

DIVERSIFIED FINANCIAL NETWORK, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In Philippine Pesos)

	AS OF	
	AUDITED DECEMBER 31 2007	UNAUDITED MARCH 31 2008
ASSETS		
Current Assets		
Cash and cash equivalents	P 38,730,422	P 30,306,967
Receivables - net	74,769,017	70,925,828
Due from related parties	9,269,810	9,269,810
Prepaid expenses and other current assets	16,993,165	18,181,039
Total Current Assets	139,762,414	128,683,644
Noncurrent Assets		
Property and equipment - net	33,607,402	32,672,457
Accrued rental receivable-net of current portion	12,990,302	12,990,302
Deferred income tax assets	25,382,720	25,382,720
Other noncurrent assets - net	44,646,082	57,432,040
Total Noncurrent Assets	116,626,506	128,477,519
TOTAL ASSETS	P 256,388,920	P 257,161,163
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	P 41,751,286	P 49,580,470
Loans payable	26,092,034	29,438,259
Current portion of obligation under finance lease	3,073,484	2,329,086
Income tax payable	3,184,799	3,184,799
Total Current Liabilities	74,101,603	84,532,616
Noncurrent Liabilities		
Obligation under finance lease-net of current portion	2,196,828	2,196,828
Accrued rent	38,454,678	38,454,678
Rental deposits	4,641,509	5,695,236
Accrued employee benefits	13,023,389	13,023,389
Total Noncurrent Liabilities	58,316,404	59,370,132
Total Liabilities	132,418,007	143,902,747
Stockholders' Equity		
Equity attributable to equity holders of the Parent Company		
Capital stock- P1 par value		
Authorized - 100,000,000 shares		
Issued and fully paid - 92,938,822 shares	92,938,822	92,938,822
Deposits for future stock subscription	85,715,013	85,715,013
Cumulative translation adjustment	(9,514,129)	(9,109,188)
Deficit	(31,893,531)	(38,305,694)
Shares held by subsidiaries - 330,000 shares in 2007	(619,423)	(619,423)
	136,626,752	130,619,530
Equity attributable to equity holders of the minority interest	12,655,839	17,361,115
Total Stockholders' Equity	123,970,913	113,258,415
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	P 256,388,920	P 257,161,163

DIVERSIFIED FINANCIAL NETWORK, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(In Philippine Pesos)

	For the 3 months ended			
	March 31			
	2007		2008	
REVENUE				
Service fees	P	17,730,474	P	6,700,092
Rental		6,189,907		6,348,011
Others		860,661		-
		24,781,042		13,048,103
COST AND EXPENSES				
Personnel		6,848,568		8,034,193
Service & other fees		3,572,336		4,143,401
Rent		4,511,673		4,980,518
Travel and Entertainment		6,358,700		3,248,683
Utilities		1,161,355		1,081,622
Retirement benefit cost		2,131,000		-
Others		1,579,860		2,887,516
		26,163,492		24,375,934
INCOME(LOSS) BEFORE DEPRECIATION AND AMORTIZATION		(1,382,450)		(11,327,831)
DEPRECIATION AND AMORTIZATION		1,388,575		1,674,451
INCOME (LOSS) FROM OPERATIONS		(2,771,025)		(13,002,281)
Interest expense		89,643		1,186,768
Interest Income		(18,458)		(125,661)
Foreign exchange losses-net		46,566		(3,310)
Other income-net		45,137		(7,647,914)
INCOME (LOSS) BEFORE INCOME TAX		(2,933,913)	-	(6,412,163)
PROVISION FOR (BENEFIT FROM) INCOME TAX				
NET INCOME (LOSS)		(2,933,913)		(6,412,163)
MINORITY INTEREST		(3,331,398)		(4,705,276)
NET INCOME (LOSS)	P	397,485	P	(1,706,888)
Earnings /(Loss) Per Share		0.004		(0.018)

DIVERSIFIED FINANCIAL NETWORK, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In Philippine Pesos)

