

COVER SHEET

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S.E.C. Registration Number

D F N N I N C .

(F O R M E R L Y D I V E R S I F I E D
F I N A N C I A L N E T W O R K , I N C .)

& S U B S I D I A R I E S

(Company's Full Name)

3 1^s t c o r 2 n d A v e

B o n i f a c i o G l o b a l C i t y

T a g u i g M e t r o M a n i l a

(Business Address: No. Street/City/Province)

Czarina G. Turla

Contact Person

818-0973

Company Telephone Number

SEP 30, 2010

1 2

Month

3 1

Day

Fiscal Year

SEC Form 17-Q

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Re _____ for scanning purposes

**DFNN INC.
(Consolidated Third Quarter)**

Office Address:

**3/F Bonifacio Global Center
31st Street corner 2nd Avenue
e-Square IT Park-SEZ
Bonifacio Global City
Taguig, Metro Manila
1634**

Telephone No.: 818-0973

Fiscal Year Ending: December 31, 2010

SEC FORM 17-Q

Active Secondary License Type and File Number: None

November 19, 2010

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

1. For the quarterly period ended September 30, 2010

2. Commission identification number A199908874

3. BIR Tax Identification No. 202-955-796-000

4. Exact name of registrant as specified in its charter

DFNN INC.

5. Province, country or other jurisdiction of incorporation or organization

Manila, Philippines

6. Industry Classification Code: (SEC Use Only)

.....
.....
7. Address of registrant's principal office
Postal Code 1634

3rd Floor Bonifacio Technology Center
31st Street corner 2nd Avenue, E-Square IT Park - SEZ
Bonifacio Global City, Taguig
Metro Manila, Philippines

8. Registrant's telephone number, including area code

(632) 8180973

9. Former name, former address and former fiscal year, if changed since last report

Not Applicable

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Shares, PhP 1.00 par value</u>	<u>100,000,000</u>

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes No

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

See attached Financial Reports

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying consolidated financial statements, which form part of the report. Such consolidated financial statements have been prepared in conformity with ...accounting principles generally accepted in the Philippines ("Philippine GAAP").

The Company does not experience any seasonality or cyclicity in its interim operations. Most of the Company's projects have implementation cycles between 6 months to 24 months. As such revenue comparisons on a quarterly basis may not be comparable. In the interim period, there were no unusual incidents in nature, size or events affecting assets, liabilities, equity, net income or cash flows.

Nine Months ended September 30 **2010 vs. 2009**

On a consolidated basis, the Company posted net loss of Php20.1 million in the first nine months of 2010, a Php9.8 million increase from the same period last year.

The Company posted an EBITDA of Php(37.5) million versus EBITDA of Php(32.1) million for the same period last year. This was a Php(5.4) million or 16.8% unfavorable variance from the same period last year.

Consolidated Results of Operation

in Php millions	<u>For the 9 months ended</u>		Fav/(Unfav)	<u>%</u>
	<u>September 30</u>			
	<u>2010</u>	<u>2009</u>	<u>Variance</u>	
Revenue	52.9	92.6	-39.7	-42.8
EBITDA/(Loss)	-37.5	-32.1	-5.4	16.8
Net Income	-20.1	-29.9	9.8	-32.7

Three Months ended September 30 2010 vs. 2009

On a consolidated basis, the Company posted revenues of Php3.8 million in the third three months of 2010, a Php(21.4) million or 84.9% decrease from the same period last year.

The Company posted an EBITDA of Php(16.8) million versus EBITDA of Php(12.0) million for the same period last year. This was a Php(4.8) million or a 40.0% unfavorable variance from the same period last year.

Consolidated Results of Operation

in Php millions	<u>For the 3 months ended</u>		Fav/(Unfav) <u>Variance</u>	<u>%</u>
	<u>September 30</u>			
	<u>2010</u>	<u>2009</u>		
Revenue	3.8	25.2	-21.4	-84.9
EBITDA/(Loss)	-16.8	-12.0	-4.8	40.0
Net Income	-7.1	-14.8	7.7	-52.0

Sales by Product (Revenue Breakdown)

in Php millions	<u>For the 3 months ended</u>		Fav/(Unfav) <u>Variance</u>	<u>%</u>
	<u>September 30</u>			
	<u>2010</u>	<u>2009</u>		
Service Fees	3.8	17.4	-13.6	-78.1
Sale of Licenses	-	7.8	-7.8	-100.0
Total	3.8	25.2	-21.4	-84.9

Material Changes for Revenue

(3rd Quarter 2010 vs. 2009)

Service Revenue and Sale of Licenses. There was a substantial decrease in iWave, Inc. Philippines and iWave Asia Pacific revenues attributable to project implementation cycles. There was also a decline in the revenues of PGI.

Costs and Expenses

Three Months ended September 30 2010 vs. 2009

For the three months ended September 30, 2010, the DFNN group spent a consolidated total of approximately Php20.6 million, a Php16.7 million less than the same period last year. The Group's continued cost control measures brought to the substantial decrease in personnel and other service and operating costs.

in Php millions	<u>For the 3 months ended</u>		Fav/(Unfav) <u>Variance</u>	<u>%</u>
	<u>2010</u>	<u>2009</u>		
Personnel	3.7	11.4	7.7	67.5
Service and other fees	2.8	10.5	7.7	73.3
Other Operating Costs	<u>14.1</u>	<u>15.4</u>	<u>1.3</u>	<u>8.4</u>
Total	20.6	37.3	16.7	44.7

Material Changes for Costs and Expenses

(3rd Quarter 2010 vs. 2009)

Personnel. There was a drop in personnel costs as a result of the organizational restructuring in iWave Group.

Service Fees and Others. The Group significantly declined its service costs in line with the reduction in billings or revenues.

Key Performance Indicators

1. Revenue Growth

Decline in revenues due to lower billings in iWave Group and PGI was at 42.8% on a year to date basis and by 84.9% during the same period of last year.

2. Cost

There was a significant reduction by Php34.3 million or 27.5% on a year to date basis and by Php16.7 million or 44.7% this third quarter from prior year's same quarter.

3. Profitability

The Php9.8 million reduction in the loss position improved the Group's profitability by 32.7% on a year to date basis and by 52% for the third quarter of this year.

4. Liquidity

Current ratio declined by 1.3 in 2010 from 3.8 to 2.5 for the comparable period in 2009. Current assets comprised 72.8% and 77.7% of Total Assets in the first nine months of 2010 and 2009 respectively.

5. Solvency

Capital accounts declined to Php185.5 million as of September 30, 2010 from a level of Php221.8 million as at December 31, 2009.

FINANCIAL CONDITION

As of September 30, 2010 DFNN's consolidated assets totaled approximately Php345.4 million. DFNN had no long-term debt. The Group reflected approximately Php185.5 million as stockholders' equity.

The Company's cash position remained liquid throughout the 9-month period. DFNN had consolidated cash and cash equivalents amounting to approximately Php7.0 million as of September 30, 2010.

On April 9, 2003, DFNN signed an equipment lease agreement with the Philippine Charity Sweepstakes Office (PCSO) to lease to the PCSO the necessary hardware and software for its wireless and payment solutions. As of the First Quarter of 2005, the PCSO has accepted the system, released the Performance Bond posted by the GSIS for DFNN. As of date, the PCSO has not launched its Wireless Payment service. The Company has filed a case with Office of the Ombudsman for the illegal cancellation of the contract to work towards moving this contract to implementation or the recovery of costs and damages. The filing with the Office of the Ombudsman does not preclude other legal action, which the company may take, to insure and protect the shareholder's interest.

On February 9, 2010, the Company filed a Petition for the Issuance of an Interim Measure of Protection in Aid of Arbitration specifically for preliminary injunction, with an application for the urgent issuance of a temporary order of protection ("TOP") against PCSO (the "Petition"), for the illegal cancellation/termination of the ELA with the RTC Branch 220 of Quezon City. The Petition was filed in relation to an arbitration that the Company will soon commence against PCSO, pursuant to an arbitration cause contained in the ELA. On March 22, 2010, RTC Branch 220 issued an Order granting the Prayer of DFNN for the issuance of a writ preliminary injunction enjoining the PCSO from awarding the PCSO wireless betting project to other parties while arbitration is ongoing with DFNN.

DFNN had no material commitments for capital expenditures as of September, 30, 2010.

Material Changes of more than 5% in the financial condition of DFNN
(Year end 2009 vs. 3rd Quarter 2010)

Cash and Cash Equivalents. The significant decrease in this account was attributable to the material decrease in revenues generated on the first nine months of the year and of equity investments made by iWave, Inc.

Property and Equipment–net. iWave Group incurred the necessary costs for leasehold improvements and computer and office equipments.

Investment in Shares of Stocks. Subsidiary iWave, Inc. has significantly made some equity investments.

Accounts Payable and Accrued Expenses. Subsidiaries Hatchasia, Inc. and Pacific Gaming Investments Pte Ltd significantly increased its liabilities.

Loans Payable. There was a reduction in loans payable due to its conversion to equity.

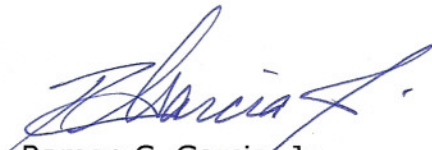
Other than those stated above, there were no significant changes or events that impacted on DFNN's continuing operations.

Other than those stated above and to the best of the Company Management's knowledge, Management is not aware of any trend, demand, commitment, event or uncertainty that will have a material impact on the Company's liquidity. Management is not aware of any event that may trigger any material direct or contingent financial obligation, including any default or acceleration of an obligation. Management is not aware of any material off-balance sheet transaction, arrangement, obligation (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period. The Company does not have any material commitment for capital expenditure. Management is not aware of any trend, event or uncertainty that may have a material impact (favorable or unfavorable) on the Company's net sales/revenues/income from continuing operations. Management is not aware of any significant element of income or loss that did not arise from the Company's continuing operations. Management is not aware of any seasonal aspects that have a material effect on the Company's financial condition or results of operations.

