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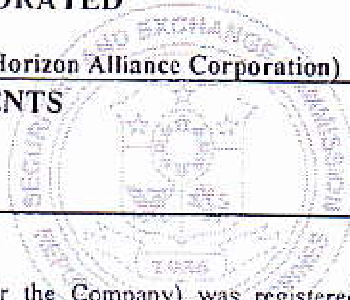
DIGIWAVE SOLUTIONS INCORPORATED
(Formerly Digigames, Inc.;
A Majority Owned Subsidiary of Premiere Horizon Alliance Corporation)

NOTES TO FINANCIAL STATEMENTS



1. Corporate Information

Digiwave Solutions Incorporated (DSI or the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 23, 2006. The Company's primary purpose is to carry out information technology and other related businesses which shall include but is not limited to the production, development, wholesale and distribution of computer software intended for gaming. The Company is a majority-owned subsidiary of Premiere Horizon Alliance Corporation (PHA or the Parent Company) which was incorporated in the Philippines and whose shares are listed in the Philippine Stock Exchange (PSE). On May 24, 2007, the Company entered into a Memorandum of Agreement (MOA) with Philweb Corporation (Philweb) in which Philweb granted the Company a right to operate multiplayer games to be used in Philippine Amusement and Gaming Corporation (PAGCOR) e-Games (PeGS). In addition, the Company has Certificate to Operate issued by PAGCOR.

The Company's registered office address and principal place of business is at SGC Building II, C. Raymundo Avenue, Barangay Maybunga, Pasig City.

On December 18, 2013, the SEC approved the following amendments to Articles of Incorporation of the Company:

a. Change of name of the corporation from Digigames, Inc. to Digiwave Solutions Incorporated; and
b. Increase in authorized capital stock to ₱500,000,000 divided into 500,000,000 shares with par value of ₱1 per share. Out of the increase, the Company subscribed and fully paid-up 78.00 million shares amounting ₱78.00 million by way of stock dividends.

The financial statements of the Company as of and for the years ended December 31, 2013 and 2012 were authorized for issue by the Board of Directors (BOD) on April 4, 2014.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for quoted available-for-sale (AFS) financial assets that have been measured at fair value. The Company's presentation and functional currency is Philippine Peso. All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

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Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The Company is exempted from applying PFRS for Small and Medium-sized Entities since it is part of a group that is reporting under the full PFRS.

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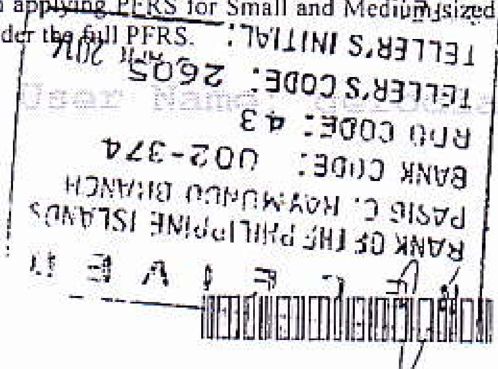

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Changes in Accounting Policies and Disclosures
The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Revised 2011) and amendments to PAS 1, *Presentation of Financial Statements*.

Several other amendments apply for the first time in 2013. However, they do not impact the annual financial statements of the Company.

The nature and the impact of each new standard and amendment are described below:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  c) The net amounts presented in the balance sheet;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The adoption of this standard did not have a significant impact on the Company's balance sheet and statement of comprehensive income.

- PFRS 10, *Consolidated Financial Statements*
  The Company adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standard Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The amendments are not relevant to the Company.

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- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities

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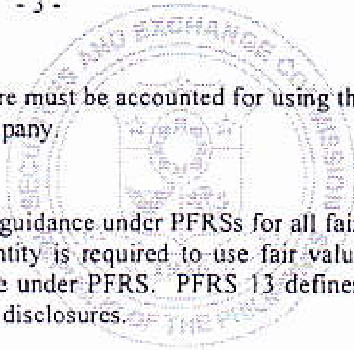


that meet the definition of a joint venture must be accounted for using the equity method. The new standard is not relevant to the Company.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The Company does not have any financial instruments to be presented under the fair value hierarchy.

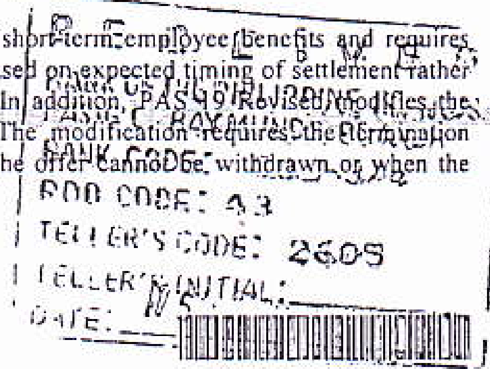
- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's balance sheet or statement of comprehensive income.

- PAS 19, *Employee Benefits* (Revised)
  For defined benefit plans, the PAS 19 Revised requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the PAS 19 Revised, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the PAS 19 Revised, the Company changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in income or loss in the period they occur.

  PAS 19 Revised replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  PAS 19 Revised also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, PAS 19 Revised modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.



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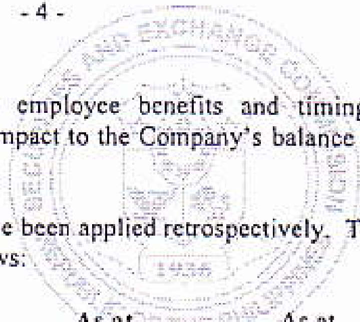

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's balance sheets and statements of comprehensive income.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	As at December 31, 2013	As at December 31, 2012	As at January 1, 2012
Increase (decrease)			
Balance sheets			
Pension liabilities	(₱525,272)	(₱356,436)	₱330,963
Other comprehensive income	530,364	346,298	(330,963)
Retained earnings	(5,092)	10,138	–

	Years Ended December 31	
	2013	2012
Statements of comprehensive income		
Net income for the year	(₱15,230)	₱10,138
Re-measurement loss on defined benefit obligation	184,066	677,261
Total comprehensive income	₱168,836	₱687,399

The adoption did not have a significant impact on statement of cash flows.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the financial statements of the Company.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is not relevant to the Company.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

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- PFRS 1, First-time Adoption of International Financial Reporting Standards - *Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, Financial Instruments: *Recognition*

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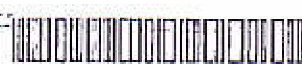

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and Measurement, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

Annual Improvements to PFRS (2009-2011 cycle)
The *Annual Improvements to PFRS* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The Company adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Company's balance sheet or statement of comprehensive income.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Company's balance sheet or statement of comprehensive income.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Company's balance sheet or statement of comprehensive income.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's

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previous annual financial statements for that reportable segment. The amendments are not relevant to the Company.

New Accounting Standards, Philippine Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The Company will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2014

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's balance sheet or statement of comprehensive income.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company does not have any derivatives during the current period. However, these amendments would be considered for future novations.

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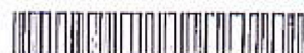
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as



central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's balance sheets or statements of income. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The Company does not expect that adoption of the amendments in PAS 19 will have material financial impact in future financial statements.

Effective subsequent to 2014

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in income or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC 15, *Agreements for the 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

Annual Improvements to PFRS (2010-2012 cycle)
The Annual Improvements to PFRS (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. It is not expected that this amendment would be relevant to the Company.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's balance sheet or statement of comprehensive income.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a Company for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's balance sheet or statement of comprehensive income.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

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The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's balance sheet or statement of comprehensive income.

Annual Improvements to PFRS (2011-2013 cycle)

The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*

  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*

  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's balance sheet or statement of comprehensive income.

- PAS 40, *Investment Property*

  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a Company of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's balance sheet or statement of comprehensive income.