	Capital Stock	Additional Paid-In Capital	Deposits for Future Stock Subscriptions	Translation Adjustment	Deficit	Shares held by Subsidiaries	Minority Interest	Total
Balances at December 31,2006	P 92,938,822	P 212,548,069	P -	P (1,216,137)	P (286,982,959)	P (671,073)	P 3,967,050	P 20,583,772
Translation Adjustment								-
Net loss for the period					397,485			397,485
Minority Interest							(3,331,397)	(3,331,397)
Total loss recognized for the year								
Balances at March 31,2007	P 92,938,822	P 212,548,069	P -	P (1,216,137)	P (286,585,474)	P (671,073)	P 635,653	P 17,649,859
Balances at December 31,2007	P 92,938,822	P -	P 85,715,013	P (9,514,129)	P (31,893,531)	P (619,423)	P (12,655,839)	P 123,970,913
Translation Adjustment				404,941				404,941
Net loss for the period					(6,412,163)			(6,412,163)
Minority Interest							(4,705,276)	(4,705,276)
Total loss recognized for the year								
Balances at March 31,2008	P 92,938,822	P -	P 85,715,013	P (9,109,188)	P (38,305,694)	P (619,423)	P (17,361,115)	P 113,258,415

DIVERSIFIED FINANCIAL NETWORK, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Philippine Pesos)

	For the 3 months ended	
	March 31	
	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	P 397,485	P (1,706,888)
Adjustments for:		
Depreciation and amortization	1,388,575	1,674,451
Interest Expense	89,643	1,186,768
Interest Income	(18,458)	(125,661)
Provision for employee benefits	2,131,000	-
Other/ miscellaneous income	(45,137)	(7,647,914)
Unrealized foreign exchange loss	46,566	(3,310)
Share in Minority Interest	3,331,398	4,705,276
Operating income (loss) before working capital changes	7,321,071	(1,917,280)
Decrease (increase) in:		
Receivables	(1,383,595)	3,843,189
Prepaid expenses and other current assets	(160,760)	(1,187,874)
(Decrease) increase in:		
Accounts payable and other current liabilities	(12,464,762)	7,829,184
Other noncurrent liabilities	(2,021,091)	-
Net cash from (used in) operating activities	P (8,709,138)	P 8,567,220
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment		-
Increase in loans receivable	(1,414,336)	-
Decrease (increase) in other noncurrent assets	(736,784)	(13,720,903)
Cumulative Translation Adjustment	-	(404,941)
Net cash from (used in) investing activities	P (2,151,120)	P (14,125,844)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	P 3,174,921	P -
Proceeds from (advances to) related parties	(6,972,262)	(3,918,559)
(Decrease) Increase of rental deposits	(109,908)	1,053,728
Net cash from (used in) financing activities	P (3,907,249)	P (2,864,831)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,767,507)	(8,423,455)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	31,966,366	38,730,422
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	P 17,198,859	P 30,306,967

Diversified Financial Network, Inc. and Subsidiaries
Aging of Receivables as of March 31, 2008
(In Philippine Pesos)

		Current	+30	+60	+90	Over		Total
Trade	p	7,277,406	2,257,972	2,453,278	513,345	4,884,263	P	17,386,264
Advances to Officers and Employees		-	-	-	-	6,388,700		6,388,700
Loans Receivable		-	-	-	-	6,874,788		6,874,788
Others		3,464,942	455,513	1,320,964	3,704,789	32,115,783		41,061,991
Total	P	10,742,348	2,713,485	3,774,242	4,218,134	50,263,534	P	71,711,743
Less: Allowance for Doubtful Accounts		-	-	-	785,915	-		785,915
Net Amount	p	10,742,348	2,713,485	3,774,242	3,432,219	50,263,534	P	70,925,828

DIVERSIFIED FINANCIAL NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information

Diversified Financial Network, Inc. [(DFNN) or the “Parent Company”] was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 14, 1999. The Parent Company and its subsidiaries (collectively referred to as “the Group”) are established primarily to develop, operate and maintain web-based and wireless applications for major corporate customers with strength in solutions for financial institution. The Group also provides proprietary order routing software technology to stock brokerage firms and web-advertising services.

The registered business address of the Group is 3rd Floor Bonifacio Technology Center, 31st Street corner 2nd Avenue, E-Square IT Park - SEZ, Bonifacio Global City, Taguig City.

