

COVER SHEET

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S.E.C. Registration Number

B E R J A Y A P H I L I P P I N E S I N C .

f o r m e r l y :

P R I M E G A M I N G P H I L I P P I N E S

I N C .

(Company's Full Name)

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R u f i n o S t . M a k a t i C i t y , M . M .

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

Atty. Malu Sia-Bernas

Contact Person

8110688 or 8921775

Company Telephone No.

0 4 3 0

Month Day

Fiscal Year

1 7 - Q

FORM TYPE

Month Day

Month Day

Annual Meeting
any day in October

Secondary License Type, *If Applicable*

Dept. Requiring this Doc.

Dept. Requiring this Doc.

N.A.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Total No. of Stockholders

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

Document I.D.

Document I.D.

Cashier

Cashier

STAMPS

BERJAYA PHILIPPINES, INC.

(Company's Full Name)

9/F Rufino Pacific Tower, 6784 Ayala Avenue corner V.A. Rufino
(formerly Herrera) Street, Makati City

(Company's Address)

811-0668 / 810-1814

(Telephone Number)

APRIL 30

any day in the month of October

(Fiscal Year Ending)
(month and day)

(Annual Meeting)

November 2024

(Term Expiring On)

SEC Form 17-Q for the quarter ended 31 Oct 2010

(Form Type)

N.A.

(Amendment Designation, if applicable)

(Period Ended Date)

N.A.

(Secondary License Type and File Number)

Cashier

LCU

DTU

Pre War 476
S.E.C Registration Number

Central Receiving Unit

File Number

Document I.D.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended **31 October 2010**
2. SEC Identification Number **476**
3. BIR Tax Identification No. **001-289-374**
4. Exact name of registrant as specified in its charter **BERJAYA PHILIPPINES, INC.**
5. Province, Country or other jurisdiction of incorporation or organization **Manila, Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of Issuer's principal office

9/F Rufino Pacific Tower, 6784 Ayala Avenue, corner Herrera Street, Makati City, M.M.

8. Issuer's telephone number, including area code

(632) 811-0540

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

Former Name: **PRIME GAMING PHILIPPINES INC. and
PRIME GAMING MANAGEMENT CORPORATION**
Former Address: **29/F Rufino Pacific Tower, 6784 Ayala Avenue, corner Herrera
Street, Makati City, M.M.**
Former Fiscal Year **July 1 – June 30**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 & 8 of the RSA

Title of Each Class	Number of Shares of Stock Outstanding
COMMON	953,984,448

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

Yes [] No []]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [] No []]

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

Yes

No

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

See Interim Balance Sheet as of 31 October 2010, attached hereto as Annex "A", and Aging Schedule of Accounts Receivables as of 31 October 2010 attached hereto as Annex "B". For the basic earnings per share, the "weighted average number of shares outstanding" is added to the face of the Interim Consolidated Income Statement.

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

The Corporation's principal activity is investment holding. Since 1998, it has 100% equity ownership of Philippine Gaming Management Corporation (PGMC) whose principal activity is leasing of on-line lottery equipment and providing software support.

In December 2009, the corporation entered into Memorandum of Agreement (MOA) with the stockholders of T.F. Ventures, Inc. (TF) for the sale and purchase of a land and hotel owned by TF and the Company's assumption of TF's liabilities for the total consideration of P785 million.

Perdana Hotel Philippines Inc. (PHPI) and Perdana Land Philippines Inc. (PLPI) were incorporated on December 11, 2009 and started their operations last May 1, 2010. The corporation has 100% equity ownership of PHPI. It was organized to acquire and manage the hotel operations and subscribed forty percent (40%) interest in PLPI, which will acquire and manage the land where the hotel is situated.

The revenue of the subsidiary increased by 12.0% for the period under review due to increase in percentage based on gross receipts from lottery ticket sales and the launching of the Grand Lotto 6/55 game.

As a result, the Corporation for the period under review, recorded a higher consolidated net income of Php409,995,999 mainly due to higher revenue from subsidiaries.

Lower operating expenses resulted mainly from the subsidiary, as a result of decreased in professional fees, maintenance of computer equipment, and other general and administrative expenses, offset with increased in depreciation and amortization, telecommunications and salaries and wages.

Financial Position

Financial Position as of 31 October 2010 vs. 30 April 2010

On a consolidated base, Total Assets as of 31 October 2010 increased to Php2,675,866,813 from Php2,203,525,087 reported for the previous fiscal year. The current assets increased to Php1,600,694,691 from Php1,185,447,678 mainly due to increase in cash and cash equivalents and trade and other receivables.

The consolidated cash position of the Corporation increased to Php508,851,557 from Php254,231,459 due to an increase in collections from customers. In fiscal year ending 30 April 2010, the Corporation utilized its surplus cash on the acquisition of the hotel as part of a strategy to acquire an interest in the operation of a Makati hotel.

Meanwhile, trade and other receivables increased to Php322,800,835 from Php183,767,070. The collections of payments by the subsidiary are still prompt. The increase in the prepaid expenses and other current assets from Php84,578,927 to Php107,622,660 is primarily caused by increase in advances to supplier as an advance payment for the acquisition of on-line lottery equipment with ILTS.

Goodwill remained at Php360,110,253 for fiscal year 2010. This is attributable to the Revised Philippines Financial Reporting Standards where, goodwill is no longer amortized. Instead, goodwill is tested for impairment annually or more frequently if events of changes in circumstances indicate that it might already be impaired.

Property and equipment increased to Php505,422,762 from Php504,609,102 due to acquisition of on-line lottery equipment with ILTS and equipments for the hotel.

For Current Liabilities as of 31 October 2010, Trade Payables increased to Php86,681,901 from Php38,509,406 due to increase in management fee payable, trade payable and deferred output VAT.

Total Consolidated Liabilities increased to Php173,164,295 as of 31 October 2010 compared to Php110,818,568 as of last fiscal year. This is accounted for by higher in estimated liability for retirement benefits and income tax payable are set by reduction in trade payables.

Total stockholders' equity increased to Php2,502,702,518 from Php2,092,706,519 and the book value per share with marginal increased to Php2.62 compared with a book value of Php2.19 in the previous fiscal year.

Cash Flows for the Quarter Ended 31 October 2010 vs. 31 October 2009

The consolidated cash and cash equivalents for 31 October 2009 decreased to Php508,851,557 from Php743,396,689 for the same period last year. The decrease is mainly attributable to changes in operating assets and liabilities.

Key Performance Indicators

The Corporation monitors its performance and benchmarks itself to prior years' results in terms of the following indicators:

	As of 31 Oct 2010	As of 30 Apr 2010
<u>Liquidity Ratios</u>		
Current ratio	10.67:1	13:1
<u>Leverage Ratios</u>		
Debt to Equity	0.92%	0.94%

	For the (6) Months Ended	
	31 Oct 2010	31 Oct 2009
<u>Activity Ratio</u>		
Annualized PPE Turnover	3.37 times	3.23 times
<u>Profitability Ratios</u>		
Annualized Return on Average Equity	32.76%	36.87%
Annualized Return on Average Assets	30.64%	34.59%

The Corporation used the following computations in obtaining the above indicators:

Key Performance Indicators	Formulas
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Long Term Liabilities}}{\text{Stockholders' Equity}}$
PPE Turnover	$\frac{\text{Net Revenues}}{\text{Property, Plant \& Equipment (Net)}}$
Return on Average Equity	$\frac{\text{Net Income}}{\text{Average Equity}}$
Return on Average Assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$

Arising from the above, the current ratio of the Corporation decreased to 10.67:1 from 13.00:1 compared to the last fiscal year. This is mainly due to the increase in current liabilities mainly caused by an increase in trade payables. The Corporation and its subsidiary are still in good liquidity position.

The leverage ratio is still marginal at 0.92% as there is no long-term debt except for the provision of Php23,134,607 for retirement benefits as mandated under the Republic Act 7641 (Retirement Law).

The annualized PPE turnover increased to 3.37 times from 3.23 times due to increased in plant, property and equipment (net). The plant, property and equipment (net) increased from Php476,257,034 to Php505,422,762 for the corresponding period mainly due to additional depreciation for the period under review.

Barring any unforeseen circumstances, the Corporation's Board of Directors is confident that the operating financial performances of the Corporation and its subsidiary are expected to be satisfactory in the coming period.

- i) There is no known trend, event or uncertainty that has or is reasonably likely to have an impact on the Corporation' short term or long-term liquidity.
- ii) The liquidity of the subsidiary would continue to be generated from the collections of revenue from customers. There is no requirement for external funding for liquidity.
- iii) There is no known trend, event or uncertainty that has or that is reasonably expected to have a material impact on the net sales or revenues or income from continuing operations.
- v) There is no significant element of income or loss that would arise from the Group's continuing operations.
- vi) There is no cause for any material change from period to period in one or more of the line items of the Corporation's financial statements.
- vii) There were no seasonal aspects that had a material impact effect on the financial conditions or results of operations.