Financial instruments

Date of recognition

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The Company recognizes a financial asset or a financial liability in the balance sheets when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition

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All financial instruments are recognized initially at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities include transaction costs. Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity

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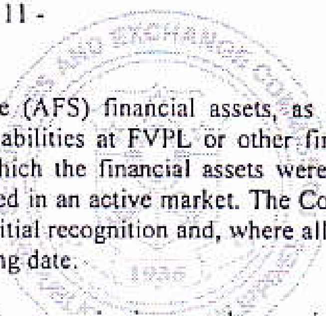


(HTM) financial assets, or available-for-sale (AFS) financial assets, as appropriate. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or financial liabilities incurred and whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as 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.

As of December 31, 2013 and 2012, the Company's financial instruments are of the nature of loans and receivables and other financial liabilities.

Determination of fair value
The Company measures financial instruments and non-financial assets at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

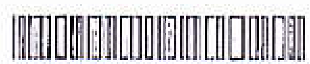
The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable



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For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Amortized cost
HTM investments and loans receivables are measured at amortized cost. This is computed using the effective interest rate method, less allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction cost and fees that are an integral part of the effective interest rate.

Day 1 profit
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Parent Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of income under "Interest income" and "Interest expense" accounts unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit and loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company determines the appropriate method of recognizing the 'Day 1' profit amount.

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR) and other transaction costs. The amortization is included in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are charged to "Provision for impairment losses" account in other comprehensive income.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. This accounting policy relates to the Company's "Cash", "Receivables", "Notes receivable" ,"Due from related parties" and "Receivable from PAGCOR" and "Security deposits" under "Other Noncurrent assets".

AFS financial assets Date: 22-7-2014 Time: 2:9:30 PM
AFS financial assets are those which are designated as such or do not qualify to be classified as designated as at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include equity investments.

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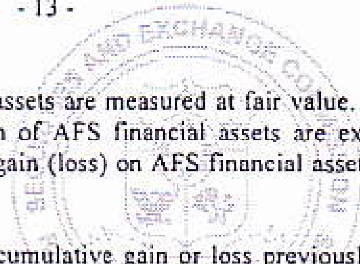

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Unrealized gain (loss) on AFS financial assets" in the statement of comprehensive income.

When the investment is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Interest earned on the investment is reported as interest income using the effective interest method. Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. The losses arising from impairment of such investments are recognized in profit or loss.

The Company's AFS financial assets are classified as noncurrent asset unless the intention is to dispose of such asset within 12 months from the reporting date.

Other financial liabilities
Issued financial instruments or their components, which are not designated as FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities are initially recognized at the fair value of consideration received, less any directly attributable transaction cost. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the Company's 'Trade and other payables', 'Due to related parties', Short-term loan', 'Obligations under finance lease' and 'Loans payable' that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liabilities).

Impairment of Financial Assets
The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

AFS financial assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in statement of comprehensive income.

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Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

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

Where the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

Offsetting Financial Instruments

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

Business Combination and Goodwill

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at *the acquisition date. Subsequent changes to the fair value of the contingent consideration which is* deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

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Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the Company's interest in the fair values of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in income or loss.

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Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in income or loss in the period in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annualy, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Right to Operate

Right to operate pertains to the right to operate PeGS which was acquired as a result of business combination.

Right to operate is amortized on a straight line basis over its estimated useful life of ten (10) years.

Property and Equipment

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Property and equipment is carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use including capitalized borrowing costs incurred during the construction period.

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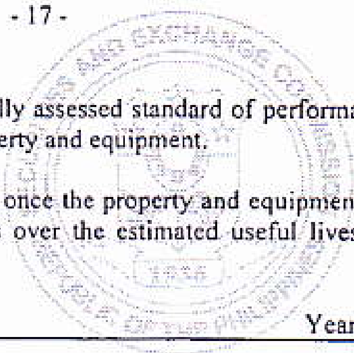
Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase 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 and amortization commences once the property and equipment are available for use and are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Office equipment	5
Furniture and fixtures	5
Transportation equipment	5

Leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset of five (5) years, whichever is shorter.

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of leasehold improvements is capitalized during construction period. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

The estimated residual values, useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that its nonfinancial assets (e.i., property and equipment) may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost 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 group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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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 of continuing operations are recognized in income or loss in those expense categories consistent with the function of the impaired asset.

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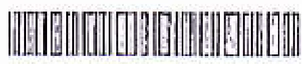
The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU's to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For



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longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment of Goodwill
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cashgenerating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units of groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than carrying amount, an impairment loss is recognized.

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

This accounting policy applies primarily to the Company's 'Intangible Assets' and 'Property and Equipment'.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following specific recognition criteria must also be met before revenue is recognized:

Commissions
Commissions represent earnings from the operation of PeGS, an internet café dedicated to casino games. Commissions are recognized by the Company when earned.

Interest income
Interest is recognized as interest accrues using the effective interest method.

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Pension Costs

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Defined Benefit Obligation
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling

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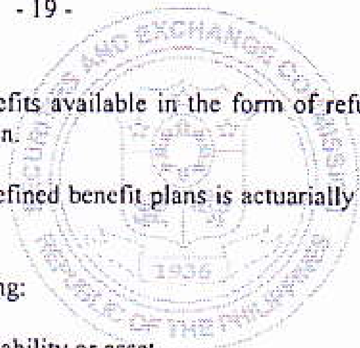

is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost
(b) net interest on the net defined benefit liability or asset
(c) re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Equity

The Company considers the underlying substance and economic reality of its own equity instruments and not merely its legal form in determining its proper classification.

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Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of the ordinary or common shares are presented in equity as capital stock to the extent of the par value of issued shares.

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Subscription Receivable

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Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

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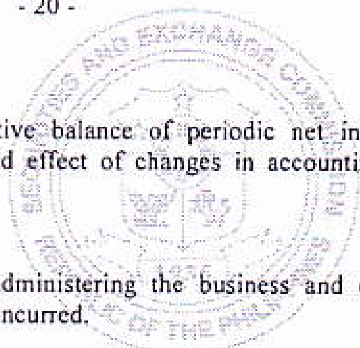

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income/ loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

Cost and expenses
Cost and expenses constitute costs of administering the business and costs incurred in the operation of PeGS. These are expensed as incurred.

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

Deferred tax
Deferred tax is provided using the liability method, on all temporary differences, with certain exceptions, at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, Minimum Corporate Income Tax (MCIT), including the carryforward benefits of unused tax credits from unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax assets, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that is 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 as of the financial reporting date. Movements in the deferred tax assets and deferred tax liabilities arising from changes in tax rates are credited to or charged against income for the period.

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

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Value-Added Tax (VAT)
Revenues, expenses and assets are recognized, net of the amount of VAT except:
- Where the VAT incurred on a purchase of assest or services is not recoverable from the tax authority, in which case the VAT recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Where receivable and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from the taxation authority recorded as "Input VAT" account in the balance sheet. Subject to the approval of the taxation authority, input VAT can be claimed for refund or as tax credit for payment of certain types of taxes due to the company.

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 or assets, even if that right is not explicitly specified in an arrangement.

Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement comprehensive of income on a straight-line basis over the lease term.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to against the statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Foreign Currency-denominated Transactions and Translations
Foreign currency exchange gains or losses arising from foreign currency-denominated transactions are recorded using the exchange rates which approximate those rates existing on transaction dates. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at financial reporting date. Foreign exchange gains or losses arising from foreign currency exchange transactions are credited to or charged against operations.

Provisions
Provisions are recognized when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset but only when the reimbursement is probable. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Finance lease commitments - Company as lessee
The Company has entered into a lease for its transportation equipment. The Company has determined that the lease is a finance lease since the Company has the option to buy the leased asset during the leased term. Significant risks and rewards of ownership related to these properties are also transferred to the Company at the end of the lease term.

The carrying amounts of the obligation under finance lease amounted to ₱0.44 million and ₱0.60 million as of December 31, 2013 and 2012, respectively. (see Note 14). The net book value of motor vehicle under finance lease agreement amounted to ₱0.54 million and ₱0.57 million as of December 31, 2013 and 2012, respectively. (see Note 8).

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Operating lease commitments - the Company as lessee
The Company has entered into a contract of lease for the office space it occupies and branches for PeGS operations. The Company has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Company considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset.