The Parent Company is registered with the Board of Investments (BOI) as a pioneer in infotech venture under the 2000 Investments Priority Plan in December 2000. Previously, the Parent Company was registered under the Omnibus Investments Code of 1987, otherwise known as Executive Order No. 226. As a BOI-registered enterprise, the Parent Company is entitled to certain tax and non-tax incentives, which includes a three-year income tax holiday (ITH), subject to compliance with certain requirements.

The Parent Company is also registered with the BOI as a pioneer IT Service Firm in the field of Payment Infrastructure System under the Omnibus Investments Code of 1987. As a BOI-registered enterprise, the Parent Company is entitled to certain tax and nontax incentives, which includes a six-year ITH until October 2010, subject to compliance with certain requirements.

The principal activities of the subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	Percentage (%) of Ownership	Principal Activities
Pacific Gaming Investments, Pty. Ltd. (PGI)	Singapore	85.71%*	Development and marketing of application software and the provision of other value - added internet-based and consultancy services.
HatchAsia, Inc. (HatchAsia)	Philippines	75.24%	Leasing out of certain floors of Bonifacio Technology Center. Establishment and operation of educational institution or learning center which provides courses in computer and information technology.
Intelligent Wave Philippines, Inc. (IWI)	Philippines	55.94%	Provision of turnkey solutions to the information system requirements of retail finance institutions with high volume transactions.
IWPI Asia Pacific Co. Limited (IWPI)	Hongkong	55.94%	Provision of software development services.

*Prior to the purchase of minority interest of shares of stock in the Company on June 15, 2007, the Company’s interest in PGI amounted to 100%.

In 2007, the Parent Company executed a deed of sale with HatchAsia for the transfer of the shares of stock of IWI to DFNN. The Parent Company's indirect ownership through HatchAsia amounted to 42.10% prior to the acquisition of IWI. Upon acquisition, the effective percentage of ownership of the Parent Company, as well as with IWPI, became 55.94%.

On July 31, 2007, the stockholders approved the amendment of the Articles of Incorporation to change the name of the Parent Company from "Diversified Financial Network, Inc." to "DFNN, Inc." Moreover, the stockholders also approved the amendment of the primary purpose of DFNN to allow DFNN to engage in providing information technology services, relating to financial institutions and gaming companies. As of 2007, the Parent Company is still in the process of applying for approval of the above amendments with the SEC. Further, the provisions of the employees' stock option plan (ESOP) were approved as follows:

- to set exercise price at ₱2 per share.
- 33.33% of the ESOP shall vest with the remaining 66.67% vesting annually at a rate of 33.33% over the next three years.
- all options are deemed vested, in case the management is removed or the Parent Company is taken over.
- the BOD and the Compensation Committee may waive the vesting period for the last two years, subject to the recommendation of Compensation Committee.

On November 23, 2007, the Parent Company applied for an additional listing of 7,061,178 shares with the Philippine Stock Exchange (PSE).

As of December 31, 2007, the additional listing of shares is pending approval of the PSE.

HatchAsia is registered with the Philippine Economic Zone Authority (PEZA) under Resolution No. 00-425 as an Ecozone Facilities Enterprise to provide shared space, office services and management assistance to new and small Asian Internet firms. As a PEZA-registered enterprise, it is entitled to certain tax and nontax incentives granted under Republic Act (RA) No. 7916, as amended, subject to compliance with certain requirements.

On June 15, 2007, PGI issued 32,329 shares from its authorized capital stock in favor of an individual. This resulted to the decrease in ownership interest of DFNN from 100.00% to 85.71% effective June 2007. The dilution of interest in PGI was accounted in the consolidated financial statements using the parent extension method. Under this method, the resulting gain or loss from the dilution of interest is recognized in the consolidated statement of income.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, and are presented in Philippine Peso (Peso), which is the Parent Company's functional and presentation currency.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements consist of the financial statements of the Parent Company and its subsidiaries (or the Group) as at December 31 each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies.

All intragroup balances, income and expenses and unrealized gains and losses from intragroup transactions are eliminated in full.

