gaming system by the patrons.

- I-café Segment - this accounts for all internet connectivity related services based on actual usage, net of discounts given, including initial franchise fees recognized, royalty fees and related fees from membership agreement.

- Leasing - this pertains to rental income from investment properties.

The Group operates and generates revenue principally in the Philippines. Consequently, geographical business information is not applicable.

Financial information for 2012 and 2011 of the business segments are summarized as follows:

	Internet Gaming and Content Distribution		I-Cafe		Leasing		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
TOTAL REVENUE										
Services to external customers	P110,307,625	P210,922,205	P394,693,381	P271,283,901	P4,455,110	P -	P -	P -	P509,456,116	P482,206,106
Inter-segment services	-	1,250,000	-	-	-	-	-	(1,250,000)	-	-
Total revenue	110,307,625	212,172,205	394,693,381	271,283,901	4,455,110	-	-	(1,250,000)	509,456,116	482,206,106
RESULTS										
Segments results	26,924,040	105,533,190	80,633,024	53,264,672	4,455,110	-	558,767	-	112,570,941	158,797,862
Operating expenses	(90,894,019)	(132,855,442)	(100,999,644)	(62,037,006)	(2,987,802)	-	(901,445)	-	(195,782,910)	(194,892,448)
Loss from operations	(63,969,979)	(27,322,525)	(20,366,620)	(8,772,334)	1,467,308	-	(342,678)	-	(83,211,969)	(36,094,586)
Gain on sale of assets	19,710,414	91,271,351	-	-	-	-	-	-	19,710,414	91,271,351
Equity share in net earnings (loss) and a joint venture	(18,454,629)	3,346,356	-	-	-	-	-	-	(18,454,629)	3,346,356
Interest income	624,629	951,183	1,577,832	964,900	2,742	-	-	-	2,205,203	1,916,083
Interest expense	(16,088,681)	(14,703,080)	(9,539,344)	-	(2,843,047)	-	-	-	(28,471,072)	(14,703,080)
Other income (charges) - net	(10,166,018)	(250,998)	3,769,252	322,622	-	-	488,842	-	(5,907,924)	71,624
Income (loss) before income tax	(88,344,264)	53,292,560	(24,558,880)	(7,484,812)	(1,372,997)	-	146,164	-	(114,129,977)	45,807,748
Income tax benefit (expense)	(38,095)	(419,939)	(1,254,135)	57,324	448,813	-	-	-	(843,417)	(362,615)
Net income (loss)	(P88,382,359)	P52,872,621	(P25,813,015)	(P7,427,488)	(P924,184)	P -	P146,164	P -	(P114,973,394)	P45,445,133
Attributable to:										
Equity holders of the Parent	(P88,382,359)	P52,872,621	(P19,336,800)	(P5,302,124)	(P924,184)	P -	P146,164	P -	(P108,497,179)	P45,570,497
Non-controlling interests	-	-	(6,476,215)	(2,125,364)	-	-	-	-	(6,476,215)	(2,125,364)
Net income (loss)	(P88,382,359)	P52,872,621	(P25,813,015)	(P7,427,488)	(P924,184)	P -	P146,164	P -	(P114,973,394)	P45,445,133
ASSETS AND LIABILITIES										
Segments assets	P526,140,142	P401,706,987	P388,063,052	P278,245,800	P74,328,549	P -	(P107,797,950)	(P57,794,963)	P880,733,793	P622,157,824
Investments in an associate and a joint venture	385,916,032	293,349,995	-	-	-	-	(227,678,168)	(243,890,491)	158,237,864	49,428,858
Intangible assets	2,113,036	129,120	43,599,040	2,466,599	-	-	(3,403,855)	61,833,139	42,308,221	64,428,858
Deferred tax assets	4,292,864	3,307,815	890,469	890,468	540,980	-	(890,469)	-	4,833,844	4,198,283
Total Assets	918,462,074	698,393,917	432,552,561	281,602,867	74,869,529	-	(339,770,442)	(239,852,316)	1,086,113,722	740,144,468
Segment liabilities	320,788,045	344,434,334	260,016,503	83,253,795	75,940,481	-	(105,505,364)	(31,177,500)	551,239,665	396,510,579
Total Liabilities	320,788,045	344,434,334	260,016,503	83,253,795	75,940,481	-	(105,505,364)	(31,177,500)	551,239,665	396,510,579
OTHER SEGMENT INFORMATION						-				
Capital expenditures	23,474,057	42,999,004	56,357,479	11,545,468	71,266,954		-	-	151,098,190	54,544,472
Depreciation and amortization	1,153,841	34,903,778	33,639,928	28,606,414	-	-	(1,460,212)	(3,269,981)	33,333,557	60,240,211

7. Assets Classified as Held for Sale

The Parent Company and Level Up! Inc. (LUI) completed the merger of their Philippine online game publishing business. On March 30, 2012, the parties closed the transaction contemplated under the Asset Sale and Purchase Agreement (ASPA) to transfer selected Company's assets and liabilities to LUI in exchange for 30% equity in LUI amounting to P92.7 million and cash consideration of P58.0 million. The transaction was unanimously approved by the Company's stockholders and BOD on the same date (see Note 12).

The subject assets and liabilities are as follows:

	Note	Mar 30, 2012	Dec 31, 2011
Assets			
Computer and network equipment	*15*	P91,699,153	P68,352,159
Intangible assets	*17*	21,046,186	21,046,186
Assets classified as held for sale		P112,745,339	P89,398,345
Liabilities			
Trade payables	*19*	P4,287,183	P4,287,183
Loans payable	*20*	5,591,561	5,591,561
Obligations under finance lease	*21*	11,914,685	11,914,685
Liabilities directly associated with assets classified as held for sale		P21,793,429	P21,793,429

The transfer of assets and liabilities resulted to gain amounting to P19.7 million shown under "Other expenses (income)," account for the year ended December 31, 2012 (see Note 27).

8. Cash

This account consists of:

	2012	2011
Cash in banks	**P72,929,411**	P100,407,226
Cash on hand	**1,411,600**	2,238,791
	P74,341,011	P102,646,017

Cash in banks earn interest at the respective bank deposit rates. Interest earned in 2012 and 2011 amounted to P.8 million and P1.3 million, respectively (see Note 27).

9. Short-term Investments

Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

In 2011, short-term investment pertains to DPI's time deposit used as collateral to the Company's long-term loans obtained from a financial institution, which will mature in December 2011. The said loan was previously secured using the Company's own short-term placements in 2010. The collateral is restricted as to withdrawal until the loan is fully paid (see Note 21).

Short-term investments earn interest of 2.5% to 4.0% per annum. Interest income earned amounted to P1.4 million and P0.6 million in 2012 and 2011, respectively (see Note 27).

10. Trade and Other Receivables

This account consists of:

	2012	2011
Trade receivables	**P30,354,050**	P26,159,030
Advances to officers and employees	**10,155,175**	6,803,232
Dividends receivable	**-**	1,333,333
Other receivables	**16,939,657**	13,310,618
	57,448,882	47,606,213
Less allowance for impairment losses	**14,860,639**	11,066,946
	P42,588,243	P36,539,267

Trade receivables are noninterest-bearing and generally on a 15 to 90-day credit term.