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Acquisition accounting
The Company accounts for acquired business using the purchase method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired property, and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired property and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Company's future results of operations. Accordingly, for significant acquisitions, the Company obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition (see Note 10).

Management's Use of Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as discussed below.

Estimating allowance for impairment losses
The Company maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in the individual assessment are payment history, past due status and term. The collective assessment would require the Company to classify its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 and collective 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 receivables amounted to ₱14.73 million and ₱14.75 million as of December 31, 2013 and 2012, respectively (see Note 5).

Estimating useful lives of property and equipment
The Company estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

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The carrying value of the Company's property and equipment amounted to ₱62.96 million and ₱73.41 million as of December 31, 2013 and 2012, respectively (see Note 8).

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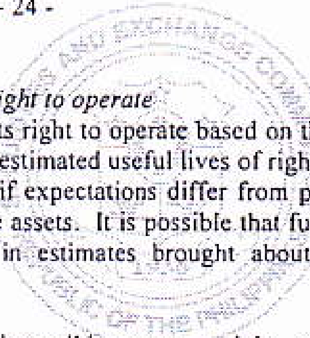

Estimating useful lives of intangible asset - right to operate
The Company estimates the useful lives of its right to operate based on the period over which the Company expects to operate the PeGS. The estimated useful lives of right to operate the PeGS are reviewed at least annually and are updated if expectations differ from previous estimates due to commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The carrying value of the Company's intangible asset - right to operate amounted to ₱25.89 million and ₱28.83 million as of December 31, 2013 and 2012, respectively (see Note 9).

Evaluating impairment of nonfinancial asset
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the Company financial statements.

The following table summarizes the carrying values of the assets subject to impairment:

	2013	2012
Intangible assets - right to operate (Note 9)	**₱25,888,351**	₱28,828,117
Property and equipment (Note 8)	**62,961,487**	73,412,388

Evaluating impairment of goodwill
The Company conducts annual reviews for any impairment in value of the Company's goodwill. For the purpose of the impairment test, assets were grouped at the lowest levels for which there are separately identifiable cash flows. Management has determined that the goodwill pertains to the operations of DSI as the CGUs. Goodwill is written down for impairment when the net present value of the forecasted future cash flows of the business is insufficient to support its carrying value.

The recoverable amounts of the CGUs were determined based on value in use calculations using cash flow projections from financial projections approved by senior management and BOD covering a five-year period.

The determination of the recoverable amount of the CGUs is dependent on the selection of certain assumptions by management. Those assumptions are described in Note 9 and include, among others, cash flow projections and discount rates. While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the carrying amount of goodwill.

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Carrying amount of goodwill amounted to ₱4.16 million as of December 31, 2013 and 2012 (see Note 9).

Deferred tax assets
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences can be utilized. Significant management estimate is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. The Company recognized a deferred tax asset on MCIT amounting to ₱0.11 million as of December 31, 2012 (see Note 19).

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

Pension and other retirement benefits
The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The pension liability amounted to ₱1.57 million and ₱1.31 million as at December 31, 2013 and 2012, respectively (see Note 16).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 16.

Fair value of financial assets and financial liabilities
When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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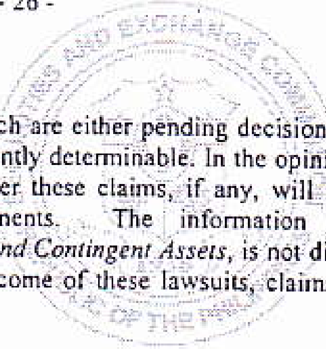

Contingencies
The Company has contingent liabilities which are either pending decision by the courts or being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments (see Note 11).

4. Cash

	2013	2012
Cash on hand	**₱2,639,000**	₱2,325,000
Cash in banks	**8,785,406**	6,648,616
	₱11,424,406	₱8,973,616

Cash in banks earns interest at the prevailing bank deposit rates. Total interest income from cash in banks amounting ₱.04 million ₱0.11 million in 2013 and 2012 was recognized in the statements of comprehensive income.

5. Receivables

	2013	2012
Trade	**₱10,825,331**	₱7,565,120
Other receivables:		
Advances to:		
Employees	**292,299**	1,556,772
Suppliers	**2,318,732**	729,230
Receivable from stock broker	**–**	3,000,000
Others	**1,298,025**	1,895,624
	₱14,734,387	₱14,746,746

Trade receivables include short-term noninterest-bearing commission receivable arising from PeGS operations.

Receivable from stock broker pertains to outstanding balance of S. J. Roxas & Co., Inc. for the sale of the investments in shares of stocks (see Note 11).

Advances to employees and suppliers pertain to unliquidated cash advances. These are non-interest-bearing and are due and demandable.

Other receivables are noninterest-bearing and are due within one year.

The Company maintains an allowance for impairment losses on an individual basis for each significant receivable and on a collective basis for receivables that are not significant. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the agreement.

No provision for impairment losses resulted from performing individual and collective impairment test during the year.

6. Notes Receivable

In 2011, the Company sold through the PSE its 208.80 million Parent Company shares at ₱.30 per share aggregating ₱62.64 million. Promissory notes secured with shares were executed for the unpaid portion amounting ₱43.83 million (see Note 11). In 2012, the Company collected ₱42.33 million.

7. Other Current Assets

	2013	2012
Input value added tax	₱5,492,364	₱6,136,381
Deferred lease expense - current (Note 22)	151,563	103,175
Prepaid expenses	280,556	–
	₱5,924,483	₱6,239,556

The input VAT is applied against output VAT. The current portion amounting ₱5.49 million and ₱6.14 million as of December 31, 2013 and 2012, respectively, is expected to be recovered in the following year after the reporting date. The remaining balance which is presented under the other noncurrent assets account in the balance sheets amounting to ₱13.80 million as of December 31, 2013 is recoverable in future periods after year 2013 (see Note 11).

8. Property and Equipment - net

	2013				
	Office Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment (Note 14)	Total
Cost:					
Balances at beginning of year	₱85,317,702	₱67,439,014	₱7,394,246	₱2,841,000	₱162,991,962
Additions	3,942,746	9,207,716	1,719,298	120,000	14,989,759
Balances at end of year	89,260,448	76,646,730	9,113,544	2,961,000	177,981,721
Accumulated depreciation and amortization:					
Balances at beginning of year	59,620,811	25,567,252	3,162,264	1,229,247	89,579,644
Depreciation and amortization	9,264,281	14,350,518	1,532,017	293,845	25,440,661
Balances at end of year	68,885,092	39,917,770	4,694,281	1,523,092	115,020,235
Net book values	₱20,375,356	₱36,728,960	₱4,419,263	₱1,437,908	₱62,961,487

	2012 (As restated)					
	Office Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment (Note 14)	Construction In Progress	Total
Cost:						
Balances at beginning of year	₱67,616,427	₱39,354,481	₱4,841,606	₱1,116,000	₱2,189,396	₱115,117,910
Additions	17,701,275	15,872,378	3,750,943	1,725,000	10,022,759	49,072,355
Disposals	–	–	(1,198,303)	–	–	(1,198,303)
Reclassifications	–	12,212,155	–	–	(12,212,155)	–
Balances at end of year	85,317,702	67,439,014	7,394,246	2,841,000	–	162,991,962
Accumulated depreciation and amortization:						
Balances at beginning of year	44,347,111	16,900,186	3,381,865	696,654	–	65,325,816
Depreciation and amortization	15,273,700	8,667,066	978,702	532,593	–	25,452,061
Disposals	–	–	(1,198,303)	–	–	(1,198,303)
Balances at end of year	59,620,811	25,567,252	3,162,264	1,229,247	–	89,579,574
Net book values	₱25,696,891	₱41,871,762	₱4,231,982	₱1,611,753	₱–	₱73,412,388

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The Company has fully depreciated property and equipment which are still in use amounting nil and ₱0.40 million in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, respectively, transportation equipment includes the following amounts where the Company is a lessee under finance lease arrangement (see Note 14):