Reduction of interest in an investment in a subsidiary arising from dilution of interest is accounted for using the parent entity extension method, whereby, the resulting gain or loss from the dilution of interest is recognized in the consolidated statement of income.

Minority interest represents the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within the equity section of the consolidated balance sheet, separately from the Parent Company's stockholders' equity.

Shares Held by Subsidiaries

Own equity instruments which are reacquired (treasury shares) are deducted from the stockholders' equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year except for the changes in accounting policies resulting from adoption of the following new PFRS, amendments to existing Philippine Accounting Standards (PAS) and Philippine Interpretations effective beginning January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces the disclosure requirements in PAS 30, *Disclosure in the Financial Statements of Banks and Similar Financial Institutions* and PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS.

The Group adopted the amendment to the transition provisions of PFRS 7, as approved by the Financial Reporting Standards Council, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group did not present comparative information for the disclosures required by paragraphs 31 to 42 of PFRS 7 unless

the disclosure was previously required under PAS 30 or PAS 32. Adoption of this standard resulted in additional disclosures that include the rollforward of allowance for impairment losses (Note 5), summary of financial assets and financial liabilities by category (Note 22), credit quality of financial assets (Note 23), aging of past due but not impaired financial assets (Note 23) and sensitivity analyses as to changes in equity prices and foreign exchange rates (Note 23).

- Amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosure*, requires the following additional disclosures: (a) an entity's objectives policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance. Adoption of this amendment resulted in disclosures on capital management (Note 24).
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The Group currently does not have transactions within the scope of the interpretation; therefore, the adoption of this interpretation did not have an impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2, Share-based Payment*, requires PFRS 2 to be applied to any arrangement where equity instruments are issued for consideration which appears to be less than fair value. Adoption of this interpretation resulted in additional disclosures on the employees' stock option plan (Note 13).
- Philippine Interpretation IFRIC 9, *Re-assessment of Embedded Derivatives*, states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with re-assessment only if there is a change to the contract that significantly modifies the cash flows. The Group currently does not have transactions within the scope of this interpretation, therefore, the adoption of this interpretation did not have an impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, prohibits the reversal of impairment losses on goodwill and available-for-sale (AFS) equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Group currently does not have transactions within the scope of the interpretation, therefore, the adoption of this interpretation did not have an impact on the consolidated financial statements.

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2007

The following new accounting standard, amendments to existing standards and new interpretations are effective subsequent to December 31, 2007:

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose

debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The additional disclosures required by the standard will be included in the consolidated financial statements when the standard is adopted.

- Amendment to PAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after January 1, 2009), introduces new disclosures on the aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from nonowner changes in equity; (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate statement of income and a statement of comprehensive income), separately from owner changes in equity; (c) components of other comprehensive income to be displayed in the statement of comprehensive income; and (d) total comprehensive income to be presented in the financial statements. The additional disclosures required by the amendment will be included in the consolidated financial statements when the amendment is adopted.
- Amendment to PAS 23, *Borrowing Cost* (effective for annual periods beginning on or after January 1, 2009), eliminates the option to immediately recognize borrowing cost as expense if they are directly attributable to the acquisition, construction or production of a qualifying asset. The Group currently does not have transactions within the scope of this amendment, therefore, the adoption of this amendment is not expected to have an impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if: (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party; or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent. The Group currently does not have transactions within the scope of this interpretation, therefore, the adoption of this interpretation is not expected to have an effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. The Group currently does not have transactions within the scope of this interpretation; therefore, the adoption of this interpretation is not expected to have an effect on the consolidated financial statements.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008), addresses accounting by the entity that grants award credits to its customers. This interpretation applies to customer loyalty award credits that: (a) an entity grants to its customers as part of a sales transaction, i.e. a sale of goods,