For other financial details as of 31 October 2010, please refer to the following:

Accounts Receivables – Others – Php 23,369,434 – Part IV (b)(3)(B-F)

The breakdown is as follows:

	<u>Peso</u>
Advances to employees	7,003,226
Advance payments	16,366,208

TOTAL	23,369,434
	=====

There is an advance made to any directors, stockholders, officers or related interests (DOSRI) or any affiliates as of 31 October 2010.

Separate Disclosures regarding the Financial Statements as required under SRC Rule 68.1

1) There are no items affecting the assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size, or incidents.

2) There is no change in the estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years

3) There is no issuance, repurchase or repayment of debts and equity securities.

4) There is no need to disclose segmental information since all its operations are in the Philippines.

5) Except for the purchase by the Issuer of receivables amounting to three hundred million and one pesos (P300,00,001.00) on 4 December 2009 from Philippine Opportunities for Growth and Income (SPV-AMC) Inc. as disclosed on 4 December 2009, and the subscription to 99.9% or 999,995 common shares at a par value of one peso (P1.00) per share of Perdana Hotel Philippines Inc. consistent with its disclosure of 4 December 2009 as part of a strategy to acquire an interest in the operation of a Makati Hotel, there are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

6) There are no business combinations, acquisition or disposals subsidiaries and long-term investments, restructurings and discontinuing operations for the interim period.

7) There are no contingent liabilities or contingent assets since the last annual balance sheet date.


8) There are no material contingencies and any other events or transactions that are material to an understanding of the current interim period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Makati on 15 December 2010.

Issuer: **BERJAYA PHILIPPINES, INC.**

By: **JOSE A. BERNAS**
Corporate Secretary


By: **TAN ENG HWA**
Treasurer /
Principal Financial Officer

BERJAYA PHILIPPINES, INC. AND SUBSIDIARIES
[A Subsidiary of Berjaya Lottery Management (HK) Limited]
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT OCTOBER 31, 2010

Appendix A:

<u>ASSETS</u>	<u>Notes</u>	<u>Consolidated</u> <u>October 31, 2010</u>	<u>Consolidated</u> <u>Audited</u> <u>April 30, 2010</u>
CURRENT ASSETS			
Cash and cash equivalents	7 P	508,851,557	P 254,231,459
Trade and other receivables-net	8	322,800,835	183,767,070
Deposits	14	661,419,639	662,870,222
Prepayments and other current assets	9	<u>107,622,660</u>	<u>84,578,927</u>
Total Current Assets	P	<u>1,600,694,691</u>	P <u>1,185,447,678</u>
NON-CURRENT ASSETS			
Available for sale financial assets	10	44,507,675	44,322,996
Property and equipment - net	11	505,422,762	504,609,102
Investment in and advances to an associate	12	146,973,296	90,528,123
Goodwill		360,110,253	360,110,253
Deferred tax assets - net	21	13,835,984	11,485,817
Other non-current assets	13	<u>6,672,319</u>	<u>7,021,118</u>
Total Non-Current Assets	P	<u>1,077,522,289</u>	P <u>1,018,077,409</u>
TOTAL ASSETS	P	<u>2,678,216,980</u>	P <u>2,203,525,087</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade and other payables	15 P	89,032,068	P 38,509,406
Income tax payable		<u>63,347,787</u>	<u>52,702,555</u>
Total Current Liabilities		152,379,855	91,211,961
NON-CURRENT LIABILITIES			
Retirement benefit obligation	17	<u>23,134,607</u>	<u>19,606,607</u>
Total Liabilities	P	<u>175,514,462</u>	P <u>110,818,568</u>
EQUITY			
Capital stock	20	953,984,448	953,984,448
Treasury shares - at cost		(501,387,473)	(501,387,473)
Revaluation Reserves		3,486,373	3,486,373
Retained earnings		<u>2,046,619,170</u>	<u>1,636,623,171</u>
Total Equity		<u>2,502,702,518</u>	<u>2,092,706,519</u>
TOTAL LIABILITIES AND EQUITY	P	<u>2,678,216,980</u>	P <u>2,203,525,087</u>

See Notes to Financial Statements

BERJAYA PHILIPPINES, INC. AND SUBSIDIARIES
[A Subsidiary of Berjaya Lottery Management (HK) Limited]
INTERIM CONSOLIDATED STATEMENTS OF INCOME
AND UNAPPROPRIATED RETAINED EARNINGS
FOR THE SIX MONTHS PERIOD ENDED OCTOBER 31, 2010

Appendix A

	Notes	3 Months Ended October 31, 2010		6 Months Ended October 31, 2010		3 Months Ended October 31, 2009		6 Months Ended October 31, 2009	
REVENUES									
Revenue	6	P	454,920,626	P	849,362,160	P	372,271,528	P	760,513,485
Interest			2,434,658		3,609,346		3,305,348		7,660,749
Others			(3,645,663)		(1,417,116)		103,110		220,697
			<u>453,709,621</u>		<u>851,554,390</u>		<u>375,679,986</u>		<u>768,394,931</u>
EXPENSES									
Professional fees	19		46,746,966		76,314,109		55,047,812		95,399,860
Depreciation and amortization	11		27,621,913		53,808,532		22,660,137		44,927,323
Telecommunications	6		19,500,112		42,801,278		18,233,606		38,847,952
Maintenance of computer equipment	19		2,747,431		17,034,535		8,851,308		31,102,707
Hotel Operating Expenses			8,287,237		15,997,170		0		0
Hotel Admin & General Expenses			2,873,650		5,763,542		0		0
Salaries and employee benefits	17		20,400,227		42,469,809		15,742,942		34,649,297
Transportation and travel			2,900,943		6,040,065		8,760,964		12,801,258
Representation and entertainment			721,230		2,716,182		2,824,930		6,091,586
Communication, light and water			5,826,832		11,994,095		1,110,317		2,384,600
Rental	24		2,091,602		4,191,993		2,337,506		4,501,083
Taxes and licences			3,381,266		6,781,851		4,556,316		5,571,840
Others	16		10,030,206		27,007,685		33,465,509		46,065,045
			<u>153,129,615</u>		<u>312,920,846</u>		<u>173,591,347</u>		<u>322,342,551</u>
INCOME BEFORE INCOME TAX			<u>300,580,006</u>		<u>538,633,544</u>		<u>202,088,639</u>		<u>446,052,380</u>
PROVISION FOR INCOME TAX			<u>71,337,467</u>		<u>128,637,545</u>		<u>46,704,276</u>		<u>119,679,665</u>
NET INCOME			<u><u>229,242,539</u></u>		<u><u>409,995,999</u></u>		<u><u>155,384,363</u></u>		<u><u>326,372,715</u></u>
Weighted average number of shares outstanding			<u>953,984,448</u>		<u>953,984,448</u>		<u>939,253,857</u>		<u>939,253,857</u>
Basic earnings per share (annualized)		P	<u>0.481</u>	P	<u>0.860</u>	P	<u>0.331</u>	P	<u>0.695</u>
CASH DIVIDENDS AT P1.00 PER SHARE		P	<u>-</u>	P	<u>-</u>		<u>-</u>		<u>-</u>

See Notes to Financial Statements

BERJAYA PHILIPPINES, INC. AND SUBSIDIARIES
[A Subsidiary of Berjaya Lottery Management (HK) Limited]
INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED OCTOBER 31, 2010

	<u>3 Months Ended</u> <u>October 31, 2010</u>	<u>6 Months Ended</u> <u>October 31, 2010</u>	<u>3 Months Ended</u> <u>October 31, 2009</u>	<u>6 Months Ended</u> <u>October 31, 2009</u>
CAPITAL STOCK - P1 par value				
Authorized -2,00,000,000 shares				
Issued - 953,984,448 shares	P 953,984,448	P 953,984,448	P 953,984,448	P 953,984,448
TREASURY SHARES				
Balance at beginning of period (note 13)	(501,387,473)	(501,387,473)	(501,387,473)	(501,387,473)
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at end of period	<u>(501,387,473)</u>	<u>(501,387,473)</u>	<u>(501,387,473)</u>	<u>(501,387,473)</u>
REVALUATION RESERVE				
Balance at end of period	<u>3,486,373</u>	<u>3,486,373</u>	<u>0</u>	<u>0</u>
RETAINED EARNINGS				
Balance at beginning of period	1,817,376,631	1,636,623,171	1,162,651,510	991,663,158
Net income	229,242,539	409,995,999	155,384,363	326,372,715
Cash dividends at P1.00 per share	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of period	<u>2,046,619,170</u>	<u>2,046,619,170</u>	<u>1,318,035,873</u>	<u>1,318,035,873</u>
TOTAL EQUITY	P <u>2,502,702,518</u>	P <u>2,502,702,518</u>	P <u>1,770,632,848</u>	P <u>1,770,632,848</u>
Net losses directly recognized in equity	P P	P P	P 0	P 0

See Notes to Financial Statements

BERJAYA PHILIPPINES, INC. AND SUBSIDIARIES
[A Subsidiary of Berjaya Lottery Management (HK) Limited]
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED OCTOBER 31, 2010