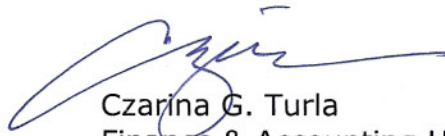
SIGNATURES

Pursuant to the requirements of the Securities Regulations Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

For: **DFNN INC.**



Ramon C. Garcia, Jr.
Chairman/CEO



Czarina G. Turla
Finance & Accounting Head

Date: November 18, 2010

DFNN INC. And Subsidiaries

Consolidated Financial Statements as at December 31, 2009
and Quarters ended September 30, 2010 and September 30, 2009

DFNN INC. & SUBSIDIARIES
 UNAUDITED CONSOLIDATED BALANCE SHEETS
 (In Philippine Pesos)

AS OF

	UNAUDITED		AUDITED	
	SEPTEMBER 30		DECEMBER 31	
	2010		2009	
ASSETS				
Current Assets				
Cash and cash equivalents	P	7,075,146	P	24,688,507
Receivables - net		72,292,265		77,998,506
Due from related parties		151,354,250		152,702,941
Prepaid expenses and other current assets		21,105,520		19,401,064
Total Current Assets		251,827,181		274,791,018
Noncurrent Assets				
Property and equipment - net		27,013,884		22,677,962
Accrued rental receivable-net of current portion		12,945,884		12,945,884
Investment in Shares of Stock		23,956,777		13,497,739
Deferred income tax assets		24,701,148		24,701,148
Other noncurrent assets - net		5,023,669		5,023,669
Total Noncurrent Assets		93,641,362		78,846,402
TOTAL ASSETS	P	345,468,543	P	353,637,420
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and other current liabilities	P	95,919,534	P	61,700,013
Loans payable		3,311,130		10,334,457
Total Current Liabilities		99,230,664		72,034,470
Noncurrent Liabilities				
Accrued rent		40,296,999		40,296,999
Accrued employee benefits		15,520,761		14,083,450
Rental deposits		4,892,467		4,892,467
Loans Payable- non current		-		456,541
Total Noncurrent Liabilities		60,710,227		59,729,457
Total Liabilities		159,940,891		131,763,927
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 - 100,000,000 shares				
		100,000,000		100,000,000
Additional paid-in capital		16,372,102		16,372,102
Deposits for future stock subscription		235,990,421		212,294,005
Cumulative translation adjustment		(6,963,085)		29,312,545
Deficit		(253,534,463)		(233,432,792)
Shares held by subsidiaries - 330,000 shares in 2009		(619,423)		(619,423)
		91,245,552		123,926,437
Equity attributable to equity holders of the minority interest		94,282,109		97,947,056
Total Stockholders' Equity		185,527,661		221,873,493
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	P	345,468,543	P	353,637,420

DFNN INC. & SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In Philippine Pesos)

	For the 3 months ended		For the 9 months ended	
	July to September		September 30	
	2010	2009	2010	2009
REVENUE				
Service fees	P 3,858,621	P 17,422,680	P 38,484,934	P 64,241,900
Sale of Licences	-	7,856,163	14,436,711	28,367,384
	3,858,621	25,278,843	52,921,645	92,609,284
COST AND EXPENSES				
Personnel	3,715,847	11,407,394	16,897,645	32,688,710
Service & other fees	2,855,063	10,505,229	34,658,038	50,603,126
Rent	6,504,370	5,492,730	20,242,120	16,682,999
Travel and Entertainment	1,653,951	3,602,169	5,830,556	10,444,104
Utilities	1,141,570	906,341	4,431,592	2,740,840
Retirement benefit cost	-	619,191	-	1,857,573
Others	4,812,680	4,806,869	8,371,920	9,774,490
	20,683,481	37,339,924	90,431,871	124,791,842
INCOME(LOSS) BEFORE DEPRECIATION AND AMORTIZATION	(16,824,860)	(12,061,081)	(37,510,226)	(32,182,558)
DEPRECIATION AND AMORTIZATION	436,138	1,329,667	3,131,232	4,677,338
INCOME (LOSS) FROM OPERATIONS	(17,260,998)	(13,390,748)	(40,641,458)	(36,859,896)
Rental Income	9,354,493	4,388,860	17,950,266	17,606,032
Interest expense	(327,852)	(1,432,433)	(457,545)	(4,066,828)
Interest Income	1,550	(130,122)	81,740	242,877
Foreign exchange losses-net	20,993	(366,327)	(281,052)	23,629
Other income-net	(116,333)	(955,234)	(416,682)	(2,236,662)
INCOME (LOSS) BEFORE INCOME TAX	(8,328,148)	(11,886,003)	(23,764,731)	(25,290,848)
PROVISION FOR (BENEFIT FROM) INCOME TAX	152	5,599,459	1,887	5,601,097
NET INCOME (LOSS)	(8,328,300)	(17,485,462)	(23,766,618)	(30,891,945)
MINORITY INTEREST	(1,201,792)	(2,622,050)	(3,664,947)	(936,744)
NET INCOME (LOSS)	P (7,126,508) P	(14,863,414) P	(20,101,671) P	(29,955,201)
Earnings/(Loss) Per Share	(0.071)	(0.149)	(0.201)	(0.300)

DFNN INC. & SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS 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 31,2008	P 100,000,000	P 16,372,102	P 95,996,584	P 19,385,153	P (43,794,707)	P (619,423)	P 57,828,887	P 245,168,596
Deposits for Future Stock Subscriptions			12,501,514					12,501,514
Translation Adjustment				18,005,099				18,005,099
Net loss for the period					(29,955,201)			(29,955,201)
Minority Interest							(936,744)	(936,744)
Total loss recognized for the year								
Balances at September 30, 2009	P 100,000,000	P 16,372,102	P 108,498,098	P 37,390,252	P (73,749,906)	P (619,423)	P 56,892,143	P 244,783,264
Balances at December 31,2009	P 100,000,000	P 16,372,102	P 212,294,005	P 29,312,545	P (233,432,792)	P (619,423)	P 97,947,056	P 221,873,493
Deposits for Future Stock Subscriptions			23,696,416					23,696,416
Translation Adjustment				(36,275,630)				(36,275,630)
Net loss for the period					(20,101,671)			(20,101,671)
Minority Interest							(3,664,947)	(3,664,947)
Total loss recognized for the year								
Balances at September 30, 2010	P 100,000,000	P 16,372,102	P 235,990,421	P (6,963,085)	P (253,534,463)	P (619,423)	P 94,282,109	P 185,527,661

DFNN INC. & SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Philippine Pesos)

	For the 9 months ended	
	September 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	P (20,101,671)	P (29,955,201)
Adjustments for:		
Depreciation and amortization	3,131,232	4,677,338
Interest Expense	457,545	4,066,828
Interest Income	(81,740)	(242,877)
Provision for employee benefits	-	1,857,573
Other/ miscellaneous income	416,682	2,236,662
Unrealized foreign exchange gain	281,052	(23,629)
Share in Minority Interest	(3,664,947)	(936,744)
Operating income (loss) before working capital changes	(19,561,847)	(18,320,050)
Decrease (increase) in:		
Receivables	5,706,241	(1,680,926)
Prepaid expenses and other current assets	(1,704,456)	(2,373,565)
(Decrease) increase in:		
Accounts payable and other current liabilities	34,219,521	38,689,513
Net cash from (used in) operations	18,659,459	16,314,972
Income taxes paid		3,556,709
Net cash from (used In) operating activities	P 18,659,459	P 19,871,681
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	p (14,794,960)	p (4,757,686)
Cumulative Translation Adjustment	(36,802,258)	14,948,577
Net cash from (used in) investing activities	P (51,597,218)	P 10,190,891
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds(Payment) of loans	P (7,023,327)	P 683,207
Proceeds from (advances to) related parties	(1,348,691)	(31,147,551)
(Decrease) Increase of rental deposits	-	(326,841)
Payments of obligations under finance lease	-	(2,096,828)
Deposits for future stock subscription	23,696,416	12,501,514
Net cash from (used in) financing activities	P 15,324,398	P (20,386,499)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,613,361)	9,676,073
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	24,688,507	22,970,335
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	P 7,075,146	P 32,646,408

DFNN INC. AND SUBSIDIARIES

Aging of Receivables as of September 30, 2010

(In Philippine Pesos)

		Current	1-30	31-60	61-90	Over		Total
Trade	p	626,413	1,220,889	1,228,853	602,207	10,654,316	P	14,332,679
Non-Trade		-	-	-	-	33,534,656		33,534,656
Advances to Officers and Employees		76,278	8,119	85,053	-	6,385,062		6,554,511
Loans Receivable		-	-	-	-	11,722,320		11,722,320
Others		-	-	-	-	7,990,628		7,990,628
Total	P	702,691	1,229,008	1,313,905	602,207	70,286,983	P	74,134,794
Less: Allowance for Doubtful Accounts		-	-	-	-	1,842,529		1,842,529
Net Amount	p	702,691	1,229,008	1,313,905	602,207	68,444,454	P	72,292,265

DFNN INC.

(Formerly Diversified Financial Network, Inc.)

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information, Status of Operations and Authorization for Issue of Financial Statements

Corporate Information

DFNN Inc. (DFNN or the “Parent Company”), formerly Diversified Financial Network, Inc., 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.

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 its primary purpose to allow the Parent Company to engage in providing information technology services, relating to financial institutions and gaming companies. On September 28, 2009, the SEC approved the Parent Company’s application for the amendment of the Articles of Incorporation.

On November 23, 2007, the Parent Company applied for an additional listing of 7,061,178 shares with the Philippine Stock Exchange (PSE) which was subsequently approved in April 8, 2008.

The Parent Company’s stockholders, on its meeting held on November 13, 2008, ratified the increase in the Parent Company’s authorized capital stock from ₱100.00 million divided into 100.00 million common shares with par value of ₱1.00 per share to ₱150.00 million divided into 150.00 million common shares with par value of ₱1.00 per share previously approved at the stockholders’ meeting held on September 23, 2005.

As of December 31, 2009, the application for the increase authorized capital stock is in progress.

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 was 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 Information Technology 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 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.

Status of Operations

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. Further details are discussed in Note 26.

Authorization for Issue of Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on April 28, 2010.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, and are presented in Philippine Peso (Peso), which is the Parent Company's functional currency, with amounts rounded to the nearest Peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements consist of the financial statements of the Group as at December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies.

Subsidiary

A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity, or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. A subsidiary is fully consolidated from the date control is transferred to the Parent Company directly or through the holding companies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

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 profit or loss.

The principal activities of the subsidiaries are as follows:

Subsidiaries	Nature of Business and Status of Operations	Percentage of Ownership	
		2009	2008
Pacific Gaming Investments, Pte. Ltd. (PGI)	Incorporated in Singapore to engage in the development and marketing of application software and the provision of internet-based, value-added services and other related consultancy.	81.45%	85.00%
HatchAsia, Inc. (HatchAsia)	Incorporated in the Philippines primarily to engage in the leasing out of certain floors of Bonifacio Technology Center and in the establishment and operation of educational institution or learning center which provides courses in computer and information technology.	75.24%	75.24%
iWave, Inc. [Formerly Intelligent Wave Philippines, Inc. (iWave)]	Incorporated in the Philippines to provide turnkey solutions to the information system requirements of retail finance institutions with high volume transactions.	55.94%	55.94%
IWPI Asia Pacific Co. Limited (IAPCL)*	Incorporated in Hongkong primarily to provide software development services.	55.94%	55.94%

*Indirect ownership through iWave.

On June 15, 2007, the PGI entered into a subscription agreement with one of its advisors for 32,329 common shares of stock of PGI. The sale resulted in a decrease in the percentage of ownership of the Parent Company from 100.00% to 87.50%. This dilution in the Parent Company's percentage ownership resulted in premium on dilution of interest in a subsidiary amounting to ₱79,371,738 in 2007.

