



**P R E M I U M
LEISURE CORP.**

SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA Greenhills
Mandaluyong City, Metro Manila

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**

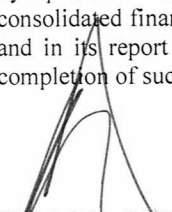
The management of **Premium Leisure Corp. and Subsidiaries** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

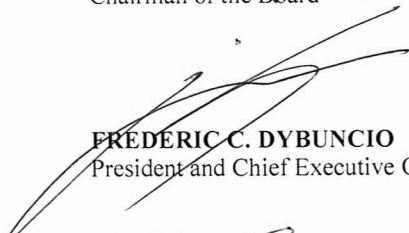
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



WILLY N. OCIER
Chairman of the Board



FREDERIC C. DYBUNCIO
President and Chief Executive Officer



JACKSON T. ONGSIP
Chief Finance Officer / Treasurer

Signed this 23rd day of February 2017

FEB 27 2017

SUBSCRIBED AND SWORN to before me this ____ day of _____ 2017 affiants exhibiting to me their Passport and Tax Identification Numbers, as follows:

| NAME | PASSPORT/ TAX IDENTIFICATION NUMBER | DATE OF EXPIRY | PLACE OF ISSUE |
|----------------------|---|-----------------|----------------|
| WILLY N. OCIER | EB6130282 TIN 101-934-954 | August 13, 2017 | Manila |
| FREDERIC C. DYBUNCIO | EC0634893 TIN 103-192-854 | March 21, 2019 | Manila |
| JACKSON T. ONGSIP | EC4804332 TIN 178-486-617 | July 29, 2020 | Manila |

DOC NO. : 29
PAGE NO. : 6
BOOK NO. : WLD
SERIES OF : 2017.

ATTY. JOSELYN BONNIE V. VALEROS
NOTARY PUBLIC, ROLL NO. 54515

PTR No. 5921026 Issued on Dec. 27, 2016 Until Dec. 31, 2017
IBP Life No. 723863 Issued on Aug. 21, 2007
Commission No. 2016-099 Issued on April 06, 2016 Until Dec. 31, 2017
FILE No. v-0022298 Issued on June 14, 2016 Valid until April 14, 2019.
Office Add. Imperial Bayfront Tower, 1642 A. Mabini, Manila

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
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COMPANY NAME

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| y | | S | i | n | o | p | h | i | l | | C | o | r | p | o | r | a | t | i | o | n |) | | A | N | D | | S | U |
| B | S | I | D | I | A | R | I | E | S | | | | | | | | | | | | | | | | | | | | |
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PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
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| C | e | n | t | e | r | , | | P | a | l | m | | C | o | a | s | t | | A | v | e | n | u | e | , | | M | a | l |
| l | | o | f | | A | s | i | a | | C | o | m | p | l | e | x | , | | C | B | P | - | 1 | A | , | | P | a | s |
| a | y | | C | i | t | y | | | | | | | | | | | | | | | | | | | | | | | |

Form Type

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| A | A | C | F | S |
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Department requiring the report

| | | |
|---|---|---|
| S | E | C |
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Secondary License Type, If Applicable

| | | |
|---|---|---|
| N | / | A |
|---|---|---|

COMPANY INFORMATION

Company's Email Address

| |
|-----|
| N/A |
|-----|

Company's Telephone Number

| |
|----------|
| 662-8888 |
|----------|

Mobile Number

| |
|-----|
| N/A |
|-----|

No. of Stockholders

| |
|-----|
| 372 |
|-----|

Annual Meeting (Month / Day)

| |
|----------------|
| Any day in May |
|----------------|

Fiscal Year (Month / Day)

| |
|-------------|
| December 31 |
|-------------|

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

| |
|-----------------------|
| Mr. Jackson T. Ongsip |
|-----------------------|

Email Address

| |
|----------------------------------|
| jackson.ongsip@sminvestments.com |
|----------------------------------|

Telephone Number/s

| |
|----------|
| 662-8888 |
|----------|

Mobile Number

| |
|--------------|
| 0917-5578203 |
|--------------|

CONTACT PERSON'S ADDRESS

| |
|---|
| 5th Floor, Tower A, Two E-Com Center, Palm Coast Avenue, Mall of Asia Complex, CBP-1A, Pasay City |
|---|

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Premium Leisure Corp.
5th Floor, Tower A
Two E-Com Center, Palm Coast Avenue
Mall of Asia Complex, CBP-1A, Pasay City

Opinion

We have audited the consolidated financial statements of Premium Leisure Corp. (formerly Sinophil Corporation) and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Recoverability of goodwill in Pacific Online Systems Corporation

Under PFRS, the Company is required to annually test the amount of goodwill for impairment. As of December 31, 2016, goodwill arising from the acquisition of Pacific Online Systems Corporation (POSC) amounted to ₱1,717.6 million out of a total goodwill balance of ₱1,828.6 million as discussed in Note 19 to the consolidated financial statements. The Company's assessment of the recoverable amount of the POSC cash generating unit (CGU) was based on value-in-use calculation. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the long-term growth rate. Given the significant level of management judgement and estimation involved in the value-in-use calculation, we considered this area to be a key audit matter.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate, discount rate and the long-term growth rate. We compared the key assumptions used, such as revenue growth rate against the historical performance of the CGU and other relevant external data. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Estimated Useful Life of Gaming License

Under PFRS, the Company is required to review the amortization period for an intangible asset with a finite useful life at least at each financial year-end. As discussed in Note 13 to the consolidated financial statements, in 2016, as part of its annual review process, the Company changed the estimated useful life of its gaming license to consider the specific terms of its gaming license and other industry developments. Since the change in the estimated useful life involves significant management judgment and estimates, we considered this as a key audit matter.

Audit response

We obtained an understanding of management's basis for the change in the estimated useful life of the gaming license, specifically the basis for the inclusion of the renewal period of the Philippine Amusement and Gaming Corporation's (PAGCOR's) congressional franchise. We reviewed management's assessment of the factors relevant to whether the Company would be able to include the renewal period in the estimated useful life of the gaming license. We obtained the Company's external legal counsel's opinion, which provides that there is legal and reasonable factual basis to extend the estimated useful life of the gaming license to include the renewal period consistent with the view that PAGCOR's congressional franchise has historically been renewed. We reviewed management's assessment of other industry developments to support the viability of using the gaming license over the extended period by looking at market data and industry information. We also assessed the adequacy of the related disclosures on the change in the estimated useful life of the gaming license.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.



Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-2 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5908672, January 3, 2017, Makati City

February 23, 2017



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|------------------------|-----------------|
| | 2016 | 2015 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 8 and 31) | ₱1,811,503,962 | ₱1,187,556,503 |
| Investments held for trading (Notes 9 and 31) | 165,990,214 | 226,746,690 |
| Receivables (Notes 10, 28 and 31) | 731,760,497 | 509,585,194 |
| Notes receivable (Notes 11, 28 and 31) | 805,925,000 | 805,925,000 |
| Other current assets (Notes 12 and 31) | 164,427,432 | 131,884,988 |
| | 3,679,607,105 | 2,861,698,375 |
| Noncurrent asset held for sale (Note 17) | 285,510,452 | 285,510,452 |
| Total Current Assets | 3,965,117,557 | 3,147,208,827 |
| Noncurrent Assets | | |
| Intangible asset (Note 13) | 9,906,544,455 | 10,231,313,891 |
| Available-for-sale financial assets (Notes 14, 28 and 31) | 657,377,802 | 586,543,893 |
| Property and equipment (Note 16) | 479,088,812 | 544,628,438 |
| Goodwill (Notes 18 and 19) | 1,828,577,952 | 1,828,577,952 |
| Deferred tax assets (Note 27) | 14,576,327 | 42,261,133 |
| Retirement asset (Note 21) | 8,630,802 | 10,731,917 |
| Other noncurrent assets (Notes 31 and 33) | 47,879,065 | 50,731,752 |
| Total Noncurrent Assets | 12,942,675,215 | 13,294,788,976 |
| TOTAL ASSETS | ₱16,907,792,772 | ₱16,441,997,803 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Trade payables and other current liabilities (Notes 20 and 31) | ₱544,597,585 | ₱365,772,706 |
| Current portion of obligations under finance lease (Notes 29 and 31) | 47,698,388 | 25,201,309 |
| Income tax payable | 43,000,753 | 49,600,322 |
| Total Current Liabilities | 635,296,726 | 440,574,337 |
| Noncurrent Liabilities | | |
| Obligation under finance lease (Notes 29 and 31) | 71,644,208 | 93,527,275 |
| Retirement liability (Note 21) | 12,549,700 | 18,638,266 |
| Total Noncurrent Liabilities | 84,193,908 | 112,165,541 |
| Total Liabilities | 719,490,634 | 552,739,878 |

(Forward)



| | December 31 | |
|--|------------------------|-----------------|
| | 2016 | 2015 |
| Equity Attributable to the Equity Holders of the Parent | | |
| (Notes 22 and 31) | | |
| Capital stock | ₱7,906,827,500 | ₱7,906,827,500 |
| Additional paid-in capital | 7,238,721,924 | 7,238,721,924 |
| Cost of parent company shares held by a subsidiary | (438,877,905) | (422,210,490) |
| Other reserves | (75,992,785) | (121,523,954) |
| Retained earnings | 727,181,016 | 440,361,436 |
| Total Equity Attributable to Equity Holders of the Parent | 15,357,859,750 | 15,042,176,416 |
| Non-controlling Interests (Note 18) | 830,442,388 | 847,081,509 |
| Total Equity | 16,188,302,138 | 15,889,257,925 |
| TOTAL LIABILITIES AND EQUITY | ₱16,907,792,772 | ₱16,441,997,803 |

See accompanying Notes to Consolidated Financial Statements.



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|-------------------------|----------------------|-----------------------|
| | 2016 | 2015 | 2014 |
| REVENUE | | | |
| Gaming revenue share - net (Notes 23 and 33) | ₱1,642,976,365 | ₱756,237,939 | ₱38,809,095 |
| Equipment rental (Note 29) | 1,579,660,972 | 630,926,248 | – |
| Commission and distribution income (Note 33) | 308,438,496 | 88,400,678 | – |
| | 3,531,075,833 | 1,475,564,865 | 38,809,095 |
| COST AND EXPENSES | | | |
| Cost of services (Note 24) | 1,238,853,192 | 388,947,906 | 12,075,317 |
| General and administrative expenses (Note 25) | 561,531,251 | 257,399,862 | 408,292,190 |
| Amortization of intangible asset (Note 13) | 324,769,436 | 563,277,634 | 48,624,286 |
| | 2,125,153,879 | 1,209,625,402 | 468,991,793 |
| OTHER INCOME (EXPENSES) | | | |
| Interest income (Notes 8, 11 and 22) | 47,139,103 | 42,034,540 | 6,465,350 |
| Dividend income (Note 14) | 24,616,646 | 31,770,513 | 1,999,754 |
| Finance charges | (12,748,505) | (4,996,708) | – |
| Equity in net earnings of an associate (Note 15) | – | 75,525,743 | 31,521,474 |
| Gain on sale of land (Note 28) | – | – | 149,170,154 |
| Fair value change due to cancellation of swap agreement and sale of golf club shares (Note 33) | – | – | 1,643,407,304 |
| Transfer of share in cumulative translation adjustments of investment in an associate (Note 33) | – | – | (58,318,988) |
| Other expense - net (Note 26) | (24,228,217) | (2,355,705) | – |
| | 34,779,027 | 141,978,383 | 1,774,245,048 |
| INCOME BEFORE INCOME TAX | 1,440,700,981 | 407,917,846 | 1,344,062,350 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27) | | | |
| Current | 254,329,643 | 186,833,985 | 5,117,366 |
| Deferred | 28,271,202 | (2,070,488) | – |
| | 282,600,845 | 184,763,497 | 5,117,366 |
| NET INCOME | ₱1,158,100,136 | ₱223,154,349 | ₱1,338,944,984 |
| Net Income Attributable to: | | | |
| Equity holders of the parent | 959,849,646 | 155,232,754 | 1,338,944,984 |
| Non-controlling interests | 198,250,490 | 67,921,595 | – |
| | ₱1,158,100,136 | ₱223,154,349 | ₱1,338,944,984 |
| Basic/Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent (Note 30) | ₱0.030663 | ₱0.004948 | ₱0.086607 |

See accompanying Notes to Consolidated Financial Statements.



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|-------------------------|----------------------|-----------------------|
| | 2016 | 2015 | 2014 |
| NET INCOME | ₱1,158,100,136 | ₱223,154,349 | ₱1,338,944,984 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| <i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Mark-to-market gains (losses) on available-for-sale financial assets (Note 14) | 62,197,638 | (252,460,264) | 23,420,369 |
| Share in mark-to-market loss on available-for-sale financial assets of an associate (Note 15) | – | (38,258,713) | – |
| Fair value change due to recovery of previous impairment of available-for-sale financial assets (Note 33) | – | – | 1,643,407,304 |
| Recycling of fair value change due to cancellation of swap agreement and sale of golf club shares (Note 33) | – | – | (1,643,407,304) |
| Recycling of share in cumulative translation adjustments of investment in an associate (Note 33) | – | – | 58,318,988 |
| <i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Remeasurement gain (loss) on net retirement benefits - net of tax | (496,546) | 4,582,575 | – |
| Share in remeasurement loss on net retirement benefits of an associate - net of tax (Note 15) | – | – | (3,989,546) |
| | 61,701,092 | (286,136,402) | 77,749,811 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | ₱1,219,801,228 | (₱62,982,053) | ₱1,416,694,795 |
| Total Comprehensive Income (Loss) Attributable to: | | | |
| Equity holders of the parent | ₱1,005,380,815 | (₱105,673,078) | ₱1,416,694,795 |
| Non-controlling interests | 214,420,413 | 42,691,025 | – |
| | ₱1,219,801,228 | (₱62,982,053) | ₱1,416,694,795 |

See accompanying Notes to Consolidated Financial Statements.



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

| | | | | Other Reserves | | | | | | |
|--|----------------|----------------|----------------|----------------|-----------------|-------------------|---------------|-----------------|-----------------|-----------------|
| | Capital Stock | Additional | Cost of Parent | Cumulative | Share in | | | | | |
| | (Note 22) | Paid-in | Company | Unrealized | Other | | | | | |
| | | Capital | Shares | Mark-to-Market | Comprehensive | | | | | |
| | | (Note 22) | Held by a | Gain on | Income | | | | | |
| | | | Subsidiary | Available-for- | of an Associate | | | | | |
| | | | (Note 22) | Sale Financial | and Other | | | | | |
| | | | | Assets | Reserves | | | | | |
| | | | | (Note 14) | (Note 21) | (Notes 14 and 22) | Retained | Total Equity | Non-controlling | Total |
| | | | | | | | Earnings | Attributable | Interest | |
| | | | | | | | (Note 22) | to the Equity | (Note 3) | |
| | | | | | | | | Holder of the | | |
| | | | | | | | | Parent | | |
| Balance at January 1, 2016 | ₱7,906,827,500 | ₱7,238,721,924 | (₱422,210,490) | ₱134,718,769 | (₱1,923,026) | (₱254,319,697) | ₱440,361,436 | ₱15,042,176,416 | ₱847,081,509 | ₱15,889,257,925 |
| Net income | — | — | — | — | — | — | 959,849,646 | 959,849,646 | 198,250,490 | 1,158,100,136 |
| Other comprehensive (income) loss: | | | | | | | | | | |
| Remeasurement gain on net retirement | | | | | | | | | | |
| benefits - net of tax | — | — | — | — | (248,770) | — | — | (248,770) | (247,776) | (496,546) |
| Mark-to-market loss on available-for-sale | | | | | | | | | | |
| financial assets | — | — | — | 45,779,939 | — | — | — | 45,779,939 | 16,417,699 | 62,197,638 |
| Total comprehensive income (loss) | — | — | — | 45,779,939 | (248,770) | — | 959,849,646 | 1,005,380,815 | 214,420,413 | 1,219,801,228 |
| Parent Company shares held by a subsidiary | | | | | | | | | | |
| (Note 22) | — | — | (16,667,415) | — | — | — | — | (16,667,415) | — | (16,667,415) |
| Cash dividends (Note 22) | — | — | — | — | — | — | (673,030,066) | (673,030,066) | — | (673,030,066) |
| Cash dividends received by non-controlling | | | | | | | | | | |
| interest (Note 3) | — | — | — | — | — | — | — | — | (174,240,356) | (174,240,356) |
| Purchase of treasury shares | — | — | — | — | — | — | — | — | (56,819,178) | (56,819,178) |
| Balance at December 31, 2016 | ₱7,906,827,500 | ₱7,238,721,924 | (₱438,877,905) | ₱180,498,708 | (₱2,171,796) | (₱254,319,697) | ₱727,181,016 | ₱15,357,859,750 | ₱830,442,388 | ₱16,188,302,138 |



| | Capital Stock (Note 22) | Additional Paid-in Capital (Note 22) | Subscriptions Receivable (Note 22) | Cost of Parent Company Shares Held by a Subsidiary (Note 22) | Other Reserves | | | Retained Earnings (Note 22) | Total Equity Attributable to the Equity Holders of the Parent | Non-controlling Interest (Note 3) | Total |
|---|----------------------------|---|--|---|--|---|---|-----------------------------------|---|---|-----------------|
| | | | | | Cumulative Unrealized Gain on Available-for- Sale Financial Assets (Note 14) | Remeasurement Gains and (Losses) on Defined Benefit Obligation (Note 21) | Share in Other Comprehensive Income of an Associate and Other Reserves (Notes 14 and 22) | | | | |
| Balance at January 1, 2015 | ₱7,906,827,500 | ₱6,946,201,779 | (₱185,480,975) | ₱- | ₱397,691,122 | ₱- | (₱258,309,243) | ₱980,929,502 | ₱15,787,859,685 | ₱- | ₱15,787,859,685 |
| Net income | - | - | - | - | - | - | - | 155,232,754 | 155,232,754 | 67,921,595 | 223,154,349 |
| Other comprehensive (income) loss: | | | | | | | | | | | |
| Remeasurement gain on net retirement benefits - net of tax | - | - | - | - | - | 2,066,520 | - | - | 2,066,520 | 2,516,055 | 4,582,575 |
| Mark-to-market loss on available-for-sale financial assets | - | - | - | - | (224,713,640) | - | - | - | (224,713,640) | (27,746,624) | (252,460,264) |
| Share in mark-to-market loss on available-for- sale financial assets of an associate | - | - | - | - | - | - | (38,258,713) | - | (38,258,713) | - | (38,258,713) |
| Total comprehensive income (loss) | - | - | - | - | (224,713,640) | 2,066,520 | (38,258,713) | 155,232,754 | (105,673,079) | 42,691,026 | (62,982,053) |
| Subscriptions collected, net of listing fees (Note 22) | - | (4,567,388) | 185,480,975 | - | - | - | - | - | 180,913,587 | - | 180,913,587 |
| Step acquisition (Note 18) | - | 297,087,533 | - | (286,398,070) | (38,258,713) | (3,989,546) | 42,248,259 | - | 10,689,463 | 849,067,497 | 859,756,960 |
| Parent Company shares held by a subsidiary (Note 22) | - | - | - | (135,812,420) | - | - | - | - | (135,812,420) | - | (135,812,420) |
| Cash dividends (Note 22) | - | - | - | - | - | - | - | (695,800,820) | (695,800,820) | - | (695,800,820) |
| Cash dividends received by non-controlling interest (Note 3) | - | - | - | - | - | - | - | - | - | (44,677,014) | (44,677,014) |
| Balance at December 31, 2015 | ₱7,906,827,500 | ₱7,238,721,924 | ₱- | (₱422,210,490) | ₱134,718,769 | (₱1,923,026) | (₱254,319,697) | ₱440,361,436 | ₱15,042,176,416 | ₱847,081,509 | ₱15,889,257,925 |



| | Other Reserves | | | | | | | | |
|---|----------------------------|---|--|---|--|--|---|--|-----------------|
| | Capital Stock (Note 22) | Additional Paid-in Capital (Note 22) | Subscriptions Receivable (Note 22) | Cost of Parent Company Shares Held by a Subsidiary (Note 22) | Cumulative Unrealized Gain on Available-for- Sale Financial Assets (Note 14) | Share in Cumulative Actuarial Losses of an Associate (Note 15) | Share in Cumulative Translation Adjustments of an Associate and Other Reserves (Notes 14 and 22) | Retained Earnings (Deficit) (Note 22) | Total |
| Balance at January 1, 2014 | ₱7,927,310,000 | ₱2,039,727,799 | (₱4,962,580,586) | (₱512,594,197) | ₱374,270,753 | ₱— | (₱58,318,988) | (₱2,972,488,493) | ₱1,835,326,288 |
| Net income | — | — | — | — | — | — | — | 1,338,944,984 | 1,338,944,984 |
| Other comprehensive (income) loss | | | | | | | | | |
| Fair value change due to recovery of previous impairment | — | — | — | — | 1,643,407,304 | — | — | — | 1,643,407,304 |
| Recycling of fair value change due to cancellation of Swap Agreement and sale of golf club shares | — | — | — | — | (1,643,407,304) | — | — | — | (1,643,407,304) |
| Recycling of share in cumulative translation adjustments of investment in an associate | — | — | — | — | — | — | 58,318,988 | — | 58,318,988 |
| Mark-to-market gain on available-for-sale financial assets | — | — | — | — | 23,420,369 | — | — | — | 23,420,369 |
| Share in remeasurement loss on net retirement benefits of an associate - net of tax | — | — | — | — | — | (3,989,546) | — | — | (3,989,546) |
| Total comprehensive (income) loss | — | — | — | — | 23,420,369 | (3,989,546) | 58,318,988 | 1,338,944,984 | 1,416,694,795 |
| Effect of quasi re-organization (Note 22) | (5,195,482,500) | 2,581,009,489 | — | — | — | — | — | 2,614,473,011 | — |
| Cancellation of Swap Agreement (Note 33) | (1,000,000,000) | (559,847,304) | — | — | — | — | — | — | (1,559,847,304) |
| Subscriptions during the year (Note 22) | 6,175,000,000 | 2,885,311,795 | — | — | — | — | — | — | 9,060,311,795 |
| Subscriptions collected (Note 22) | — | — | 4,777,099,611 | — | — | — | — | — | 4,777,099,611 |
| Sale of Parent Company shares held by a subsidiary (Note 22) | — | — | — | 477,256,825 | — | — | (218,982,325) | — | 258,274,500 |
| Reclassification | — | — | — | 35,337,372 | — | — | (35,337,372) | — | — |
| Balance at December 31, 2014 | ₱7,906,827,500 | ₱6,946,201,779 | (₱185,480,975) | ₱— | ₱397,691,122 | (₱3,989,546) | (₱254,319,697) | ₱980,929,502 | ₱15,787,859,685 |

See accompanying Notes to Consolidated Financial Statements.