	3 Months Ended October 31, 2010	6 Months Ended October 31, 2010	3 Months Ended October 31, 2009	6 Months Ended October 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	P 229,242,539	P 409,995,999	P 104,745,779	P 246,566,613
Adjustments to reconcile net income to net cash:				
Depreciation	27,621,913	53,808,532	19,998,264	39,854,192
Amortization of goodwill on consolidation	0	0	0	0
Gain on disposal of property and equipment	(934,271)	(956,402)	0	0
Net changes in operating assets and liabilities:				
Decrease / (Increase) in:				
Trade and other receivables	(126,106,221)	(139,033,765)	(49,985,444)	(14,731,990)
Prepaid expenses and other current assets	84,144,944	(23,043,733)	(3,636,727)	17,505,317
Other non-current assets	(1,066,379)	(2,186,047)		
Increase / (Decrease) in:				
Trade and other payables	22,633,672	50,522,662	19,777,695	(28,049,288)
Income tax payable	(37,891,083)	10,645,232	(10,078,758)	(7,281,259)
Retirement Obligation	1,764,000	3,528,000		
Net cash provided by operating activities	<u>199,409,114</u>	<u>363,280,478</u>	<u>80,820,809</u>	<u>253,863,585</u>
CASH FLOWS FROM RETURNS ON INVESTMENTS				
Dividends paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net cash used in returns on investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment - net	(45,289,085)	(55,513,771)	(18,625,531)	(20,913,988)
Deposits for acquisition of property	(1,049,417)	1,450,583		
Advances from associate	(54,960,788)	(56,445,173)		
Acquisition of other investment	0	0	0	0
(Increase) / Decrease in other assets	0	0	0	0
Proceeds from disposal of property and equipment	1,724,947	1,847,981	-	0
Net cash used in investing activities	<u>(99,574,343)</u>	<u>(108,660,380)</u>	<u>(18,625,531)</u>	<u>(20,913,988)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury shares	<u>0</u>	<u>0</u>	<u>0</u>	<u>(421,093,492)</u>
Net cash provided by financing activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>(421,093,492)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>99,834,771</u>	<u>254,620,098</u>	<u>62,195,278</u>	<u>(188,143,895)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>409,016,786</u>	<u>254,231,459</u>	<u>431,528,984</u>	<u>681,868,157</u>
CASH AND CASH EQUIVALENTS AT ENDING OF PERIOD	<u>P 508,851,557</u>	<u>P 508,851,557</u>	<u>P 493,724,262</u>	<u>P 493,724,262</u>

See Notes to Financial Statements

BERJAYA PHILIPPINES, INC. AND SUBSIDIARIES
[A Subsidiary of Berjaya Lottery Management (HK) Limited]
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2010, APRIL 30, 2010 AND APRIL 30, 2009
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Berjaya Philippines, Inc. (BCOR or the Parent Company) was incorporated in the Philippines on October 31, 1924. The Parent Company is organized as a holding company and its shares of stock are listed in the Philippine Stock Exchange.

On June 2, 2010, the Parent Company's Board of Directors (BOD) approved the Parent Company's change in name from Prime Gaming Philippines, Inc. to Berjaya Philippines, Inc. The application for change in name, however, is pending approval by the Securities and Exchange Commission (SEC).

The Group is 68%-owned as of April 30, 2010 and 2009 and 70%-owned as of April 30, 2008 by Berjaya Lottery Management (HK) Limited of Hong Kong. The Group's ultimate parent is Berjaya Sports Toto Berhad of Malaysia, a publicly listed company in the Main Board of Bursa Malaysia Securities Berhad.

The registered office of the Group is located at 9th Floor, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City. The ultimate parent's registered office is at Lot13-01A, Level 13 (East Wing), Berjaya Times Square, No. 1, Jalan Imbi 55100 Kuala Lumpur, Malaysia.

1.2 Subsidiaries and an Associate

The Parent Company holds ownership interest in the following entities as of April 30:

<u>Subsidiaries and Associate</u>	<u>Notes</u>	<u>Nature of Business</u>	<u>Effective % of Ownership</u>	
			<u>2010</u>	<u>2009</u>
Philippine Gaming Management Corporation (PGMC)	(a)	Leasing	100.00	
Perdana Hotel Philippines Inc. (PHPI)	(b)	Service	100.00	-
Perdana Land Philippines Inc. (PLPI)		Land Owner	40.00	-

(a) *Philippine Gaming Management Corporation (PGMC)* - PGMC is presently involved principally in the business of leasing on-line lottery equipment and providing software support. PGMC was organized in April 1993 and started commercial operations in February 1995.

(b) *Perdana Hotel Philippines Inc. (PHPI)* - PHPI was organized as part of BCOR's strategy to acquire an interest in a hotel. PHPI has started operations as of May 01, 2010.

Collectively, the Parent Company, PGMC and PHPI, which operate in the Philippines, are referred to as the Group.

The Parent Company also subscribed to 40% ownership interest in Perdana Land Philippines Inc. (PLPI), which owned the land where the hotel is situated (see Notes 12 and 14).

1.3 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended April 30, 2010 were authorized for issue by the BOD on June 7, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized in the succeeding pages. The policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards (PFRS)

The consolidated financial statements of the Group have been prepared in accordance with PFRS. PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies in the succeeding sections.

(b) Presentation of Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in Fiscal Year 2010 that are Relevant to the Group

In 2010, the Group adopted the following new revision and amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 27 (Amendments)	:	Consolidated and Separate Financial Statements
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
PFRS 8	:	Operating Segments
Various Standards	:	2008 Annual Improvements to PFRS

Below is a discussion of the possible impact of these accounting standards.

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

The Group's adoption of PAS 1 (Revised 2007) did not result in any material adjustments in its consolidated financial statements as the change in accounting policy only affects presentation aspects. The Company has elected to present a single consolidated statement of comprehensive income.

- (ii) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss. Since there are no non-controlling interests in the subsidiaries within the Group, this revised standard has no impact in the financial statements.
- (iii) PFRS 7 (Amendment), *Financial Instruments Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows.

In accordance with this amendment, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The adoption of this amendment did not result in any material adjustments as all financial assets measured at fair value are determined at quoted prices in an active market.

(iv) PFRS 8, *Operating Segments*. Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment resources, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment resources, liabilities and performance based on internal management reports on its consolidated financial statements, hence, adoption of this new standard does not have a material impact on the Group's consolidated financial statements.

(v) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2008* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Group does not have held-for-trading financial assets. PAS 1, hence, this amendment had no impact on the Group's 2010 consolidated financial statements.
- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment had no material impact on the Group's consolidated financial statements since there are no impairment losses recognized on the Group's non-financial assets.

(b) Effective in Fiscal Year 2010 but not Relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's operations:

PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 2 (Amendment)	:	Share-based Payment
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) Effective Subsequent to Fiscal Year 2010

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to fiscal year 2010. Among those, management has initially determined the following, which the Group will apply in accordance with its transitional provisions, to be relevant to its financial statements:

- (i) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.

It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually make substantial advance contribution to its retirement fund.

- (ii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1,

2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its consolidated financial statements as it does not normally extinguish financial liabilities through equity swap.

(iii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group’s consolidated financial statements:

(i) PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity’s equity instruments. The Group will apply the amendment in its 2011 financial statements but expects it to have no material impact in the Group’s consolidated financial statements.

- (ii) PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not result in a material impact in the financial statements since only recognized asset are classified by the Group as cash flow from investing activities.
- (iii) PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact on its financial statements.
- (iv) PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively and does not expect significant impact in its 2011 consolidated financial statements.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's consolidated financial statements.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries, after the elimination of material intercompany transactions. All intercompany balances and transactions with the subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

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

The Parent Company accounts for its investments in subsidiaries, transactions with non-controlling interest and investment in an associate as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Parent Company obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiaries prior to acquisition. On initial recognition, the assets and liabilities of the subsidiaries are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition (see Note 2.7). Negative goodwill represents the excess of Company's share in the fair value of identifiable net assets of the subsidiary at acquisition date over cost of acquisition.

(b) Transactions with Non-controlling Interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are recorded in profit or loss of the consolidated statement of comprehensive income. Purchases of equity shares from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiary.

(c) Investment in an Associate

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investment in an associate is accounted for under the equity method of accounting. Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the Group's share of the profits and losses of the associates after the date of acquisition.

Distributions received from an associate reduce the carrying amount of the investment. When the Group's share of losses exceeds the carrying amount of the investments in associates, the carrying amount is fully written down and recognition of further losses is discontinued except to the extent that the Group have incurred obligations in respect of the associates. Allowance is set-up for any substantial and presumably permanent decline in the carrying amount of the investments.