On various dates in 2008, the PGI entered into various subscription agreements with potential investors for a total of 7,612 common shares of PGI. The sale resulted in a decrease in the percentage of ownership of the Parent Company from 87.50% to 85.00%. This dilution in the Parent Company's percentage ownership resulted in premium on dilution of interest in a subsidiary amounting to ₱ 36,695,523 in 2008.

On various dates in 2009, PGI entered into various subscription agreements with potential investors for a total of 11,621 common shares of PGI. The sale resulted in a decrease in the percentage of ownership of the Parent Company from 85.00% to 81.45%. This dilution in the Parent Company's percentage ownership resulted in premium on dilution of interest in a subsidiary amounting to ₱ 28,243,266 in 2009.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and other comprehensive income and the net assets not held by the Parent Company and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from the equity holders of the Parent Company. Transactions with non-controlling interest are

accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Business Combination

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in profit or loss any excess remaining after that reassessment.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, PAS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations and which were adopted as of January 1, 2009.

- *PAS 1, Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement of comprehensive income. The adoption did not have a significant effect on the financial statements as the Group has no income and expense items that are classified as comprehensive income other than the cumulative translation adjustment. The Group elected to retain the "balance sheet" instead of using the "statement of financial position".
- *Amendments to PFRS 7, Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
Require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement and liquidity risk disclosures are presented in Note 24.
- *PFRS 8, Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the statement of financial position and statement of comprehensive income and the company will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements

with a securities commission or similar party. The adoption of this standard resulted to additional disclosure presented in Note 27.

Adoption of the following new, revised and amended changes in PFRS and Philippine interpretations and improvements to PFRS did not have a significant impact on the Group's financial statements:

New and Revised Standards and Interpretations

- Revised PAS 23, *Borrowing Costs*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards and Interpretations

- PFRS 1, *First-time Adoption of PFRS*
- Amendment to PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

The following improvements in PFRS did not have any significant impact in the Group's financial statements:

- PAS 1, *Presentation of Financial Statements*
 - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.
- PAS 16, *Property, Plant and Equipment*
 - The amendment replaces the term "net selling price" with "fair value less costs to sell", to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and PAS 36, *Impairment of Asset*.
 - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.
- PAS 19, *Employee Benefits*
 - Revises the definition of "past service cost" to include reduction in benefits related to past services ("negative past service cost") and to exclude reduction in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
 - Revises the definition of "return on plan assets" to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
 - Revises the definition of "short-term" and "other long-term" employee benefits to focus on the point in time at which the liability is due to be settled.

- Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 28, *Investment in Associates*
 - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply.
 - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- PAS 36, *Impairment of Assets*
 - When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate “value-in-use”.
- PAS 38, *Intangible Assets*
 - Expenditure on advertising and promotional activities is recognized as an expense when the company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
 - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

The improvements in the following PFRS are not relevant to the Group’s financial statements:

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Properties*
- PAS 41, *Agriculture*

Improvement to PFRS issued in 2009

PAS 18, *Revenue*, adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service;
- Has inventory risk;
- Has discretion in establishing prices; and
- Bears the credit risk

The Group assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the following standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on the Group's financial statements:

Effective in 2010

Improvements to PFRS 2009

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wordings. The amendments are effective for annual periods beginning on or after January 1, 2010, except otherwise stated. The Group has not yet adopted these amendments and anticipates that these changes will have no material effect on the financial statements.

- Revised PFRS 3, *Business Combinations*, and PAS 27, *Consolidated and Separate Financial Statements*. The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as "minority interests"), even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*. Amendment to PAS 39, which will be effective on July 1, 2009, addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.
- Amendments to PFRS 2, *Share-based Payment - Group Cash-settled, Share-based Payment Transactions*, clarifies the scope and the accounting for group cash-settled, share-based payment transactions.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.
- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though

they are out of scope of revised PFRS 3. The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.
- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result at anytime in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following: (a) that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (b) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (c) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts

acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, this Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion. The Group has no transaction within the scope of this interpretation, thus the Group does not expect that this interpretation will have an impact on the financial statements.

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

Date of recognition

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. Purchase and sales of financial assets that require delivery of assets within the time frame established by regulation, or convention in the market place are recognized on the settlement date.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for financial assets classified as fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables, 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 investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

Determination of fair value

The fair value of investments that are actively traded in organized financial markets is determined by

reference to quoted market prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include: using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; or other valuation models.

Classification of financial instruments

Financial instruments are classified as financial asset, financial liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Group's financial instruments are classified as loans and receivables, AFS financial assets and other financial liabilities as of December 31, 2009 and 2008.

The Group has no financial assets and liabilities at FVPL and HTM investments as of December 31, 2009 and 2008.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and other receivables are derecognized, impaired, or amortized. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2009 and 2008, the Group's loans and receivables consist of cash and cash equivalents, receivables, rental deposits, and due from related parties (Note 23).

AFS financial assets

AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets are subsequently measured at fair market value. Unrealized gains and losses arising from changes in fair market value of AFS financial asset are recognized as other comprehensive income. For unquoted equity securities for which fair values cannot be reasonably determined, the Group carries these financial assets at cost, less impairment in value.

As of December 31, 2009 and 2008, the Group's AFS financial assets consist of unquoted equity securities pertaining to proprietary club shares (Note 9).

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 profit or loss when the financial liabilities are derecognized or amortized.

As of December 31, 2009 and 2008, the Group's other financial liabilities consist of accounts payable and other current liabilities, accrued rent, loans payable, obligation under finance lease and rental deposits (Note 23).

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.

Loans and receivables

The Group 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 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 profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying 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 profit or loss.

Prepaid Expenses and Other Current Assets

Input taxes

Input taxes represent amounts paid to suppliers that can be claimed as deduction against the Group's value-added tax liabilities.

Creditable withholding tax

Creditable withholding tax is initially measured at the amount paid in advance by the Group from delivery of goods and services and subsequently decreased by credits against the Group's income tax liability.

Investment in an Associate

Investment in an associate is accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the associate less any impairment in value. The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the associate.

The carrying value of investment in an associate is reviewed for impairment when events or changes in circumstances exist and where the carrying value exceeds the estimated recoverable amount. The recoverable amount of the asset is the greater of the net selling price and value in use. In assessing

value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in the profit and loss.

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 profit or loss 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 property and equipment.

Depreciation is computed using the straight-line method over the estimated useful life of all property and equipment. The estimated useful lives of property and equipment are as follows:

	<u>Number of Years</u>
Computer equipment and software	3-5
Furniture, fixture and office equipment	5
Transportation equipment	5

Leasehold improvements are amortized over the estimated useful lives of the improvements of three to 15 years or the term of the lease, whichever is shorter.

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the item is classified as held for sale in accordance with PFRS 5 and the date the asset is derecognized.

The estimated useful lives and depreciation 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 profit or loss in the year the item is derecognized.

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

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 impairment 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 profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each balance sheet date whether there is an indication that its nonfinancial assets, which includes prepaid expenses and other current assets, property and equipment, investment in an associate and other noncurrent assets, 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 profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet 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 profit or loss, 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.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settled the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Shares Held by Subsidiaries

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

Deposits for Future Stock Subscriptions

Deposits for future stock subscriptions generally represent funds received by the Group, which it records as such with the view to applying the same as payment for future additional issuance of shares or increase in capital stock.

Deposits for future stock subscriptions for which there is no confirmed subscription agreements and that exhibit characteristics of a liability, is recognized as a financial liability in the Group's consolidated balance sheet, net of transaction costs, otherwise, recognized as part of consolidated equity.

Retained Earnings (Deficit)

The amount included in retained earnings (deficit) includes profit or loss attributable to the Group's equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from retained earnings when they are approved by the Group's BOD. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes, as applicable. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before income is recognized:

Service fees and solutions

Revenue from providing internet services and maintenance services is recognized when the service is performed with reference to the agreement for the period covered.

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.

Sale of licenses

Revenue from sale of licenses is recognized when the right to use the software is approved through the license agreement.

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 profit or loss.

Interest income

Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Dividend income

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

Costs and Expenses

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Employee Benefits

Retirement Benefits Cost

Retirement benefits cost is actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group's retirement plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

Service Bonus

The Group provides service bonus to all its employees for continued service recognition. The Group recognizes service bonus as it accrues.

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).

Group as Lessee

Finance leases, which transfer to the Group substantially all the risks and rewards 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 recognized in profit or loss.

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, where there is no transfer to the Group all the risks and rewards of ownership of the lease item, are recognized in profit or loss on a straight-line basis over the lease term.

Group as Lessor

Leases where the Group does not transfer substantially all the risk and rewards of ownership of the assets are classified as operating leases. Rental income is recognized on a straight-line basis over the lease term.

Share-based Payments

Certain officers and employees of the Group receive additional remuneration in the form of share-based payments, whereby equity instruments (or “equity-settled transactions”) are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the Black-Scholes valuation model. Further details are presented in Note 15.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each balance sheet date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset.

Foreign Currency-denominated Transactions and Translations

The consolidated financial statements are presented in Peso, 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 exchange rate ruling at the balance sheet date. All differences are taken to profit or loss 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 equity until the disposal of the net investment, at which time they are recognized in profit or loss. 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.

The functional currency of the foreign operations, PGI and IAPCL, 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 comprehensive 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. Upon disposal of a foreign entity, the cumulative translation adjustment amount recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Earnings (Loss) Per Share

Basic earnings (loss) per share amounts is computed by dividing net income (loss) for the year attributable to ordinary equity holders of the Parent Company and total comprehensive income (loss) 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 income (loss) for the year attributable to equity holders of the Parent Company and total comprehensive income (loss) for the year attributable to ordinary 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.

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 have been 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, 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 sufficient future 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 future 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 sufficient future taxable profit will allow all or part of 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.

Segment Reporting

Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the entire business as one segment.

The Group is primarily involved in providing turnkey solutions to the information systems requirements of various companies with high value transactions. In terms of geographic segments, the Group currently has three geographical segments, Philippines, Singapore and Hongkong.

Revenue generated from these projects consists mainly of software development fees.

Management monitors the operating results of its business unit separately based on geographic location 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.

Provisions and Contingencies

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.

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. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that effect the reported amounts of revenues, expenses, assets and liabilities at the balance sheet date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

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

Determination of the functional currency

The Parent Company based on the economic substance of the underlying circumstances, has determined its functional currency to be the Peso. It is the currency that mainly influences the Parent Company's sale of services and the costs of services rendered.

Classification of financial instruments

The Group classifies a financial instrument depending on the purpose for which the financial instrument was acquired or originated.

Note 23 presents the classification of the Group's financial instruments by categories.

Classification of leases - Finance leases as lessee

The Group has entered into property leases where it was determined that the risks and rewards incidental to the ownership of the leased items will transfer to the Group. As such, these leases are capitalized at the inception of the lease.