rendering of services or use by a customer of entity assets; and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The Group currently does not have transactions within the scope of this interpretation; therefore, the adoption of this interpretation is not expected to have an effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after January 1, 2008), provides the asset ceiling test under PAS 19, *Employee Benefits*, which limits the measurement of the net pension asset in respect of a defined benefit plan at the balance sheet date to the total of: (a) any cumulative unrecognized net actuarial losses and past service costs; and (b) the present value of any economic benefits that will be available to the employer in the form of refunds from the plan or reduction in future contributions to the plan. The interpretation specifies that so long as refunds from the plan contributions to the plan will be realizable at some point during the life of the plan or at a final settlement, they will be considered to be available to the employer at the balance sheet, regardless of whether or not the entity intends to settle the plan. The interpretation further clarifies that the entity controls the asset only if there is an unconditional right to the refund. The interpretation also prescribes how the following are determined: (a) economic benefits available as a reduction in future contributions; and (b) how the availability of reductions in future contributions is affected by a minimum funding requirement may give rise to a liability. The Group currently does not have transactions within the scope of this interpretation, therefore, the adoption of this interpretation is not expected to have an impact on the consolidated financial statements.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets require delivery of financial assets within the time frame generally established by regulation or convention in the market place.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of the business on the balance sheet date.

Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets and AFS financial assets, as appropriate. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities, as appropriate.

The classification depends on the purpose for which the financial assets were acquired or originated. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluated this designation at every reporting date.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial liabilities are derecognized, as well as through amortization process.

As of December 31, 2007 and 2006, the Group's loans and receivables consist of cash and cash equivalents, receivables, due from related parties and loans receivable.

Other Financial Liabilities

Other financial liabilities are financial liabilities that are neither held-for-trading nor designated as at FVPL upon the inception of the liability. Other financial liabilities are carried at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the financial liabilities are derecognized as well as through the amortization process.

As of December 31, 2007 and 2006, the Group's other financial liabilities consist of accounts payable and other current liabilities, loans payable, and obligations under finance lease.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the financial assets and settle the financial liability simultaneously.

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit losses that have not been incurred, discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition. The carrying amount of the financial asset is reduced either directly or through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. The amount of the loss shall be recognized in the consolidated statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics, such as customer type, payment history, past-due status and term, and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 the consolidated statement of income, to the extent that the carrying value of the financial asset does not exceed its amortized cost at the reversal date.

Financial Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Assets

A financial asset is derecognized when:

- The rights to receive cash flows from the financial asset have expired;
- The Group retains the right to receive cash flows from the financial 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 financial asset and either (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

When an existing financing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. An embedded derivative is separated from the host financial or nonfinancial asset contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of income.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally recognized in the consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets.

Depreciation is computed using the straight-line method over five years, the estimated useful life of all property and equipment.

Leasehold improvements are amortized over their estimated useful lives of ten years or the term of the lease, whichever is shorter.

Depreciation and amortization commences once the assets become available for use and is provided on all property and equipment at rates calculated to write-off the costs, less estimated residual value based on prices prevailing at the balance sheet date of each asset evenly over their respective useful lives. Depreciation ceases at the earlier of the date that it is classified as held-for-sale and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Residual values of property and equipment are reviewed at each financial year end.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected to arise from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is recognized in the consolidated statement of income in the year the item is derecognized.

When items of property and equipment are retired or otherwise disposed of, their cost and the related accumulated depreciation and amortization and any impairment in value are eliminated from the accounts and any resulting gain or loss resulting from their retirement or disposal is credited or charged to current operations.

Intangibles

Intangible assets pertain to technology costs which are stated at acquisition costs and are amortized over three to ten years. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in previous years. Such reversal is recognized in the consolidated statement of income, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognized:

Service Fees

Revenue from developing software solutions is recognized by reference to the percentage of completion when it can be measured reliably. The percentage of completion is determined based on surveys of work performed.

Rental Income

Revenue from rent arising from sub-leased properties is accounted for on a straight-line basis over the lease terms on ongoing sub-leases and is recognized in the consolidated statement of income.

Interest Income

Revenue from interest is recognized as the interest accrues using the effective interest rate method.

Dividend

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Employee Benefits

Retirement Benefits Cost

Retirement benefits cost is actuarially computed using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur. Retirement benefits cost includes current service cost, interest cost, expected return on plan assets, recognized actuarial gains and losses, past service cost and the effect of any curtailment or settlement. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the defined benefit retirement plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit retirement obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working life of the employees participating in the defined benefit plan.