Other receivables mainly pertains to noninterest-bearing advances made to the following:

	2012	2011
AB Fiber Corporation	**P7,300,000**	7,300,000
Prime Logic Group Ltd.	**3,848,049**	3,848,049
Epicsoft Pte. Ltd.	**2,583,375**	-
E-Store Exchange	**1,729,698**	1,729,698
	P15,461,122	P12,877,747

Movements in allowance for impairment losses are as follows:

	2012	2011
Balance at beginning of year	**P11,066,946**	P144,400
Provisions	**4,773,768**	16,534,067
Write-offs	**(980,075)**	(5,262,693)
Recoveries	**-**	(348,828)
Balance at end of year	**P14,860,639**	P11,066,946

In 2012 and 2011, allowance for impairment losses written off pertains to uncollected receivables of the internet café branches that were closed down.

11. Inventories

This account consists of:

	2012	2011
At costs:		
Game installers	**P11,426,297**	P8,758,364
Materials and supplies	**7,647,694**	10,284,321
Prepaid cards	**5,108,116**	468,585
	24,182,107	19,511,270
Less allowance for inventory writedown	**479,850**	-
	P23,702,257	P19,511,270

Materials and supplies include paper supplies and inks used for printing services.

12. Other Current Assets

This account consists of:

	2012	2011
Deposits	**P8,725,116**	P -
Current portion of deferred input VAT	**2,446,681**	6,970,256
Advances to suppliers	**3,067,187**	1,273,064
Prepayments for:		
Rent	**3,905,236**	853,884
Taxes	**3,013,524**	2,741,512
Insurance	**1,604,779**	1,668,289
Guarantee fee	**-**	5,250,000
Others	**533,638**	116,939
	P23,296,161	P18,873,944

Deposits primarily include escrow fund for marketing activities.

Advances to suppliers pertain to advance payments for purchases of prepaid cards and game installers.

Prepaid taxes represent accumulated creditable withholding taxes and excess income tax payments.

13. Investment in an Associate and a Joint Venture

This account consists of:

	2012	2011
Joint venture - X-Play		
Acquisition cost	**P100,000,000**	P100,000,000
Accumulated share in net losses:		
Balance at beginning of year	**(50,640,497)**	(42,484,676)
Equity in net losses during the year	**(6,061,999)**	(8,155,820)
Balance at end of year	**(56,702,496)**	(50,640,496)
	43,297,504	49,359,504
Associate First Cagayan Converge Data Center, Inc. (FCCDCI):		
Acquisition cost	**-**	9,999,998
Disposal	**-**	(9,999,998)
Accumulated share in net gain:	**-**	19,179,809
Balance at beginning of year	**-**	11,502,176
Equity in net losses during the year	**-**	(1,333,333)
Share in dividends declared	**-**	-
Disposal	**-**	(29,348,652)
Balance at end of year	**-**	-
	-	-
Associate - Level Up, Inc.:		
Acquisition cost	**92,666,037**	-
Balance at beginning of year	**-**	-
Equity in net losses during the year	**(12,392,630)**	-
Balance at end of year	**80,273,407**	-
	P123,570,911	P49,359,504

The principal activities and percentage of ownership are as follows:

		Percentage of Ownership	
	Principal Activities	2012	2011
Associate - LUI	Information and Communications Technology	**30%**	-
Joint Venture - X Play	Interactive gaming and content contribution	**50%**	50%

The associate and joint venture were all incorporated in the Philippines and registered with the SEC.

The amount of net losses used in the computation of the Parent Company's equity in net losses of LUI for the year ended December 31, 2012 was obtained from the unaudited financial information of LUI. The audited financial information is currently unavailable as the audit of LUI's 2012 financial statements is still on-going as at audit report date.

LUI
On March 30, 2012, the Company and LUI completed the merger of their Philippine online game publishing businesses. The Group transferred its selected assets and liabilities through the ASPA to LUI in exchange for 4.76 million shares or 30% equity amounting to P92.7 million and cash consideration amounting to P58.0 million.

X-Play
Under a Shareholders' Agreement in 2007, GMA New Media, Inc. (GNMI) and the Group agreed to have equal equity interest in X-Play, an interactive company. Both parties subscribed to one million common shares each at par value of P100 share. The Group paid P50.0 million in cash and the balance is payable in the form of online game assets while GNMI paid P50.0 million cash and the balance is payable in the form of television airtime.

On October 19, 2011, GNMI executed a Subscription Agreement with the Group, wherein the Group committed to allow GNMI to subscribe 5.0 million shares out of the total Group's shares to be offered for public listing for a subscription price of P26 a share or P130.0 million. On the same date, the Group and GNMI executed an Option Agreement relative to their shares in X-Play. Under the Option Agreement, the Group irrevocably granted GNMI the option to sell its 1.0 million shares in X-Play at a total exercise price of P75.0 million. GNMI has not exercised the option upon its expiration on October 19, 2012. The agreement was extended until June 30, 2013.

Financial information of the joint venture and associate as at and for the year ended December 31 follows:

	2012			
	Assets	**Liabilities**	**Revenue**	**Net Loss**
Level Up! Inc.	**P275,893,194**	**P212,908,339**	**P295,723,914**	**P41,308,768**
XPlay	**26,243,779**	**39,648,772**	**5,868,067**	**(12,123,999)**

	2011			
	Assets	Liabilities	Revenue	Net Income
XPlay	P43,812,345	P45,093,339	P56,977,282	P16,311,640

14. Investment Properties

In June 2012, the Company acquired several parcels of land situated in Sta. Ana, Cagayan with total area of 35,812 square meters. As of December 31, 2012, the cost of property amounting to P71,266,954 million includes the acquisition price and other directly attributable transaction costs.

The fair value of the investment properties approximates its cost as at December 31, 2012.

Rental income generated from investment properties amounted to P4,455,110 for the year ended December 31, 2012 (see Note 23).