Classification of leases - Operating leases as lessee

The Group has entered into property leases, where it was determined that the risks and rewards related to those properties are retained by the lessor. As such, these lease agreements are accounted for as operating leases.

Classification of leases - Operating leases as lessor

The Group has entered into property subleases on its leased properties. The Group determined that the lessors retain all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next calendar year are as follows:

Impairment of loans and receivables

The Group maintains allowance for impairment at a level based on the result of individual assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the financial asset's original effective interest rate. Impairment loss is determined as the difference between the financial asset's carrying value and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its financial assets based on the credit risk characteristics such as customer type, payment history, past-due status and term of the customers. Impairment loss is then determined based on historical loss experience of the financial assets grouped per credit risk profile. Historical loss profile is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The carrying value of the Group's loans and receivables amounted to ₱252,618,817 and ₱218,206,763 as of December 31, 2009 and 2008, respectively (Note 23). Allowance for impairment amounted to ₱1,842,528 and ₱1,897,939 as of December 31, 2009 and 2008, respectively (Note 5).

Estimation of useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the internal technical evaluation and experience with similar assets. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives would increase depreciation expense and decrease the property and equipment's value.

Depreciation and amortization expense amounted to ₱5,561,814, ₱8,581,043 and ₱5,027,830 in 2009, 2008 and 2007, respectively (Note 7). The carrying values of the property and equipment, net of accumulated depreciation, amortization and impairment in value amounted to ₱22,677,962 and ₱26,598,542 as of December 31, 2009 and 2008, respectively (Note 7).

Impairment of nonfinancial assets

The Group assesses whether there are any indicators of impairment for all nonfinancial assets which includes prepaid expenses and other current assets, property and equipment, investment in an associate and other non-current assets at each balance sheet date. These are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Impairment losses, if any, are recognized in profit or loss.

As of December 31, 2008, PGI already paid a total of US\$2.40 million or 57% of the total agreed purchase price of US\$4.20 million for the acquisition of 90% of the shares of Poseidon Company Ltd. (Poseidon).

In February 2009, the Government of Cambodia ordered closure of all electronic and mechanical gaming business. Management does not expect to recover its advances for future stock subscription, thus, an impairment loss amounting to ₱113,929,200 was recognized in 2009 (Note 9).

As of December 31, 2009 and 2008, accumulated impairment loss amounting to ₱8,903,819 was provided on computer equipment relative to the Philippine Charity Sweepstakes Office (PCSO) Project (Note 26). The carrying value of the Group's property and equipment, investment in an associate and other noncurrent assets, excluding AFS financial assets and rental deposits, amounted to ₱41,093,182 and ₱162,670,763 as of December 31, 2009 and 2008, respectively.

Estimation of employee benefits

The determination of the obligation and employee benefits cost is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates and rates of salary increases. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Employee benefits charged to operations amounted to ₱2,216,124, ₱2,954,600 and ₱3,327,648 in 2009, 2008 and 2007, respectively. The carrying values of accrued employee benefits recognized in the Group's consolidated balance sheets amounted to ₱14,083,450 and ₱12,201,171 as of December 31, 2009 and 2008, respectively (Note 20).

Estimation of income from solutions

The determination of the income recognized from developing software solutions mainly relies on the percentage of completion. The percentage of completion is determined based on the number of hours worked over the total estimated number of hours on a certain project. The contract amount less the cost of services using the percentage of completion is the estimated amount of income recognized by the Group.

As of December 31, 2009, 2008 and 2007, solutions from software development amounted to ₱31,617,368, ₱25,632,521 and ₱26,989,465 respectively, which is presented under "Service fees" in the consolidated statement of comprehensive income.

Realizability of deferred income tax assets

The Group reviews the carrying amounts at each balance sheet date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

The details of the Group's unrecognized deferred income tax assets as of December 31, 2009 and 2008 are presented in Note 21. Deferred income tax assets were not recognized because the Group believes that there will be no sufficient future taxable profit available for which these deferred income tax assets can be utilized.

4. 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. Annual interest rates on the cash equivalents range from 2.75% to 3.50% in 2008.

5. Receivables

Loans receivable pertains to short-term peso-denominated, interest-bearing cash advances from Kirschner Gaming International Corp. These loans are payable upon demand and bear interest ranging from 16% to 18% per annum in 2009 and 2008.

The payment term of the Group's trade receivables is 15 to 90 days after receipt of the invoice but may go beyond as agreed.

Other receivables consist of accrued interest on loans receivable, travel and telephone allowances given to employees subject for liquidation and receivables from employees.

The above balances were identified by the Group using the individual impairment assessment.

6. Prepaid Expenses and Other Current Assets

Prepaid expenses include prepayments of insurance, underwriter's fee, rent and legal services. Advances to suppliers pertain to the advance payments related to WisePay Project.

As of December 31, 2009 and 2008, the Group fully provided an allowance for the other prepaid expenses, which pertains to a receivable from Social Security System (SSS), since the management deems it as uncollectible.

7. Property and Equipment

	2009				
	Computer Equipment and Software	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs:					
Beginning balances	P47,869,448	P7,929,079	P8,492,632	P39,566,174	P103,857,333
Additions	1,253,164	380,422	-	7,648	1,641,234
Ending balances	49,122,612	8,309,501	8,492,632	39,573,822	105,498,567
Accumulated Depreciation, Amortization and Impairment in Value:					
Beginning balances	45,417,487	7,381,838	5,699,634	18,759,832	77,258,791
Depreciation and amortization (Notes 17 and 18)	1,074,790	359,808	758,331	3,368,885	5,561,814
Ending balances	46,492,277	7,741,646	6,457,965	22,128,717	82,820,605
Net Book Values	P2,630,335	P567,855	P2,034,667	P17,445,105	P22,677,962

	2008				
	Computer Equipment and Software	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Costs:					
Beginning balances	P46,435,031	P7,825,242	P8,492,632	P39,532,245	P102,285,150
Additions	1,434,417	103,837	-	33,929	1,572,183
Ending balances	47,869,448	7,929,079	8,492,632	39,566,174	103,857,333
Accumulated Depreciation, Amortization and Impairment in Value:					
Beginning balances	41,363,190	7,117,522	4,786,749	15,410,287	68,677,748
Depreciation and amortization (Notes 17 and 18)	4,054,297	264,316	912,885	3,349,545	8,581,043
Ending balances	45,417,487	7,381,838	5,699,634	18,759,832	77,258,791
Net Book Values	P2,451,961	P547,241	P2,792,998	P20,806,342	P26,598,542

As of December 31, 2009 and 2008, property and equipment includes computer equipment under a finance lease arrangement, where the Parent Company is a lessee, which amounted to P18,855,145, net of the total accumulated depreciation and the accumulated impairment loss equivalent to the leased assets' cost.

As of December 31, 2009 and 2008, property and equipment include improvements to the office space, which is included under leasehold improvements, amounting to P10,524,980 and P12,103,724, respectively, net of accumulated depreciation of P5,262,486 and P3,683,741 in 2009 and 2008, respectively, where iWave is a lessee under a finance lease arrangement (Note 13).

8. Investment in an Associate

Investment in an associate represents PGI's investment in shares of stock of Inter-active Entertainment Solutions, Inc. (IEST), in which PGI has a 20% ownership as of December 31, 2009 and 2008.

The following table represents the movements of the investment:

	2009	2008
Acquisition Cost:		
Beginning and ending balance	₱19,576,384	₱19,576,384
Accumulated Equity in Earnings:		
Beginning balance	(2,802,625)	-
Share in net losses for the year	(3,276,020)	(2,802,625)
Ending balance	(6,078,645)	(2,802,625)
	₱13,497,739	₱16,773,759

The summarized financial information of IEST follows:

	2009	2008
Total assets	₱7,490,525	₱9,624,862
Total liabilities	53,290,988	39,045,227
Total revenue	1,107,912	321,415
Net loss	16,380,098	13,114,950

9. Other Noncurrent Assets

	2009	2008
AFS financial assets	₱90,000	₱90,000
Rental deposits (Note 22)	4,827,480	4,827,480
Advances for future stock subscription in Poseidon	-	113,929,200
Intangible assets	-	451,782
Others	106,189	7,033,650
	₱5,023,669	₱126,332,112

Advances for Future Stock Subscription

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

On December 19, 2007, PGI executed a Memorandum of Understanding with the shareholders of Poseidon who are owners of a hotel and electronic gaming facilities in Cambodia, known as Poseidon Club (the Business), whereby Poseidon is properly licensed to operate the Business. This is in line with the PGI's intention to enter the Cambodia gaming market and in particular, the casino and slot

machine halls market. The investment in Poseidon includes a ten-year leasehold contract of the building where the gaming activities are being held.

As of December 31, 2008, PGI already paid a total of US\$2.40 million (P113.93 million) or 57% of the total agreed purchase price of US\$4.20 million (P199.58 million) for the acquisition of 90% of the shares of Poseidon.

In February 2009, the Government of Cambodia ordered closure of all electronic and mechanical gaming business. As of December 31, 2009, the investment in Poseidon amounting to P113.93 million was fully impaired.

Intangible Assets

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., an affiliate with an interlocking director. The technology provides internet services, such as on-line trading solutions, e-commerce and advertising. It also includes computer software acquired by the Group.

AFS Financial Assets

AFS financial assets pertain to investments in proprietary club shares.

10. Accounts Payable and Other Current Liabilities

	2009	2008
Trade (Note 14)	P29,961,438	P40,551,855
Accrued expenses	26,105,019	9,402,203
Output VAT	–	61,399
Others	5,633,556	2,395,271
	P61,700,013	P52,410,728

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

Accrued expenses include accruals of salaries, employee benefits, interests on loans, dividends payable and other current liabilities pertaining to a refund to third party due to cancellation of a project.

11. Loans Payable

	2009	2008
Parent Company	P9,981,998	P8,426,443
HatchAsia	809,000	17,201,788
PGI	–	61,025,271
	10,790,998	86,653,502
Less noncurrent portion	456,541	1,049,472
Current portion	P10,334,457	P85,604,030

The loans pertain to the Parent Company's and HatchAsia's 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. In 2009, the Parent Company included the accrued interest expense amounting to ₱483,086 as part of loans payable.

The Parent Company has a loan from a bank for the acquisition of a transportation equipment. The loan is payable on equal monthly installments and bears an interest based on the prevailing bank rates. As of December 31, 2009 and 2008, the bank loan's current portion amounted to ₱593,931 and ₱559,285, respectively, and the noncurrent portion amounted to ₱456,541 and ₱1,049,472, respectively.