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a retirement plan, the past service cost is recognized immediately.

The retirement plan asset comprises the present value of the defined benefit obligation less the service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefit obligation.

The fair value of plan assets is determined through quoted market prices, or if not available, through the use of pricing models and assumptions affecting estimates of fair value.

Service Bonus

IWI provides service bonus to all its employees for continued service recognition. Employee benefits cost is actuarially computed using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in the consolidated statement of income.

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 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;
or
- (b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; or
- (c) There is a change in the determination of whether fulfillment is dependent on a specified 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 gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation IFRIC 4.

Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to 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 of the 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 charged directly to consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as Lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Pesos, which is the Parent Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the consolidated financial statements of each entity are carried using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to the consolidated statement of changes in stockholders' equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, PGI and IWPI, are in United States Dollars (US\$) and Hongkong Dollars (HK\$), respectively. The assets and liabilities of the foreign entities are translated into Peso at the rate of exchange ruling at the balance sheet date and their statement

of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity of the consolidated balance sheet. On disposal of a foreign entity, the cumulative translation adjustment amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

Basic/Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share amounts is computed by dividing net income for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, excluding treasury shares, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts is computed by dividing the net profit attributable to equity holders of the Parent Company (after adjusting for interest on the convertible non-cumulative redeemable preference shares) by the weighted average number of common shares outstanding, excluding treasury shares, during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

Segment Information

Currently, the Group has only one business segment. The Group is primarily involved in providing turnkey solutions to the information systems requirements of retail finance institutions with high value transactions. The Group's projects are primarily located in the Philippines, Hongkong, Japan and Thailand.

Revenue generated from these projects consists mainly of software development fees. Other income is derived from rent of office spaces.

In terms of geographic segments, the Group currently has three geographical segments, Philippines, Singapore and Hongkong.

Management monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating income or loss in the consolidated financial statements. Group financing, excluding interest income and expense and income taxes are managed on a group basis and are not allocated to operating segments.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Income Tax

Deferred income tax is recognized on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, and the carryforward benefits of unused net operating loss carryover (NOLCO) and unapplied excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, NOLCO and excess of MCIT over RCIT can be utilized.

Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries. With respect to investments in other subsidiaries, deferred income tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax assets to be utilized.

Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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.

Contingencies

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

Events After the Balance Sheet Date

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

3. Cash and Cash Equivalents

Cash in banks and cash equivalents earn interest at prevailing market rates. Cash equivalents are made at varying periods depending on the immediate cash requirements of the Group.

4. Receivables

Loans receivable pertains to short-term peso-denominated, interest-bearing cash advances from Krischner Gaming International Corp. These loans are payable upon demand and bear interest ranging from 16% to 18% per annum. As of December 31, 2007 and 2006, the Parent Company's outstanding loans receivable amounted to ₱6,874,788 and ₱5,461,552, respectively, and accrued interest receivable amounted to ₱1,135,491 and ₱366,574, respectively.

5. Other Noncurrent Assets

The advances for future stock subscription pertain to deposits of the Group to third parties for the purpose of acquiring a significant interest.

Intangible assets represent the rights to all contracts, copyrights, trademarks, logos and designs of the technology acquired by the Parent Company from Diversified Securities, Inc., a related party. The technology provides internet services, such as on-line trading solutions, e-commerce and advertising.

6. Accounts Payable and Other Current Liabilities

Accounts payable are noninterest-bearing and are normally settled between 15 to 60 days term and may go beyond as agreed.

7. Loans Payable

Convertible Loans

Convertible loans pertain to the Parent Company's US Dollar-denominated loans obtained from a foreign investor and an individual (the Individual Creditor) amounting US\$100,000 and US\$50,000, respectively. The principal amount of the loans is US\$150,000 which bears an interest of 9.75% per year and are payable semi-annually. The loans were obtained in September 2002 with original maturity period of two years. In case the loan is not yet paid in cash nor converted in shares of stocks within the period of original maturity, the loan will be payable upon demand or convertible into shares of stocks at the option of the lender.