2.4 Financial Assets

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at fair value through profit or losses are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The categories of financial instruments relevant to the Group are more fully described below.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active

market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Advances to an Associate (presented as part of Investments in and Advances to an Associate), and Security Deposits (presented as part of Other Non-current Assets) in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets in the consolidated financial position unless management intends to dispose of the investment within 12 months from the end of reporting period.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in as an adjustment to other comprehensive income, net of any effects arising from income taxes. Gains and losses

arising from securities classified as available-for-sale are recognized in profit or loss when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in other comprehensive income is transferred to profit or loss. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through profit or loss. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the end of reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) of the underlying net asset base of the investment.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.5 Spare Parts and Accessories

At the end of the reporting period, spare parts and accessories, which are presented as part of Prepayments and Other Current Assets, are valued at cost since these inventories are generally used for providing maintenance and repair services as discussed in Note 6. Cost is determined using the moving average cost method.

2.6 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit for the period.

Computers and on-line lottery equipment are depreciated over the shorter of eight years or the remaining term of the lease agreement. Leasehold improvements are amortized over the shorter of the lease term or estimated useful lives of the improvements.

Depreciation on all other classes of property and equipment is computed using the straight-line basis over the estimated useful lives of the assets as follows:

Communication equipment	8 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.8).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow valuation.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.7 Intangible Asset

Intangible asset pertains to Goodwill. Goodwill represents the excess of the cost of acquisition of the investment over the fair value of identifiable net assets of a subsidiary at date of acquisition. Goodwill is carried at amortized cost up to the date of transition to PFRS less any impairment in value. Upon adoption of PFRS, goodwill is no longer amortized but is subject to annual test for impairment whether there is an objective evidence of impairment or not (see Note 2.8).

2.8 Impairment of Non-financial Assets

The Group's property and equipment, investment in an associate and goodwill are subject to impairment testing. Goodwill is tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.9 Financial Liabilities

Financial liabilities include Trade and Other Payables (except for tax-related liabilities) and are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in profit or loss under the caption Finance Costs.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.10 Offsetting Financial Instruments

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

2.11 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 Revenue and Expense Recognition

Revenue comprises revenue from the rendering of services measured by reference to the fair value of consideration received or receivable by the Group services rendered, excluding value-added tax (VAT) and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenues are recognized:

(a) Revenue from lease of on-line lottery equipment, maintenance and repair services, and telecommunication and integration services – Revenue is recognized when sales by customer were made based on certain percentages of gross receipts from lottery ticket sales.

(b) Interest income – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding value-added tax (VAT).

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis.

2.13 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

2.14 Foreign Currency Transactions

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income as part of income or loss from operations.

2.15 Employee Benefits

(a) Retirement Benefit Obligations

Post-employment benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.

The liability recognized in the consolidated statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past-service costs. The DBO is regularly calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated

future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.16 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior

reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.17 Earnings Per Share

Earnings per share is determined by dividing the net profit by the weighted average number of common shares subscribed and issued during the year after retroactive adjustment for any stock dividends declared during the year.

Diluted (loss) earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Treasury shares are stated at the cost of reacquiring such shares.

Revaluation reserves comprise gains and losses due to the revaluation of certain financial asset.

Retained earnings include all current and prior period results of operations as disclosed in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amount reported in the consolidated financial statements and related notes. 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. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Available-for-sale Financial Asset

The Group follows the guidance of PAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

There was no impairment losses recognized on the Group's available-for-sale financial asset as of October 31, 2010.

(b) Operating and Finance Leases

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure

to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(c) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.11 and relevant disclosures are presented in Note 24.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 11. Based on management's assessment as at October 31, 2010, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) Allowance for Impairment of Trade and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Impairment loss of Trade and Other Receivables amounted to P1,856,520 in 2008 (nil in 2010 and 2009). Trade and other receivables, net of allowance for impairment stood at P322,800,835 and P183,767,070 as at October 31, 2010 and April 30, 2010, respectively (see Note 8).

(c) Valuation of Financial Assets Other than Trade and Other Receivables

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

(d) Impairment of Goodwill

The Group follows the guidance of PAS 36, *Impairment of Assets*, on determining when goodwill is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates the recoverable amount of its goodwill as the value in use, based on an internal discounted cash flow evaluation, and the recoverable amount of goodwill is more than its carrying amount.

Though management believes that the assumptions used in the estimation of the recoverable amount are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

In 2010, 2009 and 2008, no impairment loss was recognized for goodwill.

(e) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets as of October 31, 2010 and April 30, 2010 is disclosed in Note 21.1.

(f) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of

non-financial assets is discussed in detail in Note 2.8. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on property and equipment, investment in an associate and goodwill were recognized in 2010, 2009 and 2008.

(g) Retirement and Other Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, discount rates and expected rate of return on plan assets. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated retirement benefit obligation and unrecognized actuarial gains (losses) amounted to P23,134,607 and P19,606,607 respectively in October 31, 2010 and April 30, 2010 (see Note 17.2).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is carried out in close cooperation with the BOD, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

4.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's overseas purchases, which is primarily denominated in United States (US) dollars. The Group also holds US dollar-denominated cash.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Financial assets	P133,703,717	P 43,590,227
Financial liabilities	(1,063,682)	-
Total net exposure	<u>P 132,640,035</u>	<u>P 43,590,227</u>

The sensitivity of the net result and equity with regard to the Group's financial assets and liabilities assumes a +/-18.79% and +/-26.21% change of the Philippine peso/US dollar exchange rate for the fiscal years ended April 30, 2010 and 2009, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period with effect estimated from the beginning of the year.

If the Philippine peso had strengthened against the US dollar, net profit for 2010 and 2009 would have decreased by P17,442,819 and P7,654,066, respectively. Conversely, if the Philippines peso had weakened against the US dollar, then net profit for 2010 and 2009 would have increased by same amounts.

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

4.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as of October 31, 2010 and April 30, 2010 (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	<u>Notes</u>	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Cash and cash equivalents (excluding cash on hand)	7	P 508,851,557	P 254,088,459
Trade and other receivables – net	8	322,800,835	183,767,070
Advances to an associate	12	146,973,296	90,190,390
Security deposits	13	<u>1,380,934</u>	<u>1,729,732</u>
		<u>P 980,006,622</u>	<u>P 529,775,651</u>

As part of the Group’s policy, bank deposits and short-term placements are only maintained with reputable financial institutions. Cash in banks are insured by the Philippine Depository Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

The Group’s trade receivables as of October 31, 2010 and April 30, 2010 are due only from Philippine Charity Sweepstakes Office (PCSO). As such, the Group mitigates the concentration of its credit risk by regularly monitoring the age of its receivables from PCSO and ensuring that collections are received within the agreed credit period. In addition, the risk is reduced to the extent that PCSO has no history of significant defaults.

None of the Group's financial assets are secured by collateral or other credit enhancements.

4.3 Liquidity Risk

The ability of the Group to finance increases in assets and meet obligations as they become due is extremely important to the Group’s operations. The Group’s policy is to maintain liquidity at all times. This policy aims to honor all cash requirements on an ongoing basis to avoid raising funds above market rates or through forced sale of assets.

As of October 31, 2010 and April 30, 2010, the Group’s financial liabilities pertain to trade and other payables. Trade and other payables are considered to be current which are expected to be settled within 12 months from the end of each reporting period.

4.4 Other Price Risk

The Group’s market price risk arises from its investments carried at fair value (financial assets classified as available-for-sale securities). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The sensitivity of equity with regard to the volatility of the Group's available-for-sale financial asset assumes a +/-83.07% volatility in the market value of the investment (see Note 10). The expected change was based on the annual rate of return computed using the monthly closing market value of the investment in fiscal year 2010. Based on the observed volatility rate, the estimated impact to other comprehensive income amounted to P36,820,709.

5. SEGMENT REPORTING

5.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the business of Leasing, Services and Holdings and Investments.

- (a) The Leasing segment pertains to the lease of on-line lottery equipment, maintenance and repair services, and telecommunication and integration services rendered by the Group to PCSO.
- (b) The Services segment pertains to the hotel operations of PHPI. PHPI was incorporated on December 11, 2009 and has started commercial operations as of May 01, 2010.
- (c) Holdings and Investments relates to gains (losses) on disposal of investments and share in net gains (losses) of an associate.

In 2009 and 2008, the business segments of the Group consist of Leasing and Holdings and Investment. A separate disclosure on segment reporting, however, is not disclosed in the prior years' consolidated financial statements since the transactions of the Holding and Investments segments pertain mainly to intersegment transactions.

5.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables and advances and property and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

5.3 Intersegment Transactions

The Group's operating businesses are organized and managed separately according to the nature of segment accounting policies

which are the same as the policies described in Note 2. Intersegment sales and transfers are eliminated in consolidation.

The following table present revenue and profit information regarding industry segments for the year ended April 30, 2010 and certain assets and liabilities information regarding industry segments at April 30, 2010.