The following summarizes the movements of the loans and the related accrued interest expense:

Parent Company

Movements in loans:

	2009	2008
Beginning balance	₱8,426,443	₱7,238,633
Additions during the year	21,942,990	22,714,591
Payments during the year	(16,247,277)	(21,527,586)
Reclassification during the year	(4,140,158)	805
Ending balance	9,981,998	8,426,443
Less noncurrent portion	456,541	1,049,472
Current portion	₱9,525,457	₱7,376,971

Movements in accrued interest expense:

	2009	2008
Beginning balance	₱456,330	₱385,219
Expense during the year	1,099,450	307,739
Payments during the year	(1,072,694)	(236,628)
Ending balance	₱483,086	₱456,330

The portion of the outstanding balance of loans payable and accrued interest expense amounting to ₱ 4,623,244, pertains to the reclassifications to "Deposits for future stock subscription" account related to the conversion of the loans to Parent Company's common shares (Note 12).

PGI

This pertains to US Dollar-denominated loans obtained on various dates in 2008 from an individual creditor totaling to US\$1,300,000 (₱61,776,000). The loans bear an interest rate of 10% per year with no definite payment dates. The loans have original maturity period of six months.

The individual creditor can convert the loans into PGI's common shares anytime and the conversion is subject to PGI's prevailing pre money valuation at the time of the conversion.

The difference between the present value of the expected future cash flows, representing the liability component of the convertible loan, and the face amount of the loan was recorded under equity account as part of “Deposits for future stock subscription” amounting to US\$24,733 (₱1,175,312).

In 2009, the loan was reclassified to “Deposits for future stock subscription”, since the creditor has already agreed to convert the loan. The related interest expense amounting to US\$263,551 (₱12,555,754) was accrued during the year.

HatchAsia

Movements in short-term loans:

	2009	2008
Beginning balance	₱17,201,788	₱18,853,401
Additions during the year	809,000	–
Payments during the year	–	(1,651,613)
Settlement through offset arrangement	(17,201,788)	–
Ending balance	₱809,000	₱17,201,788

Movements in accrued interest expense:

	2009	2008
Beginning balance	₱12,636,360	₱8,311,480
Expense during the year	1,167,627	4,324,880
Settlement through offset arrangement	(13,803,987)	–
Ending balance	₱–	₱12,636,360

12. Deposits for Future Stock Subscription

- a. In previous years, the Parent Company has US Dollar (US\$) - denominated convertible loans obtained from a foreign investor and an individual (the Individual Creditor) amounting to US\$100,000 (₱6,952,949) and US\$50,000 (₱3,424,268), respectively. The principal amount of the loans of ₱10,377,217 (US\$150,000) bear an interest of 9.75% per year and is 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 loans will be payable upon demand or convertible into shares of stocks at the option of the lender.

The loans and the related outstanding accrued interest, if any, can be converted into the Parent Company’s common shares at the option of the lender.

On May 13, 2007, the Individual Creditor exercised the option to convert the loan amounting to US\$50,000 (₱3,424,268), inclusive of accrued interest amounting to ₱1,064,671 into the Parent Company’s common shares totaling to 815,302. In 2007, the creditors have agreed to convert the outstanding loans and accrued interest. The loans were transferred as part of deposit for future stock subscription with the issuance of the shares of stock to the creditors still pending.

In 2008, the Parent Company issued 7,061,178 common shares at a conversion price ranging from ₱2.00 to ₱4.20 per share equivalent to ₱23,433,280.

- b. In 2008, the Parent Company availed of a short-term promissory note from Global City Innovative College (GCIC), which bears an annual interest rate of 15% and were used for working capital requirements. As of December 31, 2009, the outstanding balance of the loan amounted to ₱ 706,126. Both parties agreed to convert the outstanding balance to 96,995 Parent Company's common shares with an agreed share price of ₱7.28 per share during the year.

Pursuant to the above transactions, the Parent Company has outstanding lease advances to GCIC amounting to ₱6,425,283 as of December 31, 2009. Both parties agreed to convert the liability to 882,594 Parent Company's common shares with an agreed share price of ₱7.28 per share.

In 2009, the Parent Company transferred the short-term loan balance and the lease advances to deposit for future stock subscription amounting to ₱6,425,283 with the issuance of the shares of stock to GCIC still pending.

- c. As of December 31, 2009, the Parent Company has outstanding payable to HatchAsia amounting to ₱32,413,741 pertaining to lease rentals in arrears from February 2006 up to October 2009. The BOD passed a resolution to convert the outstanding liability to HatchAsia into 4,452,437 Parent Company's common shares with an agreed share price of 7.28 per share.

In connection with the conversion of the Parent Company's outstanding payable to HatchAsia, the latter made an agreement with GCIC, wherein out of the 4,452,437 Parent Company's common shares, 4,383,833 Parent Company's common shares will be assigned to GCIC in settlement of HatchAsia's outstanding payable amounting to ₱31,914,304. Accordingly, a deed of assignment was executed between the Parent Company and HatchAsia dated December 15, 2009, for the transfer of outstanding liability of HatchAsia with GCIC to the Parent Company.

13. Obligations Under Finance Lease

iWave

On August 2, 2006, iWave 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 amounting 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 ₱2,096,828 and ₱3,173,483 in 2009 and 2008, respectively. The loan was fully paid in 2009.

The lease payments of obligations under finance lease and the present value of the minimum lease payments as of December 31, 2008 are as follows:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Within one year	₱2,266,667	₱2,196,828
Less:		
Amounts representing finance charges	69,839	—
Application of excess payments	100,000	100,000

Present value of future minimum lease payments	P2,096,828	P2,096,828
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14. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

Transactions with Related Parties

The Group has transactions with related parties as follows:

- iWave has a service contract agreement with IWI Japan, a stockholder, for the services rendered in connection with the development of the Parent Company's product. Under the said contract, the Parent Company pays software development costs based on a fixed amount. As of December 31, 2009 and 2008, the outstanding liability to a stockholder amounted to P495,782 and P541,058, respectively, which is presented under "Accounts payable and other current liabilities" in the consolidated balance sheets. Software development costs amounted to P 6,006,115, P5,479,201 and P4,645,218 in 2009, 2008, and 2007, respectively (Note 17).
- Noninterest-bearing cash advances to Avensis Leisure Pte. Ltd., an affiliate with an interlocking director, by the Parent Company for working capital needs amounted to P4,847,532 as of December 31, 2009 and 2008, which is presented under "Receivables" in the consolidated balance sheets.
- The following table summarizes the balances of Group's noninterest-bearing cash advances to related parties for working capital needs as of December 31:

	Relationship	2009	2008
KGI	Affiliate*	P116,005,285	P94,968,276
IEST	-do-	36,533,350	20,708,453
Others	-do-	164,306	255,837
		P152,702,941	P115,932,566

*Affiliate with an interlocking director.

- Compensation of key management personnel consists of the following:

	2009	2008	2007
Salaries and other short-term benefits	P21,295,215	P15,897,388	P10,594,124
Post employment benefits	-	1,378,000	1,552,015
	P21,295,215	P17,275,388	P12,146,139

15. Share Based Payment

Parent Company

The provisions of the employees' stock option plan (ESOP) were approved in 2007. On various dates in 2007 and 2009, the Parent Company granted stock options to its employees in accordance with its 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 and 12, 2007:
 - The exercise price is at ₱2.00 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.

- c. Stock options granted on February 12, June 22, July 16 and July 31, 2009:
 - The exercise price is at ₱2.00 per share.
 - The ESOP shall vest immediately and is exercisable within the next 15 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.

There were no expired or forfeited stock options in 2009 and 2008.

The following table summarizes the movements of the number of shares pertaining to the stock options during the year:

	2009	2008
Granted	7,900,000	–
Exercised	10,783,666	2,398,333
Outstanding at the end of the period	3,750,000	6,633,666
Exercisable at the end of the period	3,750,000	2,398,333

For every category, the exercise price is set at ₱2.00 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
February 12, 2009	3.90
June 22, 2009	7.50
July 16, 2009	7.90
July 31, 2009	7.70

As of December 31, 2009 and 2008, outstanding stock options pertaining to the ESOP amounted to ₱ 124,730,912 and ₱65,020,658, respectively.

The employee benefits expense recognized pertaining to ESOP amounted to ₱59,710,254 and ₱33,011,351 and ₱32,009,307 in 2009, 2008, and 2007 respectively (Note 19).

The Parent Company uses the Black-Scholes to compute for the fair value of the options together with the following assumptions in 2009 and 2007.

	2009	2007
Spot price per share	₱3.90 - ₱7.90	₱9.70 - 15.50
Time to maturity	Immediately - 3 years	Immediately
Volatility*	74% - 75%	54% - 167%
Dividend yield	0.00%	0.00%

*Volatility is calculated using historical stock prices and their corresponding logarithmic returns.

iWave

On July 8, 2003, the Company granted stock options to its employees in accordance with its ESOP as approved by the BOD, as follows:

- The exercise price is at ₱100.00 per share.
- The ownership to the shares shall vest only when the shares shall be actually subscribed by the eligible participants upon full payment.
- The terms of payment shall be determined by the BOD and shall be provided in the purchase offer letter.

In 2009 and 2008, iWave received payment of the subscriptions receivable relating to ESOP that amounted to ₱370,500 and ₱405,000, respectively. No related expenses have been recorded as the ESOP has already prescribed.

16. Earnings (Loss) Per Share

The basic earnings (loss) per share attributable to equity holders of the Parent Company is computed based on net income (loss) as follows:

	2009	2008	2007
Net income (loss) applicable to Equity holders of the Parent Company	(P189,638,085)	(P11,901,176)	P45,058,302
Weighted average number of outstanding common shares, less treasury shares	99,670,000	97,646,274	92,602,822
Basic earnings (loss) per share	(P1.90)	(P0.12)	P0.49

Diluted earnings (loss) per share attributable to the equity holders of the Parent Company are computed based on net income (loss) as follows:

	2009	2008	2007
Net income (loss) attributable to equity holders of the Parent Company	(P189,638,085)	(P11,901,176)	P45,058,302
Interest on convertible loans - net of tax	-	-	181,314
Net income (loss) attributable to equity holders of the Parent Company adjusted for the effect of convertible loans	(P189,638,085)	(P11,901,176)	P45,239,616
Weighted average number of outstanding common shares	99,670,000	97,646,274	92,602,822
Effect of convertible loans	-	2,023,726	7,067,178
Weighted average number of outstanding common shares adjusted for the effect of convertible loans	99,670,000	99,670,000	99,670,000
Net income (loss) attributable to equity holders of the Parent Company adjusted for the effect of convertible loans	(P189,638,085)	(P11,901,176)	P45,239,616
Weighted average number of outstanding common shares adjusted for the effect of convertible loans	99,670,000	99,670,000	99,670,000
Diluted earnings (loss) per share	(P1.90)	(P0.12)	P0.45

The effect of the assumed conversion has no impact in 2009 and 2008 and dilutive in 2007.