The creditors can convert the loans and the related outstanding accrued interest, if any, into the Parent Company's common shares at anytime. The conversion price is fixed at ₱4.20 per share. Additional convertible loans issued in 2007 amounted to ₱29,918,000.

As of December 31, 2007, the creditors have agreed to convert the outstanding loans and accrued interest. The loans were then transferred as part of deposit for future stock subscription, pending the issuance of the shares of stock to the creditors.

Short-term Loans

Short-term loans pertain to the Parent Company's and HatchAsia's short-term peso-denominated, interest-bearing loans obtained from a stockholder and financing companies. The loans are payable upon demand and bear interest ranging from 16.00% to 24.00% per annum.

On March 6, 2007, a portion of the Parent Company's short-term loan amounting to ₱5.4 million the payment of which was subsequently used by the creditor to purchase 2,700,000 common shares of the Parent Company.

8. Obligations Under Finance Lease

Parent Company

On February 4, 2004, the Parent Company entered into an agreement with a supplier for the computer equipment for the PCSO project. The term of the lease is for three years starting from the date of the acceptance of the end user. As of December 31, 2006, the present value of minimum lease payments amounted to ₱2,618,770, net of finance charges of ₱625,033. In 2007, the obligation was fully paid.

IWI

On August 2, 2006, IWI entered into finance lease arrangement with Orix Metro for office condominium units for a consideration amounting to ₱17,000,000, out of which a downpayment of 40% which amounted to ₱6,800,000 was immediately settled. The remaining balance of ₱10,200,000 is payable for three years in equal monthly installments. Payments for this noninterest bearing loan commenced on September 2, 2006. Total payments made to this loan amounted to ₱3,400,000 and ₱1,133,333 in 2007 and in 2006, respectively.

IWI's obligations under finance lease arrangements covering property and equipment has a lease term of three years.

As of December 31, 2007, the future minimum lease payments of obligations under finance lease and the present value of the future minimum lease payments are as follows:

	2007		2006	
	Minimum Lease Payments	Present Value of Minimum Lease Payments	Minimum Lease Payments	Present Value of Minimum Lease Payments
Within one year	₱3,400,000	₱3,073,484	₱3,400,000	₱2,826,431
After one year but not more than five years	2,266,667	2,196,828	5,666,667	5,270,312
Total minimum lease payments	5,666,667	5,270,312	9,066,667	8,096,743
Less amounts representing finance charges	396,355	–	969,924	–
Present value of future minimum lease payments	₱5,270,312	₱5,270,312	₱8,096,743	₱8,096,743

9. Employee Stock Option Plan

On various dates in 2007, the Parent Company granted stock options to its employees in accordance to its Employees' Stock Option Plan (ESOP) as approved by the BOD.

a. Stock options granted on September 17, 2007:

- The exercise price is at ₱2 per share.
- 33.33% of the ESOP shall vest immediately with the remaining 66.67% vesting annually at a rate of 33.33% over the next two years.

- Upon exercise of the share option, the full cash payment of the exercise price must be tendered by the employee and a subscription agreement should be executed for the shares actually purchased.
 - The BOD and the Compensation Committee may waive the vesting period for the last two years, subject to the recommendation of Compensation Committee.
 - These options are exercisable within five years from the date of grant.
- b. Stock options granted on December 7, 2007 and December 12, 2007:
- The exercise price is at ₱2 per share.
 - The ESOP shall vest immediately and is exercisable within the next fifteen days.
 - Upon exercise of the share option, the full cash payment of the exercise price must be tendered by the employee and a subscription agreement should be executed for the shares actually purchased.

The following table summarizes the movements of the stock options during the year:

Granted	8,080,500
Exercised	3,303,833
Outstanding at the end of the period	3,303,833
Exercisable at the end of the period	4,776,667

For every category, the exercise price is set at ₱2 per option. The average share prices at the date of exercise are as follows:

Exercise Date	Average Share Price
September 17, 2007	₱9.70
December 7, 2007	14.50
December 12, 2007	15.50

As of December 31, 2007, outstanding stock options pertaining to the ESOP amounted to ₱32,009,307.