15. Property and Equipment

Movements in this account are as follows:

	Note	Computer and Network Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost:							
January 1, 2011		P124,473,749	P1,599,037	P1,303,571	P -	P -	P127,376,357
Additions		43,012,305	13,990,878	578,509	31,183,148	-	88,764,840
Disposals		(2,933,172)	(1,233,387)	(355,000)	(2,331,830)	-	(6,853,389)
Reclassifications	7	(131,875,954)	-	-	-	-	(131,875,954)
December 31, 2011		32,676,928	14,356,528	1,527,080	28,851,318	-	77,411,854
Additions		7,383,731	17,639,331	2,380,000	22,445,114	8,190,780	58,038,956
Disposals		(17,760,340)	(5,374,648)	(362,666)	(19,766,629)	-	(43,263,283)
Reclassifications		-	-	-	-	-	-
December 31, 2012		**22,301,319**	**26,621,211**	**3,544,414**	**31,529,803**	**8,190,780**	**92,187,527**
Accumulated depreciation:							
January 1, 2011		48,719,930	611,275	683,948	-	-	50,015,153
Depreciation		31,503,653	3,222,763	466,479	9,370,496	-	44,563,391
Disposals		(2,928,814)	(1,122,759)	(355,000)	(2,299,587)	-	(6,706,160)
Reclassifications	7	(63,523,795)	-	-	-	-	(63,523,795)
December 31, 2011		13,770,974	2,711,279	795,427	7,070,909	-	24,348,589
Depreciation		16,519,101	7,342,627	562,981	10,369,060	-	34,793,769
Disposals		(12,001,306)	(3,674,953)	(117,334)	(14,111,118)	-	(29,904,711)
Reclassifications		-	-	-	-	-	-
December 31, 2012		**18,288,769**	**6,378,953**	**1,241,074**	**3,328,851**	**-**	**29,237,647**
Net book value:							
December 31, 2011		P18,905,954	P11,645,249	P731,653	P21,780,409	P -	P53,063,265
December 31, 2012		**P4,012,550**	**P20,242,258**	**P2,303,340**	**P28,200,952**	**P8,190,780**	**P62,949,880**

Depreciation is allocated as follows:

	Note	**2012**	2011
Cost of services	*24*	**P23,331,460**	P27,494,729
Operating expenses	*25*	**11,462,309**	17,068,662
		P34,793,769	P44,563,391

16. Goodwill

Goodwill acquired from business combinations pertain to:

	Note	**2012**	2011
Webworx	*5*	**P35,752,505**	P35,752,505
DPI	*5*	**26,080,634**	26,080,634
		P61,833,139	P61,833,139
Derecognition		**35,752,505**	-
		P26,080,634	P61,833,139

In 2012, the Group reclassified its investment in Webworx as AFS investment resulting to the derecognition of the related goodwill from the acquisition of P35,752,505.

17. Intangible Assets

This account consists of game licenses and computer software.

Movements in this account are as follows:

	Note	**2012**	2011
Cost:			
Beginning of the year		**P38,978,938**	P38,201,581
Additions		**16,539,054**	64,693,842
Write offs		**(133,584)**	(32,144,347)
Disposals		**(1,935,024)**	-
Reclassification to assets classified as held for sale	*7*	**-**	(31,772,138)
Balance at end of year		**53,449,384**	38,978,938
Accumulated amortization:			
Beginning of the year		**31,998,067**	19,991,125
Amortization during the year		**5,357,315**	47,435,806
Write offs during the year		**(133,584)**	(32,144,347)
Impairment losses during the year	*24*	**-**	7,441,435
Reclassification to assets classified as held for sale	*7*	**-**	(10,725,952)
Balance at end of year		**37,221,798**	31,998,067
		P16,227,586	P6,980,871

Amortization is allocated as follows:

	Note	2012	2011
Cost of services	24	**P2,786,844**	P15,553,029
Operating expenses	25	**2,570,471**	123,791
		P5,357,315	P15,676,820

In 2012 and 2011, the Company has written off fully amortized and impaired intangible assets with a cost of P0.1 million and P32.1 million, respectively. Impairment losses on intangible assets amounting to P7.4 million in 2011 were recognized due to termination of game licenses (see Note 22).

18. Other Noncurrent Assets

This account consists of:

	Note	2012	2011
Security deposits	22	**P44,378,948**	P49,341,595
Advances		**41,256,400**	-
Others		**3,671,850**	1,570,565
		P89,307,198	P50,912,160

Security deposits pertains to deposits in relation to leased office space and store premises, refundable deposits from co-location service providers and amount of deposits to be used for future investments of the Company.

Advances represent the amount of deposits to be used for future investments of the Company.

19. Trade and Other Payables

This account consists of:

	Note	2012	2011
Trade payables		**P125,109,830**	P101,646,775
Subscription payable	13	**49,999,850**	49,999,850
Accrued expenses		**27,246,105**	25,851,598
Output VAT		**16,153,524**	3,045,175
Nontrade payables		**10,657,555**	21,573,024
Withholding taxes		**1,026,920**	4,088,566
Contributions payable		**-**	266,163
Others		**19,751,434**	17,593,289
		P249,945,218	P224,064,440

Trade payables pertain to amounts payable to software licensors and co-location service providers and payable within one year.

Accrued expenses consist of accruals for royalties, employee benefits and other operating expenses.

Subscriptions payable pertains to the unpaid subscriptions of shares in X-Play (see Note 13).

20. Loans Payable

This account consists of:

	Note	**2012**	2011
HSBC		**P153,016,812**	P -
Esquire		**15,000,000**	55,060,743
Reclassification to liabilities directly associated with assets classified as held for sale	7	-	(5,591,561)
		P168,016,812	P49,469,182

Esquire
In 2012, the Group entered into the following unsecured interest-bearing loan contract with Esquire:

Date Availed	Terms	Amount
February 2012	Payable until January 2015 with interest rate of 9% - 24% per annum	P25,000,000
April 2012	Payable on demand with interest rate of 24% per annum	19,000,000
June 2012	Long-term with interest rate of 2% per month	15,000000
		P59,000,000

Out of the P25 million and P19 million loan agreements, P31.5 million were settled in advance in November 2012 by its stockholders. The remaining P12.5 million was offset against the placement made by the Group to Esquire which served as collateral to the latter. The loan payable balance in 2011 was fully paid in 2012.

As at December 31, 2011, loan payable amounting to P5.6 million was reclassified to "Liabilities directly associated with assets classified as held for sale" account (see Note 7).

HSBC
Bank loans consist of peso-denominated, unsecured loans from local banks with fixed interest rate of 5.00% to 6.25%. These bank loans are considered short-term in nature with maturities of three (3) months. The Group however, has the option to extend the maturity dates subject to repricing of interest rates.

Interest expense arising from loans payable amounted to P22.6 million and P9.7 million in 2012 and 2011, respectively (see Note 27).

21. Long-terms Loans

This account as at December 31 consists of:

	2011
Principal	P56,000,000
Less current portion	56,000,000
Noncurrent portion	P -

On December 28, 2010, the Group obtained secured long-term, interest-bearing loans from a financial institution amounting to P70.0 million for the purpose of establishing an escrow account for the acquisition of DPI. The loans matured on December 28, 2012 with equal quarterly payments starting on December 29, 2011.

On December 30, 2010, the Group executed a Deed of Assignment over its Special Savings Account (SSA) placement amounting to P50.0 million with the same financial institution including the interest and renewal or roll-over thereon. The creditor has the full control of the security and the same cannot be withdrawn by the Group until the loan is fully paid. In May 2011, the SSA was pre-terminated and withdrawn by the Group. An amendment to the loan agreement was executed whereby the Group assigns short-term placement of DPI amounting to P50.6 million as security for the loan.

Interest ranges from 5% to 7% per annum in 2012 and 2011. Interest expense from long-term loans amounted to P2.2 million and P4.0 million for the years ended December 2012 and 2011, respectively (see Note 27).