	<u>Leasing</u>	<u>Services</u>	<u>Holding and Investments</u>	<u>Elimination</u>	<u>Group</u>
Revenues					
External	P 1,532,960,921	P -	P 4,147,189	P -	P 1,537,108,110
Inter-segment	-	-	<u>356,867,549</u>	(<u>356,867,549</u>)	-
Total revenues	<u>1,532,960,921</u>	<u>-</u>	<u>361,014,738</u>	(<u>356,867,549</u>)	<u>1,537,108,110</u>
Expenses:					
External	646,685,593	1,323,849	5,284,845	-	653,834,287
Inter-segment	<u>6,805,285</u>	-	-	(<u>6,805,285</u>)	-
Total expenses	<u>653,490,878</u>	<u>1,323,849</u>	<u>5,284,845</u>	(<u>6,805,285</u>)	<u>653,834,287</u>
Profit (loss) before tax	<u>P 879,470,043</u>	(<u>P 1,323,849</u>)	<u>P 355,729,893</u>	<u>P 350,602,264</u>	<u>P 883,273,823</u>
Profit (loss) for the year	<u>P 641,890,807</u>	(<u>P 926,903</u>)	<u>P 354,058,373</u>	<u>P 350,602,264</u>	<u>P 644,960,103</u>
Segment assets	<u>P 1,013,222,998</u>	<u>P 672,081,019</u>	<u>P 1,527,511,857</u>	(<u>P 1,009,290,787</u>)	<u>P 2,203,525,087</u>
Segment liabilities	<u>P 287,091,995</u>	<u>P 672,007,922</u>	<u>P 57,427</u>	(<u>P 848,338,776</u>)	<u>P 110,818,568</u>
Other segment items:					
Capital expenditures	<u>P 94,374,868</u>	<u>P 668,161,607</u>	<u>P -</u>	<u>P -</u>	<u>P 762,536,475</u>
Depreciation and amortization	<u>P 95,004,279</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 95,004,279</u>
Impairment loss	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>

6. CONTRACTS WITH PCSO

PGMC is a party to the Equipment Lease Agreement (ELA) with PCSO covering the lease of PGMC's on-line lottery equipment (see Note 11) to PCSO under certain conditions. Under the ELA, PGMC is entitled to fees equal to a certain percentage of the gross amount of ticket sales from all PCSO's on-line lottery operations (the ticket sales) within a specified territory. In the event that PCSO's on-line lottery sales do not meet a certain level, PGMC is entitled to an annual minimum fee which is computed at a certain amount multiplied by the number of leased units. Most of PGMC's revenues are derived from the ELA with PCSO.

In addition, PGMC also has an agreement with PCSO whereby PGMC agreed to provide maintenance and repair services on the equipment under the ELA. This agreement will run concurrently with the ELA. Any extension or termination of the ELA by PCSO will have a similar effect on this agreement.

On December 29, 2004, the ELA and the maintenance and repair services agreement were extended for another eight years commencing on August 23, 2007. The terms of the extension agreement provide for the upgrade and replacement of the computer and lottery equipment used in the on-line lottery in Luzon (see Note 11). In line with such upgrade and replacement of equipment, the parties also agreed on the inclusion of telecommunication services to be provided by PGMC to PCSO.

Fees, maintenance and repair services, and telecommunication and integration services revenues recognized by PGMC from the foregoing ELA and maintenance and repair services and telecommunication and integration services agreements amounted to P849,362,160 and P1,526,706,721 in October 31, 2010 and April 30, 2010, respectively, and are presented as Revenues in the consolidated statements of comprehensive income. The related receivables amounting to P299,431,401 and P169,671,295 in October 31, 2010 and April 30, 2010, respectively, are presented as Trade under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8). On the other hand, total telecommunication expenses recognized by PGMC arising from telecommunication services provided to PCSO amounted to P19,500,112 and P83,707,217 October 31, 2010 and April 30, 2010, respectively, and are presented as part of Costs and Other Operating Expenses in the consolidated statements of comprehensive income.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Cash on hand and in banks	P 148,056,025	P 46,707,203
Short-term placements	<u>360,795,532</u>	<u>207,524,256</u>
	<u>P 508,851,557</u>	<u>P 254,231,459</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates.

Short-term placements have an average maturity of 7 to 30 days and average annual effective interest ranging from 1.50% to 2.95% in 2010, 2.75% to 5.67% in 2009 and 1.97% to 3.40% in 2008 for Philippine peso placements, while 0.35% to 0.93% in 2010, 0.58% to 3.00% in 2009 and 1.39% to 2.78% in 2008 for US dollar-denominated placements.

8. TRADE AND OTHER RECEIVABLES

This account includes the following:

	<u>Notes</u>	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Trade receivables	6	P 299,431,401	P 169,671,295
Advances to officers and employees			7,003,226
7,487,999			
Other receivables		<u>18,222,728</u>	<u>8,464,296</u>
		<u>324,657,355</u>	<u>185,623,590</u>
Allowance for impairment		<u>(1,856,520)</u>	<u>(1,856,520)</u>
		<u>P 322,800,835</u>	<u>P 183,767,070</u>

All of the Group's trade and other receivables have been reviewed for indicators of impairment. In 2010 and 2009, no receivables were found to be impaired.

Trade receivables are usually due within 45 days and do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2). As of October 31, 2010 and April 30, 2010, the Group's trade receivables are due only from PCSO (see Note 6).

Portion of Other Receivables pertains to receivable arising from the sale of the Group's investment in Roadhouse Grill, Inc. (Roadhouse), which was provided with full allowance in 2008 (see Note 10).

The carrying amount of these financial assets is a reasonable approximation of their fair value due to their short-term duration.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of this account are as follows:

<u>2010</u>	<u>Note</u>	<u>October 31, 2010</u>	<u>April 30,</u>
Advances to a supplier	19.1	P 57,860,171	P 39,436,861
Spare parts and accessories		39,617,808	19,211,429
Input VAT		5,309,419	15,801,455
Prepaid withholding VAT		-	7,704,522
Other prepayments		<u>4,835,262</u>	<u>2,424,660</u>
		<u>P107,622,660</u>	<u>P 84,578,927</u>

Advances to a supplier includes advance payments for the acquisition of on-line lottery and wagering equipment with International Lottery Totalizator System (ILTS), a related party by common indirect ownership in 2010 and 2009. This is in accordance with the requirements of the amended ELA mandating the Group to upgrade and replace computer and lottery equipment used in the online lottery in Luzon (see Note 6).

Prepaid withholding VAT pertains to VAT deducted and withheld by PCSO on the fees billed by the Group (see Note 6).

10. AVAILABLE-FOR-SALE FINANCIAL ASSET

This account pertains to quoted equity securities of a local company acquired by the Group in February 2010 for the amount of P40,836,623. The fair value of the available-for-sale financial asset amounting to P44,322,996 has been determined directly by reference to published prices in an active market. Unrealized fair value gain from this investment amounted to P3,486,373 and is presented as part of other comprehensive income in the 2010 consolidated statement of comprehensive income.

On May 31, 2007, the Group sold its investment in Roadhouse, a US company whose shares are listed in the Nasdaq Stock Market, classified as available-for-sale financial asset. The investment was sold for P1,856,520 (\$40,124) resulting in the reversal of the related fair value gains amounting to P1,042,308 previously recorded as Revaluation Reserves in the 2008 statement of changes in equity, and recognition of realized foreign currency loss amounting to P2,877,500 and loss on sale of available-for-sale financial asset amounting to P21,277,980 in the 2008 consolidated statement of comprehensive income (see Note 18).

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of October 31, 2010 are shown below.

	<u>Computers and On-line Lottery Equipment (see Note 6)</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Equipment</u>	<u>Communication Improvements</u>	<u>Leasehold Total</u>
October 31, 2010						
Cost	P 1,234,938,878	P 31,133,613	P 27,474,452	P 3,535,809	P 34,969,158	P 1,332,051,910
Accumulated depreciation and amortization	(765,380,831)	(19,402,985)	(17,648,907)	(3,083,624)	(21,112,801)	(826,629,148)
Net carrying amount	<u>P 469,558,047</u>	<u>P 11,730,628</u>	<u>P 9,825,545</u>	<u>P 452,185</u>	<u>P 13,856,357</u>	<u>P 505,422,762</u>
April 30, 2010						
Cost	P 1,195,119,899	P 28,336,420	P 23,858,806	P 3,535,809	P 27,673,817	P 1,278,524,751
Accumulated depreciation and amortization	(718,190,266)	(17,995,466)	(15,907,189)	(2,944,203)	(18,878,524)	(773,915,648)
Net carrying amount	<u>P 476,929,633</u>	<u>P 10,340,954</u>	<u>P 7,951,617</u>	<u>P 591,606</u>	<u>P 8,795,293</u>	<u>P 504,609,102</u>

The reconciliation of the carrying amounts at the beginning and end of October 31, 2010, of property and equipment is shown below.