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|-------------------------|-----------------|------------------|
| | 2016 | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | ₱1,440,700,981 | ₱407,917,846 | ₱1,344,062,350 |
| Adjustments for: | | | |
| Amortization of intangible asset (Note 13) | 324,769,436 | 563,277,634 | 48,624,286 |
| Depreciation and amortization of property and equipment (Note 16) | 171,262,447 | 65,301,971 | 203,368 |
| Interest income (Notes 8, 11 and 22) | (47,139,103) | (42,034,540) | (6,465,350) |
| Mark-to-market loss of investments held for trading (Note 26) | 37,137,005 | 29,331,526 | — |
| Dividend income (Note 14) | (24,616,646) | (31,770,513) | (1,999,754) |
| Finance charges | 12,748,505 | 4,996,708 | — |
| Foreign exchange loss (Note 26) | 1,620,149 | 698,585 | — |
| Loss (gain) on sale of: | | | |
| Property and equipment (Note 26) | (29,997) | 446,948 | — |
| Investments held for trading (Note 26) | — | (11,363,516) | — |
| Land (Note 28) | — | — | (149,170,154) |
| Provisions for doubtful accounts and probable loss on input VAT (Note 25) | 6,974 | 8,645,486 | 349,691,841 |
| Equity in net earnings of an associate (Note 15) | — | (75,525,743) | (31,521,474) |
| Reversal of allowance for input value-added tax (Note 26) | — | (10,992,915) | — |
| Fair value change due to cancellation of Swap Agreement and sale of golf club shares (Note 33) | — | — | (1,643,407,304) |
| Transfer of share in cumulative translation adjustments of investment in an associate (Note 33) | — | — | 58,318,988 |
| Operating income (loss) before working capital changes | 1,916,459,751 | 908,929,477 | (31,663,203) |
| Decrease (increase) in: | | | |
| Receivables | (222,175,303) | 138,177,582 | (381,290,559) |
| Other current assets | (49,732,698) | (41,250,642) | — |
| Increase (decrease) in: | | | |
| Trade payables and other current liabilities | 177,197,756 | 65,153,439 | 21,842,615 |
| Retirement liability | (15,802,310) | (5,736,204) | 1,047,500 |
| Cash used generated from (used for) operations | 1,805,947,196 | 1,065,273,652 | (390,063,647) |
| Income taxes paid | (243,738,958) | (128,269,589) | — |
| Interest received | 47,139,103 | 38,173,395 | 6,465,350 |
| Net cash provided by (used in) operating activities | 1,609,347,341 | 975,177,458 | (383,598,297) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of: | | | |
| Property and equipment (Note 16) | (112,119,120) | (223,409,934) | — |
| Available-for-sale financial asset (Note 14) | (8,636,271) | (14,546,522) | — |
| Interest in a subsidiary - net of cash acquired from a subsidiary (Note 2) | — | — | (10,840,082,454) |
| Interest in an associate (Notes 2 and 15) | — | — | (1,525,034,310) |
| Dividends received | 24,616,646 | 62,271,200 | 1,999,754 |
| Decrease (increase) in: | | | |
| Investments held for trading | 23,619,471 | 4,826,592 | — |
| Other noncurrent assets | 13,584,604 | (9,460,547) | (133,920) |
| Notes receivable | — | (1,805,925,000) | — |
| Proceeds from sale of: | | | |
| Property and equipment | 6,426,296 | 1,013,249 | — |
| Land and other assets (Note 28) | — | — | 323,371,434 |
| Available-for-sale financial assets (Note 14) | — | — | 198,000,000 |
| Proceeds from redemption of preferred shares (Note 14) | — | — | 1,000,000,000 |
| Cash acquired from step acquisition of a subsidiary (Note 18) | — | 179,986,807 | — |
| Decrease in due to Belle Corporation | — | — | (179,011,579) |
| Net cash used in investing activities | (52,508,374) | (1,805,244,155) | (11,020,891,075) |

(Forward)



| | Years Ended December 31 | | |
|--|-------------------------|------------------------|-----------------------|
| | 2016 | 2015 | 2014 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | (P847,270,422) | (P740,477,834) | P- |
| Purchase of treasury shares | (56,819,178) | - | - |
| Additional cost of parent company shares held by a subsidiary (Note 22) | (16,667,415) | (135,812,420) | - |
| Increase in obligations under finance lease | (12,134,493) | 20,878,294 | - |
| Collections of subscription receivable (Note 22) | - | 180,913,587 | 4,777,099,611 |
| Subscriptions by Belle Corporation (Note 22) | - | - | 9,060,311,795 |
| Proceeds from sale of Parent Company shares (Note 22) | - | - | 258,274,500 |
| Net cash provided by (used in) financing activities | (932,891,508) | (674,498,373) | 14,095,685,906 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 623,947,459 | (1,504,565,070) | 2,691,196,534 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,187,556,503 | 2,692,121,573 | 925,039 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8) | P1,811,503,962 | P1,187,556,503 | P2,692,121,573 |

See accompanying Notes to Consolidated Financial Statements.



PREMIUM LEISURE CORP.
(Formerly Sinophil Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Premium Leisure Corp., formerly Sinophil Corporation, (“PLC” or “Parent Company”), incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Sinophil Exploration Co., Inc. on November 26, 1993, was originally organized with oil and gas exploration and development as its primary purpose and investments and development as among its secondary purposes. On June 3, 1997, the SEC approved PLC’s application for a change in its primary purpose from oil and gas exploration and development to investment holding and real estate development. On September 5, 2014, the SEC approved the change in PLC’s primary purpose to that of engagement and/or investment in gaming-related businesses.

PLC, a publicly-listed company traded in the Philippine Stock Exchange (PSE), is 79.00% (direct and indirect) owned by Belle Corporation (“Belle”) and the rest by the public as at December 31, 2016 and 2015.

PLC and its subsidiaries (collectively referred to as “the Company”) have investment portfolio consisting of investment holding, real estate, public amusement recreation, gaming business and lottery equipment leasing, distribution and others.

The registered office address of the Company is 5th Floor, Tower A, Two E-Com Center, Palm Coast Avenue, Mall of Asia Complex, CPB-1A, Pasay City.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

| | Percentage of Ownership | | | |
|--|-------------------------|----------|--------|----------|
| | 2016 | | 2015 | |
| | Direct | Indirect | Direct | Indirect |
| Gaming Business | | | | |
| PremiumLeisure and Amusement, Inc. (PLAI) | 100.00 | — | 100.00 | — |
| Real Estate | | | | |
| Foundation Capital Resources, Inc. (FCRI) ^(b) | 100.00 | — | 100.00 | — |
| Public Amusement and Recreation | | | | |
| Sinophil Leisure and Resorts Corporation (SLRC) ^(b) | 100.00 | — | 100.00 | — |
| Lottery Equipment Leasing, Distribution and Others | | | | |
| Pacific Online Systems Corporation (POSC) ^(a) | 50.66 | — | 50.10 | — |
| Loto Pacific Leisure Corporation (LotoPac) | — | 100.00 | — | 100.00 |
| Lucky Circle Corporation (LCC) | — | 100.00 | — | 100.00 |
| Total Gaming Technologies, Inc. (TGTI) | — | 98.92 | — | 98.92 |
| Falcon Resources, Inc. (FRI) | — | 100.00 | — | 100.00 |

The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines.

^(a) POSC was accounted as a subsidiary starting August 5, 2015 (see Note 18).

^(b) Non-operating



Authorization for the Issuance of the Consolidated Financial Statements

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors (BOD) on February 23, 2017.

2. Corporate Reorganization

On June 2, 2014, the Company's BOD approved a plan to take on the gaming business and interests of Belle (the "Investment Plan"). In line with this, the Company was authorized:

(1) To sell to Belle its non-gaming related assets consisting of the following:

- Membership shares in Tagaytay Midlands Golf Club, Inc. (TMGCI) (see Note 14);
- A lot with gross area of 4,348 square meters located within the Aseana Business Park at the Manila Bay Reclamation Area;
- Several parcels of land in The Parks at Saratoga Hills within the Tagaytay Midlands Complex; and
- Undeveloped land located in the City of Tanauan, Province of Batangas (see Note 28).

(2) To acquire from Belle the following:

- 100% ownership interest in PLAI for a consideration of ₱10,847,820,000 (see Note 13);
- 34.5% ownership interest in Pacific Online Systems Corporation ("POSC") for a consideration of ₱1,525,034,310 (see Note 15).

(3) To execute a Memorandum of Agreement (Second Amendment Agreement to the Settlement Agreement dated August 28, 2009) for the redemption of 1,000,000,000 preferred shares by Belle for a cash consideration of ₱1,000,000,000 (see Note 14).

3. Basis of Preparation and Consolidation and Statement of Compliance

Basis of Preparation

The Company's consolidated financial statements have been prepared on a historical cost basis, except for investments held for trading and available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements.

Statement of Compliance

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



Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2016 and 2015 (see Note 1). Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date of the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Material Partly-owned Subsidiary

The non-controlling interests of POSC are material to the Company. Non-controlling interest is 49.3% and 49.9% as at December 31, 2016 and 2015, respectively.



The summarized financial information of POSC is provided below. This information is based on amounts before intercompany eliminations.

Summarized Consolidated Statements of Financial Position

| | 2016 | 2015 |
|------------------------------|-----------------------|------------|
| | <i>(In thousands)</i> | |
| Total current assets | ₱1,047,497 | ₱969,430 |
| Total noncurrent assets | 1,388,011 | 1,241,432 |
| Total current liabilities | (394,925) | (353,647) |
| Total noncurrent liabilities | (79,952) | (98,261) |
| Total equity | ₱1,960,631 | ₱1,758,954 |
| Attributable to: | | |
| Equity holders of the Parent | ₱1,955,307 | ₱1,756,008 |
| Non-controlling interests | 5,324 | 2,946 |
| Total | ₱1,960,631 | ₱1,758,954 |

Summarized Consolidated Statements of Comprehensive Income

| | 2016 | 2015 |
|-----------------------------------|-----------------------|-------------|
| | <i>(In thousands)</i> | |
| Revenues | ₱1,888,100 | ₱1,718,318 |
| Costs and expenses | (1,291,555) | (1,212,796) |
| Other income (expense) - net | (14,087) | 3,860 |
| Income before income tax | 582,458 | 509,382 |
| Provision for income tax | (183,093) | (163,312) |
| Net income | 399,365 | 346,070 |
| Other comprehensive income (loss) | 208,310 | (394,749) |
| Total comprehensive income (loss) | ₱607,675 | (₱48,679) |
| Attributable to: | | |
| Equity holders of the Parent | ₱605,298 | (₱50,574) |
| Non-controlling interests | 2,377 | 1,895 |
| Total | ₱607,675 | (₱48,679) |

Summarized Cash Flow Information

| | 2016 | 2015 |
|---|-----------------------|------------|
| | <i>(In thousands)</i> | |
| Operating | ₱496,173 | ₱441,487 |
| Investing | (87,272) | (666,202) |
| Financing | (413,018) | 22,934 |
| Net decrease in cash and cash equivalents | (₱4,117) | (₱201,781) |

Dividends paid to non-controlling interests amounted to ₱174.2 million and ₱44.7 million in 2016 and 2015, respectively.



4. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*. These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

These amendments are not applicable to the Company since none of the entities within the Company is an investment entity.

- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*. The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact on the Company as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*. PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Company is an existing PFRS preparer, this standard would not apply.



- Amendments to PAS 1, *Disclosure Initiative*. The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
 - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any significant impact to the Company.

- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Company, given that the Company has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*. The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

The amendments are applied retrospectively and do not have any impact on the Company as the Company does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

These amendments do not have any impact on the Company's consolidated financial statements.



- Annual Improvements to PFRSs 2012-2014 Cycle
 - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*. The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
 - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*. PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
 - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*. This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
 - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*. This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
 - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*. The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

5. Future Changes in Accounting Policies

The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations from Financial Reporting Interpretations Committee (IFRIC) to have significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*). The amendments clarify that the disclosure



requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*. The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Company.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*. The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*. The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from



applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard.
- PFRS 9, *Financial Instruments*, whose final version was issued in July 2014, reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*). The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.



- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statements of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not



constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

6. Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Company.



The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level of input that is significant to the fair value measurement is observable, either directly or indirectly;
- Level 3: valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

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

The Company's management determines the policies and procedures for both recurring and nonrecurring fair value measurements.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

"Day 1" Difference

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

Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Date of Recognition of Financial Assets. The Company recognizes financial assets in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a



time frame established by regulation or convention in the marketplace (regular way trades) are recognized on trade date, i.e., the date the Company commits to purchase or sell the asset.

Initial Recognition of Financial Assets. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss (FVPL), transaction costs that are attributable to the acquisition of the financial asset.

Categories of Financial Assets and Subsequent Measurement. Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and where allowed and appropriate, re-evaluates such classification every financial reporting date.

As at December 31, 2016 and 2015, the Company has no HTM investments.

- *Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading, derivative financial instruments and those designated upon initial recognition at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are accounted for as financial assets at FVPL unless they are designated as effective hedging instruments as defined by PAS 39.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income according to the terms of the contract, or when the right of payment has been established.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in the fair value recognized in profit or loss. Remeasurement only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

The Company evaluates its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly change, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, AFS financial assets or HTM investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation.

The Company's investments held for trading are classified as financial assets at FVPL. The Company has no derivatives designated as hedging instruments as at December 31, 2016 and 2015.



- *Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are not integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when the Company expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

This category includes the Company's cash and cash equivalents, receivables (excluding advances to contractors and suppliers), notes receivable, deposits and guarantee bonds.

- *AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are designated as AFS or do not qualify to be classified as loans and receivables, financial assets at FVPL or HTM investments. Equity investments classified as AFS are those which are intended to be held for an indefinite period of time and are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

AFS financial assets are carried at fair value with unrealized gains or losses recognized under other comprehensive income until the financial asset is derecognized or determined to be impaired at which time the accumulated gains or losses previously reported under other comprehensive income are reclassified to profit or loss. Interest earned whilst holding AFS financial assets is reported as interest income using effective interest rate method. AFS financial assets that are not quoted in an active market and whose fair value cannot be measured reliably are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of investment. If a reliable measure ceases to be available, AFS financial assets are thereafter measured at cost, which is deemed to be the fair value carrying amount at that date. Assets under this category are classified as current assets if expected to be realized within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

This category includes the Company's investments in shares of stock.

Financial Liabilities

Date of Recognition of Financial Liabilities. The Company recognizes financial liabilities in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

Initial Recognition of Financial Liabilities. Financial liabilities are recognized initially at fair value of the consideration received which is determined by reference to the transaction price or other market prices, and in the case of other financial liabilities, inclusive of any directly



attributable transaction costs. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

Categories of Financial Liabilities and Subsequent Measurement. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities which are measured at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such classification every financial reporting date.

The Company has no financial liabilities at FVPL and derivatives designated as hedging instruments as at December 31, 2016 and 2015.

- *Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability where the substance of the contractual arrangements results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the Company. These include liabilities arising from operations or borrowings.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date or the Company does not have an unconditional right to defer payment for at least 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

The Company's liabilities arising from operations such as trade payables and other current liabilities (excluding statutory payables) and obligations under finance lease are classified under this category.

Classification of Financial Assets and Financial Liabilities between Debt and Equity

A financial asset and financial liability is classified as debt if it provides for a contractual obligation to:

- Deliver cash of another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- Satisfy the obligation other than by the exchange if a fixed amount of cash or another financial asset for a fixed number of own equity shares

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a



result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost. For assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues, to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the financial asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the effective interest rate of the asset.

The Company provides an allowance for loans and receivables which they deemed to be uncollectible despite the Company’s continuous effort to collect such balances from the respective clients. The Company considers those past due receivables as still collectible if they become past due only because of a delay on the fulfillment of certain conditions as agreed in the contract and not due to incapability of the customers to fulfill their obligation.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.



In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

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

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new



liability, and the difference in the respective carrying amounts is recognized in profit or loss in the consolidated statement of income.

Intangible Asset

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

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

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

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

The Company made upfront payments to purchase a license. The license has been granted for a period of 18.6 years, renewable for another 25 years, by the relevant government agency. The license was assessed as having a finite life.

Investment in an Associate

The Company's investment in an associate is accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The consideration made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate less any dividends declared and impairment loss. Goodwill, if any, relating to an associate is included in the carrying amount of the investment and is neither amortized nor separately tested for impairment. The consolidated statement of income reflects the Company's share of the results of operation of the associate. When there has been a change recognized directly in the equity of the associate, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statement of comprehensive income and changes in equity. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interests in the associates.



The share in net earnings of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate. If the Company's share of losses of an associate equals or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each end of reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "Equity in net earnings of an associate" in the consolidated statement of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in consolidated statement of income.

Property and Equipment

Property and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation, amortization and accumulated impairment losses, if any. Such cost consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of replacing part of the property and equipment is included in the carrying amount when the cost incurred meets the recognition criteria. When major repairs and maintenance is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are charged against consolidated statement of income.

Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets:

| | |
|--|---|
| Lottery equipment | 4-10 years or term of lease, whichever is shorter |
| Leasehold improvements | 4 years or term of lease, whichever is shorter |
| Office equipment, furniture and fixtures | 3-4 years |
| Transportation equipment | 4-5 years |

The assets' residual values, useful lives, and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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



Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

Noncurrent Asset Held for Sale

Noncurrent asset is classified as held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable.

For the sale to be highly probable:

- The BOD must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Noncurrent asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are presented separately as current items in the consolidated statement of financial position.

Asset Acquisition

When property is acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business Combinations

Business combinations are accounted for using the acquisition method except for business combinations under common control in which accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree either at fair value or the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in "General and administrative expenses" account in the consolidated statement of income.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Company at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Company. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized as part of "Additional paid-in capital" account in the equity section of the consolidated statement of financial position.



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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. If the contingent consideration is classified as equity, it should not be remeasured, and subsequent settlement is accounted for within equity.

Goodwill

Goodwill acquired in business combination is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company measures in its consolidated financial statements provisional accounts for the items for which the accounting is incomplete. During the measurement period, the Company retrospectively adjusts the provisional accounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date, and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Company also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units, or group of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and



- is not larger than an operating segment or determined in accordance with PFRS 8, *Operating Segment*.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amounts, an impairment loss is recognized. Impairment loss with respect to goodwill cannot be reversed in future periods.

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

Negative goodwill which is not in excess of the fair values of the acquired identifiable nonmonetary assets of subsidiaries and associates is charged directly to income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

When business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the Company, using the cost of transaction and fair value information at the date of each exchange transaction, to determine the amount of goodwill associated with that transaction. Any adjustment to fair value relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in profit or loss.

Instant Scratch Tickets, Spare Parts and Supplies

Instant scratch tickets, spare parts and supplies are included as part of “Other current assets” account in the consolidated statement of financial position. Instant scratch tickets are valued at cost less any impairment loss. Spare parts and supplies are valued at the lower of cost and net realizable value. Cost, which includes all costs attributable to acquisition, is determined using the first-in, first-out method. Net realizable value of spare parts and supplies is its current replacement cost.

Impairment of Nonfinancial Assets (excluding Goodwill)

The Company assesses at each reporting date whether there is an indication that the noncurrent asset held for sale, intangible asset, investment in an associate and property and equipment may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s cash-generating unit’s fair value less cost to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market



transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital. The additional paid-in capital also includes the excess of the cost of the business combination under common control over the net carrying amounts of the assets and liabilities of the acquired companies.

Retained earnings represent accumulated net earnings, net of dividends declared.

Subscription receivable represents the unpaid portion of subscription of capital shares by the investors.

Cost of Parent Company Shares Held by a Subsidiary

Cost of Parent Company shares held by subsidiary are accounted for as equity instruments which are reacquired (treasury shares) and are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in other reserves.

Non-controlling Interest (NCI)

NCI represents the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to owners of the Parent Company. Any losses applicable to a non-controlling shareholder of a consolidated subsidiary in excess of the non-controlling shareholder's equity in the subsidiary are charged against the NCI even if this results in NCI having a deficit.