	2013	2012
Cost	₱595,000	₱595,000
Less accumulated depreciation	59,881	29,750
Net book values	₱535,119	₱565,250

9. Intangible Assets

	2013		
	Goodwill (Note 10)	**Right to Operate (Note 10)**	**Total**
Cost:			
Balances at beginning and end of year	**₱4,158,037**	**₱29,397,663**	**₱33,555,700**
Accumulated amortization and impairment losses			
Balances at beginning of year	**–**	**569,546**	**569,546**
Amortization during the year	**–**	**2,939,766**	**2,939,766**
Balances at end of year	**–**	**3,509,312**	**3,509,312**
Net book values	**4,158,037**	**25,888,351**	**30,046,388**
Provisional goodwill (Note 10)	**22,811,672**	**–**	**22,811,672**
Total	**₱26,969,709**	**₱25,888,351**	**₱52,858,060**

	2012 (As restated)		
	Goodwill (Note 10)	Right to Operate (Note 10)	Total
Cost:			
Balances at beginning and end of year	₱4,158,037	₱29,397,663	₱33,555,700
Accumulated amortization and impairment losses			
Balances at beginning of year	–	–	–
Amortization during the year	–	569,546	569,546
Balances at end of year	–	569,546	569,546
Net book values	₱4,158,037	₱28,828,117	₱32,986,154

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The Company's goodwill pertains to the excess of the acquisition cost over the fair values of the net assets of the acquired PeGS.

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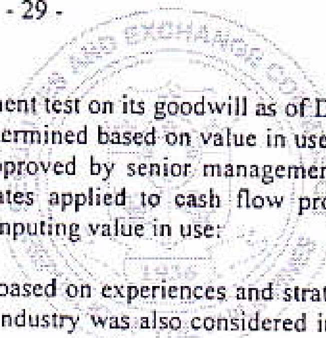

The Company performed its annual impairment test on its goodwill as of December 31, 2013. The recoverable amount of the goodwill was determined based on value in use calculations using cash flow projections from financial budgets approved by senior management and BOD covering a five-year period. The pre-tax discount rates applied to cash flow projections is 15%. The following assumptions were also used in computing value in use:

Growth rate estimates - growth rates were based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

Discount rates - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

No impairment on goodwill was recognized in 2013 and 2012.

10. Business Combination

In 2012, the Company acquired ten (10) existing PeGS from various individual operators. For and in consideration of an agreed purchase price the seller sells, assigns, transfers and conveys to the Company the business of PeGS operation, leasehold rights on the PeGS site, and various computer gaming terminals and office equipment in the PeGS site. Upon consummation of the sale, the parties agree to turn-over the business operations with the seller authorizing the Company to manage the PeGS.

The purchase of existing PeGS by the Company constitutes a business in accordance with the definition set forth in PFRS 3, *Business Combination*. Appendix A of PFRS 3 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. In the separate financial statements, the Company should recognize separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, if any. The Company should measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

In 2012, the accounting for this business combination was determined provisionally as the Company is still finalizing the fair valuation of the assets acquired.

In 2013, upon effecting the final terms of the transactions, the breakdown of the fair value of identifiable assets acquired are as follows:

Right to operate	₱29,397,663
Property and equipment	5,908,400
Goodwill	4,158,037
	₱39,464,100

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The business combination has been applied retrospectively. The effect of adoption on the December 31, 2012 financial statements is as follows:

Increase (decrease)	
Balance sheet	
Property and equipment	₱1,104,004
Intangible assets	(569,546)
Statement of comprehensive income	
Depreciation	(₱1,104,004)
Amortization	569,546
Net income	₱534,458

In 2013, the Company acquired five (5) existing PeGS from various individual operators for a total consideration of ₱24.50 million. The accounting for this business combination was determined provisionally as the Company is still finalizing the fair valuation of the assets acquired. This will be finalized in 2014 as allowed by PFRS.

The provisional fair value of identifiable assets amounted to ₱1.69 million.

Goodwill arising from acquisition follows:

Consideration transferred	₱24,500,000
Less fair value of identifiable assets	1,688,328
Goodwill arising from acquisition	₱22,811,672

11. Other Noncurrent Assets

	2013	2012
Input VAT - noncurrent (net of impairment losses amounting to ₱3.45 million in 2013 and nil in 2012	**₱13,797,931**	₱11,111,035
Security deposits	**12,325,034**	10,948,276
Receivable from PAGCOR	**3,042,702**	3,042,702
Advance rent (Note 22)	**1,836,804**	–
Construction bond	**564,724**	313,904
Deferred lease expense - noncurrent (Note 22)	**333,512**	234,486
Cash bond	**286,982**	–
	₱32,187,689	₱25,650,403

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Noncurrent input VAT amounting ₱13.80 million and ₱11.11 million as of December 31, 2013 and 2012, respectively is recoverable in future periods after year 2013. In 2013, impairment loss on Input VAT amounted to ₱3.45 million.

Security deposits pertain to the deposits paid by the Company to certain lessors at the inception of the lease contracts, which will be refunded at the end of the lease term (see Note 22).

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In 2012, the Company sold all its investments in shares of stock for an aggregate amount of ₱4.94 million resulting to a gain on sale of investment amounting to ₱1.15 million.

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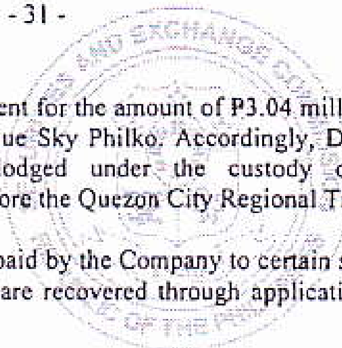

In 2011, DSI received a notice of garnishment for the amount of ₱3.04 million in relation with the Specific Performance case filed against Blue Sky Philko. Accordingly, DSI's commission from Philweb for the same amount was lodged under the custody of PAGCOR. As at December 31, 2013, the case is pending before the Quezon City Regional Trial Court.

Construction bonds pertain to the deposits paid by the Company to certain service providers at the inception of the service contracts. These are recovered through application over future service billings.

12. Trade and Other Payables

	2013	2012
Trade	₱14,513,408	₱16,425,350
Accrued expenses	11,057,979	9,396,195
Accrued rent expenses (Note 22)	1,576,412	201,496
Others	456,504	326,984
	₱27,604,303	₱26,350,025

Trade payables include transactions involving purchases of supplies, charges on commissions and materials and labor in relation to leasehold improvements. These are due and demandable.

Other payables pertain to statutory payables of the Company.

13. Short-term Loan

	2013	2012
Loan from a local bank with principal amount of ₱20,000,000 initially due on May 3, 2013 at an original interest rate of 6.5% to be repriced monthly; loan has been reapplied until May 28, 2014	₱19,000,000	₱20,000,000
Loan from a local bank with principal amount of ₱13,000,000 intially due on July 26, 2013 at an original interest rate of 7.0% to be repriced monthly; loan has been reapplied until November 20, 2014	12,350,000	–
Loan from a local bank with principal amount of ₱12,000,000 initially due on September 20, 2013 at an original interest rate of 7.0% to be repriced monthly; loan has been reapplied until September 20, 2014	12,000,000	–
Loan from a local bank with principal amount of ₱5,000,000 initially due on August 26, 2013 at an original interest rate of 7.0% to be repriced monthly; loan has been reapplied until February 21, 2014	5,000,000	–

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	2013	2012
Loan from a local bank with principal amount of ₱5,000,000 payable in twelve equal monthly payments starting May 27, 2013 subject to 7% interest rate to be repriced monthly	₱1,666,667	₱–
Loan from a local bank with principal amount of ₱5,000,000 payable in twelve equal monthly payments starting June 27, 2013 subject to 7% interest rate to be repriced monthly	2,083,333	–
	₱52,100,000	₱20,000,000

Total interest expense on loans amounted to ₱3.59 million and ₱0.22 million in 2013 and 2012, respectively.