	<u>Computers and On-line Lottery Equipment (see Note 6)</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Equipment</u>	<u>Communication Improvements</u>	<u>Leasehold Total</u>
Balance at May 1, 2010, net of accumulated depreciation and amortization	P 476,929,633	P 10,340,953	P 7,951,617	P 591,606	P 8,795,293	P 504,609,102
Additions	40,881,715	3,612,500	4,126,272	-	8,120,286	56,740,773
Disposals	(591,245)	(480,407)	(409,391)	-	(637,542)	(2,118,583)
Depreciation and amortization charges for the year	(47,662,056)	(1,742,420)	(1,842,953)	(139,421)	(2,421,680)	(53,808,532)
Balance at October 31, 2010, net of accumulated depreciation and amortization	<u>P 469,558,047</u>	<u>P 11,730,628</u>	<u>P 9,825,545</u>	<u>P 452,185</u>	<u>P 13,856,357</u>	<u>P 505,422,762</u>

12. INVESTMENT IN AND ADVANCES TO AN ASSOCIATE

This account represents the Parent Company's 40% ownership interest in PLPI, which is accounted for under the equity method and the Parent Company's advances to PLPI for the latter's acquisition of properties and working capital requirements (see Note 19.6).

The outstanding balance of the advances to PLPI amounted to P98,033,197 as of October 31, 2010.

The components of the carrying value of the Group's investment as of October 31, 2010 are as follows:

Acquisition cost	P 337,733
Accumulated equity share in net losses	(<u>1,551,868</u>)
	<u>(P 1,214,135)</u>

Significant financial information of PLPI as of October 31, 2010 follows:

Total assets	P 95,008,861
Total liabilities	98,044,191
Total equity	(3,035,330)
Net loss	4,035,330

13. OTHER NON-CURRENT ASSETS

The details of this account are as follows:

	<u>Note</u>	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Deferred costs	14	P 5,291,385	P 5,291,385
Security deposits		<u>1,380,934</u>	<u>1,729,733</u>
		<u>P 6,672,319</u>	<u>P 7,021,118</u>

Deferred costs pertain to professional fees incurred by the Group in relation to the acquisition of a hotel located in Makati City (see Note 14). These direct costs amounting to P5,291,385 will be capitalized as part of the hotel (building and other accessory equipment) upon the transfer of the ownership of the hotel to the Company.

14. MEMORANDUM OF AGREEMENT AND DEED OF ASSIGNMENTS

In December 2009, the Group entered into a Memorandum of Agreement (MOA) with the stockholders of T.F. Ventures, Inc. (TF) for the sale and purchase of a land and hotel owned by TF and the Group's assumption of TF's liabilities for a total consideration of P785 million.

Consequently, PGPI organized PHPI to acquire and manage the hotel operations and subscribed 40% ownership interest of PLPI, which will acquire and manage the land where the hotel is situated. By virtue of Deed of Assignments executed by TF with each of PHPI and PLPI, the hotel and land, respectively, are to be recognized in each of their books.

The transaction resulted in the recognition of Deposit for the acquisition of hotel amounting to P730.4 million and Deferred Costs (presented as part of Other

Non-current Assets) amounting to P5.3 million in the 2010 consolidated statement of financial position (see Note 13). The Group presented the amounts paid as Deposit and Deferred Costs since the effective ownership and control over the asset has not yet been transferred to the Group as of April 30, 2010. Subsequently, in May 2010, the hotel and its management have been transferred to the Group.

Moreover, the Group granted advances to PLPI for the acquisition of the land described above and other pre-operating activities (see Note 19.6).

15. TRADE AND OTHER PAYABLES

This account consists of the following:

	<u>Notes</u>	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Deferred output VAT		P -	P 18,397,117
Trade	19.2	76,682,685	14,507,440
Withholding taxes		11,201,558	
1,534,240			
Management fees	19.3	-	14,907,264
Others		<u>1,097,400</u>	<u>498,059</u>
		<u>P 88,981,641</u>	<u>P 49,844,120</u>

The carrying values of Trade and Other Payables is considered to be a reasonable approximation of their fair value.

16. OTHER INCOME AND EXPENSES

Other income consists of the following:

	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Gain on sale of property and equipment	P 956,402	P 50,385
Miscellaneous	<u>(2,373,518)</u>	<u>409,235</u>
	<u>(P 1,417,116)</u>	<u>P 459,638</u>

Miscellaneous income in 2009 includes an income amounting to P11,811,673 resulting from the systems development services rendered by the Group to PCSO.

On the other hand, other expense account is composed of the following:

	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Insurance	P 2,293,292	P 3,812,958
Security services	1,111,382	3,000,527
Advertising and promotions	6,244,007	2,442,692
Listing fees	-	2,000,000
Membership fees, dues and subscription	981,192	1,908,459
Computer supplies	1,234,734	1,871,106
Stationeries and office supplies	550,890	1,813,942
Repairs and maintenance	3,453,319	1,432,285
Other external services	11,820	1,094,295
Miscellaneous	<u>11,127,049</u>	<u>4,449,091</u>
	<u>P 27,007,685</u>	<u>P 23,825,355</u>

17. EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits Expense

The expenses recognized for employee benefits are presented below.

	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Salaries	P 21,872,246	P 40,340,589
Bonuses	11,258,733	11,875,542
Retirement benefits	3,958,000	3,794,370
Social security cost	946,162	1,836,489
Compensated absences	-	1,835,921
Fringe benefit	563,018	806,287
Health benefits	356,644	790,857
Others	<u>3,515,006</u>	<u>12,026,229</u>
	<u>P 42,469,809</u>	<u>P 73,306,284</u>

17.2 Retirement Benefit Obligation

The Group maintains a tax qualified, partially funded, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation recognized in the consolidated statements of financial position are determined as follow.

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Present value of the obligation	P 19,455,653	P 25,305,679
Fair value of plan assets	(5,319,519)	(5,373,478)
Deficiency of plan assets	14,136,134	19,932,201
Unrecognized actuarial gains (losses)	<u>5,470,473</u>	<u>(2,119,964)</u>
	<u>P 19,606,607</u>	<u>P 17,812,237</u>

The movements in present value of the retirement benefit obligation recognized in the books are as follow:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Balance at beginning of year	P 25,305,679	P 21,608,188
Current service and interest costs	4,170,513	3,697,491
Actuarial losses	(7,280,834)	-
Benefits paid by the plan	<u>(2,739,705)</u>	<u>-</u>
Balance at end of year	<u>P 19,455,653</u>	<u>P 25,305,679</u>

The movements in the fair value of plan assets are presented below.

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Balance at beginning of year	P 5,373,478	P 6,065,406
Benefits paid by the plan	(2,739,705)	-
Contributions paid into the plan	2,000,000	-
Expected return on plan assets	376,143	424,579
Actuarial gains (losses)	<u>309,603</u>	<u>(1,116,507)</u>
Balance at end of year	<u>P 5,319,519</u>	<u>P 5,373,478</u>

The plan assets consist of the following:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Other securities and debt instruments	P 2,150,748	P 838,508
Government securities	2,131,618	2,916,321
Unit investment trust funds	802,126	-
Equity securities	150,000	1,313,416
Miscellaneous receivables	52,746	205,750
Cash in bank	<u>32,281</u>	<u>99,483</u>
	<u>P 5,319,519</u>	<u>P 5,373,478</u>

Actual returns on plan assets amounted to P685,746 in 2010 and P114,999 in 2009.

Expected plan contribution in fiscal year 2011 is of the same level as in fiscal year 2010.

The amounts of retirement benefits expense recognized in profit or loss are as follows:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Current service cost	P 1,412,194	P 2,184,918
Interest cost	2,758,319	1,512,573
Net actuarial loss recognized during the year	-	1,116,507
Expected return on plan asset	<u>(376,143)</u>	<u>(424,579)</u>
	<u>P 3,794,370</u>	<u>P 4,389,419</u>

The movements in the retirement benefit obligation recognized in the books are as follow:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Balance at beginning of year	P 17,812,237	P 13,422,818
Expenses recognized	3,794,370	4,389,419
Contributions paid	(2,000,000)	-
Balance at end of year	<u>P 19,606,607</u>	<u>P 17,812,237</u>

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficit in the plan (in thousand Philippine pesos).

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Present value of the obligation	P 19,456	P 25,306	P 21,608	P 17,262	P 14,412
Fair value of the plan assets	<u>5,320</u>	<u>5,374</u>	<u>6,065</u>	<u>5,000</u>	-
Deficit in the plan	<u>P 14,136</u>	<u>P 19,932</u>	<u>P 15,543</u>	<u>P 12,262</u>	<u>P 14,412</u>

For the determination of retirement benefit obligation, the following actuarial assumptions were used:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rate	10.90%	7.00%	8.00%
Expected rate of return on plan assets	7.00%	7.00%	7.00%

18. FINANCE COSTS AND FINANCE INCOME

The components of this account are as follow:

18.1 Finance Income

	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Interest income	P 3,609,346	P 9,941,751
Foreign currency gains	<u>-</u>	<u>-</u>
	<u>P 1,174,688</u>	<u>P 18,248,550</u>

18.2 Finance Costs

	Notes	<u>October 31, 2010</u>	<u>April 30, 2010</u>
Foreign currency losses		P 1,357,058	P14,558,182
Interest expense		-	-
Loss on sale of available- for-sale financial asset	10	-	-
Impairment losses	8	-	-
		<u>P 1,357,058</u>	<u>P14,558,182</u>

19. RELATED PARTY TRANSACTIONS

The significant transactions of the Group with related parties are described below.