22. Commitments and Contingencies

Commitments

The Group has commitments arising from the following:

Online Game License Agreements

The Group has existing online game licensing agreements as follows:

Effectivity Date	Agreement	Game Title	Licensor	Term
October 18, 2011	License and Distribution Agreement	World of Warcraft, Starcraft, Legacy Products and Diablo	Blizzard Entertainment International	Expires on December 31, 2013, unless terminated earlier
June 12, 2011	Exclusive rights Agreement	CABAL online	ESTsoft Corp.	Three years from June 12, 2011 unless validly terminated
April 1, 2011	Software Development and License Agreement	Point Blank	Zepetto Co.	Three years from April 1, 2011 unless validly terminated
October 2010	Software License and Agreement	RAN online	Min Communication, Inc	January 1, 2011 until March 31, 2012
November 26, 2009	Sublicense and Sub-distribution	Dragonica	Cyber Gateway (L) Pte. Ltd.	Three years from September 2010, commercialization date; terminated on September 16, 2011
January 2009	License Agreement	02 Jam	Nowcom Co., Ltd	Two years from January 1, 2009, and may be extended at such terms subsequently agreed by both parties
July 31, 2009	Exclusive License and Distribution Agreement	Runes of Magic	Tahadi games Ltd.	Three years from July 31, 2009
January 2007	Distribution Agreement	Granado Espada	Inforcomm Asia Holdings Pte. Ltd.	24 months after commercial launch date, unless extended or terminated earlier
December 7, 2011	License and Distribution Agreement	NBA 2k Online	Take Two International S.A.	Three years from commercial launch

The licensors granted the Group the exclusive right to market and distribute the games within the Philippine territory.

The term of the game license agreements ranges from one to three years, starting from the date of contract effectivity or commercial launch of game, depending on the agreement.

As consideration, the Group pays the licensors one-time license fee (recognized as intangible assets) and monthly royalty fees. Monthly royalty fees are based on certain percentage of gross or net revenue derived from the respective games. Royalty expenses amounted to P22.5 million and P59.2 million in 2012 and 2011, respectively, (see Note 24).

In 2011, the Company assigned the game license for NBA 2k Online to X-Play as allowed under the agreement.

In March 2012, pursuant to the Asset Purchase Agreement entered into by the Group with Level Up, Inc. (LUI), licenses for CABAL Online, Point Blank, RAN Online, Dragonica, 02 Jam, Runes of Magic, and Zhu Xian Online were also transferred to LUI. As at December 31, 2012, only game titles with Blizzard Entertainment International remained with the Parent Company.

Management Agreement with DPI
In August 2011, the Parent Company and DPI entered into a Management Agreement, wherein the parties agreed that the Parent Company will provide management services to DPI. The Agreement has a term of five years commencing on June 1, 2011. For the period ended December 31, 2011, management fee amounted to P1.3 million. For the period ended December 31, 2012, management fees for the current year were waived.

Cost Sharing Agreements

Date of Agreement	Related Party	Shared Cost	*Note*	Term
April 16, 2009	X-Play	Common overhead costs	*26*	Four years starting January 1, 2012
2011	IPE Global	Shared overhead costs	*26*	Two years

Investment Agreement with GEM Global
On September 7, 2009, the Parent Company entered into an Investment Agreement with GEM Global and GEMIA, wherein GEM Global was given the option to subscribe an aggregate of up to P500.0 million in the shares of stock in the Parent Company. GEM Global's obligation to subscribe the shares only takes effect upon (a) the Parent Company is listed by the way of introduction and (b) any restrictions imposed against the Parent Company and the GEM for the issue of the shares has been waived by the relevant governmental authorities in writing.

Under the agreement, the Parent Company is required to pay commitment fee of P5.0 million or 1% of total commitment fee amounting to P500.0 million, 12 months after the agreement date (see Note 5).

The agreement may be terminated during the commitment date, within the period from the 16^{th} trading day after the listing date to the third anniversary of the listing date or the date when the aggregate purchase price of shares subscribed under this agreement equals P500.0 million, whichever is earlier.

In 2012, GEM Global accepted a drawdown and agreed to subscribe 3,750 million shares of the Parent Company for P103.5 million. The subscribed shares were assigned to the lending shareholder, IPVI. As of December 31, 2012, only 2,701 million shares have been issued and the remainder will be issued upon approval of the increase in the authorized capital stock of the Parent Company.

Distribution Agreement for Nostale Cash
In 2008, the Company and Servex Co. Ltd (Servex) entered into a distribution agreement, whereby, Servex appoints the Company to be a distributor of Nostale Cash, an online virtual credit provided by Servex through the Group's Point System (E-Points).

The agreement is effective for a period of 24 months after the commercial launch of Nostale Cash and is automatically renewed from a year to year thereafter. The Company discontinued Nostale Cash in 2011 resulting to the termination of distribution agreement.

Co-Location Agreement with ePLDT
In 2005, the Company entered into a Co-Location Agreement with ePLDT, Inc., who operates an internet data center located within PLDT Internet Data Center, wherein PLDT agrees to allow the Company to place equipment within the co-location space beginning October 1, 2005 and shall continue for a minimum term of one year. The agreement is renewable at the option of both parties. Upon signing the Agreement, the Company is required to remit to ePLDT an amount equivalent to one month recurring fee as security deposit, which may be applied to any unpaid obligations of the Company. The unused portion of the security deposit will be returned to the Company within 30 days from the expiration of the Agreement. The agreement was renewed on June 1, 2011 and valid until May 30, 2012. In March 2012, such agreement was transferred to LUI by way of the ASPA.

As at December 31, 2012 and 2011, security deposits related to this agreement amounted to P2.7 million (see Note 18).

Operating Lease Commitments - Group as Lessee
On January 1, 2009, the Company and IPVG entered into a Cost Sharing Agreement, pertaining to the lease of office (sub-lease) and use of facilities and services provided by IPVG. Monthly rental amounts to P0.5 million per month and shall be for a period of one year until December 31, 2009. This was subsequently renewed for another year at the same rate.

As a result of APA as discussed in Note 1, IPVI and the Group entered into Facilities Agreement in September 2011 wherein IPVI will provide the Group space and facilities. The term of Agreement is for a period of one year commencing on September 1, 2011 and shall be subject to automatic renewal, unless terminated.

The Group also has an existing contract of lease to Safehouse Storage Facility covering a stockroom space for its inventories. The term of lease contract shall be for one year, from September 2012 to 2013, renewable every year for a monthly rental rate of P20,089. Security deposit equivalent to one month rent is required.

In July 2012, the Group and IPVI relocated from RCBC Makati to Bonifacio Global City. The lease agreement with the present lessor is with IPVI. While the terms of cost sharing for rental is being finalized, IPVI is initially billing the Company in proportion to the area it occupies.

The future minimum rental commitment under these non-cancellable operating leases are payable as follows:

	2012	2011
Within one year	**P2,140,225**	P7,793,995
Beyond one year	**2,247,216**	-

Rent expense amounted to P5.9 and P10.0 million for the years ended December 31, 2012 and 2011, respectively (see Note 25).