14. Obligations Under Finance Lease

In 2012, the Company acquired a Chery V2 compact van amounting to ₱0.60 million. The transportation equipment was acquired and will be paid on a monthly installment basis for a period of forty eight (48) months with interest rate of 23.03%. The Company initially recognized this finance lease at its transaction price and subsequently carried at amortized cost less payments.

Interest expense arising from the finance lease amounted to ₱0.01 million in 2012 and ₱0.05 million in 2013.

15. Loans Payable

On March 9, 2012, the Company obtained a long-term loan amounting to ₱0.92 million with a tenor of 36 months years, commencing on February 9, 2012 to February 9, 2015, ₱0.03 million monthly payments upon maturity. The loan was obtained to finance acquisition of one unit NHR 4-wheeler light duty truck with passenger van.

Interest expense arising from the loans payable amounted to ₱0.10 million in 2012 and ₱0.09 million in 2013.

16. Pension Costs

The Company has a qualified noncontributory defined benefit plan covering all regular employees. Benefits are based on the employee's years of service and final plan salary.

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Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any pension plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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The following tables summarize the funded status and amounts recognized in balance sheets and the components of the net pension costs recognized in the statements of income and re-measurement gains (losses) recognized in OCI for the pension plan.

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Pension cost recognized in the statements of comprehensive income:

	2013	2012 (As restated, Note 2)
Service cost	₱368,836	₱411,919
Interest expense on defined benefit obligation	80,001	103,705
	₱448,837	₱515,624

Re-measurements gains on defined benefit obligation recognized under OCI in the statement of comprehensive income:

	2013	2012 (As restated, Note 2)
Actuarial losses due to:		
Changes in:		
Demographic assumptions	₱683,910	₱–
Financial assumptions	(158,979)	2,387,515
Experience adjustments	(340,865)	(1,710,254)
Re-measurement gains on defined benefit obligation	₱184,066	₱677,261

Cumulative re-measurement effect recognized in OCI included in the retained earnings:

	2013	2012 (As restated, Note 2)
Balances at beginning of year	₱677,261	₱–
Actuarial gain	184,066	677,261
Total amount recognized in OCI at end of year	₱861,327	₱677,261

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012
Defined benefit obligation at beginning of year	₱1,309,349	₱1,470,986
Service cost	368,836	411,919
Interest expense on defined benefit obligation	80,001	103,705
Actuarial losses due to:		
Changes in:		
Financial assumptions	158,979	(2,387,515)
Demographic assumptions	(683,910)	–
Benefits paid	340,865	1,710,254
Defined benefit obligation at end of year	₱1,574,120	₱1,309,349

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Pension liabilities as reported in the balance sheets:

	2013	2012 (As restated, Note 2)
Present value of defined benefit obligation	**₱1,574,120**	₱1,309,349
Fair value of plan assets	**–**	–
Pension liabilities	**₱1,574,120**	₱1,309,349

The cost of defined benefit pension plans as well as the present value of the pension liabilities is determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension are shown below:

	2013	2012
Discount rate	**5.65%**	6.11%
Future salary increase rate	**5.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (decrease)	Effect on the retirement benefit obligation
Discount rate	+1%	(₱321,681)
	-1%	424,998
Salary increase	+1%	404,533
	-1%	(314,110)

The Company does not have a formal retirement plan and is therefore still unfunded.

The Company is not expected to make any contributions to its pension plan assets in 2014.

Shown below is the maturity profile of the undiscounted benefit payments:

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	Expected benefits payments
Less than one year	₱515,750
More than one year to five years	69,458
More than five years to 10 years	–
More than 10 years to 15 years	977,336
More than 15 years to 20 years	–
More than 20 years	–

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The average duration of the defined benefit obligation at the end of the reporting period is 27.10 years.

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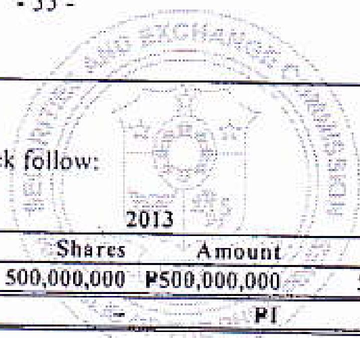

17. Equity

The details of the Company's common stock follow:

	2013		2012	
	Shares	Amount	Shares	Amount
Authorized	500,000,000	₱500,000,000	500,000	₱50,000,000
Par value	–	₱1	–	₱100
Issued shares:				
Balances at beginning of year	50,000,000	₱50,000,000	500,000	₱50,000,000
Issuance during the year thru stock dividends	78,000,000	78,000,000	–	–
Balances at end of year	128,000,000	₱128,000,000	500,000	₱50,000,000
Subscribed (net of subscription receivable of ₱34.50 million)	34,500,000	₱34,500,000	–	₱–
Outstanding shares	162,500,000	₱162,500,000	500,000	₱50,000,000

On December 18, 2013, the SEC approved the increase in authorized capital stock to ₱500.00 million divided into 500.00 million shares with par value of ₱1 per share.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes as of and for the years ended December 31, 2013 and 2012. The Company's sources of capital are capital stock and retained earnings amounted to ₱132.45 million and ₱131.17 million as of December 31, 2013 and 2012, respectively. The Company is not subject to externally imposed capital requirements.

Retained Earnings

	2013	2012 (As restated, Note 2)
Retained earnings:		
Unappropriated	₱12,871,888	₱32,665,453
Appropriated	–	50,000,000
Cumulative re-measurement gain on defined benefit obligation (Note 16)	861,327	677,261
	₱13,733,215	₱83,342,714

Appropriation of retained earnings

On November 29, 2012, the Board of Directors of the Company approved the appropriation of accumulated retained earnings for future stock dividend declaration amounting to ₱50.00 million. The Company will apply for increase in capital stock in 2013.

In January 2013, the BOD approved the appropriation of accumulated earnings for future stock dividend declaration amounting to ₱28.00 million.

On December 18, 2013, the Company declared 156% stock dividend amounting to ₱78.00 million. On the same date, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱78.00 million.

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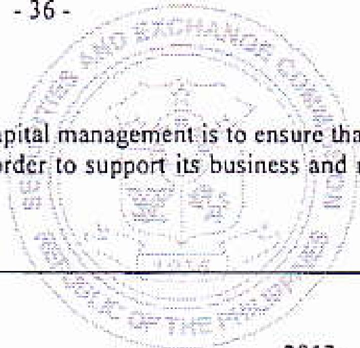

Capital management
The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

18. Cost of Services

	2013	2012
Salaries, wages and other employee benefits (Note 20)	**₱39,530,094**	₱30,042,773
Depreciation and amortization (Notes 8 and 9)	**24,099,895**	15,960,174
Rent (Note 22)	**23,180,397**	15,763,419
Utilities	**17,636,320**	10,878,535
Security and janitorial Services	**14,248,210**	4,051,154
Taxes and licenses	**4,580,425**	2,889,794
Internet and communication	**4,017,242**	1,850,508
Repairs and maintenance	**2,814,845**	3,278,216
Marketing	**2,350,368**	3,758,129
Transportation and travel	**1,993,954**	1,540,644
Entertainment, amusement and recreation	**1,477,574**	2,713,204
Office supplies	**362,445**	1,906,401
Professional fees	**122,908**	360,821
Meetings, seminars and gatherings	**65,621**	453,455
Others	**469,180**	236,606
	₱136,949,478	₱95,683,833

19. Income Tax

The provision for income tax as shown in the statement of comprehensive income consists of:

	2013	2012
Current	**₱5,707,159**	₱997,491
Final	**8,234**	25,504
Percentage	**–**	24,675
Deferred	**–**	(110,830)
	₱5,715,393	₱936,840

Provision for current income tax in 2013 and 2012 pertain to RCIT and MCIT, respectively. Provision for final tax in 2013 and 2012 consists of final taxes on interest income earned on cash in banks. In 2012, the Company recognized deferred tax assets pertaining to MCIT amounting ₱0.11 million.