19.1 Purchases of Goods and Services

In 2010 and 2009, PGMC made purchases of spare parts and accessories from ILTS amounting to US\$2,680,625 (P127,885,693) and US\$2,727,416 (P123,862,250), respectively.

In 2010 and 2009, PGMC made an advance payment of US\$770,625 (P35,989,337) and US\$440,625 (P21,253,988), respectively, for an additional acquisition of on-line lottery equipment from ILTS amounting to US\$2,092,500 and US\$1,675,000, which will be delivered and installed subsequent to April 30, 2010 and 2009, respectively. The amount is presented as part of Advances to a Supplier under Prepayments and Other Current Assets in the consolidated statements of financial position.

As of October 31, 2010, the on-line lottery equipment were delivered with the total of 250 terminals amounting to US\$881,250 (P40,671,208).

19.2 Software Support Services Agreement

PGMC has an existing Software Support Services Agreement (Software Agreement) with Sports Toto Malaysia Sdn Bhd, also a related party by common indirect ownership, for the PGMC's on-line lottery equipment (see Note 6). The Software Agreement is automatically renewed annually unless terminated by either party. In October 31, 2010 and April 30, 2010, PGMC recognized royalty expenses arising from the transaction amounting to P8,616,046 and P18,763,170 respectively, and are presented as part of Maintenance of Computer Equipment account in the consolidated statements of comprehensive income.

In 2010, the PGMC also entered into a Software Support Services Agreement with ILTS for the PGMC's on-line lottery equipment. This software agreement is for a six-month period commencing January 1,

2010. The Group recognized royalty expenses arising from the transaction amounting to P2,436,197, and is presented as part of Maintenance of Computer Equipment account in the consolidated statements of comprehensive income.

19.3 Management Services Agreement

Total management fees paid to an entity owned by a key management personnel of PGMC based on Management Services Agreement amounted to P76,314,109 and P191,685,123 in October 31, 2010 and April 30, 2010, respectively, and are shown as part of Professional Fees account in the consolidated statements of comprehensive income. The net outstanding liability arising from these transactions amounted to P14,907,264 as of April 30, 2009 (nil in 2010), and is presented as part of Management Fees under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

19.4 Transactions with Key Management Personnel

19.4.1 Key Management Personnel Compensation

The details of key management personnel compensation are as follows:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Short-term benefits	P 14,237,979	P 8,623,926
Post-employment benefits	8,862,541	4,969,224
Termination benefits	<u>3,375,852</u>	<u>-</u>
	<u>P 26,476,372</u>	<u>P 13,593,150</u>

Director emoluments in 2010 and 2009 amounted to P1,000,000 and P750,000, respectively, and are presented as part of Professional Fees in profit or loss.

19.4.2 Advances to Key Management Personnel

In the normal course of business, the Group grants interest-bearing advances to its key management personnel. Outstanding advances to key management personnel amounted to P4,272,718 and P2,949,182 as of April 30, 2010 and 2009 and are presented as part of Advances to Officers and Employees under Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

19.5 Share Buy-back

In May and June 2008, the Group reacquired a total of 3,500,000 shares (with total cost of P421,093,492). Subsequently, in December 2008, March and April 2009, the Group, again reacquired a total of 63,255,814 shares (with total cost of P501,387,473) from previous stockholders after the Group reduced its par value from P10 per share to P1 per share. The total amount of P922,480,965 (with 66,755,814 shares of stock) were paid out in 2009 for additional acquisition of treasury shares.

19.6 Advances to an Associate

The Group grants non-interest bearing advances for PLPI's acquisition of a parcel of land and pre-operating activities. As of October 31, 2010, advances to PLPI totaled P98.0 million. Out of this amount, P70 million were used by the Group as payment for the acquisition of a parcel of land in Makati City (assigned to PLPI), which was the subject of a Memorandum of Agreement entered into by PGPI with a third party (see Note 14).

The remaining P19.2 million of the total advances from the Group were used to purchase the land adjacent to the property discussed in Note 14.

The carrying amount of advances to an associate is a reasonable approximation of fair value.

EQUITY

20.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide adequate return to shareholders.

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

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position and also evaluates its capital in terms of debt-to-equity ratio as shown below.

	<u>October 31, 2010</u>	April 30, 2010
Total liabilities	P 175,514,462	P 110,818,568
Total equity	2,502,702,518	2,092,706,519
Debt-to-equity ratio	<u><u>1 : 14.26</u></u>	<u><u>1 : 18.88</u></u>

20.2 Capital Stock

Capital stock consists of:

	<u>Shares</u>	
	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Common shares at P1 par value in 2010 and 2009 and P10 par value in 2008 Authorized – 2,000,000,000 shares in 2010 and 2009, and 100,000,000 shares in 2008		
Issued:		
Balance at beginning of year	953,984,448	99,530,872
Increase due to decrease in par value	-	895,777,848
Retirement of shares of stocks	-	(399,068,440)
Stock dividend	-	<u>357,744,168</u>
Balance at end of year	<u>953,984,448</u>	<u>953,984,448</u>

	<u>Amount</u>	
	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Issued:		
Balance at beginning of year	P953,984,448	P995,308,720
Retirement of shares of stocks	-	(399,068,440)
Stock dividend	-	<u>357,744,168</u>
Balance at end of year	<u>P953,984,448</u>	<u>P953,984,448</u>

On October 10, 2008, the Group's stockholders ratified the BOD resolutions approved in a meeting held on September 10, 2008 for the following transactions which were subsequently approved by the SEC on November 19, 2008:

- Decrease in the Group's par value from P10 per share to P1 per share, thereby, increasing the number of shares of authorized capital stock from 100,000,000 shares to 1,000,000,000 shares;
- Retirement of 399,068,440 treasury shares amounting to P1,168,855,788; and,
- Increase in authorized capital stock from P600,931,560 divided into 600,931,560 shares to P2,000,000,000 divided into 2,000,000,000 shares by means of 60% stock dividends, with December 8, 2008 as the record date.

As a consequence to the retirement of 399,068,440 shares amounting to P1,168,855,788, the Group recognized a loss on retirement of treasury shares amounting to P769,787,348 which was charged directly against retained earnings. Moreover, as a result of the increase in the Group's authorized capital stock, the BOD declared stock dividends totaling to P357,744,168, which is equivalent to 60% of the Group's outstanding shares after the retirement of 399,068,440 treasury shares.

20.3 Treasury Shares

The Group made the following transactions for its treasury shares:

	Notes	Shares	
		April 30, 2010	April 30, 2009
Treasury shares at beginning of year		63,255,814	36,406,844
Buy-back of shares during the year	19.5	-	66,755,814
Decrease in par value from P10 to P1 per share	20.2	-	359,161,596
Retirement of treasury shares	20.2	-	(399,068,440)
Treasury shares at end of year		<u>63,255,814</u>	<u>63,255,814</u>

	Notes	Amount	
		April 30, 2010	April 30, 2009
Balance at beginning of year		P501,387,473	P747,762,296
Amount of shares bought-back	19.5	-	922,480,965
Retirement of treasury shares	20.2	-	(1,168,855,788)
Balance at end of year		<u>P501,387,473</u>	<u>P501,387,473</u>

The Group's retained earnings is restricted for dividend declaration to the extent of the cost of such treasury shares (see also Note 20.4).

20.4 Retained Earnings

On April 17, 2008, an appropriation for future capital expenditures amounting to P270,000,000 was approved by the BOD. In fiscal year 2008, the Group acquired additional lottery equipment and consequently, the Group reversed the retained earnings appropriation in its 2009 financial statements.

In 2009, the BOD approved an appropriation of retained earnings of P390,000,000 for future capital expenditures. A portion of this appropriation amounting to P350,000,000 was reversed in 2010.

In 2010, the BOD approved an appropriation of retained earnings of P660,000,000 for future capital expenditures, including, but not limited to the purchase, improvements, renewals, expenditures and repairs of property and equipment.