NCI represents the equity interest in POSC not held by the Parent Company.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or



receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Except for the “Commission income,” the Company has concluded that it is acting as principal in all of its revenue arrangements.

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

Gaming Revenue Share. Revenue representing monthly payments from MCE Leisure (Philippines) Corp., or MCE Leisure, based on the performance of gaming operations of City of Dreams Manila integrated resort and casino is recognized when earned pursuant to the Operating Agreement.

Interest Income. Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Dividend Income. Revenue is recognized when the shareholders’ right to receive the payment is established.

Equipment Rental. Revenue is recognized based on a certain percentage of gross sales of the lessee’s online lottery operations, as computed by the lessee in accordance with the agreement, or a fixed annual rental per terminal in commercial operations, whichever is higher.

Commission and Distribution Income. Revenues from the distribution of lottery, sweepstakes and scratch tickets to customers, including retailers and sub-distributors, representing the Company’s share from the sales, are recognized upon delivery of the tickets to the customers. Revenue from the monthly fixed payment from Powerball Gaming and Entertainment Corporation (PGEC) is recognized monthly in accordance with the Outsourcing Memorandum of Agreement (OMOA).

Equity in Net Earnings of an Associate. The Company recognizes its share in the net income of an associate proportionate to the equity in the economic shares of such associates, in accordance with the equity method.

Other Income. These are recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and can be measured reliably.

Costs and Expenses Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets and incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in consolidated statement of income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits, or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Leases

The determination of whether an arrangement is, or contain, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the



arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

Company as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are charged against profit or loss in the consolidated statement of income on a straight-line basis over the lease term.

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

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

Retirement Costs

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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



Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a different rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations.) If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined in the reporting period.

Foreign Currency-denominated Transactions and Translation

Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies are restated using the closing exchange rate at the reporting date. All differences are taken to consolidated statement of income with the exception of differences on foreign currency exchange borrowings that provide a hedge against a net investment in a foreign entity. These are recorded as part of other comprehensive income and taken to equity until the disposal of the net investment, at which time they are recognized in net loss in the consolidated statement of comprehensive income. Tax charges and credits attributable to exchange rate differences on those borrowings are also dealt with in equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The "Share in cumulative translation adjustments of an associate" account also includes the Company's share in translation adjustments, under the current rate method, on the financial statements of Legend International Resort H.K. Limited ("LIR-HK"), before the Company discontinued using the equity method of accounting for its investments in LIR-HK (see Note 33).

Income Taxes

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

Deferred Income Tax. Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and by the parent, venture or investor, respectively, it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Value-Added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- when receivables and payables that are stated with the amount of VAT included.



The carrying value of input VAT is included under “Other current assets” account in the consolidated statement of financial position.

Earnings per Share

Basic earnings per share is computed by dividing net profit for the year attributable to common equity holders of the parent by the weighted average number of issued and outstanding common shares during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted earnings per share is computed by dividing net profit or loss for the year attributable to common equity holders of the parent by the weighted average number of issued and outstanding common shares during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential common shares that would have anti-dilutive effects on earnings per share.

As the Company has no dilutive potential common shares outstanding, basic and diluted earnings per share are stated at the same amount.

Business Segments

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

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, real estate for sale, club shares, other equity shares, investment properties and property and equipment, net of accumulated depreciation and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include investments and advances.

Inter-segment Transactions. Segment revenue, segment expenses, and segment performance include transfers among business segments. Such transfers are eliminated upon consolidation.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented as part of profit or loss in the consolidated statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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



Events after the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the reporting period (adjusting events), if any, are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

7. Significant Accounting Judgments, Estimates and Assumptions

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

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

The Company believes that the following represents a summary of these significant judgments and estimates and assumptions and related impact and associated risks in its consolidated financial statements.

Judgments

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

Acquisition of POSC. In 2015, PLC acquired additional equity interest in POSC increasing its ownership to 50.1% from 34.5% in 2014. Based on management's judgment, PLC's additional investment in 2015 gives PLC controlling interest over POSC as evidenced by more than 50% voting interest. The step acquisition of POSC is assessed by management as a business combination under common control (i.e., both PLC and POSC are controlled subsidiaries of Belle before and after the business combination) and was accounted for using the pooling of interest method. Goodwill amounting to ₱1,828.6 million from Belle was recognized in 2015 as a result of the step acquisition (see Notes 18 and 19).

Determining Subsidiaries with Material Non-controlling Interests. The Company is required to disclose certain financial information on its subsidiaries with material non-controlling interests. There are also qualitative considerations including the nature of relationship between the Company and the subsidiary and the nature of their businesses.

Management determines material subsidiaries with material non-controlling interests as those with assets, non-controlling interests, revenues and net income greater than 5% of consolidated assets, non-controlling interests, revenues and net income.

The Company has determined POSC in 2016 and 2015 as a subsidiary with material non-controlling interests (see Note 3).

Evaluation of Lease Commitments. The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains a lease when the fulfillment of the



arrangement depends on specific asset or assets and the arrangement conveys a right to use the asset.

Operating Lease - as a Lessor. POSC and TGTI leases to Philippine Charity Sweepstakes Office (PCSO) the lottery equipment it uses for its nationwide on-line lottery operations. POSC has determined that it has retained substantially all the risks and benefits of ownership of the lottery equipment being leased to PCSO. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life. Accordingly, the lease is accounted for as an operating lease.

Revenue from equipment rental amounted to ₱1,579.7 million, ₱630.9 million and nil in 2016, 2015 and 2014, respectively (see Note 29).

Operating Lease - as a Lessee. The Company has entered into various lease agreements as a lessee. Management has determined that all the significant risks and benefits of ownership of these properties, which the Company leases under operating lease arrangements, remain with the lessor. Accordingly, the leases were accounted for as operating leases.

Rent expense amounted to ₱46.2 million, ₱19.2 million and nil in 2016, 2015 and 2014, respectively (see Note 29).

Finance Lease - as a Lessee. POSC entered into various finance lease agreements covering certain lottery equipment. POSC determined that it bears substantially all the risks and rewards incidental to the ownership of the said properties under finance lease agreements.

The carrying values of lottery equipment under finance lease arrangements amounted to ₱139.4 million and ₱128.4 million as at December 31, 2016 and 2015, respectively (see Note 29).

Classification of Noncurrent Asset Held for Sale. An asset is classified as held for sale if the asset will be recovered principally through a sale transaction rather than through continuing use. Management assessed that it met the criteria of a noncurrent asset held for sale following the requirements of PFRS 5, which include, among others:

- PLC is committed to sell its land. As discussed in Note 2, the Company's BOD approved to sell to Belle its non-gaming related assets, which includes the undeveloped land located in the City of Tanauan, Province of Batangas.
- The land is available for immediate sale and can be sold in its current condition.

The carrying values of noncurrent asset held for sale amounted to ₱285.5 million as at December 31, 2016 and 2015 (see Note 17).

Estimates and Assumptions

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

Determination of Fair Value of Financial Assets and Financial Liabilities. PFRS requires certain financial assets and liabilities to be carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value



measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Company utilized a different valuation methodology. Any changes in the assumptions could affect the fair value of these financial assets and liabilities.

The fair value of financial assets and financial liabilities as at December 31, 2016 and 2015 are disclosed in Note 31.

Determination of Impairment of Receivables and Notes Receivables. The Company maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectability of the accounts. These factors include, but not limited to, the length of relationship with the customers and counterparties, the payment behavior and known market factors.

The Company reviews the allowance on a continuous basis. Accounts that are specifically identified to be potentially uncollectible are provided with adequate allowance through charges to income in the form of provision for doubtful accounts. Factors considered in individual assessment are payment history, past due status and term. A provision is also established as a certain percentage of receivables not provided with specific reserves. This percentage is based on a collective assessment of historical collection, changes in counterparty payment terms and other factors that may affect the Company's ability to collect payments.

The amount and timing of recorded provision for doubtful accounts for any period would differ if the Company made different judgments or utilized different estimates. An increase in the Company's allowance for doubtful accounts would increase the recorded general and administrative expenses and decrease its current assets.

Provision for doubtful accounts recognized in 2016, 2015 and 2014 amounted to nil, ₱8.6 million, and ₱340.7 million, respectively. Allowance for doubtful accounts amounted to ₱438.5 million and ₱440.4 million as at December 31, 2016 and 2015, respectively. The aggregate carrying values of receivables and notes receivables amounted to ₱1,537.7 million and ₱1,315.5 million as at December 31, 2016 and 2015, respectively (see Notes 10 and 11).

Estimation of Useful Life of Gaming License. The useful life of the Company's gaming license recognized as "Intangible asset" account in the consolidated statement of financial position is estimated based on the period over which the asset is expected to be available for use. The estimated useful life of intangible asset is reviewed periodically and updated if expectations differ from previous estimates. The gaming license runs concurrent with Philippine Amusement and Gaming Corporation's (PAGCOR) congressional franchise which is set to expire in 2033, renewable for another 25 years by the Philippine Congress. The Company initially estimated the useful life of the license up to 2033 and has started the amortization of the intangible asset on December 14, 2014, the effectivity of the Notice to Commence Casino Operations granted by PAGCOR. As part of the Company's annual review process, the Company, starting on April 1, 2016, changed the estimated useful life of the gaming license to consider the renewal period of another twenty-five (25) years of the PAGCOR's congressional franchise upon expiration in 2033 and to consider other industry developments. The extension of the life of the gaming license decreased the amortization expense by ₱258.7 million and will decrease the annual amortization expense by ₱345.9 million in 2017 and onwards. The carrying value of the Company's gaming license amounted to ₱9,906.5 million and ₱10,231.3 million as at December 31, 2016 and 2015, respectively (see Note 13).



Determination of Impairment of AFS Financial Assets. The Company determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The Company determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than 12 months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price for quoted equities. In addition, AFS financial assets are considered impaired when management believes that future cash flows generated from the investment is expected to decline significantly. The Company's management makes significant estimates and assumptions on the future cash flows expected and the appropriate discount rate to determine if impairment exists. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

No provision for impairment loss was recognized in 2016, 2015 and 2014. As discussed in Note 33, the Company implemented the cancellation of the LIR-HK shares and therefore reversed the impairment loss recognized in prior years on the shares amounting to ₱1,501.5 million in 2014. Moreover, impairment loss on golf club shares amounting to ₱83.6 million was likewise reversed in 2014 as a result of sale. The carrying values of AFS financial assets amounted to ₱657.4 million and ₱586.5 million as at December 31, 2016 and 2015, respectively (see Notes 14 and 33).

Determination of Impairment of Nonfinancial Assets (Except Goodwill). The Company assesses whether there are any indicators of impairment for all nonfinancial assets at each reporting date. Nonfinancial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable. Determining the value of these nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that such nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and performance.

No provision for impairment loss on noncurrent asset held for sale, intangible asset and property and equipment was recognized in 2016, 2015 and 2014.

The carrying values of nonfinancial assets (excluding goodwill) as at December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|--|----------------------|----------------|
| Noncurrent asset held for sale (see Note 17) | ₱285,510,452 | ₱285,510,452 |
| Intangible asset (see Note 13) | 9,906,544,455 | 10,231,313,891 |
| Property and equipment (see Note 16) | 479,088,812 | 544,628,438 |

Realizability of Deferred Tax Assets. Deferred tax assets are recognized for all deductible temporary differences and unused tax credits and NOLCO to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Recognized deferred tax assets amounted to ₱14.6 million and ₱42.3 million as at December 31, 2016 and 2015, respectively (see Note 27). Unrecognized deferred tax assets amounted to ₱138.3 million and ₱142.5 million as at December 31, 2016 and 2015, respectively.



Determination and Computation of Retirement Expense. The cost of retirement expense as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Retirement expense charged to profit and loss amounted to ₱9.4 million, ₱5.3 million and ₱1.0 million in 2016, 2015 and 2014, respectively. Remeasurement gain (loss) on retirement benefits amounted to (₱2.1 million) and ₱6.7 million in 2016 and 2015, respectively. The carrying values of retirement asset amounted to ₱8.6 million and ₱10.7 million as at December 31, 2016 and 2015, respectively. The carrying values of retirement liability amounted to ₱12.5 million and ₱18.6 million as at December 31, 2016 and 2015, respectively (see Note 21).

Estimating Impairment of Goodwill. The Company determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and to choose a suitable discount rate to calculate the present value of those cash flows.

There was no impairment loss of goodwill in 2016 and 2015. The carrying values of goodwill amounted to ₱1,828.6 million as at December 31, 2016 and 2015 (see Note 19).

Evaluation of Legal Contingencies. The Company recognizes provision for possible claims when it is determined that an unfavorable outcome is probable and the amount of the claim can be reasonably estimated. The determination of reserves required, if any, is based on analysis of such individual issue, often with the assistance of outside legal counsel (see Note 34).

8. Cash and Cash Equivalents

This account consists of:

| | 2016 | 2015 |
|---------------------------|-----------------------|----------------|
| Cash on hand and in banks | ₱1,360,067,806 | ₱287,251,110 |
| Cash equivalents | 451,436,156 | 900,305,393 |
| | ₱1,811,503,962 | ₱1,187,556,503 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱14.3 million, ₱12.0 million and ₱6.5 million in 2016, 2015 and 2014, respectively.

9. Investments Held for Trading

This account consists of the Company's investments in shares of stock of Leisure and Resorts World Corporation (LRWC), Vantage Equities, Inc., DFNN, Inc., APC Group, Inc. and Philippine Long Distance Telephone Company.



The movements in this account are as follows:

| | 2016 | 2015 |
|-----------------------------------|---------------------|---------------------|
| Balance at beginning of year | ₱226,746,690 | ₱– |
| Step acquisition (see Note 18) | – | 249,541,292 |
| Mark-to-market loss (see Note 26) | (37,137,005) | (29,331,526) |
| Disposals | (29,303,324) | (31,004,916) |
| Acquisitions | 5,683,853 | 37,541,840 |
| Balance at end of year | ₱165,990,214 | ₱226,746,690 |

The fair values of these securities are based on the quoted prices on the last market day of the year. The Company determines the cost of investments sold using specific identification method.

Mark-to-market loss in 2016 and 2015 amounting to ₱37.1 million and ₱29.3 million, respectively, was recognized in “Other expense - net” account in the consolidated statement of income (see Note 26).

Realized gain from sale of investments held for trading in 2016 and 2015 amounting to nil and ₱11.4 million, respectively, was recognized in “Other expense - net” account in the consolidated statement of income (see Note 26).

10. Receivables

This account consists of:

| | 2016 | 2015 |
|--|----------------------|---------------------|
| Trade receivables | ₱682,390,655 | ₱411,398,023 |
| Loan assets | 422,341,815 | 422,341,815 |
| Advances to: | | |
| Customers | 46,849,859 | 79,549,490 |
| Officers and employees | 6,374,244 | 7,647,312 |
| Contractors and suppliers | 2,570,555 | 10,773,717 |
| Related parties (see Note 28) | – | 6,981,116 |
| Accrued interest on notes receivable (see Note 28) | 2,189,550 | 2,406,953 |
| Other receivables | 7,541,207 | 8,890,242 |
| | 1,170,257,885 | 949,988,668 |
| Less allowance for doubtful accounts | 438,497,388 | 440,403,474 |
| | ₱731,760,497 | ₱509,585,194 |

Trade receivables are generally on a 20 to 60 days credit term. These are mostly receivables arising from equipment lease agreement with PCSO, receivables from sale of instant scratch ticket and receivables from MCE Leisure for the gaming revenue share in the operations of City of Dreams Manila.

Loan assets pertain to the Parent Company’s receivable from Paxell Limited and Metroplex Berhad (both Malaysian companies, collectively referred to as “Metroplex”) and LIR-HK amounting to ₱422.3 million as a result of the compensation to parties who were currently in possession of the shares in connection with the cancellation of the remaining 2,000,000,000 undelivered PLC shares (see Note 33). The loan assets were fully provided with allowance as at December 31, 2016 and 2015.



Advances to customers, officers and employees and other receivables are noninterest-bearing and generally collected within the next financial year.

Advances to contractors and suppliers will be applied in future billings.

Refer to Note 28 for the terms and conditions of advances to related parties and accrued interest on notes receivable.

Movement in allowance for doubtful accounts is as follows:

| | 2016 | 2015 |
|---|---------------------|--------------|
| Balance at beginning of year | ₱440,403,474 | ₱427,690,938 |
| Step acquisition (see Note 18) | – | 13,154,293 |
| Write-off during the year | (1,906,086) | (9,078,824) |
| Provision for doubtful accounts (see Note 25) | – | 8,637,067 |
| Balance at end of year | ₱438,497,388 | ₱440,403,474 |

11. Notes Receivable

Notes receivable, bearing annual interest rates ranging from 3.5% to 4.1% in 2016 and 4.1% in 2015, amounted to ₱805.9 million as at December 31, 2016 and 2015 (see Note 28).

Interest income from notes receivable recognized in the consolidated statement of income amounted to ₱32.8 million and ₱28.8 million in 2016 and 2015, respectively (see Note 28).

12. Other Current Assets

This account consists of:

| | 2016 | 2015 |
|---|---------------------|--------------|
| Spare parts and supplies - at cost | ₱58,542,848 | ₱25,256,179 |
| Prepaid expenses | 55,592,985 | 21,542,587 |
| Creditable withholding taxes | 27,173,604 | 4,673,113 |
| Input VAT | 15,889,512 | 28,023,701 |
| Deposits | 7,224,028 | 8,330,610 |
| Instant scratch tickets supplies - at cost | 66,816 | 44,114,185 |
| | 164,489,793 | 131,940,375 |
| Less allowance for probable loss on input VAT | 62,361 | 55,387 |
| | ₱164,427,432 | ₱131,884,988 |

Spare parts and supplies are carried at lower of cost or net realizable value. Prepaid expenses pertain to various prepayments which will be applied in the next financial year.



Movement of allowance for probable loss on input VAT is as follows:

| | 2016 | 2015 |
|--|----------------|----------------|
| Balance at beginning of year | ₱55,387 | ₱11,039,883 |
| Provision for probable losses (see Note 25) | 6,974 | 8,419 |
| Reversal of allowance for probable loss on input VAT (see Note 26) | – | (10,992,915) |
| Balance at end of year | ₱62,361 | ₱55,387 |

13. Intangible Asset

Intangible asset, which was part of the assets acquired from Belle in 2014 (see Note 2), pertains to the provisional license granted by PAGCOR for which PLAI is a co-licensee to operate integrated resorts, including casinos. On April 29, 2015, PAGCOR granted the Regular Gaming License (“License”), which has the same terms and conditions of the provisional license. The License runs concurrent with PAGCOR’s Congressional Franchise, set to expire in 2033, renewable for another 25 years by the Philippine Congress.

The amortization of the intangible asset started on December 14, 2014, the effectivity of the Notice to Commence Casino Operations granted by PAGCOR.

As part of the Company’s annual review process, the Company starting on April 1, 2016 changed the estimated useful life of the intangible asset to consider the renewal period of another twenty-five (25) years of the PAGCOR’s congressional franchise upon its expiration in 2033 and to consider other industry developments.

Movements in intangible asset are as follows:

| | 2016 | 2015 |
|--------------------------------------|------------------------|-----------------|
| Cost | | |
| Balance at beginning and end of year | ₱10,843,215,811 | ₱10,843,215,811 |
| Accumulated Amortization | | |
| Balance at beginning of year | 611,901,920 | 48,624,286 |
| Amortization | 324,769,436 | 563,277,634 |
| Balance at end of year | 936,671,356 | 611,901,920 |
| | ₱9,906,544,455 | ₱10,231,313,891 |

The unamortized life of the license as at December 31, 2016 is 41.5 years.



14. Available-for-sale Financial Assets

This account consists of the following:

| | 2016 | 2015 |
|-------------------------------------|---------------------|--------------|
| Quoted shares: | | |
| Belle - common shares (see Note 28) | ₱655,096,702 | ₱584,562,793 |
| Golf club shares | 2,200,000 | 1,900,000 |
| | 657,296,702 | 586,462,793 |
| Unquoted shares - | | |
| Others | 81,100 | 81,100 |
| | ₱657,377,802 | ₱586,543,893 |

Movements of this account are as follows:

| | 2016 | 2015 |
|--|-----------------------|---------------|
| Cost: | | |
| Balance at beginning of year | ₱1,054,490,223 | ₱667,028,522 |
| Step acquisition (see Note 18) | – | 372,915,179 |
| Additions for the year | 8,636,271 | 14,546,522 |
| Balance at end of year | 1,063,126,494 | 1,054,490,223 |
| Cumulative unrealized mark-to-market gain on AFS financial assets: | | |
| Balance at beginning of year | 106,972,145 | 397,691,122 |
| Step acquisition (see Note 18) | – | (38,258,713) |
| Mark-to-market gains (losses) during the year | 62,197,638 | (252,460,264) |
| Balance at end of year | 169,169,783 | 106,972,145 |
| Accumulated impairment loss – | | |
| Balance at beginning and end of year | (574,918,475) | (574,918,475) |
| | ₱657,377,802 | ₱586,543,893 |

There are no quoted market prices for the unlisted shares of stock and there are no other reliable sources of their fair values, therefore, these are carried at cost, net of any impairment loss.

Dividend income earned from AFS financial assets amounted to ₱24.6 million, ₱31.8 million and ₱2.0 million in 2016, 2015 and 2014, respectively.

Belle

The investment in common shares of Belle is based on the quoted price as at reporting date.