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The reconciliation of statutory income tax to the effective income tax follows:

	2013	2012
Provision for income tax at statutory income tax rate	₱4,176,548	₱830,110
Tax effects of:		
Impairment loss on input VAT	1,034,845	–
Change in unrecognized deferred tax assets	547,126	215,135
Nondeductible expenses	4,077	243,642
Interest income subject to:		
Final tax	(₱2,869)	(₱4,088)
Accretion	(44,334)	(26,075)
Percentage tax	–	(321,884)
	₱5,715,393	₱936,840

The Company did not recognize deferred tax assets on the following temporary differences and future tax benefits:

	2013	2012
Pension liabilities	₱1,574,120	₱1,309,349
Accrued rent expense	1,576,412	201,496
	₱3,150,532	₱1,510,845

Deferred tax assets are recognized only to extent that taxable income will be available against which the deferred tax assets can be used.

The carryforward benefits of MCIT that can be claimed as a deduction from future taxable income or used as deductions against income tax liabilities are as follows:

MCIT:

Year Incurred	Amount	Applied in the Prior Year	Applied in the Current Year	Balance	Expiry Year
2012	₱110,830	₱–	₱110,830	₱–	2015

20. Related Party Transactions

The Company has noninterest-bearing advances to PHA, its parent company, for working capital requirements. These advances have no fixed repayment terms and are due and demandable.

The Company's related party transactions are as follows:

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Category	Year	Amount/ Volume of due from related party	Outstanding balance of due from related party	Terms	Conditions
PHA					
a. Consultancy	2013	₱–	₱–	Due and demandable; non-interest bearing	Unsecured, no impairment
	2012	14,000,000	–	-do-	-do-

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Category	Year	Amount/ Volume of due from related party	Outstanding balance of due from related party	Terms	Conditions
b. Rental income	2013	₱–	₱–	Due and demandable; non-interest bearing	Unsecured, no impairment
	2012	214,000	–	-do-	-do-
c. Advances	2013	36,689,835	44,987,208	-do-	
	2012	22,421,316	19,360,314	-do-	
Redstone Construction & Development Corporation					
a. Advances	2013	10,000,000	3,376,708	Due and demandable; non-interest bearing	Unsecured, no impairment
	2012	–	–	–	-do-
	2013	₱46,689,835	₱48,363,916		
	2012	36,635,316	19,360,314		

a. The key management personnel of the Company are employees of the Parent Company. Commencing July 2011 until July 2012, DSI incurred consultancy fee which is paid to the Parent Company exclusive of input and withholding taxes. This is pursuant to the resolution reached by DSI's BOD in a meeting held on July 15, 2011.

b. In 2012, the Parent Company subleases a portion of the office space. Monthly rental fee is paid to DSI at a fixed rate of ₱0.04 million per month. Contract between the parties expired in July 2012.

21. Financial Risk Management Objectives and Policies

The Company's principal financial assets and financial liabilities comprise of loan payable and due to and from related parties. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and financial liabilities such as trade and other receivables and payables which arise directly from its operations.

The carrying values of the Company's financial assets and financial liabilities per category are equal to the estimated fair values except for the following financial assets and financial liabilities:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Security deposits	₱12,325,034	₱11,839,959	₱10,948,279	₱10,431,049
Receivable from PAGCOR	3,042,702	2,193,642	3,042,702	2,158,711
Other financial liabilities				
Obligations under finance lease	435,155	493,082	564,686	660,100
Loans payable	407,535	438,004	704,413	818,548

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The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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Financial assets
The carrying values of cash, receivables, notes receivable and amounts due from related parties approximate their fair values due to the short-term nature of the transactions.

The fair values of noncurrent security deposits were based on the discounted value of future cash flows using the applicable interest rates for similar types of financial instruments. The discount rate used ranges from 6.06% to 7.11%.

Financial liabilities
The carrying amounts of trade and other payables and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

The carrying amount of the short-term loan approximates its fair value due to the short-term nature of the transactions in 2013 and 2012.

The fair value of the obligations under finance lease and loans payable were based on the discounted value of future cash flows using the applicable effective interest rates for similar types of financial instruments. The discount rate used ranges from 10.55% to 15.08%.

Fair Value Hierarchy
The Company uses the following hierarchy for determining the fair value of financial assets and financial liabilities:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2013 and 2012 the Company does not have any financial instruments to be presented under the fair value hierarchy required by PFRS 7.

The main risks arising from the Company's financial assets and financial liabilities are liquidity risk, credit risk and market risk. The BOD reviews and approves policies for managing each of these risks which are summarized below:

a. *Liquidity risk*

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

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   Management information systems focus on significant issues and produce timely, accurate, complete, and meaningful information to enable effective management of liquidity.

   The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from trade and other payables and the maturity of loans payable.

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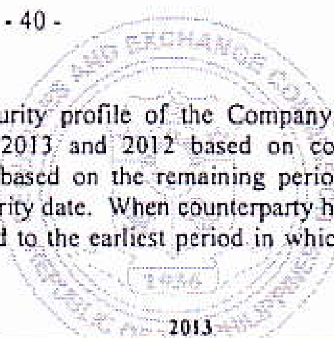
   Management fully understands all aspects of liquidity risk. Management anticipates and responds well to changing market conditions.



The tables below summarize the maturity profile of the Company's financial assets and financial liabilities at December 31, 2013 and 2012 based on contractual undiscounted payments. The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Company can be required to pay.

	2013			
	<120 days	121-360 days	>360 days	Total
Financial Assets:				
Cash	₱11,424,406	₱–	₱–	₱11,424,406
Receivables				
Trade	10,825,331	–	–	10,825,331
Others	1,298,025	–	–	1,298,025
Due from related parties	48,363,916	–	–	48,363,916
Other noncurrent assets				
Security deposits	–	–	12,325,034	12,325,034
Receivable from PAGCOR	–	–	3,042,702	3,042,702
	71,911,678	–	15,367,736	87,279,414
Financial Liabilities:				
Trade and other payables				
Trade	14,513,408	–	–	14,513,408
Others	5,546,403	5,511,576	–	11,057,979
Short - term loan	5,000,000	47,100,000	–	52,100,000
Obligations under finance lease (including current portion and interest expense)	81,434	263,431	62,670	407,535
Loans payable (including current portion and interest expense)	34,706	109,186	291,228	435,120
	25,175,951	52,984,193	353,898	78,514,042
Net undiscounted financial assets (liabilities)	₱46,735,727	(₱52,984,193)	₱15,013,838	₱8,765,372

	2012			
	<120 days	121-360 days	>360 days	Total
Financial Assets				
Cash	₱8,973,616	₱–	₱–	₱8,973,616
Receivables				
Trade	7,565,120	–	–	7,565,120
Receivable from stock broker	3,000,000	–	–	3,000,000
Others	1,895,624	–	–	1,895,624
Notes receivable	1,500,000	–	–	1,500,000
Due from related parties	19,360,314	–	–	19,360,314
Other noncurrent assets				
Security deposits	–	–	10,948,276	10,948,276
Receivable from PAGCOR	–	–	3,042,702	3,042,702
	42,294,674	–	13,990,978	56,285,652
Financial Liabilities				
Trade and other payables				
Trade	14,801,589	337,584	1,286,177	16,425,350
Others	215,965	–	–	215,965
Short - term loan	–	20,000,000	–	20,000,000

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	2012			
	<120 days	121-360 days	>360 days	Total
Obligations under finance lease (including current portion and interest expense)	₱61,000	₱122,000	₱503,250	₱686,250
Loans payable (including current portion and interest expense)	127,708	255,416	446,978	830,102
	15,206,262	20,715,000	2,236,405	38,157,667
Net undiscounted financial assets (liabilities)	₱27,088,412	(₱20,715,000)	₱11,754,573	₱18,127,985

b. *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 Company's credit risks are primarily attributable to cash, trade receivables, other receivables, amounts due from related parties and security deposits. The Company trades only with recognized, creditworthy third parties. The Company's amounts due from related parties are monitored on an ongoing basis resulting to insignificant exposure to bad debts.

With respect to credit risk arising from cash, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company transacts only with banks which have demonstrated financial soundness for the past five years.