As of April 30, 2010 and 2009, the unrestricted retained earnings of the Group follow:

	<u>Note</u>	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Unrestricted retained earnings at end of year		P936,623,171	P601,663,158
Restricted retained earnings for treasury shares	20.3	(<u>501,387,473</u>)	(<u>501,387,473</u>)
Unrestricted retained earnings at end of year		<u>P435,235,698</u>	<u>P100,275,685</u>

20. TAXES

21.1 Current and Deferred Income Taxes

The components of tax expense shown in the profit or loss of the consolidated statements of comprehensive income follow for the years ended April 30:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Current tax expense:		
Regular corporate income tax (RCIT) at 30% in 2010 and 2009; and 35% in 2008	P237,500,967	P256,647,313
Minimum corporate income tax (MCIT) at 2%	169,444	252,396
Final tax on passive income at 20% and 7.5%	<u>1,883,986</u>	<u>2,815,108</u>
	<u>239,554,397</u>	<u>259,714,817</u>
Deferred tax expense (income):		
Deferred tax relating to the origination, reversal of temporary differences, and unused tax losses	(1,240,587)	1,599,743
Deferred tax asset resulting from reduction in tax rate	<u>-</u>	(<u>373,564</u>)
	(<u>1,240,587</u>)	<u>1,226,179</u>
Tax expense reported in profit or loss	<u>P238,313,810</u>	<u>P260,940,996</u>

The reconciliation of tax on pre-tax income computed at the applicable statutory rates to tax expense follow:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Tax on pretax income at 30% in 2010 and 2009 and 35% in 2008	P264,982,148	P280,972,135
Adjustments for:		
Application of optional standard deduction (OSD)	(25,588,162)	(44,237,706)
Income subjected to lower income tax rates	(1,098,330)	(1,640,378)
Income subjected to higher income tax rates	-	23,955,130
Tax effects of:		
Non-taxable income	18,679	-
Dividend income not subject to tax	(525)	(2,325)
Reduction in deferred tax rate	-	1,599,744
Non-deductible interest expense	<u>-</u>	<u>294,396</u>
Tax expense reported in profit or loss	<u>P238,313,810</u>	<u>P260,940,996</u>

The net deferred tax assets account relate to the following as of April 30:

	<u>Consolidated Statements of Financial Position</u>		<u>Consolidated Statements of Comprehensive Income</u>	
	<u>April 30, 2010</u>	<u>April 30, 2009</u>	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Net operating loss				
carryover (NOLCO)	P 5,412,503	P 4,778,988	(P 633,515)	P22,239
Retirement benefit obligation	5,773,605	5,343,671	(389,934)	(645,684)
Capitalized direct cost deducted in the year incurred for tax purposes	(1,587,416)	-	1,587,416	-
MCIT	695,040	-	(169,444)	-
Impairment losses	556,956	556,956	-	92,826
Pre-operating expenses	246,853	-	(246,853)	-
Unrealized foreign currency losses (gains) – net	309,792	(959,981)	(1,269,773)	2,009,194
Unamortized past service costs	<u>118,483</u>	<u>-</u>	<u>(118,483)</u>	<u>-</u>
Deferred Tax Expense (Income)			(P 1,240,587)	<u>P 1,226,179</u>
Deferred Tax Assets - Net	<u>P 11,485,817</u>	<u>P10,245,230</u>		

For income tax purposes, the preoperating expenses of PHPI will be amortized over five years from the start of commercial operations. As of April 30, 2010, the unamortized portion of preoperating expense amounted to P822,844 and will be available as deduction against taxable income until 2015.

The breakdown of NOLCO, which can be claimed as deduction from future taxable income is shown below.

<u>Year Incurred</u>	<u>Amount</u>	<u>Used/Expired</u>	<u>Balance</u>	<u>Expiry Date</u>
PHPI				
2010	P 5,791,696	P -	P 5,791,696	2013
PGPI				
2009	2,212,171	-	2,212,171	2012
2008	<u>13,717,791</u>	<u>3,679,981</u>	<u>10,037,810</u>	2011
	<u>P 21,721,658</u>	<u>P 3,679,981</u>	<u>P 18,041,677</u>	

On the other hand, the breakdown of MCIT (pertains only to PGPI) which can be applied against the RCIT is shown below:

<u>Year Incurred</u>	<u>Amount</u>	<u>Expiry</u>
2010	P 169,444	2013
2009	252,396	2012
2008	<u>273,200</u>	2011
	<u>P 695,040</u>	

21.2 Optional Standard Deduction (OSD)

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2009, the Parent Company opted to continue claiming itemized deductions while, PGMC opted to claim OSD for the period August 1, 2008 to April 30, 2009 and itemized deduction for the period May 1, 2008 to July 31, 2008.

In 2010, the Parent Company and PHPI opted to claim itemized deductions while, PGMC continued claiming OSD.

21.3 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

21. EARNINGS PER SHARE

Earnings per share were computed as follows:

	<u>October 31, 2010</u>	<u>April 30, 2010</u>	<u>April 30, 2009</u>
Net profit	P 409,995,999	P 644,960,013	P 675,632,785
Divided by the weighted average number of outstanding common share	<u>953,984,448</u>	<u>939,253,857</u>	<u>939,253,857</u>
Earnings per share	<u>P 0.423</u>	<u>P 0.687</u>	<u>P 0.719</u>

Dilutive earnings per share were not determined since the Group does not have dilutive shares as of October 31, 2010, April 30, 2010 and April 30, 2009.

22. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are shown below.

	Notes	<u>April 30, 2010</u>		<u>April 30, 2009</u>	
		<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
Financial Assets					
Cash and cash equivalents	7	P 254,231,459	P 254,231,459	P 416,289,079	P 416,289,079
Trade and other receivables - net	8	183,767,070	183,767,070	177,402,493	177,402,493
Advances to an associate	12	90,190,390	90,190,390	-	-
Available-for-sale financial asset	10	44,322,996	44,322,996	-	-
Security deposits	13	<u>1,729,733</u>	<u>1,729,733</u>	<u>1,306,458</u>	<u>1,306,458</u>
		<u>P 574,241,648</u>	<u>P 574,241,648</u>	<u>P 594,998,030</u>	<u>P 594,998,030</u>
Financial Liabilities					
Trade and other payables	15	<u>P 15,412,715</u>	<u>P 15,412,715</u>	<u>P 29,912,763</u>	<u>P 29,912,763</u>

See Notes 2.4 and 2.9 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

24.1 Operating Lease Commitments – the Group as Lessee

The Group leases its office spaces under lease agreements which will expire at various dates in 2010. The lease agreements also provide for renewal options upon mutual consent of both parties. The future minimum rentals payable under the lease agreements as of April 30, 2010 and 2009 for a one year period amounted to P8,225,114 and P11,936,956, respectively.

Rental expense arising from these leases amounted to P4,191,993 and P9,377,466 in October 31, 2010 and April 30, 2010, respectively, and is presented as Rental in the statements of comprehensive income.

24.2 Operating Lease Commitments – the Group as Lessor

PGMC entered into an ELA with PCSO covering the lease of PGMC's on line lottery equipment for a period of eight years under certain conditions. Under the agreement, PGMC is entitled to fees equal to a certain percentage of the gross amount of ticket sales from all PCSO's ticket sales. In the event that PCSO's on-line lottery sales do not meet a certain level, PGMC is entitled to an annual minimum fee which is computed at a certain amount multiplied by the number of leased units. Rental income arising from these transactions amounted to P849,362,160 and P1,526,706,721 in October 31, 2010 and April 30, 2010, respectively (see Note 6).

24.4 Contracts

The Group is a party to an agreement for the acquisition of a hotel for a total purchase price of P785 million. Out of the total purchase price, P730.4 million was already paid by the Group and is presented as Deposit in the 2010 consolidated statement of financial position (see Note 14). The remaining amount will be paid upon the transfer of ownership of the hotel and compliance with various terms and conditions.

24.3 Others

There are commitments, guarantees, litigations, and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying consolidated financial statements. As of April 30, 2010, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effect on the Group's consolidated financial statements.

1. Aging of Accounts Receivables as of 31 October 2010

Appendix B :

Type of Accounts Receivables	Total (Peso)	1 Month (Peso)	2-3 Mos. (Peso)	4 - 6 Mos. (Peso)	7 Mos. to 1 year (Peso)	1 - 2 Years (Peso)	3-5 Years (Peso)	5 Years and above (Peso)	Past Due Accts & Items in Litigation (Peso)
a) Trade Receivables									
1) customers	299,431,401	128,196,852	171,234,549	-	-	-	-	-	-
2) N/A	-	-	-	-	-	-	-	-	-
3) N/A	-	-	-	-	-	-	-	-	-
Subtotal	299,431,401	128,196,852	171,234,549	-	-	-	-	-	-
Less: Allow. For Doubtful Acct.	-	-	-	-	-	-	-	-	-
Net Trade receivable	299,431,401	128,196,852	171,234,549	-	-	-	-	-	-
b) Non - Trade Receivables									
1) Advances to Employees	7,003,226	952,066	1,904,133	1,904,133	1,290,828	952,066	-	-	-
2) Other Receivables	18,222,728	16,366,208	-	-	-	-	1,856,520	-	-
Subtotal	25,225,954	17,318,274	1,904,133	1,904,133	1,290,828	952,066	1,856,520	-	-
Less: Allow. For Doubtful Acct.	1,856,520	-	-	-	-	-	-	-	-
Net Non - trade receivable	23,369,434	17,318,274	1,904,133	1,904,133	1,290,828	952,066	1,856,520	-	-
Net Receivables (a + b)	322,800,835								
Notes: If the Company's collection period does not match with the above schedule, a revision is necessary to make the schedule not misleading. The proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.									

2. Accounts Receivable Description

Type of Receivables	Nature/Description	Collection Period
1) Trade	gross receipt from lottery ticket sales	45 days
2) N/A		
3) N/A		
Notes: To indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both the trade and non - trade accounts.		

3. Normal Operating Cycle: 45 days