The Company's investment in Belle's preferred shares was entitled to 9.75% cumulative dividend per annum. This investment and its accumulated unpaid dividend were the subjects of a settlement agreement entered into between PLC and Belle on August 28, 2009, as amended in 2013 and 2014 (see Note 28). As discussed in Note 2, Belle preferred shares were redeemed for ₱1.0 billion cash in 2014 (see Note 28).

Golf Club Shares

In accordance with the Settlement Agreement executed between PLC and Belle in 2009, PLC received 220 shares of TMGCI. In 2012, PLC recognized provision for impairment on the club shares amounting to ₱83.6 million in the consolidated statement of comprehensive income.



In 2014, PLC sold to Belle the 220 shares in TMGCI for a consideration of ₱198.0 million (see Note 2). Impairment loss recognized in 2012 amounting to ₱83.6 million was reversed accordingly.

15. Investment in an Associate

On July 22, 2014, PLC executed several deeds of sales of shares with Belle and certain of its subsidiaries for the acquisition of 101,668,953 POSC common shares at a subscription price of ₱15 per share equivalent to 34.5% ownership interest in POSC for a total consideration of ₱1,525.0 million (see Note 2).

On August 5, 2015, PLC acquired additional 47,851,315 common shares of POSC from Belle for a total consideration of ₱1,000.1 million. As a result of the step acquisition, the ownership interest of PLC in POSC increased to 50.1% and accounted for as a subsidiary starting August 5, 2015 (see Note 18).

Investment in POSC is accounted for under the equity method until August 4, 2015. Details of this account as of that date are as follows:

| | |
|---|-----------------|
| Acquisition costs | ₱1,525,034,310 |
| Accumulated equity in net earnings: | |
| Balance at beginning of the year | 27,531,928 |
| Equity in net earnings for the period | 75,525,743 |
| Share in the other comprehensive loss of an associate | (38,258,713) |
| Balance as at August 4, 2015 | 64,798,958 |
| Dividend income | (30,500,687) |
| Step acquisition (see Note 18) | (1,559,332,581) |
| | ₱- |

16. Property and Equipment

The movements in this account follow:

| | 2016 | | | | |
|---|----------------------|---------------------------|---|-----------------------------|---------------------|
| | Lottery Equipment | Leasehold Improvements | Office Equipment, Furniture and Fixtures | Transportation Equipment | Total |
| Cost | | | | | |
| Balance at beginning of year | ₱1,334,509,282 | ₱73,187,593 | ₱179,059,723 | ₱72,341,207 | ₱1,659,097,805 |
| Additions | 58,428,195 | 5,709,256 | 26,900,098 | 21,081,571 | 112,119,120 |
| Disposals | (254,606,216) | — | (21,116,791) | (12,168,661) | (287,891,668) |
| Balance at end of year | 1,138,331,261 | 78,896,849 | 184,843,030 | 81,254,117 | 1,483,325,257 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | 873,396,826 | 54,192,474 | 139,805,878 | 47,074,189 | 1,114,469,367 |
| Depreciation and amortization (see Notes 24 and 25) | 132,143,015 | 7,669,668 | 20,014,307 | 11,435,457 | 171,262,447 |
| Disposals | (249,664,362) | — | (21,115,721) | (10,715,286) | (281,495,369) |
| Balance at end of year | 755,875,479 | 61,862,142 | 138,704,464 | 47,794,360 | 1,004,236,445 |
| Net Book Value | ₱382,455,782 | ₱17,034,707 | ₱46,138,566 | ₱33,459,757 | ₱479,088,812 |



| | 2015 | | | | |
|--|----------------------|---------------------------|---|-----------------------------|---------------------|
| | Lottery Equipment | Leasehold Improvements | Office Equipment, Furniture and Fixtures | Transportation Equipment | Total |
| Cost | | | | | |
| Balance at beginning of year | ₱— | ₱— | ₱375,918 | ₱1,248,214 | ₱1,624,132 |
| Step acquisition (see Note 18) | 1,125,454,532 | 68,987,580 | 170,550,478 | 75,711,607 | 1,440,704,197 |
| Additions | 209,054,750 | 4,200,013 | 8,206,856 | 1,948,315 | 223,409,934 |
| Disposals | — | — | (73,529) | (6,566,929) | (6,640,458) |
| Balance at end of year | 1,334,509,282 | 73,187,593 | 179,059,723 | 72,341,207 | 1,659,097,805 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | ₱— | ₱— | ₱304,170 | ₱936,162 | ₱1,240,332 |
| Step acquisition (see Note 18) | 824,225,210 | 51,217,690 | 131,769,543 | 45,894,882 | 1,053,107,325 |
| Depreciation and amortization (see Notes 24 and 25) | 49,171,616 | 2,974,784 | 7,801,098 | 5,354,473 | 65,301,971 |
| Disposals | — | — | (68,933) | (5,111,328) | (5,180,261) |
| Balance at end of year | 873,396,826 | 54,192,474 | 139,805,878 | 47,074,189 | 1,114,469,367 |
| Net Book Value | ₱461,112,456 | ₱18,995,119 | ₱39,253,845 | ₱25,267,018 | ₱544,628,438 |

Certain lottery equipment was acquired under finance lease agreements. The carrying amount of the equipment under finance lease agreements amounted to ₱139.4 million and ₱128.4 million as at December 31, 2016 and 2015, respectively (see Note 29).

The cost of fully depreciated property and equipment still in use as at December 31, 2016 and 2015 amounted to ₱511.6 million and ₱688.0 million, respectively. There are no temporary idle property and equipment as at December 31, 2016 and 2015.

17. Noncurrent Asset Held for Sale

As at December 31, 2016 and 2015, this account pertains to parcels of land amounting to ₱285.5 million. This land will be sold to Belle in relation to the Investment Plan, as approved by PLC's BOD on June 2, 2014 (see Note 2).

These parcels of land will be sold to Belle in relation to the Investment Plan, as approved by PLC's BOD on June 2, 2014 (see Note 2). As at December 31, 2016 and 2015, the sale of parcels of land were not completed due to events and circumstances beyond the Company's control, pending the transfer of the parcels of land as a condition of sale.

18. Business Combination

The Company's ownership interest in POSC increased from 34.5% in 2014 to 50.1% in 2015 as a result of 2015 step acquisition (see Note 15).

Based on management's judgment, PLC's investment in POSC gives PLC control over POSC as evidenced by holding more than 50% voting rights. Thus, starting August 5, 2015, POSC was accounted for as a subsidiary.

The step acquisition was accounted for as a business combination under common control using pooling of interest method. As at August 5, 2015, the assets and liabilities of POSC were reflected in PLC at their carrying amounts. No adjustments were made to reflect the fair values, or to recognize any new assets or liabilities, at the date of the combination that would otherwise be done



under the acquisition method. The only adjustments made were to align accounting policies of POSC with that of the Company.

There was no new goodwill recognized as a result of the business combination. The only goodwill that was recognized is the existing goodwill that was previously recorded in Belle with total amount of ₱1,828.6 million (see Note 19).

The difference between the consideration paid/transferred and the net assets acquired amounting to ₱297.1 million was reflected as part of additional paid-in capital in the equity portion of the consolidated statement of financial position (see Note 22).

Further, there was no restatement of financial information in the consolidated financial statements for the periods prior to the business combination under common control.

The carrying values of the assets and liabilities of POSC, total consideration and equity reserve recognized in the consolidated financial statements as at August 5, 2015 are as follows:

| | | |
|---|---------------|----------------|
| Total assets: | | |
| Cash | ₱179,986,807 | |
| Investments held for trading (see Note 9) | 249,541,292 | |
| Receivables (net of allowance for doubtful accounts amounting to ₱13.2 million) (see Note 10) | 583,875,018 | |
| Prepaid expenses and other current assets | 104,381,651 | |
| Property and equipment (see Note 16) | 387,596,872 | |
| AFS financial assets (see Note 14) | 334,656,466 | |
| Goodwill (see Note 19) | 110,933,996 | |
| Deferred tax asset | 42,351,586 | |
| Other noncurrent assets | 41,185,707 | ₱2,034,509,395 |
| Less liabilities acquired: | | |
| Trade and other current liabilities | 220,779,177 | |
| Obligations under finance lease | 92,853,582 | |
| Retirement liability (see Note 21) | 19,338,567 | 332,971,326 |
| Carrying value of net assets of POSC as at August 5, 2015 | | 1,701,538,069 |
| Goodwill in POSC from Belle (see Note 19) | | 1,717,643,956 |
| Total carrying values of net assets acquired | | 3,419,182,025 |
| Less total consideration: | | |
| Carrying value of investment in associate (see Note 15) | 1,559,332,581 | |
| Cost of additional interest acquired | 1,000,092,484 | |
| Cost of PLC shares held by POSC | (286,398,070) | |
| Non-controlling interest | 849,067,497 | 3,122,094,492 |
| Additional Paid-in Capital (see Note 22) | | ₱297,087,533 |

19. Goodwill

Goodwill acquired from the business combination as at December 31, 2016 and 2015 consists of:

| | 2016 | 2015 |
|--------------------|----------------|----------------|
| POSC (see Note 18) | ₱1,717,643,956 | ₱1,717,643,956 |
| FRI (see Note 18) | 110,933,996 | 110,933,996 |
| | ₱1,828,577,952 | ₱1,828,577,952 |

The goodwill from the acquisition of POSC and FRI have been subjected to the annual impairment review in 2016. The Company did not identify any impairment indicators relating to POSC's and



FRI's goodwill as at December 31, 2016 and 2015 as it expects to realize the synergies from the business combinations.

The recoverable amounts of the operations of POSC and FRI have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management. The cash flow projections covers five years.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill in 2016 and 2015 to materially exceed its recoverable amount.

Key assumptions used in value in use calculations

The calculation of value in use for the cash-generating units are most sensitive to the following assumptions explained as follows:

POSC

Discount Rate. Discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate of 7.78% and 7.56% was used in 2016 and 2015, respectively, based on the Weighted Average Cost of Capital (WACC) of POSC.

Revenue Growth Rate, Long-Term Growth Rate and Terminal Values. An increase in revenue ranging from 7% to 10% per annum until 2020 was applied based on historical performance of POSC. The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts is 5% and 0% in 2016 and 2015, respectively. The long-term growth rate used in the normalization of free cash flows represents the expected growth rate of the economy in 2021 and onwards, with reference to growth rates compiled by industry specialist. Terminal values included in the value in use computations as at December 31, 2016 and 2015 amounted to at least ₱7,753.0 million.

FRI

In 2014, POSC obtained an independent valuation of FRI's goodwill. The recoverable amount of goodwill from the acquisition of FRI by TGTI was determined based on value-in-use calculations using actual past results and observable market data such as growth rates, operating margins, among others. As part of the impairment testing of goodwill from acquisition of FRI, POSC reviewed the valuation performed in 2015 and 2014 and assessed if the circumstances are still applicable for 2016. Based on the review performed, POSC is not currently aware of probable changes that would necessitate change in its key estimates and assumption from 2014 and 2015.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable WACC. The discount rate applied to pre-tax cash flow projections and the terminal growth rate are 11.5 % and 5.2%, respectively.



20. Trade Payables and Other Current Liabilities

This account consists of:

| | 2016 | 2015 |
|--|---------------------|--------------|
| Trade payables | ₱173,150,323 | ₱202,260,441 |
| Accrued expenses and other payables (see Note 28) | 223,889,107 | 57,966,808 |
| Professional, service and management fees (see Note 28) | 67,825,050 | 46,048,204 |
| Consultancy, software and license fees payable | 51,712,222 | 37,484,428 |
| Withholding taxes payable | 21,018,280 | 13,211,119 |
| Communication, rental and utilities | 4,274,311 | 8,801,706 |
| Advances from Belle (see Note 28) | 2,728,292 | — |
| | ₱544,597,585 | ₱365,772,706 |

Trade payables are generally on a 30-60 days credit term.

Accrued expenses and other payables mainly represent accrual for service and professional fees, general and administrative expenses and provisions. These are payable within 30 days term. The Company regularly provides for its usual potential liabilities.

Professional, service and management fees, withholding taxes payable and communication, rental and utilities are normally settled within the next financial year.

Consultancy, software and license fees payable are for consultancy services on gaming operations and the supply of computer hardware and operating system software for online lottery system (see Note 33). These are normally settled within the next financial year.

21. Retirement Benefits

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

The following tables summarize the components of net retirement costs recognized in the consolidated statements of income and consolidated statements of comprehensive income and the retirement benefits recognized in the consolidated statement of financial position:



Changes in the retirement benefits of the Company in 2016 are as follows:

| | Fair Value of Plan Assets | Present Value of Defined Benefit Obligation | Retirement Benefits |
|--|------------------------------|--|------------------------|
| At January 1, 2016 | ₱55,459,736 | (₱63,366,085) | (₱7,906,349) |
| Net retirement income (costs) in profit or loss: | | | |
| Current service cost | – | (9,268,592) | (9,268,592) |
| Net interest | 2,966,858 | (3,123,667) | (156,809) |
| | 2,966,858 | (12,392,259) | (9,425,401) |
| Benefits paid | (132,873) | 132,873 | – |
| Contributions | 15,557,284 | – | 15,557,284 |
| Remeasurement gain (loss) recognized in OCI: | | | |
| Actuarial changes due to experience adjustment | – | (6,218,556) | (6,218,556) |
| Actuarial changes arising from changes in financial assumptions | – | 5,296,547 | 5,296,547 |
| Actual return excluding amount included in net interest cost | (1,013,343) | – | (1,013,343) |
| Actuarial changes due to changes in demographic assumptions | – | (1,671,405) | (1,671,405) |
| Effect of asset ceiling | 1,462,325 | – | 1,462,325 |
| | 448,982 | (2,593,414) | (2,144,432) |
| At December 31, 2016 | ₱74,299,987 | (₱78,218,885) | (₱3,918,898) |

Changes in the retirement benefits of the Company in 2015 are as follows:

| | Fair Value of Plan Assets | Present Value of Defined Benefit Obligation | Retirement Benefits |
|--|------------------------------|--|------------------------|
| At January 1, 2015 | ₱– | (₱1,047,500) | (₱1,047,500) |
| Step acquisition (see Note 18) | 55,751,770 | (75,090,337) | (19,338,567) |
| Net retirement income (costs) in profit or loss: | | | |
| Current service cost | – | (4,550,023) | (4,550,023) |
| Net interest | 2,487,919 | (3,201,692) | (713,773) |
| | 2,487,919 | (7,751,715) | (5,263,796) |
| Benefits paid | (8,777,863) | 8,777,863 | – |
| Contributions | 11,000,000 | – | 11,000,000 |
| Remeasurement gain (loss) recognized in OCI: | | | |
| Actuarial changes due to experience adjustment | – | 7,473,790 | 7,473,790 |
| Actuarial changes arising from changes in financial assumptions | – | 4,006,038 | 4,006,038 |
| Actual return excluding amount included in net interest cost | (2,177,137) | – | (2,177,137) |

(Forward)



| | Fair Value of Plan Assets | Present Value of Defined Benefit Obligation | Retirement Benefits |
|---|------------------------------|--|------------------------|
| Actuarial changes due to changes in demographic assumptions | ₱— | ₱265,776 | ₱265,776 |
| Effect of asset ceiling | (2,824,953) | — | (2,824,953) |
| | (5,002,090) | 11,745,604 | 6,743,514 |
| At December 31, 2015 | ₱55,459,736 | (₱63,366,085) | (₱7,906,349) |

The retirement benefits are presented in the consolidated statement of financial position as at December 31, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|--------------------------|--------------|--------------|
| Retirement asset | ₱8,630,802 | ₱10,731,917 |
| Retirement liability | (12,549,700) | (18,638,266) |
| Net retirement liability | (₱3,918,898) | (₱7,906,349) |

The latest actuarial valuation of the Company is as at December 31, 2016.

The following table presents the fair values of the plan assets of the Company as at December 31:

| | 2016 | 2015 |
|-------------------------------------|-------------|-------------|
| Cash and cash equivalents | ₱14,981,586 | ₱25,759,950 |
| Debt instruments - government bonds | 35,867,915 | 21,916,794 |
| Debt instruments - other bonds | 1,770,524 | 1,200,448 |
| Unit investment trust funds | 18,945,018 | 6,582,544 |
| Others | 2,734,944 | — |
| | ₱74,299,987 | ₱55,459,736 |

The Company's plan assets is administered by a Trustee. The Company and the retirement plan have no specific matching strategies between the retirement plan assets and define benefit asset or obligation under the retirement plan.

The principal assumptions used to determine retirement plan assets as at December 31 are as follows:

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| Discount rate | 4.83%-5.58% | 4.89%-5.68% |
| Rate of compensation increase | 5.00%-10.00% | 6.00%-10.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016 and 2015 assuming if all other assumptions were held constant:

| | 2016 | 2015 |
|----------------------|---|---|
| | Increase (Decrease) in Defined Benefit Obligation | Increase (Decrease) in Defined Benefit Obligation |
| Discount rate | 1.00% (1.00%) | 1.00% (1.00%) |
| | (₱10,340,734) 12,912,921 | (₱9,010,431) 11,302,206 |
| Salary increase rate | 1.00% (1.00%) | 1.00% (1.00%) |
| | 11,731,134 (9,678,211) | 10,223,797 (8,409,567) |



The average duration of the defined benefit obligation is 14 years to 22.3 years in 2016.

The maturity analysis of the undiscounted benefit payments follows:

| | 2016 | 2015 |
|-------------------------------|-------------------|------------|
| Less than 1 year | ₱9,349,032 | ₱4,689,405 |
| More than 1 year to 5 years | 18,391,952 | 16,006,044 |
| More than 5 years to 10 years | 9,839,892 | 10,863,033 |

22. Equity

Preferred Stock

As at December 31, 2016 and 2015, PLC has not issued any preferred stock out of the authorized 6,000,000,000 shares with par value of ₱0.25. Under the provision of the Parent Company's Articles of Incorporation, the rights and features of the preferred stocks shall be determined through a resolution of the BOD prior to issuance.

Common Stock

| | Number of Shares | |
|--|-----------------------|----------------|
| | 2016 | 2015 |
| Authorized - ₱0.25 par value per share | 37,630,000,000 | 37,630,000,000 |
| Issued and Subscribed: | | |
| Balance at beginning of year | 31,627,310,000 | 31,440,564,700 |
| Issuances | — | 186,745,300 |
| | 31,627,310,000 | 31,627,310,000 |

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

| Date of SEC Approval | Authorized Shares | Number of Shares Issued | Issue/ Offer Price |
|--------------------------------|-----------------------|-------------------------|--------------------|
| Common stock | | | |
| 1995 | 100,000,000,000 | 1,000,000,000 | 0.01 |
| September 30, 1996 | 100,000,000,000 | 1,000,000,000 | 0.01 |
| 1997 | (198,000,000,000) | — | — |
| 1997 | 12,000,000,000 | 8,797,310,000 | 1.00 |
| March 28, 2006 | (1,870,000,000) | (1,870,000,000) | 1.00 |
| June 24, 2008 | (1,000,000,000) | (1,000,000,000) | 1.00 |
| July 9, 2009 | (1,000,000,000) | (1,000,000,000) | 1.00 |
| September 5, 2014 | 27,500,000,000 | 24,700,000,000 | 0.25 |
| Total – Common stock | 37,630,000,000 | 31,627,310,000 | |
| Preferred stock | | | |
| 1997 | 6,000,000,000 | — | 1.00* |
| Total – Preferred stock | 6,000,000,000 | — | |

*On May 29, 2014, SEC approved the reduction of par value of preferred shares to ₱0.25 from ₱1.00 per share.

In 1995, 25,000,000 primary shares of the Company's capital stock were offered and sold to the public at par value. On August 28, 1995, the Company's shares of stock were formally listed in the small board of the PSE.



On September 30, 1996, the SEC approved the increase in the Company's authorized capital stock from ₱1,000.0 million, divided into 100,000,000,000 shares at ₱0.01 par value, to ₱2,000.0 million, divided into 200,000,000,000 shares with the same par value.

On March 10, 1997, the stockholders approved the increase in the Company's authorized capital stock from ₱2,000.0 million, divided into 200,000,000,000 shares at ₱0.01 par value a share, to ₱20,000.0 million, divided into 14,000,000,000 common shares and 6,000,000,000 preferred shares both with par value of ₱1.

On February 18, 2002, the stockholders approved the cancellation of 3,870,000,000 shares held by one of the Parent Company's shareholders, of these shares a total of 2,870,000,000 shares have been cancelled and delisted in 2006 and 2008 (see Note 33).

On March 28, 2006, the SEC approved the reduction of the Company's authorized capital stock by 1,870,000,000 shares to 18,130,000,000 shares divided into 12,130,000,000 common shares and 6,000,000,000 preferred shares (see Note 33).

On June 24, 2008, the SEC formally approved the Company's application for further reduction and cancellation of authorized capital stock by 1,000,000,000 shares resulting in total authorized capital stock of 17,130,000,000 shares divided into 11,130,000,000 common shares and 6,000,000,000 preferred shares (see Note 33).

On July 9, 2009, the SEC approved the Company's application for further reduction of authorized capital stock by 1,000,000,000 shares resulting in total authorized capital stock of 16,130,000,000 shares, divided into 10,130,000,000 common shares and 6,000,000,000 preferred shares (see Note 33).

As discussed in Note 33, on April 22, 2014, PLC filed with the SEC a Notice of Withdrawal of the Memorandum of Appeal filed on June 20, 2013 and proceeded to effect the cancellation of the remaining 1,000,000,000 shares to fully implement the MOA rescinding the Swap Agreement with Metroplex and LIR-HK.