10. Lease Commitments

- a. BOI and HatchAsia's registration with PEZA, in 2007, 2006 and 2005. HatchAsia entered into a Master Lease Agreement (Agreement) with Fort Bonifacio Development Corporation (FBDC) for the lease of a portion of a building (approximately 12,000 square meters) located at the Fort Bonifacio Global City on May 6, 2000. The lease shall be effective for a period of 15 years commencing from the turnover of the structure to the lessee or upon receipt of the certification indicating that the structure is ready for occupancy, whichever comes later. The lease may be extended beyond the lease period under such terms and conditions mutually acceptable to the parties.

HatchAsia and FBDC entered into an Agreed New Terms and Conditions Agreement amending certain provisions of the aforementioned agreement in September 2002. The new agreement reduced the leased area from approximately 12,000 square meters to 5,086 square meters.

The rental deposit equivalent to three-month rent amounting to ₱4,827,480 and ₱4,562,915 as of December 31, 2007 and 2006 is included in “Other noncurrent assets” account in the consolidated balance sheets. The rental deposits shall answer for any and all unpaid obligations of the Company, including any damage to leased properties. Any remaining rental deposits will be applied on the Company’s rental payments upon the expiration of the lease contract. Unpaid monthly rentals are subject to 2.00% interest and 2.00% penalty per month.

- b. HatchAsia subleases the building it leases from FBDC to various locators. These non-cancellable leases have remaining non-cancellable lease terms of between 3 to 15 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Rent income is accounted for on a straight-line basis over the lease term. Rent income amounted to ₱24,073,831, ₱24,351,488 and ₱23,949,607 in 2007, 2006 and 2005, respectively.

The advance rental and security deposit equivalent to three-month rent each are included in “Other noncurrent liabilities” account in the consolidated balance sheet. These shall answer for any and all unpaid obligations of the sub-lessees, including any damage to leased properties.

11. Equity Restructuring

On May 25, 2007, the BOD approved the application of the paid-in capital to the deficit of the retained earnings. As a result, additional paid-in capital amounting to ₱212,548,069 was applied to the Parent Company’s deficit.

12. Financial Risk Management Objectives and Policies

The primary objective of the Group’s financial risk management framework is to protect the Group’s stockholder from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group’s financial instruments consist of cash and cash equivalents, receivables, loans receivables, due from related parties, accounts payable and other current liabilities, loans payable and obligations under finance lease. The Group’s activities expose it to credit risk, liquidity risk, fair value interest rate risk and foreign currency risk.

It is, and has been throughout the year under review, the Group’s policy that no trading in financial instruments shall be undertaken.

Financial Risk

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has no significant credit concentrations of credit risks. The Group transacts only with a few recognized and creditworthy customers with whom it has already firmly established good business relationship.

The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the related financial instrument.

It is the Group's policy that all customers who wish to contract on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and extension of suppliers' credit. The strong credit worthiness of the Group gives it the ability to save funds as the need arises. The Group presently has a credit facility with a local bank that allows it to borrow the needed funds from time to time.

Fair Value Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's obligations under finance lease. It is the Group's policy to limit its borrowing from third parties to short-term and long-term loans with either fixed interest rates or interest rates closely monitored in the financial market in order to minimize its interest rate risk exposure.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's transactional currency exposures arise from sales in currencies other than its functional currency.

The Group's objective is to keep transactional currencies at an acceptable level to its operations to minimize foreign exchange exposures.

13. Other Matter

In January 2006, the Group, through PGI, entered into a long-term information technology service agreement with a foreign corporation relating to the systems design and software upgrade of wireless gaming application. The said contract resulted to a payment of ₱63.8 million (US\$1.3 million), which PGI received in 2006 after completing the required deliverables.

The Parent Company has incurred significant costs and invested substantial funds towards the acquisition of a signed and executed contract (the Project) with the Philippine Charity Sweepstakes Office (PCSO), as well as the development and delivery of work under this contract. These costs and investments, has in the past created a tight cash flow situation within the Parent Company. This Project was unilaterally suspended by PCSO, despite the fact that the Parent Company had already fulfilled all of its deliverables under the contract. The Parent Company is working with its legal team towards the recovery of the costs and damages against PCSO. The outcome of the case is still uncertain as of December 31, 2007.