17. Cost of Services

	2009	2008	2007
Personnel costs (Note 19)	P62,256,882	P47,969,370	P38,929,625
Outside services	24,850,299	25,523,336	1,180,949
Rent	22,490,926	22,174,577	20,922,006
Software development costs	14,567,605	5,660,041	13,930,412
Transportation and travel	6,211,401	11,314,219	18,254,566
Depreciation and amortization	4,148,055	7,483,046	4,068,015

(Forward)

	2009	2008	2007
Utilities	₱1,614,988	₱2,638,114	₱2,201,891
Dues and fees	1,042,881	1,096,056	991,906
Data service fee	677,949	272,969	565,917
Marketing	571,688	-	-
Repairs and maintenance	179,367	4,496,706	32,689
Supplies	141,227	1,347,716	845,728
Entertainment, amusement and representation (EAR)	78,111	116,360	305,297
Director's fee	38,640	24,000	53,820
Contractor's fee	-	-	22,850,710
Others	5,062,085	928,422	1,873,120
	₱143,932,104	₱131,044,932	₱127,006,651

18. General and Administrative Expenses

	2009	2008	2007
Personnel costs (Note 19)	₱43,668,530	₱29,680,087	₱43,989,118
Management fees	20,552,644	22,962,587	1,769,631
Outside services	7,251,902	12,496,942	4,704,514
Transportation and travel	5,483,580	11,451,076	6,253,068
Utilities	2,986,130	2,222,460	1,838,354
Depreciation and amortization	1,865,541	2,453,341	2,315,160
Commission expense	1,698,620	-	-
Taxes and licenses	1,352,615	1,217,145	674,474
Sales and marketing	1,327,501	1,638,953	35,567
EAR	987,590	2,038,238	1,694,352
Directors' fee	822,510	-	-
Rent	816,329	599,296	1,160,694
Data service fees	719,114	-	-
Provision for impairment	710,494	6,746,202	442,617
Supplies	676,840	326,698	357,093
Dues, fees and subscriptions	522,078	623,857	625,433
Insurance	88,509	-	-
Others	6,813,366	9,551,325	17,130,524
	₱98,343,893	₱104,008,207	₱82,990,599

19. Personnel Costs

	2009	2008	2007
Salaries and wages	₱34,108,391	₱29,504,836	₱37,055,826
Bonus, overtime and leave	9,890,643	12,178,670	10,525,962
Stock options	59,710,254	33,011,351	32,009,307
Employee benefits (Note 20)	2,216,124	2,954,600	3,327,648
	₱105,925,412	₱77,649,457	₱82,918,743

20. Employee Benefits

The Group has a funded, noncontributory defined retirement benefit plan covering qualified employees and executives. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued liability is determined according to the plan formula taking into account service rendered and compensation of covered employees as of valuation date.

Actuarial valuations are generally obtained for the plan every two to three years.

The Group's employee benefits consist of retirement benefits cost and service bonus granted to employees covered in the Group's employee benefits plan.

Parent Company

The Parent Company accrues estimated retirement benefits costs for its regular employees pursuant to Republic Act (RA) No. 7641. Under PAS 19, *Employee Benefits*, the cost of defined retirement benefits, including those mandated under RA No. 7641, should be determined using an accrued benefit valuation method or a projected benefit valuation method. These methods require an independent actuarial valuation, which the Parent Company did not undertake. Management believes, however, that the effect on the financial statements of the difference between the amount determined using the current method of the Parent Company and the required actuarially determined valuation method is not significant. The Parent Company started recognizing accrual for retirement benefits in 2009. The accrued retirement benefits recognized by the Parent Company in 2009 amounted to ₱ 1,434,369 which is presented under "Accrued employee benefits" in the consolidated balance sheet. No accrued retirement expense was recorded in 2008 and 2007.

iWave

The following tables summarize the components of net retirement benefits costs recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated balance sheets.

- a. Retirement benefits cost for the year are as follows:

	2009	2008	2007
Current service cost	₱624,500	₱2,426,600	₱1,240,800
Interest cost	964,951	654,400	948,500
Expected return on plan assets	(180,678)	—	—
Actuarial loss (gain)	(627,019)	(126,400)	62,300
	₱781,754	₱2,954,600	₱2,251,600

- b. Accrued retirement benefits presented under "Accrued employee benefits" as of December 31 are as follows:

	2009	2008
Present value of defined benefit obligation	₱5,730,938	₱6,437,300
Fair value of plan assets	(3,011,387)	(3,011,300)
Unfunded obligation	2,719,551	3,426,000
Unrecognized net actuarial gain	7,775,103	6,286,900
	₱10,494,654	₱9,712,900

c. Changes in present value of define benefit obligation are as follows:

	2009	2008
Balances at beginning of year	₱6,437,300	₱7,951,900
Current service cost	624,500	2,426,600
Interest cost	964,951	654,400
Actuarial gain on defined benefit obligation	(2,295,813)	(4,595,600)
Balances at end of year	₱5,730,938	₱6,437,300

d. Movement in accrued retirement benefits is as follows:

	2009	2008
Balances at beginning of year	₱9,712,900	₱9,758,300
Retirement benefits expense for the year	781,754	2,954,600
	10,494,654	12,712,900
Actual contribution during the year	-	(3,000,000)
Balances at end of year	₱10,494,654	₱9,712,900

e. Changes in the fair value of plan assets are as follows:

	2009	2008
Balance at beginning of the year	₱3,011,300	₱-
Actual contribution during the year	-	3,000,000
Actual return on plan assets	87	11,300
Balances at end of year	₱3,011,387	₱3,011,300

f. The principal assumptions used in determining the retirement benefits cost for the Group's plan as of December 31 are as follows:

	2009	2008	2007
Discount rate	14.99%	14.99%	8.23%
Salary increases	10.00%	10.00%	12.00%
Expected return on plan assets	6.00%	6.00%	-
Number of employees covered	58	58	50

g. Amounts for current and previous periods are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligations	₱5,730,938	₱6,437,300	₱7,951,900	₱8,519,600	₱5,754,000
Plan assets	3,011,387	3,011,300	-	-	-
Unfunded	2,719,551	3,426,000	7,951,900	8,519,600	5,754,000
Experience adjustments	7,215,250	14,445,900	-	(1,517,200)	-

Service Bonus

The Group has accrued service bonus amounting to P591,543 and P3,265,089 as of December 31, 2008 and 2007, respectively. In 2009 and 2008, the Group made payment of the service bonus amounting to P333,844 and P1,368,361, respectively. The outstanding accrued employee benefits pertaining to service bonus as of December 31, 2009 and 2008 amounted to P2,154,427 and P2,488,271, respectively.

21. Income Taxes

- a. The following table shows the details of the Group's provision for (benefit from) income taxes:

	2009	2008	2007
Current:			
MCIT	P252,520	P86,450	P433,511
RCIT	1,053,715	2,969,772	37,338
Final tax	14,204	9,171	19,831
	1,320,439	3,065,393	490,680
Deferred	9,862,753	(9,394,076)	(25,382,720)
	P11,183,192	(P6,328,683)	(P24,892,040)

- b. Deferred income tax assets have not been recognized for the following temporary differences, NOLCO and MCIT since the Group believes that it is not probable that it will have sufficient future taxable profits against which the deductible temporary differences of NOLCO and MCIT can be utilized:

	2009	2008
NOLCO	P97,406,974	P28,216,938
Allowance for impairment	18,724,210	19,224,060
Accrued liabilities	14,963,721	33,457,206
Past service cost	458,720	516,060
Unrealized foreign exchange loss	454,710	608,843
MCIT	376,308	123,788
Advance rental income	-	3,797,757

- c. The Group's recognized deferred income tax asset and liability pertains to the tax effects of the following items:

	2009	2008
NOLCO	P24,880,862	P34,675,505
Unrealized foreign exchange gain	(179,714)	(111,604)
	P24,701,148	P34,563,901

- d. As of December 31, 2009, the Group's NOLCO and MCIT will expire as follows:

Year Incurred	Expiry Date	MCIT	NOLCO
2009	2012	P252,520	P92,817,251
2008	2011	86,450	31,618,404
2007	2010	37,338	55,907,526
		P376,308	P180,343,181

The following are the movements in NOLCO:

	2009	2008
At January 1	₱143,801,955	₱141,304,875
Additions	92,817,251	31,618,404
Application	(9,827,341)	-
Expiration	(46,448,684)	(29,121,324)
At December 31	₱180,343,181	₱143,801,955

The following are the movements in MCIT:

	2009	2008
At January 1	₱123,788	₱234,092
Additions	252,520	86,450
Expiration	-	(196,754)
At December 31	₱376,308	₱123,788

- e. The reconciliation of the provision for (benefit from) income tax computed at the statutory income tax rate to the provision for (benefit from) income tax as shown in the consolidated statements of comprehensive income follows:

	2009	2008	2007
Benefit from income tax computed at the statutory income tax rates of 30% in 2009 and 35% in 2008 and 2007	(₱23,496,247)	(₱7,779,313)	(₱20,550,172)
Temporary differences for which no deferred income taxes were recognized	27,346,976	(1,031,852)	(6,499,113)
Expired NOLCO	9,794,643	-	-
Application of NOLCO	(2,948,202)	-	-
Other nondeductible expenses	473,979	238,826	792,407
Provision for probable loss - penalties	48,159	785,495	-
Interest income subject to final tax	(36,116)	(44,076)	(48,154)
Write-off of accounts receivables and other assets	-	4,725	119,196
Dividend income	-	(1,137)	(578)
Recovery of allowance for probable loss	-	-	(1,316,181)
Other nontaxable income	-	-	(19,005)
Effect of change in income tax rates	-	1,498,649	2,629,560
	₱11,183,192	(₱6,328,683)	(₱24,892,040)

- f. *Republic Act (RA) 9337*

RA 9337 or the Expanded-Value Added Tax (E-VAT) Act of 2005 took effect on November 1, 2005. The new E-VAT law provides, among others, for change in regular corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005 and 30% starting on January 1, 2009. The allowable deductions for interest

expense was likewise changed from 38% to 42% of the interest income subjected to final tax, provided that, effective January 1, 2009, the rate shall be 33%.

22. Lease Commitments

- a. 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 as of December 31, 2009 and 2008, 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% interest and 2% penalty per month.

Rent expense charged to operations amounted to ₱22,279,276, ₱21,994,577 and ₱21,962,700 in 2009, 2008 and 2007, respectively.

The excess of the total lease expense over total lease paid represents the accrued rent payable amounting to ₱40,296,999 and ₱40,337,440 as of December 31, 2009 and 2008, respectively.

Future minimum rentals payable under the non-cancellable operating lease as of December 31 are as follows:

	2009	2008
Within one year	₱23,655,395	₱22,107,846
Beyond one year but not more than five years	112,380,608	105,028,605
Beyond five years	33,177,915	64,185,312
	₱169,213,918	₱191,321,763

- 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 ₱22,748,750, ₱29,303,515 and ₱24,073,831 in 2009, 2008 and 2007, respectively.