Additional Paid-in Capital

Additional paid-in capital as at December 31, 2016 and 2015 consists of the following:

| | 2016 | 2015 |
|--|-----------------------|----------------|
| Subscription and/or issuance of shares: | | |
| Balance at beginning of year | ₱6,941,634,391 | ₱6,946,201,779 |
| Subscriptions during the year, net of listing fees | – | (4,567,388) |
| Balance at end of year | 6,941,634,391 | 6,941,634,391 |
| Business combination (see Note 18) | 297,087,533 | 297,087,533 |
| | ₱7,238,721,924 | ₱7,238,721,924 |

Additional paid-in capital arising from business combination pertains to the excess of consideration from the carrying values of net assets acquired from the business combination under common control using pooling of interest method (see Note 18).

Equity Restructuring

On May 29, 2014, the SEC approved the PLC's application for equity restructuring.

- Reduction in par value per share from ₱16,130.0 million, divided into 10,130,000,000 common shares and 6,000,000,000 preferred shares both with the par value of ₱1.00 per share,



to ₱4,032.5 million, divided into 10,130,000,000 common shares and 6,000,000,000 preferred shares both with a par value of ₱0.25 per share.

- Application of the resulting additional paid-in capital amounting to ₱2,614.5 million to partially wipe out the Parent Company's deficit of ₱3,543.4 million as at December 31, 2013.

On June 20, 2014, Belle and PLC entered into a Subscription Agreement for 24,700,000,000 common shares of PLC at a subscription price of ₱0.369 per share or a total subscription of ₱9,114,300,000 thereby increasing Belle's ownership interest in PLC to 90%. Subscription payments were received in July 2014.

On July 18, 2014, PLC's BOD and stockholders unanimously approved the amendment to the Articles of Incorporation for the increase in authorized capital stock from ₱4,032,500,000, divided into 10,130,000,000,000 common shares with par value of ₱0.25 per share and 6,000,000,000 preferred shares with par value of ₱0.25 per share, to ₱10,907,500,000, divided into 37,630,000,000 common shares with par value of ₱0.25 per share and 6,000,000,000 preferred shares with par value of ₱0.25 per share. The application for the increase in authorized capital stock was approved by the SEC on September 5, 2014.

Subscription Receivable

On October 27, 2014, the BOD of the Company approved the call for the payment in full of the unpaid subscription of its capital stock on or before December 11, 2014. The Company was able to collect ₱4,777.1 million for 4,643,573,915 common shares. The BOD also approved that unpaid subscription after December 11, 2014 shall be subject to interest of 12% per annum.

Interest income in 2015 arising from delinquent shares amounted to ₱1.2 million.

On January 13, 2015, the BOD approved that under Section 67 of the Corporation Code, all common shares subscribed which shall remain unpaid after 30 days (January 10, 2015) shall become automatically delinquent and shall be made subject of a delinquency sale. Delinquency sale was scheduled in accordance with Section 68 of the Corporation Code on March 2, 2015 unless the delinquent shareholders shall pay the full amount due from their subscriptions, plus interest and their proportionate share in the cost of the sale. On March 2, 2015, all delinquent shares have been sold. In 2015, the additional proceeds received from the sale of delinquent shares was recognized as part of "additional paid-in capital" account amounting to ₱6.2 million.

Further, listing fees pertaining to the 2015 issuance of shares were charged to "Additional paid-in capital" account amounting to ₱10.7 million.

Subscription receivable amounted to nil as at December 31, 2016 and 2015, respectively.

Parent Company Shares Held by a Subsidiary

POSC holds common shares of the Parent Company totaling 325,586,000 shares and 291,770,000 shares in 2016 and 2015, respectively, with a cost of ₱438.9 million and ₱422.2 million as at December 31, 2016 and 2015, respectively. These are presented as "Cost of Parent Company shares held by a subsidiary" and are treated as a reduction in equity.

FCRI holds 156,530,000 common shares of the Parent Company with a cost of ₱477.3 million as at December 31, 2013. In 2014, FCRI sold all the 156,530,000 common shares of PLC at ₱1.65 per share resulting in a loss of ₱219.0 million recognized as part of "Other Reserves" in the equity section of the 2014 consolidated statement of financial position.



Retained Earnings

On February 23, 2016, the Parent Company's BOD approved the declaration of cash dividends of ₱0.0215 per share amounting to ₱680.0 million to shareholders of record as at March 10, 2016.

On March 5, 2015, the BOD approved declaration of cash dividends amounting to ₱695.8 million or ₱0.022 per share in favor of stockholders as at March 20, 2015.

23. Gaming Revenue Share

PLAI started to realize its gaming revenue share following the soft opening of the City of Dreams Manila integrated resort and casino operations on December 14, 2014. Gaming revenue share is determined in accordance with PLAI's operating agreement with MCE Leisure as follows:

| | 2016 | 2015 | 2014 |
|---|-----------------------|----------------|-------------|
| Gaming revenue share - gross | ₱2,171,573,454 | ₱1,008,317,252 | ₱45,674,116 |
| Less PAGCOR license fee paid by MCE Leisure | 528,597,089 | 252,079,313 | 6,865,021 |
| Gaming revenue share - net | ₱1,642,976,365 | ₱756,237,939 | ₱38,809,095 |

24. Cost of Services

This account consists of:

| | 2016 | 2015 | 2014 |
|---|-----------------------|--------------|-------------|
| Service fees (see Notes 28 and 33) | ₱269,814,397 | ₱89,442,902 | ₱12,075,317 |
| Software and license fees (see Note 29) | 186,644,134 | 90,412,003 | — |
| Operating supplies | 183,151,089 | 7,956,521 | — |
| Depreciation and amortization (see Note 16) | 138,892,148 | 52,022,388 | — |
| Consultancy fees | 122,801,401 | 24,623,420 | — |
| Online lottery system expenses | 122,887,521 | 33,920,408 | — |
| Communication | 95,691,927 | 34,506,867 | — |
| Payroll and related expenses | 65,583,792 | 28,278,288 | — |
| Rental and utilities (see Note 29) | 23,799,546 | 9,108,326 | — |
| Others | 29,587,237 | 18,676,783 | — |
| | ₱1,238,853,192 | ₱388,947,906 | ₱12,075,317 |



25. General and Administrative Expenses

This account consists of:

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Salaries, wages and benefits | ₱104,449,785 | ₱76,085,380 | ₱4,501,906 |
| Transportation and travel | 62,194,960 | 32,604,814 | 4,907,707 |
| Professional, service and management fees (see Note 28) | 45,687,390 | 34,440,914 | 11,757,694 |
| Rental and utilities (see Note 29) | 36,657,677 | 23,511,417 | 113,484 |
| Taxes and licenses | 34,247,590 | 19,944,895 | 26,676,818 |
| Depreciation and amortization (see Note 16) | 32,370,299 | 13,279,583 | 203,368 |
| Representation and entertainment | 26,763,840 | 12,536,329 | 5,245,618 |
| Communication | 17,076,146 | 11,233,857 | — |
| Outside services | 12,124,621 | 2,041,066 | 2,547,066 |
| Repairs and maintenance | 11,166,018 | 5,835,795 | — |
| Marketing, advertising and promotion | 3,120,168 | 6,041,838 | — |
| Placement and listing fee | 2,005,662 | 1,750,056 | 736,336 |
| Insurance | 1,025,956 | 755,601 | 284,279 |
| Provision for doubtful accounts and probable loss on input VAT (see Notes 10 and 12) | 6,974 | 8,645,486 | 349,691,841 |
| Miscellaneous | 172,634,165 | 8,692,831 | 1,626,073 |
| | ₱561,531,251 | ₱257,399,862 | ₱408,292,190 |

Miscellaneous expense includes regular provisions of the Company.

26. Other Expense - net

This account consists of:

| | 2016 | 2015 |
|--|---------------------|--------------|
| Mark-to-market loss of investments held for trading (see Note 9) | ₱37,137,005 | ₱29,331,526 |
| Foreign exchange loss | 1,620,149 | 698,585 |
| Loss (gain) on sale of property and equipment | (29,997) | 446,948 |
| Gain on sale of investments held for trading (see Note 9) | — | (11,363,516) |
| Reversal of allowance for probable loss on input VAT (see Note 12) | — | (10,992,915) |
| Other income | (14,498,940) | (5,764,923) |
| | ₱24,228,217 | ₱2,355,705 |



27. Income Taxes

The components of income tax expense for the years ended December 31, 2016, 2015 and 2014 are as follows:

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|------------|
| Current income tax | ₱254,329,643 | ₱186,833,985 | ₱5,117,366 |
| Deferred income tax relating to origination and reversal of temporary difference | 28,271,202 | (2,070,488) | — |
| | ₱282,600,845 | ₱184,763,497 | ₱5,117,366 |

PLC and its subsidiaries are using itemized deduction in computing their taxable income, except for PLAI, who elected to use Optional Standard Deduction (OSD).

The components of the Company's deferred tax assets as at December 31 are as follows:

| | 2016 | 2015 |
|--|--------------------|-------------|
| Accrued expenses | ₱2,914,550 | ₱32,011,157 |
| Unamortized past service costs | 6,379,982 | 5,331,586 |
| Allowance for doubtful accounts on receivables | 3,241,935 | 3,241,935 |
| Unrealized foreign exchange gain | 1,139,376 | 256,423 |
| Retirement liability | 900,484 | 1,420,032 |
| | ₱14,576,327 | ₱42,261,133 |

The components of the Company's temporary differences and carryforward benefits of NOLCO and MCIT for which no deferred tax assets were recognized are as follows:

| | 2016 | 2015 |
|--|---------------------|--------------|
| Allowance for doubtful accounts on receivables and others | ₱427,690,938 | ₱427,690,938 |
| NOLCO | 8,661,197 | 24,860,713 |
| Allowance for deferred oil exploration and development costs | 18,377,841 | 18,377,841 |
| Allowance for impairment of AFS investments | 2,000,000 | 2,000,000 |
| Excess MCIT over regular corporate income tax | 1,257,329 | 600,723 |
| | ₱457,987,305 | ₱473,530,215 |

Deferred tax assets amounting to ₱138.3 million and ₱142.5 million as at December 31, 2016 and 2015, respectively, were not recognized since management believes that it has no sufficient taxable income against which the deductible temporary differences and the carryforward benefits of these assets can be utilized in the future.

As at December 31, 2016, the carryforward benefits of NOLCO and MCIT that can be claimed as deductions from regular taxable income and regular corporate income tax due, respectively, are as follows:

| Year Incurred/Paid | Expiry Date | NOLCO | MCIT |
|--------------------|-------------------|-------------------|-------------------|
| 2014 | December 31, 2017 | ₱8,514,228 | ₱— |
| 2015 | December 31, 2018 | 100,304 | 600,723 |
| 2016 | December 31, 2019 | 46,665 | 656,606 |
| | | ₱8,661,197 | ₱1,257,329 |



The movements in NOLCO follow:

| | 2016 | 2015 |
|------------------------------|---------------------|--------------|
| NOLCO: | | |
| Balance at beginning of year | ₱24,860,713 | ₱43,224,980 |
| Additions | 46,665 | 109,805 |
| Applications | (16,110,881) | (18,394,200) |
| Expirations | (135,300) | (79,872) |
| Balance at end of year | ₱8,661,197 | ₱24,860,713 |

The reconciliation of the provision for income tax computed at statutory income tax rate on income before income tax to the provision for income tax as shown in the consolidated statements of income is as follows:

| | 2016 | 2015 | 2014 |
|--|----------------------|--------------|---------------|
| Income tax computed at statutory tax rate | ₱432,210,294 | ₱122,375,354 | ₱403,218,705 |
| Income tax effect of: | | | |
| Non deductible expenses | 212,640,574 | 182,338,123 | 19,253,281 |
| Income not subject to income tax | (289,972,725) | (16,238,084) | (45,350,972) |
| Excess of itemized deduction over OSD | (65,900,842) | (72,567,213) | 2,040,905 |
| Interest subject to final tax | (4,275,333) | (3,599,515) | (1,939,605) |
| Change in unrecognized deferred tax assets | (4,203,247) | (4,911,407) | (362,679,816) |
| Expired NOLCO | 40,590 | 23,962 | 31,310 |
| Equity share in net earnings of an associate | – | (22,657,723) | (9,456,442) |
| Others | 2,061,534 | – | – |
| | ₱282,600,845 | ₱184,763,497 | ₱5,117,366 |

28. Related Party Disclosures

Related parties are enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, and subsidiaries. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related entities.

In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Settlement Agreement with Belle

On October 7, 1997, PLC subscribed to 1,000,000,000 preferred shares from Belle at ₱1.00 per share, with a coupon rate of 9.75% per annum. This investment and its accumulated unpaid dividend are the subjects of a settlement agreement entered into between PLC and Belle on August 29, 2009, as amended in 2013.

On August 28, 2009, a Settlement Agreement (Agreement) was executed between Belle and PLC to settle the unpaid accrued dividends and to eventually cancel the preferred shares, subject to the



transfer by Belle to PLC: (1) 220 shares in TMGCI and (2) 235,583 square meters of developed Rancho Montana land located in Tanauan, Batangas, completion of which is expected within five years from the date of the Agreement. The developed Rancho Montana land together with the 220 TMGCI shares shall be transferred to PLC at an aggregate value of at least ₱1,092.3 million.

Immediately after the execution of the Agreement, Belle transferred the 220 TMGCI shares and executed a Deed of Assignment over the said TMGCI shares to PLC. PLC, on the other hand, executed a Release, Waiver and Quitclaim (1) accepting the payment of dividends in the form of 220 shares in TMGCI; (2) renouncing its rights to all past, present and future dividends; (3) agreeing to the revocation of the coupon rate originally provided for the preferred shares; and, (4) agreeing to the cancellation of all its preferred shares in Belle upon receipt of the developed Rancho Montana land.

The TMGCI shares amounting to ₱154.0 million (net of ₱44.0 million decline in fair value as at December 31, 2009) was recorded as “AFS financial assets” in 2009. The related outstanding payable (after offsetting the outstanding receivable of ₱92.3 million) as at December 31, 2013 amounting to ₱105.7 million, presented under “Due to Belle Corporation” account in the 2013 consolidated statement of financial position, has been fully settled in 2014.

In March 2013, Belle delivered developed lots with an estimated value of ₱65.5 million recognized as “Other current asset” with corresponding “Due to Belle Corporation” in the 2013 consolidated statement of financial position pending transfer of title of the developed lots to PLC. Under the Settlement Agreement, the cancellation of the preferred shares shall be effective only upon completion of the transfer of the title of the developed properties to PLC.

Amendment to Settlement Agreement with Belle

On April 5, 2013, an Amendment to the Settlement Agreement was executed between Belle and PLC to modify the composition of its settlement offer for the Preferred Shares. The parties have agreed on the following amendments:

- (a) replacement of the real estate component of the settlement agreement. In lieu of the delivery of 220 saleable lots in Rancho Montana, Belle undertakes to (a) to pay on or before August 28, 2014, approximately ₱100.0 million of the Preferred Obligation by way of:
 - (i) delivery of developed lots within the Tagaytay Highlands-Midlands Complex, with an aggregate valuation of approximately ₱75.0 million inclusive of 12% VAT and registration costs.
 - (ii) payment of all costs and expenses estimated at approximately ₱25.0 million for the conversion and titling of PLC’s properties located at or near Rancho Montana totaling 36 hectares; (b) delivery on or before August 28, 2019, of such number of developed lots in Rancho Montana having an aggregate value of approximately ₱794.0 million based on agreed valuation of ₱2,000 per square meter, exclusive of VAT.
- (b) modification of penalty for delay in delivery of Rancho Montana lots.

On July 22, 2014, Belle and PLC entered into a second Amendment to the Settlement Agreement terminating the obligation under the Settlement Agreement and the related Amendment to the Settlement Agreement and allowing sale of PLC’s nongaming assets consisting of TMGCI shares and developed lots, and redemption of the 1,000,000,000 preferred shares by Belle by way of cash consideration.



Gain on sale of developed lots amounted to ₱149.2 million in 2014.

Transactions with Related Parties

In the ordinary course of business, the Company has transactions with related parties which consist mainly of extension or availment of noninterest-bearing advances. The outstanding balances at year-end are due and demandable. There have been no guarantees provided or received for any related party receivables or payables.

The amounts included in these transactions are as follows:

| Related Party | Relationship | Transaction | | Transaction Amounts | Outstanding Balance Receivables (Payables) | Terms | Condition |
|------------------------------|--------------------------|---|-------------|---------------------|--|---|---|
| Belle | Parent | Advances (see Notes 10 and 20) | 2016 | ₱754,616 | (₱2,728,292) | Noninterest-bearing, due and demandable | Unsecured, no impairment |
| | | | 2015 | 6,261,135 | 6,981,116 | | |
| | | | 2014 | (22,393,756) | 1,556,639 | | |
| | | Notes receivable (see Note 11) | 2016 | — | 805,925,000 | 3.5% to 4.1% interest-bearing, one year term, renewable | Unsecured, no impairment |
| | | | 2015 | 1,805,925,000 | 805,925,000 | | |
| | | | 2014 | — | — | | |
| | | Available-for-sale financial assets (see Note 14) | 2016 | ₱8,636,271 | ₱655,096,702 | Noninterest-bearing | Unsecured, with allowance for impairment amounting to ₱569.9 million as at December 31, 2016 and 2015 |
| | | | 2015 | 387,461,701 | 584,562,793 | | |
| | | | 2014 | — | 487,940,069 | | |
| | | Interest income (see Note 10 and 11) | 2016 | 32,830,279 | 2,189,550 | Noninterest-bearing, 30 days | Unsecured, no impairment |
| | | | 2015 | 28,776,131 | 2,406,953 | | |
| | | | 2014 | — | — | | |
| SM Arena Complex Corporation | Affiliate | Service and management fee (see Notes 20 and 24) | 2016 | 60,480,000 | — | Noninterest-bearing, 30 days | Unsecured |
| | | | 2015 | 20,160,000 | (1,585,000) | | |
| | | | 2014 | 7,500,000 | (7,025,000) | | |
| | | Redemption of preferred shares | 2016 | — | — | Noninterest-bearing | Unsecured |
| | | | 2015 | — | — | | |
| | | | 2014 | 1,000,000,000 | — | | |
| | | Sale of non-gaming assets (see Note 2) | 2016 | — | — | Noninterest-bearing | Unsecured |
| | | | 2015 | — | — | | |
| | | | 2014 | 521,371,434 | — | | |
| | | Others (see Notes 20 and 24) | 2016 | 20,160,000 | (1,680,000) | Noninterest-bearing, 30 days | Unsecured |
| | | | 2015 | 11,760,000 | (525,000) | | |
| | | | 2014 | — | — | | |
| Officers | Key management personnel | Salaries and wages | 2016 | ₱35,086,786 | | | |
| | | | 2015 | 13,207,004 | | | |
| | | | 2014 | 3,454,406 | | | |

On September 15, 2014, PLAI and Belle entered into a Service Agreement wherein the latter shall provide services to support the operations of the casino license from PAGCOR. Belle shall likewise provide sufficient personnel and other resources for accounting and administrative functions. Management and service fees amounting to ₱60.5 million and ₱20.2 million in 2016 and 2015, respectively, were presented as part of “Services fees” included under costs of services and “Professional, service and management fees” under general and administrative expenses in the consolidated statements of income (see Notes 24 and 25).



29. Leases

a. Finance Lease

Lottery Equipment. The contracts for the supply of online lottery system entered into by POSC with Scientific Games and Intralot and by TGTI with Intralot contain a lease which is classified as finance lease. These related equipment are included as part of Lottery equipment under “Property and Equipment” in the consolidated statements of financial position. The details are as follows:

| | 2016 | 2015 |
|--|---------------------|--------------|
| Property and equipment under finance lease | ₱589,890,993 | ₱693,707,891 |
| Less accumulated depreciation | 450,471,361 | 565,345,083 |
| | ₱139,419,632 | ₱128,362,808 |

The additions amounted to ₱58.4 million and ₱31.6 million in 2016 and 2015, respectively.

Future minimum lease payments under these finance leases together with present value of the minimum lease payments are as follows:

| | 2016 | 2015 |
|---|--------------------|-------------|
| Within one year | ₱58,312,747 | ₱27,056,368 |
| After one year but not more than five years | 80,957,984 | 89,068,314 |
| More than five years | – | 12,766,463 |
| Total future minimum lease payments | 139,270,731 | 128,891,145 |
| Less amount representing interest | 19,928,135 | 10,335,408 |
| Present value of lease payments | 119,342,596 | 118,555,737 |
| Less current portion of obligations under finance lease | 47,698,388 | 25,028,462 |
| Noncurrent portion of obligation under finance lease | ₱71,644,208 | ₱93,527,275 |

The contracts of POSC remain effective until July 31, 2018, the expiration of Equipment Lease Agreement (ELA). Payment to Scientific Games is based on a pre-agreed percentage of POSC’s revenue from PCSO’s conduct of online lottery games running under the system provided by Scientific games. Payment to Intralot is based on pre-agreed percentage of the revenue generated by the terminals from PCSO’s conduct of online lottery games running on the hardware, operating system software and terminals (collectively referred to as the “System”), including without limitation, the revenue from the ELA contract or a fixed amounting US\$110 per terminal per month, whichever is higher. Payments to Scientific Games and Intralot include the non-lease elements which are presented as “Software and license fees” under “Cost and expenses” in the consolidated statements of income (see Note 24).