An analysis of the maximum exposure to credit risk from the Company's notes receivables and the fair values of the related collaterals as of December 31, 2013 and 2012 are shown below:

	Maximum exposure to credit risk	Fair value of collaterals	Net Exposure
2013	₱–	₱–	₱–
2012	1,500,000	2,200,000	–

The tables below show the credit quality of the Company's financial assets:

	2013				
	Neither past due nor impaired				
	High Grade	Medium Grade	Past due but not impaired	Impaired	Total
Cash in banks	₱8,785,406	₱–	₱–	₱–	₱8,785,406
Receivables					
Trade	10,825,331	–	–	–	10,825,331
Others	1,298,025	–	–	–	1,298,025
Due from related parties	48,363,916	–	–	–	48,363,916
Other noncurrent assets					
Security deposits	12,325,034	–	–	–	12,325,034
Receivable from PAGCOR	–	–	3,042,702	–	3,042,702
	₱81,597,712	₱–	₱3,042,702	₱–	₱84,640,414

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	2012				
	Neither past due nor impaired				
	High Grade	Medium Grade	Past due but not impaired	Impaired	Total
Cash in banks	₱6,648,616	₱–	₱–	₱–	₱6,648,616
Receivables					
Trade	7,565,120	–	–	–	7,565,120
Receivable from third parties	3,000,000	–	–	–	3,000,000
Others	1,895,624	–	–	–	1,895,624
Notes receivable	1,500,000	–	–	–	1,500,000
Due from related parties	19,360,314	–	–	–	19,360,314
Other noncurrent assets					
Security deposits	10,948,276	–	–	–	10,948,276
Receivable from PAGCOR	–	–	3,042,702	–	3,042,702
Available-for-sale financial assets	₱50,917,950	₱–	₱3,042,702	₱–	₱53,960,652

The Company has determined that the credit quality of all neither past nor impaired financial assets as of December 31, 2013 and 2012 are classified as high grade based on the following:

Cash - based on the financial and credit standing of the counterparty.

Receivables and notes receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment.

Security deposits - based on the credit standing/reputation of counterparty.

c. *Market risk*
Market risk is the risk of loss to future earnings, fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates and other market changes.

Foreign currency risk
Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises from financial instruments that are denominated in a United States (US) Dollar which result primarily from movements of the Philippine Peso against the US Dollar.

The Company does not have financial instruments denominated in foreign currency as of December 31, 2013 and 2012.

The Company does not have any foreign currency hedging arrangements.

There is no other impact on the Company's equity other than those already affecting income before tax.

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d. *Interest rate risk*
Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk for changes in market interest rates relates to the Company loans payable to a certain bank subject to floating interest rates.

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Other than the potential impact on income before income tax, there is no other effect on equity.

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22. Contracts and Agreements

PeGS

DSI is responsible for surveying and setting up the place where it will position its internet casino stations. DSI has the following operational responsibilities:

- Provide all personnel relative to the operation of PeGS
- Conduct marketing activities necessary to promote and improve the performance of the PeGS subject to the approval of PAGCOR
- Shall not copy or modify the operating configuration of any of the equipment of PeGS
- Shoulder all space rentals, utility expenses, office supplies and other miscellaneous expenses associated with the operation of the PeGS
- Provide maintenance of all the equipment in the PeGS
- Sell load credits which shall be debited from the DSI's betting credit fund
- Provide advances for redemptions from betting accounts to be reimbursed by PhiWeb the next banking day
- Remit gross hold daily

In consideration of the services rendered by DSI, PAGCOR/PhilWeb agrees to pay DSI a commission based on percentage of the PeGS' gross bets less gross payouts less the applicable taxes.

Total commissions recognized amounted to ₱189.24 million and ₱139.92 million in 2013 and 2012, respectively.

Operating Lease Commitments

In 2011, the Company has outstanding lease agreements with The Orient Square Condominium Corporation covering its previous head office for a period of two years. However, on March 9, 2012, the Company has entered into lease agreements with ITSP, International covering its new head office for a period of five years, commencing on April 15, 2012. DSI also entered into lease agreements with other parties for the PeGS branches for a period of up to five years.

The lease contracts entered into include a clause to enable upward revision with the rental charges on the agreed dates. The agreements also provide that the DSI shall pay security deposits which are refundable upon termination of the contract.

As of December 31, 2013, the difference between the fair value and the principal amount of the security deposit paid at the inception of the lease amounted to ₱0.15 million and ₱0.33 million, which was included in "Other current assets" and "Other noncurrent assets", respectively, net of amortization amounting to ₱0.09 million. The interest income recognized in 2013 and 2012 from the accretion of the security deposits amounted to ₱0.15 million and ₱0.09 million, respectively (see Notes 7 and 11).

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Future minimum rentals payable under operating leases follow:

	2013	2012
Within one year	₱14,753,934	₱13,904,248
After one year but not more than 5 years	43,771,395	34,705,752
	₱58,525,329	₱48,610,000

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Rental expense charged to operations amounted to ₱21.37 million and ₱8.81 million in 2013 and 2012, respectively.

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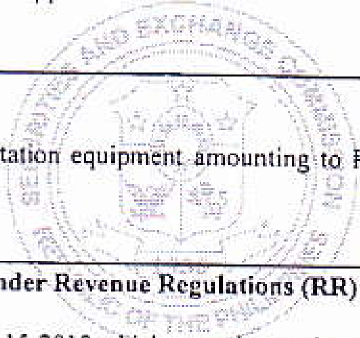

23. Notes to Statements of Cash Flows

In 2012, the Company purchased transportation equipment amounting to ₱0.60 million under a finance lease agreement (see Note 8).

24. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 which amends certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It recognizes the disclosures of taxes, duties and licenses paid or accrued during the taxable year.

In compliance with the requirements set forth by RR 15-2010 hereunder are information on taxes, duties and licenses paid or accrued during the taxable year.

Value-added Tax (VAT)

The NIRC of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. RA No. 9337 increased the VAT rate from 10.0% to 12.0%, effective February 1, 2006.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Output VAT

   Net gross receipts during the year amounted to ₱0.28 million which were subjected to VAT amounting to ₱0.03 million. The Company earned VAT-exempt revenue amounting to ₱189.24 million in 2013.

b. Input VAT declared in the Company's VAT returns filed in for the year ended December 31, 2013 follow:

Balance at January 1	₱17,247,416
Goods other than for resale or manufacture	5,530,918
Capital goods subject to amortization	–
Balance at December 31	22,778,334
Application of input VAT	(38,555)
	₱22,739,779

Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees reported under the "Taxes and licenses" account included in the costs and expenses for the year ended December 31, 2013 follows:

Business permits	₱4,734,271
Registration fee	909,510
Documentary stamp	637,986
Others	335,588
	₱6,617,355

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Withholding Taxes

Details of withholding taxes for the year ended December 31, 2013 follow:

Withholding taxes on compensation and benefits	₱1,767,613
Expanded withholding taxes	1,639,172
Final withholding taxes	8,234
	₱3,415,019

Tax Contingencies

The Company has tax assessments which are either pending decision by the court or are being contested, the outcome of which is not presently determinable. The Company, in consultation with its legal counsel, believes that there are strong legal grounds that it should not be liable to pay the alleged deficiency taxes. In the opinion of management and legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company's financial position and results of operations.