Finance Lease Commitments - Group as Lessee
The Group entered into several finance lease agreements covering its computer and network equipment. The average lease term is two to three years with effective interest rates ranging from 8.76% in 2011. The lease agreements provides for a transfer of ownership of computer and network equipment covered by the lease agreements. Accordingly, the Group accounted the lease as finance lease.

The obligations under finance lease are payable as follows:

	2012			2011		
	Future Minimum Lease Payments	Interest	Principal	Future Minimum Lease Payments	Interest	Principal
Not later than one year	P -	P -	P -	P7,772,070	P521,829	P7,250,241
Later than one year and not later than five years	-	-	-	4,698,434	33,900	4,664,444
	P -	P -	P -	P12,470,504	P555,729	P11,914,685

As at December 31, 2011, obligations under finance lease, amounting to P11.9 million was reclassified to "Liabilities directly associated with assets classified as held for sale" account (see Note 7).

Interest expense arising from obligations under finance lease amounted to P0.2 million and P1.0 million in 2012 and 2011, respectively (see Note 7).

Contingencies - Legal Claims

On May 9, 2011, the Company was notified of the Notice of Arbitration filed by Bejing Perfect World Software, Inc. (PW). Under its statement of claim, PW claims for outstanding obligation and damages resulting from breach of contract.

On November 9, 2012, the Company was again notified of a resolution ordering the Group to pay PW a certain amount for guaranteed royalties, publishing agreement, damages, license fee and interest and for legal costs.

As at December 31, 2012 and 2011, the parties are still in the course of pleadings and other evidence in support of their respective claims.

The provision related to the claims amounted to P2.9 million in 2012 and 2011 and included in "Trade and other payables" account.

23. Revenues

This account consists of:

	2012	2011	2010
Service revenue	**P270,427,053**	P360,859,887	P186,911,575
Sale of goods	**207,859,366**	101,643,908	-
Advertising	**7,931,516**	7,081,741	1,684,973
Others	**23,238,181**	12,620,570	-
	P509,456,116	P482,206,106	P188,596,548

24. Cost of Services

This account consists of:

	Notes	**2012**	2011	2010
Cards and pins		**P195,711,380**	P98,806,743	P5,350,042
Rent	*25*	**48,904,823**	37,207,196	-
Salaries and other employee benefits	*26, 28*	**41,192,732**	34,041,358	5,433,606
Depreciation and amortization	*15, 17*	**26,118,304**	43,047,757	15,725,806
Utilities		**25,072,834**	20,649,914	-
Communications and co-location	*22*	**22,725,954**	16,319,212	15,048,393
Royalties	*22*	**22,479,789**	59,196,415	52,703,443
Impairment loss on intangible assets	*17*	**-**	7,441,435	-
Maintenance		**8,930,322**	6,698,214	-
Others		**5,749,036**	-	316,921
		P396,885,174	P323,408,244	P94,578,211

25. Operating Expenses

This account consists of:

	Notes	**2012**	2011	2010
Salaries and other employee benefits	*26, 28*	**P47,557,172**	P54,832,358	P31,510,712
Taxes and licenses	*29*	**21,800,862**	6,525,152	4,065,105
Professional fees		**21,149,074**	10,714,390	8,440,484
Rent	*22*	**17,703,797**	18,589,820	8,464,779
Depreciation and amortization	*15, 17*	**14,032,780**	17,192,454	12,413,572
Outside services	*5*	**11,404,123**	18,397,135	6,174,377
Communication, light and water		**8,946,367**	8,999,903	4,276,575
Fees and Subscription		**8,414,856**	-	-
Transportation and travel		**6,483,530**	7,117,070	5,153,727
Advertising and promotions		**5,980,832**	10,116,222	9,641,503
Impairment losses on trade and other receivable	*10*	**4,773,768**	5,995,127	-
Supplies and other office expenses		**3,230,506**	10,779,966	5,989,278
Representation		**241,203**	13,891,573	5,114,179
Others		**24,064,040**	11,741,278	691,598
		P195,782,911	P194,892,448	P100,935,889

26. Salaries and Other Employee Benefits

This account consists of:

	Note	**2012**	2011	2010
Salaries and wages		**P67,878,951**	P59,589,480	P29,709,182
Bonuses		**2,279,533**	5,784,241	2,116,201
Social security cost		**5,233,516**	4,708,335	1,310,057
Retirement benefits	*28*	**(1,303,252)**	2,190,436	1,286,889
Other benefits		**14,661,156**	16,601,224	2,521,989
		P88,749,904	P88,873,716	P36,944,318

The amount of salaries and other employee benefits are allocated as follows:

	Note	**2012**	2011	2010
Cost of services	*24*	**P41,192,732**	P34,041,358	P5,433,606
Operating expenses	*25*	**47,557,172**	54,832,358	31,510,712
		P88,749,904	P88,873,716	P36,944,318

27. Other Income (Charges)

This account consists of:

	Note	**2012**	2011	2010
Interest expense	*20*	**(P28,471,071)**	(P14,703,808)	(P4,941,747)
Interest income	*8, 9*	**2,205,203**	1,916,083	136,318
Net foreign exchange gain (loss)		**(5,105,153)**	(378,919)	1,719,782
Gain on disposal of property and equipment	*7*	**19,710,414**	73,864	641,995
Derecognition of liabilities		**-**	-	9,109,128
Others		**(802,772)**	377,407	1,258,560
		(P12,463,380)	(P12,715,373)	P7,924,036

28. Retirement Benefits

The Group has an unfunded, noncontributory defined benefit plan covering all qualified employees in compliance with the minimum regulatory benefit under the Republic Act (RA) No. 7641. The plan provides a retirement benefit equal to 22.5 days pay for every year of credited service.

Actuarial valuation of the retirement plan is done by an independent actuary. The Company' obligation for its defined benefit retirement plan in the consolidated statement of financial position follows:

	Note	**2012**	2011
Present value of defined benefit obligation		**P6,687,911**	P7,731,036
Unrecognized actuarial gains attributable to the acquisition of DPI	7	**-**	9,492,882
Unrecognized actuarial gains		**12,120,347**	4,385,735
Unrecognized past service cost - non-vested benefits		**391,674**	924,027
Recognized liability		**P19,199,932**	P22,533,680

The movements in present value of the defined benefit obligation follow:

	2012	2111
Balance at beginning of year	**P7,731,036**	P2,170,686
Acquisition of DPI on April 1, 2011	**-**	6,600,601
Current service cost	**1,730,312**	1,897,626
Actuarial gains	**1,043,958**	(3,481,106)
Interest cost	**486,282**	543,229
Benefits paid-direct payments from book reserve	**(1,860,748)**	-
Settlement/curtailment - (gain)	**(2,442,929)**	-
Balance at end of year	**P6,687,911**	P7,731,036

The amounts of retirement benefits recorded under "Salaries and other employee benefits" account in profit or loss follows:

	2012	2011	2010
Current service costs	**P1,730,312**	P1,897,626	P1,081,816
Interest costs	**486,282**	543,229	229,838
Net actuarial gain recognized for the year	**(235,834)**	-	-
Amortization of past service cost	**(5,658)**	(13,158)	(13,158)
Effect of settlement/curtailment - gain	**(3,278,354)**	-	-
Amortization of actuarial gain	**-**	(237,262)	(11,607)
	(P1,303,252)	P2,190,435	P1,286,889

The principal actuarial assumptions used at the reporting date are as follows:

	2012	2011	2010
Discount rate	**6%**	6.0% - 6.3%	8.0%
Expected rate salary increases	**5%**	5.0% - 6.0%	5.05%

The historical information of the amounts for the current and previous annual years follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**P6,687,911**	P7,731,036	P2,170,686	P2,872,981	P1,684,140
Experience losses (gains) on benefit obligation	**261,754**	(4,780,523)	(637,328)	-	(141,037)

29. Income Tax

The reconciliation of the income tax expense computed at statutory income tax rate and income tax shown in the consolidated statement of comprehensive income is as follows:

	2012	2011	2010
Income (loss) before income tax	**(P114,129,977)**	P45,807,748	P6,691,870
Tax expense at statutory rate	**(P34,238,993)**	P13,742,325	P2,007,561
Addition to (reduction in) income tax resulting from the tax effects of:			
Gain on sale of shares of domestic corporation subject to final tax	-	(27,381,405)	-
Expired NOLCO	**6,016,103**	24,325,350	-
Expired MCIT	**1,210,451**	-	-
Change in unrecognized deferred tax assets	**18,596,434**	(10,517,267)	-
Nondeductible expenses	**4,922,282**	2,941,399	3,674,219
Equity share in net earnings (loss) of an associated and a joint venture	**5,536,389**	(1,003,907)	(2,005,723)
Income subject to final tax:			
Royalty	**(561,356)**	(600,029)	-
Interest	**(491,240)**	(574,697)	(40,851)
Nontaxable income	**(146,653)**	(569,154)	-
	P843,417	P362,615	P3,635,206

The Components of the Group's deferred tax assets from the related temporary differences are as follows:

	2012	2011
Allowance for impairment losses on receivables	**P2,854,308**	P1,595,491
Retirement benefit liability	**985,497**	1,683,930
NOLCO	**325,931**	890,469
Accrued expenses and unearned revenue	**215,049**	-
Unrealized foreign exchange loss	**453,059**	28,393
	P4,833,844	P4,198,283

Deferred tax assets have not been recognized in respect of the following deductible temporary differences attributable to the acquisition of DPI (see Note 5).

	2012	2011
NOLCO	**P17,659,221**	P11,453,446
Retirement benefit liability	**4,774,483**	5,176,174
MCIT	**3,870,926**	3,827,242
Allowance for impairment of impairment losses on receivables and security deposit	**1,603,884**	1,761,367
Others	**811,683**	1,837,345
	P28,720,197	P23,955,574

As at December 31, 2012 and 2011, deferred tax assets have not been recognized in respect of the following deductible temporary differences on accrued expenses and unused MCIT and NOLCO:

	2012	2011
Unused NOLCO	**P18,421,487**	P2,369,675
Deductible temporary differences on accrued expense	**4,885,698**	5,785,698
Unused MCIT	**3,332,620**	2,309,476
	P26,639,805	P10,464,849

As at December 31, 2012, NOLCO that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Amount	Applied	Balance	Expiration
2011	P49,045,300	P -	P49,045,300	2014
2012	72,260,163	-	72,260,163	2015
	P121,355,463	P -	P121,355,463	

The unused MCIT can be applied against future tax payable as follows:

Year Incurred	Amount	Applied	Balance	Expiration
2010	P1,510,676	P -	P1,510,676	2013
2011	3,415,591	-	3,415,591	2014
2012	2,277,280	-	2,277,280	2015
	P7,203,547	P -	P7,203,547	

30. Related Party Transactions

In the ordinary course of business, the Group has the following significant transactions and balances with its related parties:

(a) In 2011, the Group entered into Deeds of Assignment with IPVI and IPE Global to assign certain receivables from related parties. Receivables are mainly from IPVG Corporation Pte. Ltd. and Cyberworld Corporation.

(b) The Group obtains and provides noninterest-bearing cash advances to and from related parties to finance working capital requirements. These cash advances are payable on demand.

(c) The Group entered into Asset Sale and Purchase Agreement with LUI for the sale of gaming assets in consideration for 30% equity in the latter and cash consideration.

The following are the transactions with related parties as at December 31, 2012 and 2011:

				Outstanding Balances			
Category / Transaction	Year	*Note*	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Present Ultimate Parent							
IPVI							
▪ Assignment of receivables	**2012**	*a*	**P32,872,477**	**P34,952,078**	**P -**	**On demand; non-interest bearing**	**Unsecured**
	2011		23,154,000	20,800,000	-	On demand; non-interest bearing	Unsecured
▪ Advances	**2012**	*b*	**35,435,676**	**37,281,852**	**48,153,824**	**On demand; non-interest bearing**	**Unsecured**
	2011		-	-	-	On demand; non-interest bearing	Unsecured
Previous Ultimate Parent							
IPVG							
▪ Advances	**2012**	*b*	**-**	**-**	**-**	**-**	**-**
	2011		45,956,000	2,872,477	-	On demand; non-interest bearing	Unsecured
Previous Parent							
IPE Global							
▪ Advances	**2012**	*b*	**377,192**	**80,990,847**	**-**	**On demand; non-interest bearing**	**Unsecured**
	2011		65,950,333	80,613,655	-	On demand; non-interest bearing	Unsecured

Forward

				Outstanding Balances			
Category / Transaction	Year	*Note*	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Joint Venture							
XPlay							
▪ Advances	**2012**	*b*	**P21,635,084**	**P14,074,799**	**P -**	**On demand; non-interest bearing**	**Unsecured**
	2011		-	-	-	On demand; non-interest bearing	Unsecured
▪ Common cost allocation	**2012**		**15,425,527**	-	-	-	-
	2011		53,973,320	19,298,897	-	On demand; non-interest bearing	Unsecured
Associate							
LUI							
▪ Sale of gaming assets	**2012**	*c*	**157,060,887**	-	-	-	-
	2011		-	-	-	-	-
▪ Assumed liability	**2012**		**8,491,774**	**8,491,774**		**On demand; non-interest bearing**	**Unsecured**
Under Common Control							
IPVG Employees, Inc.							
▪ Advances	**2012**	*b*	**250,330**	-	**6,712,904**	**On demand; non-interest bearing**	**Unsecured**
	2011		3,535,000	-	6,460,000	On demand; non-interest bearing	Unsecured
IPCDCI*							
▪ Sale of investments in FCCDI and AFC	**2012**		-	-	-	**On demand; non-interest bearing**	**Unsecured**
	2011		167,678,475	72,590,737	-	On demand; non-interest bearing	Unsecured
HC Philippines, Inc.							
▪ Advances	**2012**	*b*	**104,379,621**	**104,379,621**	-	**On demand; non-interest bearing**	**Unsecured**
	2011		-	-	-	-	-
GRCO Isulan Mining Corporation							
▪ Advances	**2012**	*b*	**13,459,910**	**13,459,910**	-	**On demand; non-interest bearing**	**Unsecured**
Webworx							
▪ Advances	**2012**	*b*	**19,000,000**	-	**19,000,000**	**On demand; non-interest bearing**	**Unsecured**
	2011		-	-	14,600,000	-	-
Ipay Commerce Ventures							
▪ Advances	**2012**	*b*	-	-	**7,878,667**	**On demand; non-interest bearing**	**Unsecured**
Others							
▪ Advances	**2012**	*b*	-	**32,551**	-	**On demand; non-interest bearing**	**Unsecured**
	2011		5,540,000	60,912	1,514,806	On demand; non-interest bearing	Unsecured
	2012			**P293,663,432**	**P81,745,395**		
	2011			196,236,678	22,574,806		