The contract of TGTI with Intralot commenced upon the commercial operation of 200 outlets and remains effective for 10 years until September 30, 2020. Payment to Intralot is based on a pre-agreed percentage of the revenue generated by the terminals from PCSO’s conduct of online lottery games running on the System.

The Company initially recognized the finance lease liability based on the fair value of the equipment or the sales price since the minimum lease payments cannot be established, as the monthly payment varies depending on the revenue generated by the leased equipment.



Transportation Equipment. POSC and LCC has finance leases covering its transportation equipment subject to two-year term. Future minimum lease payments under these finance leases together with the present value of the minimum lease payments are as follows:

| | 2016 | 2015 |
|--|------|----------|
| Future minimum lease payments within one year | ₱– | ₱181,489 |
| Less amount representing interest | – | 8,642 |
| Current portion of obligations under finance lease | ₱– | ₱172,847 |

b. Operating Lease

As Lessor

POSC leases to PCSO online lotto equipment and accessories for a period of 3 years until July 31, 2018 as provided in the 2015 Amended ELA (see Note 33). Rental payments is based on a percentage of gross amount of lotto ticket sales from the operation of all PCSO's lotto terminals or a fixed annual rental of ₱35,000 per terminal in commercial operation, whichever is higher. Rental income recognized in the consolidated statement of income amounted to ₱931.8 million and ₱395.5 million in 2016 and 2015, respectively. Future minimum rental income as at December 31 for the remaining lease term is as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Within one year | ₱145,495,000 | ₱143,080,000 |
| After one year but not more than five years | 84,872,083 | 226,543,333 |
| | ₱230,367,083 | ₱369,623,333 |

TGTI leases to PCSO "Online KENO" equipment and accessories for a period of 10 years from the time the ELA will run in commercial operations. Rental payment by PCSO is based on certain percentage of gross amount of "Online KENO" games from the operation of all PCSO's terminal or a fixed annual rental of ₱40,000 per terminal in commercial operation, whichever is higher. Rental income recognized in the consolidated statement of income amounted to ₱647.9 million and ₱235.4 million in 2016 and 2015, respectively. Future minimum rental income for the remaining lease terms is as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Within one year | ₱80,800,000 | ₱70,800,000 |
| After one year but not more than five years | 222,200,000 | 189,900,000 |
| | ₱303,000,000 | ₱260,700,000 |

As Lessee

- a. POSC leases certain office spaces for periods of one to three years up to 2016. The lease agreements provide for minimum rental commitments with annual rental escalation rate of 5%. Rent expense recognized in the consolidated statement of income amounted to ₱11.0 million and ₱6.2 million in 2016 and 2015, respectively.
- b. LotoPac and LCC lease certain properties that are renewed annually at the option of both companies. Rent expense recognized in the consolidated statement of income amounted to ₱29.2 million and ₱11.4 million in 2016 and 2015, respectively.
- c. TGTI entered into lease contracts with the following: (1) Keewswen Development Corp. for the lease of its office space for a period of five years commencing on February 1, 2011



expiring on January 31, 2016, (2) MBH Trading & Manufacturing Corporation for the lease of its warehouse for a period of seven years commencing on August 1, 2010 and expiring on July 31, 2017, and (3) George W.G Angel for a parking space for a period of one year, renewable upon mutual consent of the parties. Rent expense recognized in the consolidated statement of income amounted to ₱6.0 million and ₱1.6 million in 2016 and 2015, respectively.

The above operating leases have no restrictions and contingent rentals.

Future minimum rental expense for the remaining lease terms are as follows:

| | 2016 | 2015 |
|---|--------------------|-------------|
| Within one year | ₱14,263,568 | ₱14,472,951 |
| After one year but not more than five years | 10,751,584 | 7,976,663 |
| | ₱25,015,152 | ₱22,449,614 |

30. Basic/Diluted Earnings Per Common Share

As at December 31, 2016, 2015 and 2014, basic/diluted earnings per share were computed as follows:

| | 2016 | 2015 | 2014 |
|---|-----------------------|----------------|----------------|
| Net income attributable to the equity holders of the Parent (a) | ₱959,849,646 | ₱155,232,754 | ₱1,338,944,984 |
| Weighted average common shares, beginning | 31,627,310,000 | 31,440,564,700 | 7,770,780,000 |
| Number of parent company common shares held by subsidiaries - basic, at beginning of year | (291,770,000) | — | — |
| Cancellation of Swap Agreement | — | — | (583,333,333) |
| Re-issuance of Parent Company's shares | — | — | 39,132,500 |
| Issuance of common shares | — | 155,621,083 | 8,233,333,333 |
| Acquisition of entities holding parent common shares | (32,130,230) | (222,279,833) | — |
| Weighted average common shares, end (b) | 31,303,409,770 | 31,373,905,950 | 15,459,912,500 |
| Earnings per common share (a/b) | ₱0.030663 | ₱0.004948 | ₱0.086607 |

31. Financial Assets and Financial Liabilities

Financial Risk Management Objectives and Policies and Capital Management

The Company's principal financial instruments comprise cash and cash equivalents, receivables, and obligations under finance lease. The main purpose of these financial instruments is to raise financing for the Company's operations and capital expenditures. The Company has other financial assets and liabilities such as investments held for trading, AFS financial assets, trade and other receivables, trade and other current liabilities and accrued expenses which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, equity price risk and foreign currency risk.



The BOD and management review and approve the policies for managing credit, liquidity, equity price and foreign currency risks and they are summarized below:

Credit Risk. Credit risk is the risk that the Company will incur a loss because its counterparties failed to discharge their contractual obligations. Credit risk arises from the Company's financial assets which are composed of cash and cash equivalents, trade receivables and others and AFS financial assets.

The Company's credit risk is concentrated on a few companies with which it transacts business. One of which is the PCSO, through its subsidiary, POSC. POSC's trade receivable arises from equipment lease agreement with PCSO, POSC's sole customer. It is part of the Company policy that all the terms specified in the ELA with PCSO are complied with and ensure that payment terms are met. Another major customer is MCE Leisure, from whom gaming revenue share is collected. Belle, a major stockholder, also has outstanding loans payable to the Company. The Company keeps close coordination with MCE Leisure and Belle and ensures that contract and agreement terms and conditions are met.

With respect to credit risk arising from the other financial assets which are composed of cash and cash equivalents, other receivables, investments held for trading and AFS financial assets, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the aging analysis of the Company's financial assets.

| 2016 | | | | | | | |
|-----------------------------|-------------------------------|---------------------------|-------------------|---------------------------|--------------|----------------|----------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | Impaired | Total |
| | | Less than 30 days | 31 Days to 1 Year | Over 1 Year up to 3 Years | Over 3 Years | | |
| Cash and cash equivalents* | ₱1,804,213,982 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱1,804,213,982 |
| Investment held for trading | 165,990,214 | - | - | - | - | - | 165,990,214 |
| Receivables** | 729,102,862 | 3,191 | - | 83,889 | - | 438,497,388 | 1,167,687,330 |
| Notes receivable | 805,925,000 | - | - | - | - | - | 805,925,000 |
| Deposits*** | 7,224,028 | - | - | - | - | - | 7,224,028 |
| AFS financial assets | 657,377,802 | - | - | - | - | 574,918,475 | 1,232,296,277 |
| Guarantee bonds**** | 35,000,000 | - | - | - | - | - | 35,000,000 |
| | ₱4,204,833,888 | ₱3,191 | ₱- | ₱83,889 | ₱- | ₱1,013,415,863 | ₱5,218,336,831 |

*Excluding cash on hand amounting to ₱7.3 million.

**Excluding advances to contractors and suppliers amounting to ₱2.6 million.

***Included as part of "Other current assets" account in the consolidated statements of financial position

****Included as part of "Other noncurrent assets" account in the consolidated statements of financial position

| 2015 | | | | | | | |
|-----------------------------|-------------------------------|---------------------------|-------------------|---------------------------|--------------|----------------|----------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | Impaired | Total |
| | | Less than 30 days | 31 Days to 1 Year | Over 1 Year up to 3 Years | Over 3 Years | | |
| Cash and cash equivalents* | ₱1,179,595,088 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱1,179,595,088 |
| Investment held for trading | 226,746,690 | - | - | - | - | - | 226,746,690 |
| Receivables** | 435,542,636 | 56,275,505 | - | 6,993,336 | - | 440,403,474 | 939,214,951 |
| Notes receivable | 805,925,000 | - | - | - | - | - | 805,925,000 |
| Deposits*** | 8,330,610 | - | - | - | - | - | 8,330,610 |
| AFS financial assets | 586,543,893 | - | - | - | - | 574,918,475 | 1,161,462,368 |
| Guarantee bonds**** | 45,000,000 | - | - | - | - | - | 45,000,000 |
| | ₱3,287,683,917 | ₱56,275,505 | ₱- | ₱6,993,336 | ₱- | ₱1,015,321,949 | ₱4,366,274,707 |

*Excluding cash on hand amounting to ₱8.0 million.

**Excluding advances to contractors and suppliers amounting to ₱10.8 million.

***Included as part of "Other current assets" account in the consolidated statements of financial position

****Included as part of "Other noncurrent assets" account in the consolidated statements of financial position



The table below shows the credit quality of the Company's financial assets that are neither past due nor impaired based on historical experience with the corresponding third parties.

| 2016 | | | |
|-----------------------------|----------------|--------------|----------------|
| | High Grade | Medium Grade | Total |
| Cash and cash equivalents* | ₱1,804,213,982 | ₱— | ₱1,804,213,982 |
| Investment held for trading | 165,990,214 | — | 165,990,214 |
| Receivables** | 729,102,862 | — | 729,102,862 |
| Notes receivable | 805,925,000 | — | 805,925,000 |
| Deposits*** | 7,224,028 | — | 7,224,028 |
| AFS financial assets | 655,096,702 | 2,281,100 | 657,377,802 |
| Guarantee bonds**** | 35,000,000 | — | 35,000,000 |
| | ₱4,202,552,788 | ₱2,281,100 | ₱4,204,833,888 |

*Excluding cash on hand amounting to ₱7.3 million.

**Excluding advances to contractors and suppliers amounting to ₱2.6 million.

***Included as part of "Other current assets" account in the consolidated statements of financial position

****Included as part of "Other noncurrent assets" account in the consolidated statements of financial position

| 2015 | | | |
|-----------------------------|----------------|--------------|----------------|
| | High Grade | Medium Grade | Total |
| Cash and cash equivalents* | ₱1,179,595,088 | ₱— | ₱1,179,595,088 |
| Investment held for trading | 226,746,690 | — | 226,746,690 |
| Receivables** | 435,542,636 | — | 435,542,636 |
| Notes receivable | 805,925,000 | — | 805,925,000 |
| Deposits*** | 8,330,610 | — | 8,330,610 |
| AFS financial assets | 584,562,793 | 1,981,100 | 586,543,893 |
| Guarantee bonds**** | 45,000,000 | — | 45,000,000 |
| | ₱3,285,702,817 | ₱1,981,100 | ₱3,287,683,917 |

*Excluding cash on hand amounting to ₱8.0 million.

**Excluding advances to contractors and suppliers amounting to ₱10.8 million.

***Included as part of "Other current assets" account in the consolidated statements of financial position

****Included as part of "Other noncurrent assets" account in the consolidated statements of financial position

High grade financial assets pertain to those receivables from related parties or customers that consistently pay on or before the maturity date while medium grade includes those financial assets being collected on due dates with an effort of collection.

The Company assessed its cash in bank and cash equivalents as high grade since this is deposited with reputable banks.

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

The Company seeks to manage its liquidity profile to be able to finance its investments and pay its outstanding liabilities. To limit this risk, the Company closely monitors its cash flows and ensures that credit facilities are available to meet its obligations as and when they fall due. To cover its financing requirements, the Company uses internally generated funds as well as a committed line of credit that it can access to meet liquidity needs.

The Company maintains sufficient cash to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet the requirements for additional capital expenditures, maturing obligations and cash dividends. Liquidity risk is minimal as at December 31, 2016 and 2015 as the total current assets can cover the total current liabilities as they fall due.



The maturity profile of the Company's financial assets and liabilities follow:

| 2016 | | | | | |
|---|-----------------------|---------------------|---|-----------------------|-----------------------|
| | On Demand | 1 to 60 Days | Over 60 Days but less than 1 year | Over 1 year | Total |
| Financial Assets | | | | | |
| Cash and cash equivalents ^(a) | ₱1,804,213,982 | ₱— | ₱— | ₱— | ₱1,804,213,982 |
| Investments held for trading | 165,990,214 | — | — | — | 165,990,214 |
| Receivables ^(b) | 438,584,468 | 729,102,862 | — | — | 1,167,687,330 |
| Notes receivable | — | 250,000,000 | 555,925,000 | — | 805,925,000 |
| Deposits ^(c) | — | — | 7,224,028 | — | 7,224,028 |
| AFS financial assets | — | — | — | 1,232,296,277 | 1,232,296,277 |
| Guarantee bonds ^(d) | — | — | — | 35,000,000 | 35,000,000 |
| | ₱2,408,788,664 | ₱979,102,862 | ₱563,149,028 | ₱1,267,296,277 | ₱5,218,336,831 |
| Financial Liabilities | | | | | |
| Trade payables and other current liabilities ^(e) | ₱56,066,335 | ₱173,150,323 | ₱152,708,597 | ₱— | ₱381,925,255 |
| Obligations under finance lease ^(d) | — | 9,593,882 | 48,718,865 | 80,957,984 | 139,270,731 |
| | ₱56,066,335 | ₱182,744,205 | ₱201,427,462 | ₱80,957,984 | ₱521,195,986 |

(a)Excluding cash on hand amounting to ₱7.3 million.

(b)Excluding advances to contractors and suppliers amounting to ₱2.6 million.

(c)Included as part of "Other current assets" account in the consolidated statements of financial position

(d)Included as part of "Other noncurrent assets" account in the consolidated statements of financial position

(e)Excluding statutory liabilities and provisions amounting to ₱162.7 million

(f)Based on undiscounted future payments.

| 2015 | | | | | |
|---|-----------------------|---------------------|---|-----------------------|-----------------------|
| | On Demand | 1 to 60 Days | Over 60 Days but less than 1 year | Over 1 year | Total |
| Financial Assets | | | | | |
| Cash and cash equivalents ^(a) | ₱1,179,595,088 | ₱— | ₱— | ₱— | ₱1,179,595,088 |
| Investments held for trading | 226,746,690 | — | — | — | 226,746,690 |
| Receivables ^(b) | 503,672,315 | 435,542,636 | — | — | 939,214,951 |
| Notes receivable | — | 250,000,000 | 555,925,000 | — | 805,925,000 |
| Deposits ^(c) | — | — | 8,330,610 | — | 8,330,610 |
| AFS financial assets | — | — | — | 1,161,462,368 | 1,161,462,368 |
| Guarantee bonds ^(d) | — | — | — | 45,000,000 | 45,000,000 |
| | ₱1,910,014,093 | ₱685,542,636 | ₱564,255,610 | ₱1,206,462,368 | ₱4,366,274,707 |
| Financial Liabilities | | | | | |
| Trade payables and other current liabilities ^(e) | ₱41,167,043 | ₱202,260,441 | ₱109,134,103 | ₱— | ₱352,561,587 |
| Obligations under finance lease ^(f) | — | — | 27,237,857 | 101,834,777 | 129,072,634 |
| | ₱41,167,043 | ₱202,260,441 | ₱136,371,960 | ₱101,834,777 | ₱481,634,221 |

(a)Excluding cash on hand amounting to ₱8.0 million.

(b)Excluding advances to contractors and suppliers amounting to ₱10.8 million.

(c)Included as part of "Other current assets" account in the consolidated statements of financial position

(d)Included as part of "Other noncurrent assets" account in the consolidated statements of financial position

(e)Excluding statutory liabilities amounting to ₱13.2 million.

(f)Based on undiscounted future payments.

Equity Price Risk. Equity price risk is the risk that the fair value of quoted AFS financial assets decreases as the result of changes in the value of individual stocks. The Company's exposure to equity price risk relates primarily to the Company's quoted investments held for trading and AFS financial assets.



AFS financial assets

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Company's equity. The impact on the Company's equity already excludes the impact on transactions affecting the consolidated profit or loss before income tax.

| | 2016 | | 2015 | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Increase in Equity Price | Decrease in Equity Price | Increase in Equity Price | Decrease in Equity Price |
| Percentage increase (decrease) in equity price | 1% | (1%) | 5% | (5%) |
| Effect on equity | ₱5,196,681 | (₱5,196,681) | ₱38,747,781 | (₱38,747,781) |

Investments held for trading

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Company's consolidated income before income tax.

| | 2016 | | 2015 | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Increase in Equity Price | Decrease in Equity Price | Increase in Equity Price | Decrease in Equity Price |
| Percentage increase (decrease) in equity price | 5% | (5%) | 5% | (5%) |
| Effect on equity | ₱8,291,536 | (₱8,291,536) | ₱11,239,000 | (₱11,239,000) |

Foreign Currency Risk. The Company, through POSC, has foreign currency exposures. Such exposure arises from cash and cash equivalents and payables to certain suppliers which are denominated in U.S. dollar (US\$). The Company's financial instruments which are denominated in foreign currency include cash and cash equivalents and consultancy and software license fees payable. The Company maintains a US\$ account to match its foreign currency requirements.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used was ₱49.77 and ₱47.12 to US\$1, the Php to US\$ exchange rates as at December 31, 2016 and 2015, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Php-US\$ exchange rates, with all other variables held constant, of the Company's consolidated income before income tax in 2016. There is no other impact on the Company's equity other than those already affecting profit or loss.

| | Increase (Decrease) in US\$ Exchange Rate | Effect on Income before Income Tax | Effect on Equity |
|-------------|--|--|---------------------|
| 2016 | 5% | (₱920,229) | (₱644,160) |
| | (5%) | 920,229 | 644,160 |
| 2015 | 5% | (₱3,363,146) | (₱2,354,202) |
| | (5%) | 3,363,146 | 2,354,202 |



Capital Management

The primary objective of the Company's capital management is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes made in the objectives, policies or processes in 2016 and 2015.

The Company considers the total equity attributable to the equity holders of the Parent as its capital amounting to ₱15,357.9 million and ₱15,042.2 million as at December 31, 2016 and 2015, respectively.

Fair Value of Financial Assets and Financial Liabilities

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The carrying values of cash and cash equivalents, receivables, deposits and trade payables and other current liabilities (excluding statutory liabilities) approximate their fair values due to the short-term nature of the transactions.

The fair values of AFS financial assets in quoted equity shares are based on quoted prices in the PSE or those shares whose prices are readily available from brokers or other regulatory agency as at reporting date. There are no quoted market prices for the unlisted shares of stock and there are no other reliable sources of their fair values, therefore, these are carried at cost, net of any impairment loss.

The estimated fair value of obligations under finance lease was calculated using the discounted cash flow methodology, using PDST-R2 rates ranging from 1.8% to 3.9% and 2.4% to 4.1% in 2016 and 2015, respectively.

The carrying value of guarantee bonds approximates fair value as at December 31, 2016 and 2015 due to unavailability of information as to the repayment date that would provide reasonable basis for the fair value measurement.

The following table provides the quantitative disclosures of fair value measurement hierarchy of the Company's assets and liabilities, other than those with carrying amounts that are reasonable approximation of fair value, as at December 31, 2016 and 2015:

| | | 2016 | | | | |
|---|-------------------|--|---|---|--------------|--|
| | Date of Valuation | Quoted (Unadjusted) Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | |
| Assets | | | | | | |
| Assets measured at fair value: | | | | | | |
| Investments held for trading | December 31, 2016 | ₱165,990,214 | ₱– | ₱– | ₱165,990,214 | |
| AFS investments | December 31, 2016 | 657,296,702 | – | 81,100 | 657,377,802 | |
| Liabilities | | | | | | |
| Liabilities for which fair value is disclosed - | | | | | | |
| Obligations under finance lease | December 31, 2016 | – | – | 132,578,191 | 132,578,191 | |



| 2015 | | | | | |
|---|-------------------|--|---|---|--------------|
| | Date of Valuation | Quoted (Unadjusted) Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets | | | | | |
| Assets measured at fair value: | | | | | |
| Investments held for trading | December 31, 2015 | ₱226,746,690 | ₱— | ₱— | ₱226,746,690 |
| AFS investments | December 31, 2015 | 586,462,793 | — | 81,100 | 586,543,893 |
| Liabilities | | | | | |
| Liabilities for which fair value is disclosed - | | | | | |
| Obligations under finance lease | December 31, 2015 | — | — | 116,895,147 | 116,895,147 |

There were no transfers between fair value measurements in 2016 and 2015.

32. Segment Information

The primary segment reporting format is presented based on business segments in which the Company's risks and rates of return are affected predominantly by differences in the products and services provided. Thus, the operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

As at December 31, 2016 and 2015, the Company is organized into five business segments, namely: investment holding, real estate, public amusement recreation, gaming business and lottery equipment leasing, distribution and others.

As at December 31, 2014, the Company is organized into four business segments, namely: investment holding, real estate, public amusement recreation and gaming business.