The security deposit equivalent to three-month rent amounted to ₱4,892,467 and ₱8,051,685 as of December 31, 2009 and 2008, respectively. These shall answer for any and all unpaid obligations of the sub-lessees, including any damage to leased properties.

The excess of the total lease income over total lease received is accounted for as follows:

	2009	2008
Accrued rent receivable	₱19,962,941	₱18,600,802
Less current portion	7,017,057	766,327
	₱12,945,884	₱17,834,475

Future minimum rentals receivable under the non-cancellable operating leases as of December 31 are as follows:

	2009	2008
Within one year	₱23,118,074	₱21,106,272
Beyond one year but not more than five years	116,771,040	119,619,097
Beyond five years	76,499,347	34,710,738
	₱216,388,461	₱175,436,107

23. Financial Instruments

Set out below is the summary of the Group's financial instruments per category with comparison of its carrying values and fair values:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables:				
Cash and cash equivalents	₱24,688,507	₱24,688,507	₱22,970,335	₱22,970,335
Trade receivables	11,208,139	11,208,139	25,229,323	25,229,323
Nontrade receivables	33,534,656	33,534,656	33,534,656	33,534,656
Loans receivable	11,722,320	11,722,320	11,722,320	11,722,320
Advances to officers and employees	8,648,335	8,648,335	283,952	283,952
Other receivables*	5,286,439	5,286,439	3,706,131	3,706,131
Rental deposits	4,827,480	4,827,480	4,827,480	4,827,480
Due from related parties	152,702,941	152,702,941	115,932,566	115,932,566
	252,618,817	252,618,817	218,206,763	218,206,763
AFS financial assets	90,000	90,000	90,000	90,000
	₱252,708,817	₱252,708,817	₱218,296,763	₱218,296,763
<i>Other Financial Liabilities:</i>				
Accounts payable and other current liabilities:				
Trade	₱29,961,438	₱29,961,438	₱40,551,855	₱40,551,855
Accrued expenses**	23,839,533	23,839,533	8,549,669	8,549,669
Others	-	-	2,395,271	2,395,271
	53,800,971	53,800,971	51,496,795	51,496,795
Loans payable	10,790,998	11,300,047	86,653,502	86,904,707
Obligation under finance lease	-	-	2,096,828	1,940,434
Rental deposits	4,892,467	4,892,467	8,051,685	8,051,685

P69,484,436	P69,993,485	P148,298,810	P148,393,621
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*Excludes advances subject for liquidation amounting to P303,313 and P51,636 as of December 31, 2009 and 2008, respectively.

**Excluding withholding tax, SSS, PHIC and HDMF payables and other statutory liabilities amounting to P7,899,042 and P852,534 as of December 31, 2009 and 2008, respectively.

Fair Values Information

Current Financial Assets and Liabilities

The fair values of cash and cash equivalents, trade receivables, nontrade receivables, advances to officers and employees, loans receivable, current portion of accrued rental receivable, other receivables, rental deposits, due from related parties, AFS financial assets, accounts payable and other current liabilities approximate their carrying values due to their short-term nature or the interest rates that they carry approximate the interest rates for comparable instruments in the market.

Obligations under Finance Lease

The fair value of liabilities under finance lease arrangements represents the net present values of minimum lease payments.

Rental deposit

The fair value of the rental deposit was based on the present value of estimated future cash flows using the interest rate prevailing as of balance sheet date. The carrying value of rental deposits approximates its fair value.

Loans Payable

The fair value of loans payable is based on the present value of estimated future cash flows discounted using the prevailing market rates.

Fair Value Hierarchy

The Group has no financial assets or financial liabilities carried at fair value as of December 31, 2009 and 2008.

24. Financial Risk Management Objectives and Policies

The primary objective of the Group's financial risk management framework is to protect the Group's equity holders 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, due from related parties, accounts payable and other current liabilities, loans payable, obligations under finance lease and rental deposits. The Group's activities expose it to credit risk, liquidity 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.

The following table summarizes the Group's credit risk exposure as of December 31:

	2009	2008
Loans and Receivables:		
Cash in banks*	₱24,673,507	₱22,821,165
Trade receivables	11,208,139	25,229,323
Nontrade receivables	33,534,656	33,534,656
Loans receivable	11,722,320	11,722,320
Advances to officers and employees	8,648,335	283,952
	2009	2008
Other receivable**	₱5,286,439	₱3,706,131
Rental deposits	4,827,480	4,827,480
Due from related parties	152,702,941	115,932,566
	252,603,817	218,057,593
AFS financial assets	90,000	90,000
	₱252,693,817	₱218,147,593

*Excluding cash on hand amounting to ₱15,000 and ₱149,170 as of December 31, 2009 and 2008, respectively.

**Excludes advances subject for liquidation amounting to ₱303,313 and ₱51,636 as of December 31, 2009 and 2008, respectively.

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.

The following tables provide the credit quality of the Group's financial assets that are neither past due nor impaired:

December 31, 2009:

	<u>Neither Past Due nor Impaired</u>		Past Due and Impaired	Total
	High Grade	Standard		
Loans and Receivables:				
Cash in banks*	₱24,673,507	P-	P-	₱24,673,507
Trade receivables	-	11,208,139	1,564,282	12,772,421
Nontrade receivables	-	33,534,656	-	33,534,656
Loans receivable	-	11,722,320	-	11,722,320
Advances to officers and employees	-	8,648,335	-	8,648,335
Other receivable**	-	5,564,685	278,246	5,842,931
Rental deposits	-	4,827,480	-	4,827,480
Due from related parties	-	152,702,941	-	152,702,941
	24,673,507	228,208,556	1,842,528	254,724,591
AFS financial assets	-	90,000	-	90,000
	₱24,673,507	₱228,298,556	₱1,842,528	₱254,814,591

*Excluding cash on hand amounting to ₱15,000 as of December 31, 2009.

**Excludes advances subject for liquidation amounting to ₱303,313 as of December 31, 2009.

December 31, 2008:

	Neither Past Due nor Impaired		Past Due and Impaired	Total
	High Grade	Standard		
Loans and Receivables:				
Cash in banks	₱22,821,165	₱-	₱-	₱22,821,165
Trade receivables	-	25,229,324	1,897,939	27,127,263
Nontrade receivables	-	33,534,656	-	33,534,656
Loans receivable	-	11,722,320	-	11,722,320
Advances to officers and employees	-	283,952	-	283,952
Other receivable*	-	3,706,131	-	3,706,131
Rental deposits	-	4,827,480	-	4,827,480
Due from related parties	-	115,932,566	-	115,932,566
	22,821,165	195,236,429	1,897,939	219,955,533
AFS financial assets	-	90,000	-	90,000
	₱22,821,165	₱195,326,429	₱1,897,939	₱220,045,533

*Excluding cash on hand amounting to ₱ 149,170 as of December 31, 2008.

**Excludes advances subject for liquidation amounting to ₱51,636 as of December 31, 2008.

The Group uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

- High grade - rating given to borrowers and counterparties who possess strong to very high capacity to meet its obligations.
- Standard - rating given to borrowers and counterparties who possess above average capacities to meet its obligations.

For assets to be classified as “past due and impaired”, contractual payments in arrears are more than 90 days. The Group operates mainly on a “neither past due nor impaired basis” and when evidence is available an impairment assessment will also be performed, if applicable.

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 table below summarizes the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual cash flows. It also summarizes the maturity profile of the financial assets based on expected realizability.

December 31, 2009:

	Up to a year	1-5 years	Total
Loans and receivable:			
Cash and cash equivalents	₱24,688,507	₱-	₱24,688,507
Trade receivables	11,208,139	-	11,208,139
Nontrade receivables	33,534,656	-	33,534,656
Loans receivable	11,722,320	-	11,722,320
Advances to officers and employees	8,648,335	-	8,648,335
Other receivables*	5,286,439	-	5,286,439
Rental deposits	-	4,827,480	4,827,480

Due from related parties	152,702,941	–	152,702,941
	247,791,337	4,827,480	252,618,817
AFS financial assets	–	90,000	90,000
	₱247,791,337	₱4,917,480	₱252,708,817
Other financial liabilities:			
Accounts payable and other current liabilities			
Trade	₱29,961,438	₱–	₱29,961,438
Accrued expenses**	23,839,533	–	23,839,533
	53,800,971	–	53,800,971
Loans payable	10,471,654	486,752	10,958,406
Rental deposits	–	4,892,467	4,892,467
	₱64,272,625	₱5,379,219	₱69,651,844
Liquidity gap	₱183,518,712	(₱461,739)	₱183,056,973

*Excludes advances subject for liquidation amounting to ₱303,313 as of December 31, 2009.

**Excluding withholding tax, SSS, PHIC and HDMF payables amounting to ₱2,265,636 as of December 31, 2009

December 31, 2008:

	Up to a year	1-5 years	Total
Loans and receivable:			
Cash and cash equivalents	₱22,970,335	₱–	₱22,970,335
Trade receivables	25,229,323	–	25,229,323
Nontrade receivables	33,534,656	–	33,534,656
Loans receivable	11,722,320	–	11,722,320
Advances to officers and employees	283,952	–	283,952
Other receivables*	3,706,131	–	3,706,131
Rental deposits	–	4,827,480	4,827,480
Due from related parties	115,932,566	–	115,932,566
	213,379,283	4,827,480	218,206,763
AFS financial assets	–	90,000	90,000
	₱213,379,283	₱4,917,480	₱218,296,763
Other financial liabilities:			
Accounts payable and other current liabilities			
Trade	₱40,551,855	₱–	₱40,551,855
Accrued expenses**	8,549,669	–	8,549,669
Others	2,395,271	–	2,395,271
	51,496,795	–	51,496,795
Loans payable	85,835,719	1,216,878	87,052,597
Obligation under finance lease	2,096,828	–	2,096,828
Rental deposits	–	8,051,685	8,051,685
	₱139,429,342	₱9,268,563	₱148,697,905
Liquidity gap	₱73,949,941	(₱4,351,083)	₱69,598,858

*Excludes advances subject for liquidation amounting ₱51,636 as of December 31, 2008.

***Excluding withholding tax, SSS, PHIC and HDMF payables amounting to P852,534 as of December 31, 2008.*

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.

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.

The Group's foreign currency-denominated assets consist of the following:

December 31, 2009:

	US\$ Value	Peso Equivalent	HK\$ Value	Peso Equivalent
Assets:				
Cash	US\$103,967	P4,803,653	HK\$2,799,725	P16,742,356
Receivables	283,863	13,114,470	-	-
	US\$387,830	P17,918,123	HK\$2,799,725	P16,742,356
Liabilities:				
Accounts payable and accrued expenses	US\$44,000	P2,123,000	HK\$195,772	P1,170,719

December 31, 2008:

	US\$ Value	Peso Equivalent	HK\$ Value	Peso Equivalent
Assets:				
Cash	US\$373,896	P17,754,435	HK\$352,298	P2,159,587
Receivables	9,036	429,092	282,487	1,731,645
	US\$382,932	P18,183,527	HK\$634,785	P3,891,232
Liability:				
Accounts payable and accrued expenses	US\$101,308	P4,814,177	HK\$45,000	P275,850

The closing functional currency exchange rates as of December 31 are as follows:

	2009	2008
United States Dollar	P46.20	P47.52
Hongkong Dollar	6.15	6.13

As a result of the translation of these foreign currency-denominated assets and liabilities, the Group recognized net unrealized foreign exchange gain amounting to ₱144,335 in 2009 and net unrealized foreign exchange loss amounting to ₱236,830 and ₱1,337,042 in 2008 and 2007, respectively.