**IPCDCI is no longer a related party as at December 31, 2012.*

Key Management Personnel Compensation

Total salaries and other short-term employee benefits given to the Group's key management personnel amounted to P18.7 million and P11.1 million in 2012 and 2011, respectively.

31. Equity

Capital Stock

This account consists of:

	Number of Shares		
	2012	2011	2010
Authorized - P0.01 par value in 2012 and 2011; P1.00 par value in 2010	**30,000,000,000**	30,000,000,000	30,000,000,000
Issued and outstanding:			
Balance at beginning of year	**18,869,728,100**	33,545,559	21,045,559
Issuance of shares during the year	**11,130,271,900**	155,151,722	12,500,000
Effect of reduction in par value	-	18,681,030,819	-
	30,000,000,000	18,869,728,100	33,545,559

The Group and GNMI entered into a subscription agreement on October 19, 2011, wherein GNMI agreed to subscribe up to 5 million shares of the Group for P26.00 a share as part of the follow-on offering to be made by the Group. On the same date, GNMI and the Group executed on Option Agreement relative to their shares in the Group. Under such agreement, the Group irrevocably granted GNMI the option its 1.0 million shares in the Group at a total exercise price of P75.0 million. GNMI has not exercised the option upon its expiration on October 19, 2012. The agreement was extended until June 30, 2013.

On December 29, 2011, the SEC approved the reduction in the par value of common shares from P1.00 to P0.01 per share. After such reduction, the authorized number of shares also increased from 300 million to 30 billion while issued shares and outstanding increased from 188.7 million shares to 18.9 billion shares.

In 2012, IPE Global Holdings Corp., IPVI and IPVG Employees, Inc. subscribed to additional shares of the Parent Company of 7.9 billion, 3.1 billion, and 0.1 billion shares, respectively. Subscriptions were made above par in which the excess were credited to "Additional Paid-in capital" with a total consideration amounting to P221.2 million.

On December 27, 2012, the subscription of IPVI exceeded the authorized shares of stock of the Parent Company. In April 2013, the BOD approved the increase in the Company's authorized shares of stock (see Note 33). No application for the increase in shares of stock was filed yet to SEC. The subscription amounting to P29.0 million was classified as part of Advances from IPVI account under "Due to related parties" (see Note 30).

As at December 31, 2011, the Parent Company's deposit for future stock subscription amounting to P19.0 million represents deposit of Webworx to the Parent Company's future issuance of shares. However, since the Parent Company had fully issued its authorized capital stock as at December 31, 2012 and has not actually submitted an application for additional increase in the authorized capital stock to SEC, the deposit for future stock subscription of Webworx was reclassified to "Due to related parties" account in 2012 (see Note 30).

(EPS)
The computation of basic earnings per share is as follows:

	2012	2011	2010
Net income (loss)	**(P114,973,394)**	P45,445,133	P3,056,664
Divided by weighted average number of common shares	**19,366,232,969**	10,399,646,000	3,257,333,700
Basic EPS	**(P0.006)**	P0.004	P0.001

The weighted average number of common shares for basic earnings per share is as follows:

	2012	2011	2010
Issued common shares at beginning of year	**18,869,728,100**	3,354,555,900	2,104,555,900
Effect of issuance and cancellation of common shares	**496,504,869**	7,045,090,100	1,152,778,300
Total weighted average number of common shares*	**19,366,232,969**	10,399,646,000	3,257,334,200

** Including increase in the number of shares as a result of reduction in par value in 2011*

The Company has no dilutive potential common shares outstanding. Thus, basic and diluted EPS are stated at the same amount.

For purposes of EPS computation, the increase in the number of shares issued and outstanding as a result of reduction in par value was reflected in the earliest year presented. The reduction in par value increased the number of shares issued and outstanding by 3.3 billion shares in 2010.

Dividend Declaration
On July 4, 2011, the BOD approved the amendment of the record date or stockholders entitled to cash dividends from September 15, 2009 to May 27, 2009. Unpaid dividends amounting to P14.0 million as at December 31, 2010 were paid in February 2011.

No dividend declaration was made for the years ended December 31, 2012 and 2011.

Non-controlling Interests
Movements of non-controlling interests are as follows:

	Note	2012	2011
Balance at beginning of year		**P45,679,423**	P -
Acquisition of DPI	7	-	39,639,789
Acquisition of Webworx	7	-	8,164,998
Share in net loss for the year		**(6,476,216)**	(2,125,364)
Disposal		**(7,281,794)**	-
		P31,921,413	P45,679,423

32. Financial Risk Management Objectives and Polices

The Group's financial instruments primarily comprise of cash in banks, long-term loans and loans payable. The main purpose of these financial instruments is to finance the Group's operations and capital expenditures. The Group has various other financial assets and liabilities such as trade and other receivables, amounts due from related parties, temporary placements, security deposits, AFS investments, trade and other payables (excluding statutory liabilities), amounts due to related parties, and obligations under finance lease, which arise directly from operations.

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

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Executive committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee identifies all issued affecting the operations of the Company and reports regularity to the BOD on its activities.

The Group's risk management policies are established to identify and analyze the risks face by the Group, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risks

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from counterparties and is monitored on an going basis. The objective is to reduce the risk of loss through default by counterparties.