Financial information about the Company's business segments are shown below:

| | 2016 | | | | | | |
|--------------------------------------|--------------------|-------------|---------------------------------|-----------------|--|---------------------------|-----------------|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Lottery equipment leasing, distribution and others | Eliminations/ Adjustments | Consolidated |
| Earnings Information | | | | | | | |
| Revenue: | | | | | | | |
| External | P– | P– | P– | P1,642,976,365 | P1,888,099,468 | P– | P3,531,075,833 |
| Internal | 1,069,895,814 | – | – | – | – | (1,069,895,814) | – |
| Cost and expenses | (16,719,400) | (23,852) | (22,812) | (492,062,964) | (1,291,555,415) | (324,769,436) | (2,125,153,879) |
| Interest income | 40,021,895 | 1,800 | – | 6,300,329 | 815,079 | – | 47,139,103 |
| Finance charges | – | – | – | – | (12,748,505) | – | (12,748,505) |
| Dividend income | 2,541,734 | – | – | – | 22,074,912 | – | 24,616,646 |
| Depreciation and amortization | (3,760) | – | – | (90,060) | (171,168,627) | (324,769,436) | (496,031,883) |
| Provision for income tax | 656,606 | – | – | 98,851,263 | 183,092,976 | – | 282,600,845 |
| Net income for the year | 1,095,083,437 | (22,052) | (22,812) | 1,058,362,466 | 399,364,344 | (1,394,665,247) | 1,158,100,136 |
| Other Information | | | | | | | |
| Investments and AFS financial assets | 322,241,801 | – | – | – | 879,721,834 | (378,595,619) | 823,368,016 |
| Segment assets | 16,042,019,466 | 813,959 | 29,733,991 | 379,751,120 | 1,555,785,960 | (1,923,679,740) | 16,084,424,756 |
| Segment liabilities | 185,736,557 | 260,405,647 | 5,000 | 189,670,237 | 474,876,890 | (391,203,697) | 719,490,634 |
| Consolidated total assets | 16,364,261,267 | 813,959 | 29,733,991 | 379,751,120 | 2,435,507,794 | (2,302,275,359) | 16,907,792,772 |
| Consolidated total liabilities | 185,736,557 | 260,405,647 | 5,000 | 189,670,237 | 474,876,890 | (391,203,697) | 719,490,634 |
| Capital expenditure | 20,556 | – | – | 158,391 | 111,940,173 | – | 112,119,120 |
| Goodwill | – | – | – | – | 1,828,577,952 | – | 1,828,577,952 |



| | 2015 | | | | | | |
|--|--------------------|-------------|---------------------------------|-----------------|--|---------------------------|-----------------|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Lottery equipment leasing, distribution and others | Eliminations/ Adjustments | Consolidated |
| Earnings Information | | | | | | | |
| Revenue: | | | | | | | |
| External | P— | P— | P— | P756,237,939 | P719,326,926 | P— | P1,475,564,865 |
| Internal | 575,356,767 | — | — | — | — | (575,356,767) | — |
| Cost and expenses | (13,009,757) | (62,926) | (37,378) | (130,355,416) | (502,882,291) | (563,277,634) | (1,209,625,402) |
| Interest income | 40,704,963 | 38,788 | — | 760,585 | 530,204 | — | 42,034,540 |
| Finance charges | — | — | — | — | (4,996,708) | — | (4,996,708) |
| Dividend income | 27,496,623 | — | — | — | 4,273,890 | — | 31,770,513 |
| Equity in net earnings of an associate | — | — | — | — | — | 75,525,743 | 75,525,743 |
| Depreciation and amortization | — | — | — | (341,660) | (64,960,311) | (563,277,634) | (628,579,605) |
| Provision for income tax | 600,723 | — | — | 115,197,543 | 68,965,231 | — | 184,763,497 |
| Net income for the year | 640,940,787 | (24,138) | (37,378) | 511,445,565 | 133,938,171 | (1,063,108,658) | 223,154,349 |
| Other Information | | | | | | | |
| Investments and AFS financial assets | 292,945,362 | — | — | — | 706,367,720 | (186,022,499) | 813,290,583 |
| Segment assets | 15,608,466,624 | 856,011 | 30,820,792 | 317,468,350 | 1,515,226,053 | (1,844,130,610) | 15,628,707,220 |
| Segment liabilities | 167,279,987 | 260,425,647 | 1,068,988 | 297,749,933 | 462,639,425 | (636,424,102) | 552,739,878 |
| Consolidated total assets | 15,901,411,986 | 856,011 | 30,820,792 | 317,468,350 | 2,221,593,773 | (2,030,153,109) | 16,441,997,803 |
| Consolidated total liabilities | 167,279,987 | 260,425,647 | 1,068,988 | 297,749,933 | 462,639,425 | (636,424,102) | 552,739,878 |
| Capital expenditure | — | — | — | 65,480 | 223,344,454 | — | 223,409,934 |
| Goodwill | — | — | — | — | 1,828,577,952 | — | 1,828,577,952 |



| | 2014 | | | | | |
|--|--------------------|---------------|---------------------------------|-----------------|---------------------------|----------------|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Eliminations/ Adjustments | Consolidated |
| Earnings Information | | | | | | |
| Revenue – external | P– | P– | P– | P38,809,095 | P– | P38,809,095 |
| Interest income | 6,332,013 | 124,937 | – | 8,400 | – | 6,465,350 |
| Dividend income | 1,999,754 | – | – | – | – | 1,999,754 |
| Fair value change due to cancellation of Swap Agreement and sale of golf club shares | 1,643,407,304 | – | – | – | – | 1,643,407,304 |
| Reversal of allowance for doubtful accounts | 253,375,000 | – | – | – | (253,375,000) | – |
| Gain on sale of land | 149,170,154 | – | – | – | – | 149,170,154 |
| Equity in net earnings of an associate | – | – | – | – | 31,521,474 | 31,521,474 |
| Costs and expenses | (385,689,441) | (5,068,451) | (37,769) | (29,571,846) | (48,624,286) | (468,991,793) |
| Depreciation and amortization | – | – | – | (203,368) | (48,624,286) | (48,827,654) |
| Provision for income tax | – | – | – | 5,117,366 | – | 5,117,366 |
| Provision for probable losses | (349,686,009) | (3,216) | (2,616) | – | – | (349,691,841) |
| Loss from sale of shares of Parent Company | – | (218,982,325) | – | – | 218,982,325 | – |
| Net income (loss) for the year | 1,668,594,787 | (223,925,840) | (37,769) | 4,128,283 | (109,814,477) | 1,338,944,984 |
| Other Information | | | | | | |
| Investments and AFS financial assets | 13,248,803,585 | – | 14,762,976 | – | (11,221,199,155) | 2,042,367,406 |
| Segment assets | 2,722,918,315 | 254,192,862 | 16,057,816 | 42,735,153 | 10,794,589,220 | 13,830,493,366 |
| Segment liabilities | 166,787,648 | 513,738,361 | 1,031,610 | 34,002,682 | (630,559,214) | 85,001,087 |
| Consolidated total assets | 15,971,721,900 | 254,192,862 | 30,820,792 | 42,735,153 | (426,609,935) | 15,872,860,772 |
| Consolidated total liabilities | 166,787,648 | 513,738,361 | 1,031,610 | 34,002,682 | (630,559,214) | 85,001,087 |



Revenue from gaming business segment amounting to ₱1,643.0 million and ₱756.2 million in 2016 and 2015, respectively, are solely collectible from MCE Leisure and revenue from lottery equipment leasing, distribution and others business segment amounting to ₱1,840.1 million and ₱699.3 million in 2016 and 2015, respectively, are solely collectible PCSO.

The following illustrate the reconciliations of reportable segment revenues, net profit, assets and liabilities to the Company's corresponding amounts:

| | 2016 | 2015 | 2014 |
|--------------------------------------|------------------------|-----------------|-----------------|
| Net Profit for the Year | | | |
| Total profit for reportable segments | ₱2,552,765,383 | ₱1,286,263,007 | ₱1,448,759,461 |
| Elimination for intercompany profits | (1,394,665,247) | (1,063,108,658) | (109,814,477) |
| Consolidated net profit | ₱1,158,100,136 | ₱223,154,349 | ₱1,338,944,984 |
| Assets | | | |
| Total assets for reportable segments | ₱16,084,424,756 | ₱15,628,707,220 | ₱13,830,493,366 |
| Investments and advances | 823,368,016 | 813,290,583 | 2,042,367,406 |
| Consolidated assets | ₱16,907,792,772 | ₱16,441,997,803 | ₱15,872,860,772 |

Disclosure of the geographical information regarding the Company's revenues from external customers and total assets have not been provided since all of the Company's consolidated revenues are derived from operations within the Philippines.

The BOD (Chief Operating Decision Maker) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income or loss and is measured consistently with net income or loss in the consolidated financial statements. However, financing (including interest expense and interest income) and income taxes are managed as a whole and are not allocated to operating segments.

33. Significant Contracts and Commitments

Investment Commitment with PAGCOR

The Company and its casino operator is required to have an "Investment Commitment" based on PAGCOR guidelines of US\$1.0 billion, of which US\$650.0 million shall be invested upon the opening of the casino and the other US\$350.0 million shall be invested within a period of three (3) years from the commencement of the casino operations. The Investment Commitment should comprise of the value of land used for the projects and the construction costs of various facilities and infrastructure within the site of the project.

The other salient provisions of the License are: (i) creation of an escrow account of at least US\$100.0 million to be used exclusively for the project, with a maintaining balance of US\$50.0 million; (ii) issuance of performance bond of US\$100.0 million to guarantee the completion of the project; and (iii) issuance of surety bond of US\$100.0 million to guarantee the payment to PAGCOR of all fees payable under the license granted.

Compliance with the Investment Commitment is managed by Belle, except for the maintenance of an escrow account which was assumed by the casino operator effective May 2013.



Operating Agreement with MCE Leisure

On March 13, 2013, Belle, together with PLAI, entered into an Operating Agreement with MCE Holdings No. 2 (Philippines) Corporation, MCE Holdings (Philippines) Corporation and MCE Leisure. Under the terms of the Operating Agreement, MCE Leisure was appointed as the sole and exclusive operator and manager of the casino development project.

The Operating Agreement shall be in full force and effect for the period of the PAGCOR License, unless terminated earlier in accordance with the agreements among the parties.

Pursuant to this agreement, PLAI shares from the performance of the casino gaming operations. Gaming revenue share in 2016, 2015 and 2014 amounted to ₱1,643.0 million, ₱756.2 million and ₱38.8 million, respectively (see Note 23).

Advisory Services by AB Leisure Global, Inc. (ABLGI)

ABLGI agreed to act in an advisory capacity to Belle and PLAI subject to certain limitations for a consideration equivalent to percentage of PLAI's income from gaming revenue share.

Professional fee amounted to ₱216.1 million, ₱76.0 million and ₱7.1 million in 2016, 2015 and 2014, respectively, presented as part of "Service fees" account under cost of services expenses in the consolidated statements of income (see Note 24).

Share Swap Agreement

In 1997, PLC (then Sinophil Corporation), together with Belle (then a 32% shareholder) entered into a Swap Agreement with Metroplex whereby PLC issued 3,870,000,000 of its common shares in exchange for 46,381,600 shares of LIR-HK, a Hong Kong-based company, which is a subsidiary of Metroplex.

On August 23, 2001, a Memorandum of Agreement (MOA) was entered into by and among Belle, PLC, Metroplex and LIR-HK rescinding the Swap Agreement and cancelling all obligations stated therein and reversing all the transactions as well as returning all the objects thereof in the following manner:

- a. Metroplex shall surrender the certificates of PLC shares held by them in relation to the Swap Agreement. Belle shall then cause the reduction of the capital stock of PLC to the extent constituting the PLC shares of stock surrendered by Metroplex and the cancellation and delisting of such shares from the PSE.
- b. PLC shall surrender the LIR-HK shares back to Metroplex.

In view of such definite plan to rescind the Swap Agreement through the MOA or other means, PLC discontinued using the equity method in accounting for its investment in LIR-HK starting from LIR-HK's fiscal year beginning February 1, 1999.

On February 18, 2002, the stockholders approved the cancellation of 3,870,000,000 shares held by Metroplex. However, Metroplex failed to deliver the stock certificates for cancellation covering the 2,000,000,000 shares of their total shareholdings. PLC again presented to its stockholders the reduction of its authorized capital stock to the extent of 1,870,000,000 shares, which were already delivered by Metroplex. On June 3, 2005, the stockholders approved the cancellation and delisting of the 1,870,000,000 shares. On March 28, 2006, the SEC formally approved PLC's application for the capital reduction and cancellation of the 1,870,000,000 PLC shares. The application to delist the said shares was also approved by the PSE.



As a result of the cancellation of the shares, investment in LIR-HK was reduced by ₱2,807.8 million in 2006. The corresponding decrease in capital stock and additional paid-in capital, and share in cumulative translation adjustments of an associate amounted to ₱1,870.0 million, ₱1,046.9 million and ₱109.1 million, respectively.

In 2007, PLC acquired LIR-HK's loan from Union Bank of the Philippines which was secured by the 1,000,000,000 shares of PLC held by Metroplex for a total consideration of ₱81.6 million (see Note 10). Upon acquisition, an application for capital reduction and cancellation of 1,000,000,000 PLC shares was filed with the SEC after obtaining stockholders' approval.

On June 24, 2008, upon obtaining the approval of the SEC, the 1,000,000,000 PLC shares in the name of Metroplex were cancelled. As a result, investment in LIR-HK was reduced by ₱1,501.5 million in 2008. The corresponding decrease in capital stock, additional paid-in capital and share in cumulative translation adjustments of an associate amounted to ₱1,000.0 million, ₱559.8 million and ₱58.3 million, respectively. In 2009, PLC applied with the SEC for further decrease of its authorized capital stock for 1,000,000,000 shares. This application was approved on July 9, 2009 by the SEC. However, PLC did not effect such decrease in authorized capital stock as these cannot be surrendered for cancellation (see Note 22).

In 2009, Metroplex filed before the Court of Appeals (CA) to review the Order of the SEC denying their petition to nullify the approval of the reduction of the capital stock of the Parent Company. Petition was elevated to the Supreme Court (SC) after the CA sustained the SEC ruling (see Note 34). The deal was scuttled when the remaining 1,000,000,000 undelivered PLC shares (hereinafter referred to as the "Shares") are being held by another creditor, Evanston Asset Holdings Pte. Ltd ("Evanston"), as collateral for loans obtained by Metroplex. Metroplex was previously negotiating for the release of such pledge to be able to carry out the terms of the MOA.

However, during 2012, PLC was informed by Evanston that they had undertaken foreclosure proceedings on the Shares. While Evanston has stated willingness to negotiate with PLC towards the transfer of the Shares, there is no assurance that PLC will be able to acquire the Shares from Evanston. Thus, PLC recognized full impairment loss on its investment in LIR-HK in view of the then uncertainty of implementing the MOA rescinding the Swap Agreement.

Notwithstanding the foregoing, cognizant of the fact that whoever had possession of the Shares would be dispossessed of its property by reason of the approval of the decrease in capital which implies the cancellation of said shares, PLC exerted earnest efforts to have the SEC revoke its approval of the third decrease in capital. However, SEC continued to deny any petition on the following grounds:

- (i) the documents submitted by appellant in support of its application for the decrease of capital stock, were all complete and regular on its face;
- (ii) there was no allegation of fraud, actual or constructive, nor misrepresentation in its application for decrease of authorized capital stock.

On June 20, 2013, PLC filed a Memorandum of Appeal with the SEC to appeal the denial of the petition.

On April 22, 2014, PLC filed with the SEC a Notice of Withdrawal of the Memorandum of Appeal filed on June 20, 2013 and proceeded to effect the cancellation of the shares and compensated the parties who were in possession of the remaining 1,000,000,000 PLC shares. As a result, investment in LIR-HK was reduced by ₱1,501.5 million in 2014. The corresponding



decrease in capital stock, additional paid-in capital and share in cumulative translation adjustments of an associate amounted to ₱1,000.0 million, ₱559.8 million and ₱58.3 million, respectively.

Correspondingly, PLC recognized a receivable from Metroplex for ₱340.7 million which was the cost of implementing the MOA rescinding the Swap Agreement and the cancellation of the said Shares (see Notes 10 and 22).

Equipment Lease Agreement (ELA) between POSC and PCSO

ELA. POSC has an ELA with the PCSO for the lease of not less than 800 lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment of PCSO for its Visayas-Mindanao (VISMIND) operations for a period of eight years from April 1, 2005 to March 31, 2013.

PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character through holding and conducting charity sweepstakes, races, and lotteries and engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs. It also undertakes other activities to enhance and expand such fund-generating operations as well as strengthen the agency's fund-management capabilities.

2012 Amended ELA. On May 22, 2012, the POSC and PCSO amended some provisions of the ELA which reduced the rental fee for the VISMIND operations and included the lease of lotto terminals and supply of betting slips and ticket paper rolls in some of PCSO's Luzon operations for additional lease fee effective June 1, 2012 until March 31, 2013, which is concurrent with the ELA expiry. The amendment also incorporated the fee for maintenance and repair services as part of the rental fee and provided PCSO an option to purchase the equipment related to its VISMIND operations at the end of the lease period for ₱15.0 million.

2013 Amended ELA. On March 26, 2013, the POSC and PCSO further amended some provisions of the ELA which extended it from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment related to its VISMIND operations, the Company agreed to reduce the rental fee on the lotto terminals for the VISMIND operations and the Company to shoulder the cost of betting slips and ticket paper rolls for the PCSO's Luzon and VISMIND operations. The amendment also incorporated the fee for the supply of betting slips and ticket paper rolls for the PCSO's Luzon operations as part of the rental fee.

2015 Amended ELA. In 2015, the POSC and PCSO further amended some provisions of the ELA which extended it from August 1, 2015 to July 31, 2018. The amendment also required POSC to deposit an additional ₱5.0 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. The additional cash bond is included under "Other noncurrent assets" in the consolidated statements of financial position.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on a percentage of gross sales of lotto tickets from PCSO's VISMIND and Luzon operations or a fixed annual rental of ₱35,000 per terminal in commercial operation, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software and manuals for the central computer system and terminals and draw equipment, as well as the supply of betting slips and ticket paper rolls, and maintenance and repair services. The number of installed lotto terminals totaled 4,157 and 4,088 as at December 31, 2016 and 2015, respectively.



Instant Scratch Tickets. On March 25, 2009, POSC entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of scratch tickets effective December 1, 2009. The share of PCSO is guaranteed for every 500 million tickets sold for a period of seven years from the date of the MOA's effectivity. The MOA requires a cash bond to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, subject to review by PCSO, which was paid in January 2010, for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. The ₱10.0 million cash bond is recognized under "Other noncurrent assets" account in the consolidated statements of financial position.

On March 31, 2015, POSC entered into an OMOA with PGEC for the authorization of PGEC as the exclusive marketing, distribution, selling and collecting agent of POSC throughout the Philippines. The agreement took effect on April 1, 2015 and shall remain effective as long as the MOA with PCSO or any extension thereof shall be effective.

PGEC agreed to assume POSC's commitment to PCSO to solely shoulder the project cost for the Instant Scratch Ticket program, which consists of the costs of production, distribution, warehousing, printing, handling, software and hardware maintenance, advertising, marketing, selling and other related expenses necessary to totally dispose of all instant tickets. PGEC is entitled to all the revenues, sums and proceeds from the Instant Scratch Tickets beginning April 1, 2015, and shall be obligated to shoulder the pay-outs for all winnings from said tickets sold beginning April 1, 2015. In consideration for the OMOA, PGEC agreed to pay the POSC a guaranteed fixed monthly fee of ₱4.0 million starting April 2015. This fee is included as part of "Commission and distribution income" under "Revenues" in the consolidated statements of income.

POSC shall continue to pay the share of PCSO and the cash bond pursuant to the MOA, however, PGEC agreed to guarantee payment of the share of PCSO to the Parent Company beginning April 2015. An existing consultancy agreement between POSC and PGEC for the scratch ticket operations was immediately terminated upon execution of the OMOA.

TGTI Equipment Rental

TGTI has an ELA with PCSO which provides for the lease of the equipment for PCSO's "Online KENO" games. The lease is for a period of ten (10) years commencing on October 1, 2010, the date of actual operation of at least 200 "Online KENO" outlets. The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on a percentage of the gross sales of the "Online KENO" terminals or a fixed annual rental of ₱40,000 per terminal in commercial operation, whichever is higher. The ELA may be extended and/or renewed upon the mutual consent of the parties.

On July 15, 2008, TGTI and PCSO agreed on some amendments to the ELA. Under the terms of the Amended ELA, TGTI shall provide the services of telecommunications integrator and procure supplies for the "Online KENO" operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all "Online KENO" terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly. As at December 31, 2016 and 2015, there are 1,960 and 1,770 "Online KENO" terminals in operation, respectively.



POSC's Consultancy Agreements, Scientific Games, Intralot, Management Agreement

a. Consultancy Agreements

POSC and its subsidiaries hired the services of several consultants for its gaming operations. Consultancy fees are based on a certain percentage of the gross amount of ticket sales of certain variants of lottery operations of PCSO.

b. Scientific Games

On February 15, 2005, POSC entered into a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of computer hardware and operating system software. Under the terms of the "Contract for the Supply of the Visayas-Mindanao Online Lottery System (CVMOLS)," Scientific Games provided 900 online lottery terminals and terminal software necessary for POSC's leasing operations. In consideration, POSC shall pay Scientific Games a pre-agreed percentage of its revenue from PCSO's conduct of online lottery games using the computer hardware and operating system provided by Scientific Games. The Contract shall continue as long as POSC's ELA with PCSO is in effect.