The following table presents the impact on the Group's income before income tax and equity as of December 31, 2009 and 2008, respectively, due to a reasonably possible change in fair value of monetary assets and liabilities brought about by a change in Peso to Dollar exchange rate as of December 31:

	Changes in foreign exchange rates	Impact on income before income tax
2009	Increase by 5%	₱92,777
	Decrease by 5%	(92,777)
2008	Increase by 4%	18,492
	Decrease by 4%	(18,492)

There is no other impact on the Group's equity other than those affecting profit and loss.

25. Capital Management

The primary objective of the Group's capital management is to maintain its capital at a level adequate to support the funding requirements of its on going projects and considering changes in economic conditions and risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies, and processes of the Group from the previous year.

The capital considered by the Group is summarized below:

	2009	2008
Capital stock	₱100,000,000	₱100,000,000
Additional paid-in capital	16,372,102	16,372,102
Deposits for future stock subscription	212,294,005	95,996,584
Deficit	(233,432,792)	(43,794,707)
	₱95,233,315	₱168,573,979

26. Significant Contracts and Agreements

Parent Company

a. Fastech Synergy Ltd. (Fastech)

On May 8, 2009, the Parent Company has received an offer from Fastech, a listed company on the Singapore Stock Exchange (SGX), to acquire its share in PGI via stock swap. The Parent Company's BOD has authorized the signing and execution of a Head of Agreement with Fastech. The share to be acquired is at a minimum of 70% (which is owned by Parent Company) of PGI up to 100%.

On February 23, 2010, SGX rejected the terms for the reverse takeover of PGI's electronic component manufacturer, Fastech. The Parent Company made a disclosure to the PSE that the proposed structure of the reverse takeover via acquisition of PGI was deemed not acceptable under the listing rules of SGX. As of April 27, 2010, PGI is currently reviewing their options which includes requesting of reconsideration from SGX and whether the respective boards of PGI and Fastech need to eventually, mutually agree to terminate the agreement.

b. PortWise AB

In 2008, the Parent Company entered into Distributorship and Trade Mark License Agreement with PortWise AB, a company incorporated under the laws of Sweden. The agreement states that PortWise AB grants the Parent Company a non-exclusive and non-transferable license for the internal use of the software (PortWise), which is a comprehensive, integrated and completely secure platform for identity and access management. It enables the enterprise to create secure connections to its employees for remote access, to its business partners for online business relationships, and to its customers for secure transactions and documentation and any error corrections provided by PortWise, by the number of users for which the corresponding fee has been paid.

In 2009, the Parent Company recognized an income amounting to ₱197,748 which is presented as part of "Service fees" under the 2009 consolidated statement of comprehensive income.

c. Equipment Lease Agreement with PCSO

On April 9, 2003, the Parent Company entered into an Equipment Lease Agreement with the PCSO, a government-owned corporation. The agreement shall be for a period of eight years, commencing on the date of commercial operation of the equipment system. Under the agreement, PCSO shall pay the Parent Company a fee equal to a percentage of the gross amount of sales placed and received through the equipment system.

On April 4, 2004, the Parent Company had already fulfilled all of its deliverables. As of December 31, 2009, the implementation of the Project was still on hold following the unilateral suspension of the Project by PCSO.

In 2009, the Company has filed for a civil case entitled an "Application for Interim Measure of Protection in Aid of Arbitration - Preliminary Injunction with Application for Temporary Order for Protection". Pursuant to this case, the court granted the Parent Company's petition restraining the PCSO to implement text betting and to prevent PCSO from awarding any contract to any entity.

On March 19, 2010, the Regional Trial Court granted the Parent Company's petition for, among others, the issuance of a writ preliminary injunction (WPI) restraining PCSO from implementing betting through wireless technologies with possible vendors. The WPI was issued by the court to prevent PCSO from awarding any contract to any entity for wireless betting while the Parent Company is commencing arbitration proceedings in connection with the cancellation of its Equipment Lease Agreement with PCSO.

iWave

On December 14, 2006, the BOD approved a budget of not more than ₱500,000 for the conduct of a feasibility study, for purposes of listing the Company with the PSE in 2007. On the same date, the BOD approved another budget of ₱3,000,000 to ₱4,000,000 for the purchase of additional office condominium units to accommodate the Company's planned business expansion. Accordingly, on February 26, 2007, the Company engaged the services of an independent financial advisor for the planned Initial Public Offering (IPO). In 2008, feasibility of the IPO was conducted by the independent financial advisor. As of April 27, 2010, there were no updates regarding the Company's planned IPO.

27. Segment Information

Since the Group has only one business segment, the primary segment reporting format is determined to be its geographical segments as the Group's risks and rates of return are affected predominantly by differences in the operating locations. The Group's geographical segments are based on the location of the Group's offices where external revenues are generated.

The following table presents the Group's revenue, expenses and certain asset information by reference to its geographical segments:

December 31, 2009:

	Philippines			Singapore PGI	Elimination items	Consolidated financial statements
	DFNN	iWave*	HatchAsia			
Revenue	₱11,579,718	₱91,758,281	₱28,185,203	₱20,856,336	(₱32,464,931)	₱119,914,607
Cost of services	(49,153,611)	(67,277,875)	(23,833,404)	(10,447,748)	6,780,534	(143,932,104)
Gross profit (loss)	(37,573,893)	24,480,406	4,351,799	10,408,588	(25,684,397)	(24,017,497)
Operating expenses	(41,815,487)	(26,398,712)	(722,471)	(29,549,573)	142,350	(98,343,893)
Segment results	(79,389,380)	(1,918,306)	3,629,328	(19,140,985)	(25,542,047)	(122,361,390)
Interest income	2,487,647	408,649	-	-	(117,483)	2,778,813
Interest expense	(18,556,321)	(69,839)	(2,074,208)	(13,642,010)	14,139,299	(20,203,079)
Foreign exchange gain (loss)	649,361	(489,301)	-	-	(17,696)	142,364
Others - net	(480,994)	292,227	13,602,308	(547,868)	(76,422,869)	(63,557,196)
Provision for income tax	(9,974,921)	(955,751)	(252,520)	-	-	(11,183,192)
Net income (loss)	(₱105,264,608)	(₱2,732,321)	₱14,904,908	(₱33,330,863)	(₱87,960,796)	(₱214,383,680)
Segment assets	₱132,944,210	₱62,345,258	₱41,299,394	₱157,170,118	(₱40,121,560)	₱353,637,420
Segment liabilities	₱27,740,578	₱56,660,401	₱46,343,922	₱26,824,762	(₱25,805,736)	₱131,763,927
Capital expenditures for the year	P-	₱1,641,234	P-	P-	(₱1,641,234)	(₱1,641,234)

*Consolidated figures with IAPCL.

December 31, 2008:

	Philippines			Singapore PGI	Elimination items	Consolidated financial statements
	DFNN	iWave*	HatchAsia			
Revenue	₱26,198,662	₱96,228,313	₱31,763,375	₱20,804,678	(₱31,763,374)	₱143,231,654
Cost of services	(29,950,670)	(59,359,282)	(28,642,661)	(15,474,740)	2,382,421	(131,044,932)
Gross profit (loss)	(3,752,008)	36,869,031	3,120,714	5,329,938	(29,380,953)	12,186,722
Operating expenses	(29,708,111)	(34,830,459)	(975,396)	(40,003,381)	1,509,140	(104,008,207)
Segment results	(33,460,119)	2,038,572	2,145,318	(34,673,443)	(27,871,813)	(91,821,485)
Interest income	2,256,498	631,362	64,708	87,860	(438,096)	2,602,332
Interest expense	(745,835)	(563,969)	(4,337,714)	(397,348)	438,097	(5,606,769)

Foreign exchange gain (loss)	(539,298)	(72,726)	-	-	-	(612,024)
Dividend income	3,250	-	-	-	(3,250)	-
Others - net	(51,399)	2,287,990	7,800,481	(2,622,990)	66,002,287	73,416,369
Benefit from (provision for) income tax	9,289,992	(2,874,859)	(86,450)	-	-	6,328,683
Net income (loss)	(P23,246,911)	P1,446,370	P5,586,343	(P37,605,921)	P38,127,225	(P15,692,894)
Segment assets	P126,921,271	P42,860,424	P50,784,915	P249,962,673	(P21,386,547)	P449,142,736
Segment liabilities	P32,750,452	P35,743,081	P88,983,697	P76,060,442	(P29,563,532)	P203,974,140
Capital expenditures for the year	P462,142	P1,110,041	P-	P-	(P1,572,183)	(P1,572,183)

*Consolidated figures with IAPCL.

December 31, 2007:

	Philippines			Singapore	Elimination items	Consolidated financial statements
	DFNN	iWave*	HatchAsia	PGI		
Revenue	P1,992,367	P100,044,542	P-	P21,099,142	P-	P123,136,051
Cost of services	(22,839,757)	(82,372,905)	(23,818,731)	(124,692)	2,149,434	(127,006,651)
Gross profit (loss)	(20,847,390)	17,671,637	(23,818,731)	20,974,450	2,149,434	(3,870,600)
Operating expenses	(32,876,909)	(26,345,627)	(534,630)	(26,615,912)	3,382,479	(82,990,599)
Segment results	(53,724,299)	(8,673,990)	(24,353,361)	(5,641,462)	5,531,913	(86,861,199)
Interest income	-	705,406	9,466	493,953	387,971	1,596,796
Interest expense	(1,538,791)	(579,206)	(4,447,488)	(61,126)	628,871	(5,997,740)
Foreign exchange gain (loss)	-	(2,496,944)	-	(377,028)	879,118	(1,994,854)
Others - net	4,639,633	1,550,050	26,170,113	-	75,326,345	107,686,141
Benefit from (provision for) income tax	25,377,964	(446,693)	(39,231)	-	-	24,892,040
Net income	(P25,245,493)	(P9,941,377)	(P2,660,501)	(P5,585,663)	P82,754,218	P39,321,184
Segment assets	P130,076,115	P48,993,759	P40,621,405	P76,963,051	P152,488,406	P449,142,736
Segment liabilities	P46,373,236	P41,792,729	P86,777,867	P3,277,902	P25,752,406	P203,974,140
Capital expenditures for the year	P3,284,821	P1,924,550	P-	P2,550,840	P-	P7,760,211

*Consolidated figures with IAPCL.