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Digiwave Solutions Incorporated
SGC Building II, C. Raymundo Avenue
Barangay Maybunga, Pasig City

We have audited the financial statements of Digiwave Solutions Incorporated (formerly Digigames, Inc.; a majority owned subsidiary of Premiere Horizon Alliance Corporation) as at and for the year ended December 31, 2013 on which we have rendered the attached report dated April 4, 2014.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the Company has fourteen (14) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-2 (Group A),
March 1, 2012, valid until March 1, 2015
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225235, January 2, 2014, Makati City

April 4, 2014

Date: 22-7-2014 Time: 2:36:48 PM

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
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November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Digiwave Solutions Incorporated
SGC Building II, C. Raymundo Avenue
Barangay Maybunga, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Digiwave Solutions Incorporated (the Company; formerly Digigames, Inc. a majority owned subsidiary of Premiere Horizon Alliance Corporation) and have issued our report thereon dated April 4, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of All Effective Standards and Interpretations is the responsibility of the Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-2 (Group A),
March 1, 2012, valid until March 1, 2015
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225235, January 2, 2014, Makati City

April 4, 2014

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DIGIWAVE SOLUTIONS INCORPORATED
(Formerly Digigames, Inc.;
(A Majority Owned Subsidiary of Premiere Horizon Alliance Corporation)

SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS REQUIRED UNDER SRC RULE 68, AS AMENDED (2011)

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

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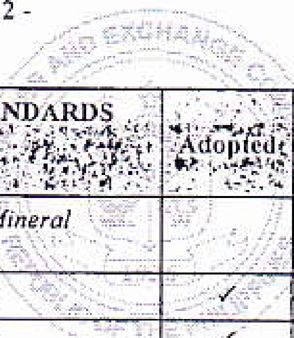

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 6	*Exploration for and Evaluation of Mineral Resources*			✓
PFRS 7	*Financial Instruments: Disclosures*	✓		
	Amendments to PFRS 7: *Transition*	✓		
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets*	✓		
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets - Effective Date and Transition*	✓		
	Amendments to PFRS 7: *Improving Disclosures about Financial Instruments*	✓		
	Amendments to PFRS 7: *Disclosures - Transfers of Financial Assets*	✓		
	Amendments to PFRS 7: *Disclosures - Offsetting Financial Assets and Financial Liabilities*	✓		
	Amendments to PFRS 7: *Mandatory Effective Date of PFRS 9 and Transition Disclosures*	✓		
PFRS 8	*Operating Segments*			✓
PFRS 9	*Financial Instruments*			✓
	Amendments to PFRS 9: *Mandatory Effective Date of PFRS 9 and Transition Disclosures*			✓
PFRS 10	*Consolidated Financial Statements*			✓
PFRS 11	*Joint Arrangements*			✓
PFRS 12	*Disclosure of Interests in Other Entities*			✓
PFRS 13	*Fair Value Measurement*	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	*Presentation of Financial Statements*	✓		
	Amendment to PAS 1: *Capital Disclosures*	✓		
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	✓		
PAS 2	*Inventories*			✓

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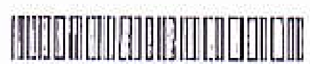

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 7	*Statement of Cash Flows*	✓		
PAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*	✓		
PAS 10	*Events after the Balance Sheet Date*	✓		
PAS 11	*Construction Contracts*			✓
PAS 12	*Income Taxes*	✓		
	Amendment to PAS 12 - *Deferred Tax: Recovery of Underlying Assets*	✓		
PAS 16	*Property, Plant and Equipment*	✓		
PAS 17	*Leases*	✓		
PAS 18	*Revenue*	✓		
PAS 19	*Employee Benefits*	✓		
	Amendments to PAS 19: *Actuarial Gains and Losses, Group Plans and Disclosures*	✓		
PAS 19 (Amended)	*Employee Benefits*	✓		
PAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*			✓
PAS 21	*The Effects of Changes in Foreign Exchange Rates*	✓		
	Amendment: *Net Investment in a Foreign Operation*			✓
PAS 23 (Revised)	*Borrowing Costs*			✓
PAS 24 (Revised)	*Related Party Disclosures*	✓		
PAS 26	*Accounting and Reporting by Retirement Benefit Plans*			✓
PAS 27 (Amended)	*Separate Financial Statements*	✓		
PAS 28	*Investments in Associates*			✓
PAS 28 (Amended)	*Investments in Associates and Joint Ventures*			✓
PAS 29	*Financial Reporting in Hyperinflationary Economies*			✓
PAS 31	*Interests in Joint Ventures*			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 32	*Financial Instruments: Disclosure and Presentation*	✓		
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendment to PAS 32: *Classification of Rights Issues*			✓
	Amendments to PAS 32: *Offsetting Financial Assets and Financial Liabilities*	✓		
PAS 33	*Earnings per Share*			✓
PAS 34	*Interim Financial Reporting*			✓
PAS 36	*Impairment of Assets*	✓		
PAS 37	*Provisions, Contingent Liabilities and Contingent Assets*	✓		
PAS 38	*Intangible Assets*	✓		
PAS 39	Financial Instruments: *Recognition and Measurement*	✓		
	Amendments to PAS 39: *Transition and Initial Recognition of Financial Assets and Financial Liabilities*	✓		
	Amendments to PAS 39: *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*			✓
	Amendments to PAS 39: *The Fair Value Option*			✓
	Amendments to PAS 39 and PFRS 4: *Financial Guarantee Contracts*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets – Effective Date and Transition*			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: *Embedded Derivatives*			✓
	Amendment to PAS 39: *Eligible Hedged Items*			✓
PAS 40	*Investment Property*			✓
PAS 41	*Agriculture*			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*			✓
IFRIC 2	*Members' Share in Co-operative Entities and Similar Instruments*			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	*Reassessment of Embedded Derivatives*			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: *Embedded Derivatives*			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- *Group and Treasury Share Transactions*			✓
IFRIC 12	*Service Concession Arrangements*			✓
IFRIC 13	*Customer Loyalty Programmes*			✓
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*			✓
	Amendments to Philippine Interpretations IFRIC-14, *Prepayments of a Minimum Funding Requirement*			✓
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*			✓
IFRIC 17	*Distributions of Non-cash Assets to Owners*			✓
IFRIC 18	*Transfers of Assets from Customers*			✓
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*	✓		
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*			✓

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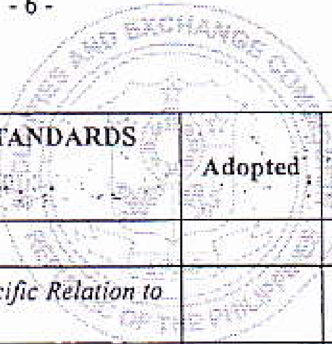

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
SIC-7	*Introduction of the Euro*			✓
SIC-10	*Government Assistance - No Specific Relation to Operating Activities*			✓
SIC-12	*Consolidation - Special Purpose Entities*			✓
	Amendment to SIC - 12: *Scope of SIC 12*			✓
SIC-13	*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*			✓
SIC-15	*Operating Leases - Incentives*			✓
SIC-25	*Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*			✓
SIC-27	*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*			✓
SIC-29	*Service Concession Arrangements: Disclosures.*			✓
SIC-31	*Revenue - Barter Transactions Involving Advertising Services*			✓
SIC-32	*Intangible Assets - Web Site Costs*			✓

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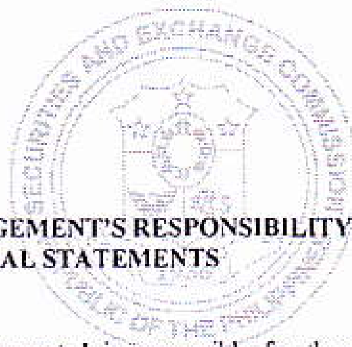
Solutions Incorporated



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Digiwave Solutions Incorporated** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

AUGUSTO ANTONIO C. SERAFICA, JR.
Chairman of the Board

SAMUEL T. JARDIN
President / COO

RAUL MA. F. ANONAS
Chief Financial Officer

Date: 22-7-2014 Time: 2:43:20 PM

Signed this __ day of __________, 2014

APR 11 2014

SUBSCRIBED AND SWORN TO ... DAY OF ... EXHIBITING

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ATTY. RAMON L. CARPIO
NOTARY PUBLIC
UNTIL DEC. 31, 2014
PTR NO. 9625022, 1/03/2014 PASIG CITY

Doc. No. 237
Page No. 48
Book No. ...
SERIES OF 2014

DIGIWAVE SOLUTIONS INCORPORATED
SGC Building 2, C. Raymundo Ave., Maybunga, Pasig City
Tel. No.: 642-0092 / 642-0107 / 642-0119