On October 2, 2012, POSC and Scientific Games amended the lottery terminals and terminals software agreement dated February 5, 2005 wherein Scientific Games provided POSC with a license extension for the terminal software for a period from April 1, 2013 until August 31, 2015, and for the supply of additional terminals for the 2012 Amended ELA.

On November 20, 2015, POSC and Scientific Games further amended the CVMOLS, extending the term of the contract from September 1, 2015 until July 31, 2018 and for Scientific Games to supply 1,500 brand new terminals to POSC. The amended contract also removed the provision for the Inactive Terminal Fee of US\$25.00 per terminal per month for any additional terminals not connected to the software provided by Scientific Games.

c. Intralot

- i) On March 13, 2006, POSC entered into a contract with Intralot, a company incorporated under the laws of Greece, for the supply of online lottery system necessary for the operation of a new online lottery system effective December 8, 2006. Under the terms of the CVMOLS, Intralot provided POSC the hardware, operating system software and terminals (collectively referred to as the "System") and the training required to operate the System. In consideration, POSC shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery games running on the System, including without limitation, the revenue from the ELA contract or a fixed amount of US\$110 per terminal per month, whichever is higher. The Contract shall continue as long as POSC's ELA with PCSO is in effect.

On July 10, 2006, Intralot entered into an agreement with Intralot Inc., a subsidiary domiciled in Atlanta, Georgia, wherein Intralot assigned to Intralot, Inc. the whole of its contract with POSC, including all its rights and obligations arising from it.

On August 16, 2012, POSC and Intralot further agreed to amend the supply agreement for the latter to supply reconditioned or refurbished lotto terminals to the former. These additional terminals are ordered to enable POSC to serve the requirements of PCSO in the 2012 Amended ELA. However, POSC has the option to order from Intralot brand new



lotto terminals at a higher price per unit. POSC paid Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's online lottery operations in Luzon or US\$110.00 per terminal whichever is higher.

On September 6, 2013, POSC and Intralot further agreed to amend the supply agreement for the latter to provide for additional terminals to enable POSC to expand its online lottery operations. Furthermore, effective April 1, 2013, POSC and Intralot agreed to lower the percentage of revenues paid by the former to the latter.

As at the date of the auditor's report, the amendment to the contract is still under negotiation between POSC and Intralot. In the meantime, the parties have provisionally agreed to use the old lease rate agreed upon on the amendment dated September 6, 2013.

- ii) TGTI has a contract with Intralot for the supply of online lottery system (lottery equipment) accounted for as a finance lease. TGTI is being charged a certain percentage of equipment rental from the revenue from PCSO. On July 15, 2008, the Lease Contract between TGTI and Intralot was modified such that instead of receiving monthly remuneration calculated on a percentage basis of the gross receipts of TGTI from ELA, Intralot now receive monthly remuneration calculated on a percentage basis of the Gross Receipts of PCSO from its "Online KENO" games. On March 22, 2011, the Lease Contract between TGTI and Intralot was further modified to reduce the percentage charged by Intralot to TGTI and that TGTI undertakes a letter of guarantee amounting to ₱20.0 million not later than March 28, 2011 in order for TGTI to secure the payment of Intralot's remuneration. The said guarantee bond is recognized under "Other noncurrent assets" account.

d. Management Agreement

POSC and its subsidiaries entered into a Management Agreement with AB Gaming and Leisure Exponent Specialist, Inc. ("Manager") for the latter to provide investment and management counsel and to act as manager and overseer of its operations. In consideration of the Manager's services, POSC shall pay a monthly fee of ₱0.1 million and an amount equivalent to ten percent (10%) of the annual earnings before interest, taxes, depreciation, and amortization (EBITDA).

Software and license fee recognized as part of "Cost of services" arising from scientific games contract and intralot contracts above amounted to ₱186.4 million ₱90.4 million and nil, in 2016, 2015 and 2014, respectively (see Note 24).

Consultancy and management fees recognized under "Consultancy fees" as part of "Cost of services" amounted to ₱122.8 million, ₱24.6 million and nil in 2016, 2015 and 2014, respectively (see Note 24). Consultancy fees recognized under "Professional, service and management fees" as part of "General and Administrative Expenses" amounted to ₱20.5 million (see Note 25).

34. Contingency

The Parent Company is a party to a civil case filed by Metroplex before the Court of Appeals (CA) to review the February 26, 2009 Order of the SEC denying the Metroplex petition to nullify the approval of the reduction of the capital stock of the Parent Company (see Note 33). The CA sustained the ruling of the SEC, thus Metroplex filed a petition for review with the Supreme Court. As at February 22, 2017, the Supreme Court has yet to resolve this petition.



However, as discussed in Note 1, the cancellation of the Swap Agreement was implemented following the Parent Company's filing to the SEC of a Notice of Withdrawal of the Memorandum of Appeal filed on June 20, 2013.

The management is still assessing the possible impact of the on-going litigation between Philippine Gaming Management Corporation (PGMC) and PCSO that, if resolved in favor of PGMC, would have the effect of cancelling the existing terminals currently operating in Luzon, as leased by POSC to PCSO.

On September 5, 2012, a Writ of Preliminary Injunction (Injunction) was issued by Branch 143 of the Regional Trial Court (RTC) of Makati. The Injunction orders PCSO to refrain from 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the Parent Company and PCSO 2) ordering or allowing the Parent Company, or any third party, to install or operate any equipment, computer or terminal relating to on-line lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. POSC has filed a case with the Supreme Court to nullify the Injunction.

On July 17, 2013, the Supreme Court decided on the case brought forth by POSC that it be consolidated with the case between PGMC and PCSO, thus making POSC a party to the case which is now pending before the Court of Appeals. Meanwhile, PGMC and PCSO have entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the POSC terminals already installed in Luzon are concerned. POSC Request for Arbitration was denied by the International Court of Arbitration, due to PCSO's opposition. An Urgent Motion to Resolve was filed by POSC with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include the POSC in the negotiations.

35. Events after the Reporting Period

On February 23, 2017, the Parent Company's BOD approved the declaration of cash dividends of ₱0.0281 per share amounting to approximately ₱888.0 million to shareholders of record as at March 10, 2017. Payments will be made on March 23, 2017.

36. Supplemental Disclosure of Cash Flow Information

The following are the noncash activities in 2015:

- a. Application of notes receivable principal amount of ₱1,000.0 million as partial payment of PLC on its purchase of POSC shares from Belle.
- b. Net assets acquired from step acquisition of POSC (see Note 18).

The Company has no significant noncash activity in 2016 and 2014.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Premium Leisure Corp.
5th Floor, Tower A
Two E-Com Center, Palm Coast Avenue
Mall of Asia Complex, CBP-1A, Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Premium Leisure Corp. (formerly Sinophil Corporation) and its subsidiaries (the Company) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated February 23, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-2 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5908672, January 3, 2017, Makati City

February 23, 2017



PREMIUM LEISURE CORP. AND SUBSIDIARIES
Index to the Consolidated Financial Statements and
Supplementary Schedules
December 31, 2016

| | |
|---------------|---|
| Schedule I: | Reconciliation of Retained Earnings Available for Dividend Declaration |
| Schedule II: | List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective December 31, 2016 |
| Schedule III. | Map of the Relationships of the Companies Within the Group |
| Schedule IV. | Financial Soundness Indicators |
| Schedule V. | Supplementary Schedules Required by Paragraph 6D, Part II Under SRC Rule 68, As Amended (2011) |

SCHEDULE I

PREMIUM LEISURE CORP.
Reconciliation of Retained Earnings
Available for Dividend Declaration
As at December 31, 2016

| | |
|--|----------------|
| Unappropriated retained earnings, as adjusted to available for dividend distribution, at December 31, 2015 | ₱684,834,793 |
| Net income during the year closed to retained earnings | 1,095,083,439 |
| Less: Dividend declarations during the year | 679,987,165 |
| Unappropriated retained earnings as at December 31, 2016 available for dividend declaration | ₱1,099,931,067 |

SCHEDULE II

PREMIUM LEISURE CORP. AND SUBSIDIARIES
List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2016

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|--|-------------------|--------------------|-----------------------|
| Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| PFRSs Practice Statement Management Commentary | | | | ✓ |
| Philippine Financial Reporting Standards | | | | |
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing Costs | | | ✓ |
| | Amendment to PFRS 1: Meaning of Effective PFRSs | | | ✓ |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendment to PFRS 2: Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions* | Not Early Adopted | | |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination | | | ✓ |
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|---|-------------------|-------------|----------------|
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4, Applying PFRS 9 with PFRS 4* | Not Early Adopted | | |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| | Amendments to PFRS 5: Changes in Methods of Disposals | ✓ | | |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Servicing Contracts | | | ✓ |
| | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | ✓ | | |
| PFRS 8 | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments* | Not Early Adopted | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | Not Early Adopted | | |
| | Amendments to PFRS 9: Hedge accounting and amendments to PFRS 9 and PAS 39 (2013 version)* | Not Early Adopted | | |
| | Amendments to PFRS 9 (2014 version)* | Not Early Adopted | | |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|---|-------------------|--------------------|-----------------------|
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception | | | ✓ |
| PFRS 11 | Joint Arrangements | | | ✓ |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendment to PFRS 12, Clarification of the Scope of the Standard* | Not Early Adopted | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendment to PFRS 13: Short-term Receivables and Payables | ✓ | | |
| | Amendment to PFRS 13: Portfolio Exception | ✓ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers* | Not Early Adopted | | |
| PFRS 16 | Leases* | Not Early Adopted | | |
| Philippine Accounting Standards | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the requirements for comparative information | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Statement of Cash Flows - Disclosure Initiatives* | Not Early Adopted | | |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Reporting Period | ✓ | | |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|---|-------------------|--------------------|-----------------------|
| PAS 11 | Construction Contracts | | | ✓ |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses* | Not Early Adopted | | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16: Classification of servicing equipment | | | ✓ |
| | Amendments to PAS 16 and PAS 38: Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation | | | ✓ |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16 and PAS 41: Bearer Plants | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| PAS 19 (Amended) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution | | | ✓ |
| | Amendments to PAS 19: Regional Market Issue Regarding Discount Rate | | | ✓ |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | | | ✓ |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 | Consolidated and Separate Financial Statements | ✓ | | |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|--|-------------------|-------------|----------------|
| PAS 27 (Amended) | Separate Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| PAS 28 | Investments in Associates | ✓ | | |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception | ✓ | | |
| | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value* | Not Early Adopted | | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 31 | Interests in Joint Ventures | | | ✓ |
| PAS 32 | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 32: Tax effect of distribution to holders of equity instruments | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| | Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities | ✓ | | |
| | Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report' | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | ✓ | | |
| | Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization | | | ✓ |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|--|-------------------|--------------------|-----------------------|
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| PAS 40 | Investment Property | ✓ | | |
| | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property | ✓ | | |
| | Amendments to PAS 40, Transfers of Investment Property* | Not Early Adopted | | |
| PAS 41 | Agriculture | | | ✓ |
| | Amendment to PAS 16 and PAS 41: Bearer Plants | | | ✓ |
| Philippine Interpretations | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |

SCHEDULE II

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|---|-------------------|--------------------|-----------------------|
| IFRIC 8 | Scope of PFRS 2 | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| IFRIC 10 | Interim Financial Reporting and Impairment | ✓ | | |
| IFRIC 11 | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement | ✓ | | |
| IFRIC 15 | Agreements for the Construction of Real Estate | Not Early Adopted | | |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| IFRIC 18 | Transfers of Assets from Customers | | | ✓ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| IFRIC 21 | Levies | ✓ | | |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration* | Not Early Adopted | | |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-12 | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC 12: Scope of SIC 12 | | | ✓ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| SIC-15 | Operating Leases - Incentives | | | ✓ |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |

SCHEDULE II

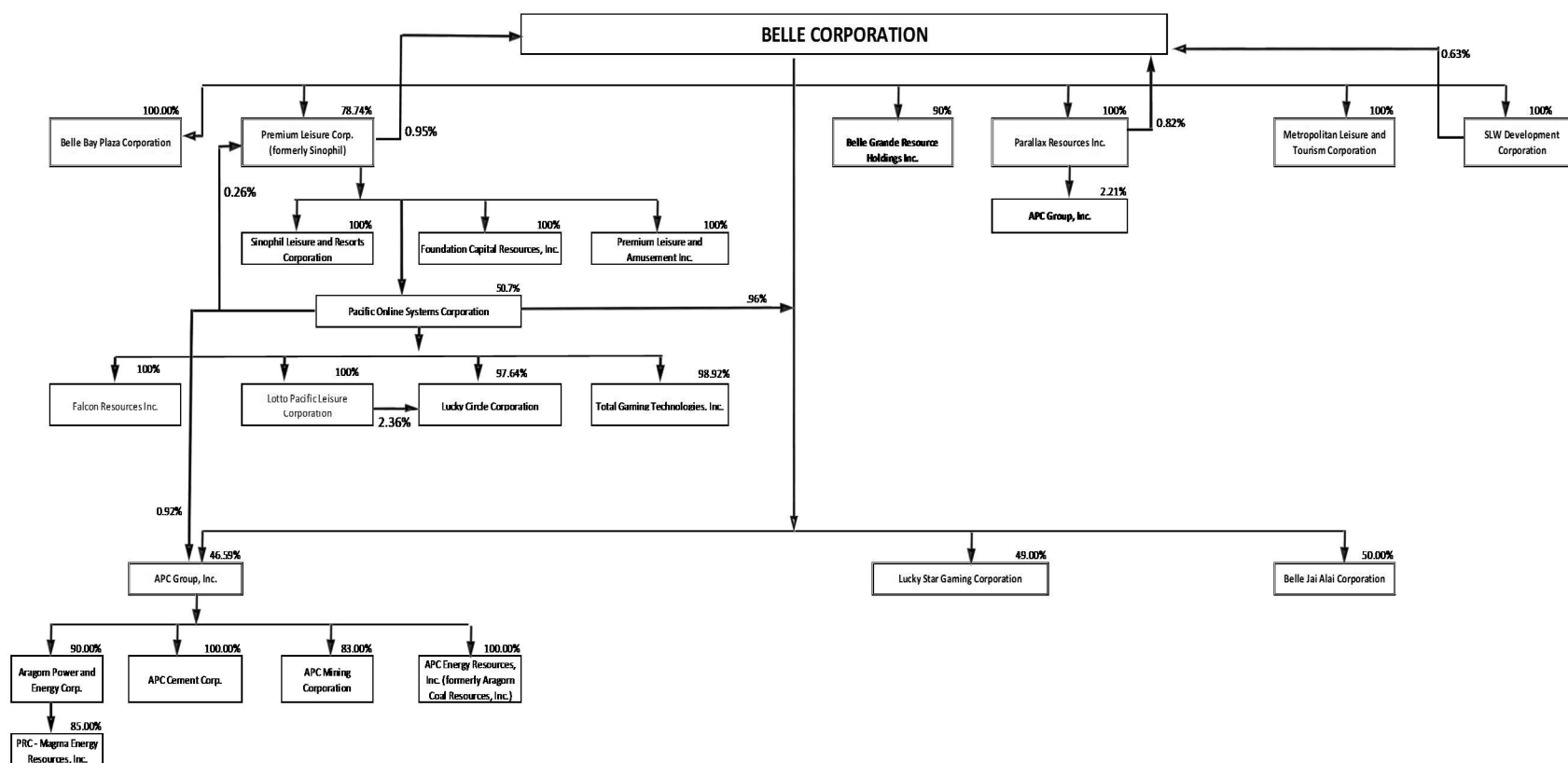
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Adopted | Not Applicable |
|---|--|----------------|--------------------|-----------------------|
| SIC-29 | Service Concession Arrangements: Disclosures | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| SIC-32 | Intangible Assets - Web Site Costs | | | ✓ |

** Standards and interpretations which will become effective subsequent to December 31, 2016.*

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2016.

SCHEDULE III

PREMIUM LEISURE CORP. AND SUBSIDIARIES Map of the Relationship of the Companies within the Group December 31, 2016



SCHEDULE IV

PREMIUM LEISURE CORP. AND SUBSIDIARIES
Financial Soundness Indicators
December 31, 2016

| Ratios | Formula | 2016 | 2015 |
|-------------------------------------|---|---------------|--------|
| Current Ratio | $\frac{\text{Current assets}}{\text{Current liabilities}}$ | 6.24 | 7.14 |
| Asset-to-Equity Ratio | $\frac{\text{Total assets}}{\text{Total stockholders' equity}}$ | 1.04 | 1.03 |
| Return on Asset | $\frac{\text{Net income}}{\text{Average total assets}}$ | 6.95% | 1.38% |
| Return on Equity | $\frac{\text{Net income}}{\text{Average total stockholders' equity}}$ | 7.22% | 1.41% |
| Debt-to-Equity Ratio | $\frac{\text{Total interest-bearing debt}}{\text{Total stockholders' equity}}$ | 0.01 | 0.01 |
| Interest Rate Coverage Ratio | $\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Interest expense}}$ | 149.22 | 200.02 |

SCHEDULE V

PREMIUM LEISURE CORP. AND SUBSIDIARIES
Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)
December 31, 2016

Schedule A. Financial Assets

| Name of issuing entity and description of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet | Value based on market quotations at balance sheet date | Interest received and accrued |
|---|---|---|--|-------------------------------------|
| Loans and receivables | | | | |
| Cash and cash equivalents | N/A | ₱1,811,503,962 | N/A | ₱14,308,823 |
| Notes receivable | N/A | 805,925,000 | N/A | 32,830,280 |
| Receivables | N/A | 731,760,498 | N/A | — |
| Deposits | N/A | 7,224,028 | N/A | — |
| Guarantee bonds | N/A | 35,000,000 | N/A | — |
| | | 3,391,413,488 | | 47,139,103 |
| Investments held for trading | | | | |
| APC Group, Inc. | 58,892,000 | 28,268,160 | 28,268,160 | — |
| Leisure & Resorts World Corp. | 6,588,792 | 26,091,616 | 26,091,616 | — |
| Vantage Equities, Inc. | 43,376,750 | 54,220,938 | 54,220,938 | — |
| PLDT | N/A | 159,500 | N/A | — |
| LRWC Preferred Shares | 50,000,000 | 52,000,000 | 52,000,000 | — |
| LRWC Warrants | 2,500,000 | 5,250,000 | 5,250,000 | — |
| | | 165,990,214 | | — |
| AFS Investments | | | | |
| Belle Corporation | 204,717,719 | 655,096,702 | 655,096,702 | — |
| Tagaytay Highlands Int'l Golf Club | 2 | 1,100,000 | 1,100,000 | — |
| Tagaytay Midlands Golf Club | 2 | 1,100,000 | 1,100,000 | — |
| Asian Petroleum | N/A | 11,100 | N/A | — |
| PLDT | N/A | 70,000 | N/A | — |
| | | 657,377,802 | | — |
| | | ₱4,214,781,504 | | ₱47,139,103 |

SCHEDULE V

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)

| Name and Designation of debtor | Balance of Beginning of Period | Additions | Amounts collected | Amounts Written off | Current | Not Current | Balance at end of period |
|------------------------------------|--------------------------------|-----------|-------------------|---------------------|------------|-------------|--------------------------|
| Advances to officers and employees | ₱7,647,312 | ₱— | (₱1,273,068) | ₱— | ₱6,374,244 | ₱— | ₱6,374,244 |

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

| Name and Designation of debtor | Balance of Beginning of Period | Additions | Amounts collected | Allowance for doubtful accounts | Current | Not Current | Balance at end of period |
|---|--------------------------------|------------|-------------------|---------------------------------|---------|-------------|--------------------------|
| Foundation Capital Resources, Inc. (Subsidiary) | ₱266,969,710 | ₱— | ₱— | (₱260,145,827) | ₱— | ₱6,823,883 | ₱6,823,883 |
| Sinophil Leisure and Resorts Corporation (Subsidiary) | 1,048,888 | 38,312 | (1,087,200) | — | — | — | — |
| PremiumLeisure and Amusement, Inc. (Subsidiary) | 250,065,730 | — | (250,065,730) | — | — | — | — |
| Premium Leisure Corp. (Parent) | 14,762,976 | 14,971,015 | — | — | — | 29,733,991 | 29,733,991 |

Schedule D. Intangible Assets - Other Assets

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other Charges additions (deductions) | Ending balance |
|-------------|-------------------|-------------------|------------------------------|---------------------------|--------------------------------------|----------------|
| License | ₱10,231,313,891 | ₱— | (₱324,769,436) | ₱— | ₱— | ₱9,906,544,455 |
| Goodwill | 1,828,577,952 | — | — | — | — | 1,828,577,952 |

Schedule E. Long Term Debt

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" in related balance sheet | Amount shown under caption "Long Term Debt" in related balance sheet |
|---------------------------------------|--------------------------------|---|--|
| Obligations under finance lease | ₱— | ₱47,698,388 | ₱71,644,208 |

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

| | Balance at beginning of period | Balance at end of period |
|------|--------------------------------|--------------------------|
| None | ₱— | ₱— |

SCHEDULE V

Schedule G. Guarantees of Securities of Other Issuers

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of Guarantee |
|---|--|--|--|------------------------|
| None | — | — | — | — |

Schedule H. Capital Stock

| Title of Issue | Number of Shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|-----------------|-----------------------------------|---|---|---|---|---------------|
| Common stock | 37,630,000,000 | 31,627,310,000 | — | 24,904,904,324 | 17,408,008 | 6,704,997,668 |
| Preferred stock | 6,000,000,000 | — | — | — | — | — |