The Group's exposure to credit risk relates principally to its receivable from distributors related parties and financial institutions in the case of cash in banks and short-term investment and deposits.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2012	2011
Cash in banks	**P72,929,411**	P100,407,226
Short-term investments	**200,885,611**	50,591,725
Trade and other receivables - net	**42,588,243**	36,539,267
Due from related parties	**293,663,432**	196,236,678
Deposits	**54,803,329**	46,734,335
	P664,870,026	P430,509,231

The aging analysis of financial assets as at December 31 are as follows:

	2012						
	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 Days		
Cash in banks	P72,929,411	P -	P -	P -	P -	P -	P72,929,411
Short term investments	200,885,611	-	-	-	-	-	200,885,611
Trade and other receivables	9,319,992	1,016,598	5,372,556	3,122,556	23,756,541	14,860,639	57,448,882
Due from related parties	-	-	-	-	293,663,432	-	293,663,432
Deposits	54,803,329	-	-	-	-	-	54,803,329
	P337,938,343	P1,016,598	P5,372,556	P3,122,556	P317,419,973	P14,860,639	P679,730,665

	2011						
	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 Days		
Cash in banks	P100,407,226	P -	P -	P -	P -	P -	P100,407,226
Short term investment	50,591,725	-	-	-	-	-	50,591,725
Trade and other receivables	28,112,734	224,458	1,273,557	427,879	6,500,639	11,066,946	47,606,213
Due from related parties	-	-	-	-	196,236,678	-	196,236,678
Deposits	46,734,335	-	-	-	-	-	46,734,335
	P225,846,020	P224,458	P1,273,557	P427,879	P202,737,313	P11,066,946	P441,576,173

Due from related parties are both trade and nontrade in nature and due and demandable. There are also no collateral and other current enhancements.

The table shows the credit quality of the Group's financial assets that are neither past due nor impaired based on their historical experience with the corresponding debtors.

	As at December 31, 2012		
	Grade A	**Grade B**	**Total**
Cash in banks	**P72,929,411**	**P -**	**P72,929,411**
Short-term investment	**200,885,611**	**-**	**200,885,611**
Trade and other receivables -net	**9,319,992**	**-**	**9,319,992**
Deposits	**54,803,329**	**-**	**54,803,329**
	P337,938,343	**P -**	**P337,938,343**

	As at December 31, 2011		
	Grade A	Grade B	Total
Cash in banks	P100,407,226	P -	P100,407,226
Short-term investment	50,591,725	-	50,591,725
Trade and other receivables -net	25,230,944	2,881,790	28,112,734
Other noncurrent assets	46,734,335	-	46,734,335
	P222,964,230	P2,881,790	P225,846,020

Grade A receivables pertains to those receivables from customers and counterparties that always pay on time or even before the maturity date. Grade B includes receivables that are collected in their due dates provided that they were reminded or followed up by the Group.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest Rate Risk
The Group's interest rate risk management policy centers on reducing the Group's exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's cash in banks, short-term investments, loans payable and long-term loans.

As at December 31, 2012 and 2011, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Note	**2012**	2011
Fixed Rate Instruments			
Cash in banks	*8*	**P72,929,411**	P100,407,226
Short-term investments		**200,885,611**	50,591,725
Loans payable	*20*	**168,016,812**	49,469,182
Long-term loans	*21*	**-**	56,000,000
		P441,831,834	P256,468,133

Fair Value Sensitivity Analysis for Fixed Rate Instruments
The Group does not account for any fixed rate financial assets and liabilities as at FVPL, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitor the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below summarizes the maturity profile of the Group's liabilities based on contractual undiscounted payments:

	As at December 31, 2012				
	On Demand	**<1 Year**	**1 - 3 Years**	**> 3 Years**	**Total**
Trade and other payables*	**P179,047,002**	**P52,141,155**	**P -**	**P -**	**P231,188,157**
Loans payable**	**-**	**180,797,820**	**-**	**-**	**180,797,820**
Due to related parties	**81,745,395**	**-**	**-**	**-**	**81,745,395**
	P260,792,397	**P232,938,975**	**P -**	**P -**	**P493,731,372**

* *Excluding statutory and other payables to government agencies*
***Including interest payable computed using prevailing rate as at December 31 2011*

	As at December 31, 2011				
	On Demand	<1 Year	1 - 3 Years	> 3 Years	Total
Trade and other payables*	P170,561,899	P46,102,637	P -	P -	P216,664,536
Loans payable**	-	56,219,182	-	-	56,219,182
Due to related parties	22,574,806	-	-	-	22,574,806
Long-term loans**	-	57,960,833	-	-	57,960,833
	P193,136,705	P160,282,652	P -	P -	P353,419,357

* *Excluding statutory and other payables to government agencies*
***Including interest payable computed using prevailing rate as at December 31 2011*

Foreign Currency Exchange Risk
The Group's exposure to foreign exchange risk from its business transactions and assets and liabilities denominated in foreign currencies. The Group regularly monitors outstanding financial assets in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

The following table shows the Group's financial assets and liabilities denominated in U.S. Dollar (USD) translated to Philippine Peso at P41.05 and P43.84 as at December 31, 2012 and 2011:

	2012		2011	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Asset				
Cash in banks	**$902,876**	**P37,063,060**	$164,192	P7,198,177
Liability				
Trade and other payables	**(788,183)**	**(32,354,912)**	(875,560)	(38,384,550)
Net exposure	**$114,693**	**P4,708,148**	($711,368)	(P31,186,373)

The following table demonstrated the sensitivity analysis to a reasonably possible change of foreign exchange rate, with all over variables held constant, of the Group's income and equity as at December 31.

	2012		
	Increase (Decrease)	**Effect on Income Before Tax**	**Effect on Equity**
U.S. Dollars	**5%**	**(P235,407)**	**(P164,785)**
	(5%)	**235,407**	**164,785**

	2011		
	Increase (Decrease)	Effect on Income Before Tax	Effect on Equity
U.S. Dollars	5%	P1,559,319	P1,091,523
	(5%)	(1,559,319)	(1,091,523)

Fair Values
The carrying amounts of financial assets and liabilities reflected in the statements of financial position as of December 31, 2012 and 2011, approximate fair values due to the relatively short-term nature of these financial instruments.

Capital Management
The Group's capital management objective is to ensure the Group's ability to continue as a going concern; and to provide for an adequate return to shareholders by pricing services commensurately with the level of risk. The Group considers its equity as its capital which amounted to P534.9 million and P343.6 million in 2012 and 2011, respectively.

The Group records capital via equity as stated on the face of the statements of financial position. The Group's capital for the covered reporting periods is summarized in the table below:

	2012	2011
Total assets	**P1,086,113,772**	P740,144,468
Total liabilities	**551,239,665**	396,510,579
Total equity	**534,874,107**	343,633,889
Debt to Equity Ratio	**1.03:1**	1.15:1

The Group's goal in capital management is to maintain a debt-to-equity structure that provides a well structured balance between risks and returns. The Group recognizes the need to have adequate capital in order to serve as a cushion in times of strong pressures for higher working capital, while it is likewise conscious in managing its cost of capital, as equity is computed to have higher cost than interest bearing financial liabilities.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

The Group has no exposure on externally-imposed capital requirements.

33. Events After the Reporting Date

On April 11, 2013, the Board of Directors approved the First Tranche of increase in the Group's Authorized Capital Stock to P10 billion divided into 1 trillion shares at par value of P0.01 per share.

On the same date, the Board of Directors approved the issuance and listing of up to 250 billion shares from the approved increase in authorized capital stock, and the delegation of authority to the Executive Committee to determine and approve the final terms and conditions of the transactions.