PREMIUM
LEISURE CORP.

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 01 2019
MARKET REGULATION DEPT.
BY: ______ TIME: ______

**Notice of Annual Stockholders' Meeting**
**April 22, 2019 | 9:00 a.m.**
**SMX Convention Center**
**Seashell Lane, Mall of Asia Complex, Pasay City**

To all Stockholders:

The annual meeting of the stockholders of **PREMIUM LEISURE CORP.** will be held on **April 22, 2019** at **9:00 a.m.** at the **Function Room 1, SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City, 1300.**

The agenda for the meeting is as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on April 23, 2018
4. Approval of 2018 Operations and Results
5. Ratification of all Acts of the Board of Directors, Board Committees and the Management during their term of office
6. Election of Directors for 2019-2020
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

Each agenda item for approval is explained in the Definitive Information Sheet, with brief details and rationale in the attached Annex "A".

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange, Inc. on **March 21, 2019** as the record date for the determination of stockholders entitled to the notice of, to attend and to vote at said meeting or any adjournment thereof.

Registration for those who are personally attending the meeting will start at 8:00 a.m. and end promptly at 8:45 a.m. In case you cannot personally attend the meeting, you may accomplish the attached proxy form (which need not be notarized) and file the same to the office of the Corporate Secretary at the 33rd Floor The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City at least three (3) business days before the date of the meeting, or on or before **April 15, 2019.** Proxies submitted shall be validated on **April 16, 2019** at 10:00 a.m. at the 5th Floor, Tower A, Two E-Com Center, Palm Coast Avenue, Mall of Asia Complex, Pasay City.

For your convenience in registering your attendance, please bring a valid identification such as passport, driver's license, etc.

Pasig City, February 22, 2019

**ELMER B. SERRANO**
Corporate Secretary

**ANNEX “A”**

**Details and Rationale for Agenda Items for Approval**

**Agenda Item No. 3: Approval of Minutes of the Annual Stockholders’ Meeting held on April 23, 2018**

The Minutes of the Annual Stockholders’ Meeting held on April 23, 2018 were posted on the Company’s website: http://www.premiumleisurecorp.com/investor-relations/disclosures/other-reports within twenty-four hours from adjournment of the meeting. Copies of the Minutes of the annual stockholders’ meeting held on April 23, 2018 are available for inspection during office hours at the office of the Corporate Secretary and will also be made available during the ASM. The results of last year’s annual stockholders’ meeting were also timely disclosed to The Philippine Stock Exchange, Inc. and the Securities and Exchange Commission. The Minutes are subject to stockholders’ approval during this year’s stockholders’ meeting.

**Item 4: Approval of 2018 Operations and Results**

The Company’s 2018 performance results have been summarized in the Annual Report, which includes the Audited Financial Statements (AFS) of the Company for the year ended 31 December 2018. The AFS, as audited by the external auditor which expressed an unqualified opinion therefor, have been reviewed and approved by the Audit Committee and the Board of Directors. Stockholders will be given an opportunity to raise questions regarding the operations and report of the Company during the annual stockholders’ meeting.

**Item 5: Ratification of all Acts of the Board of Directors, Board Committees and the Management During Their Term of Office**

All actions, proceedings and contracts entered into, as well as resolutions made, including approvals of significant related party transactions of the Board of Directors, the Board Committees and the Management from the last annual stockholders’ meeting held on April 23, 2018 will be presented to the shareholders for their approval and ratification. The Company’s performance in 2018, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by management in conformance with good corporate governance and ethical best practices. The ratification of the acts undertaken by the Board of Directors, Board Committees, and Management is subject to stockholders’ approval during this year’s stockholders’ meeting.

**Item No. 6: Election of Directors for 2019-2020**

Incumbent Directors of the Company, including Independent Directors, have been pre-qualified by the Company’s Corporate Governance Committee for election as directors for 2019-2020. Their proven competence, expertise and qualifications based on current regulatory standards, will help sustain the Company’s solid performance for the benefit of all its shareholders. The profiles of the Board of Directors are contained in the Definitive Information Statement for reference of the stockholders and are likewise posted on the Company’s website. Directors for 2019-2020 will be elected during this year’s stockholders’ meeting.

**Item No. 7: Appointment of External Auditor**

Upon recommendation of the Audit Committee, the Board approved and endorses for stockholder approval the re-appointment of SyCip Gorres Velayo & Co. (SGV&Co.) as the Company’s external auditor for 2019. SGV&Co. is one of the top auditing firms in the country and is duly accredited with the SEC. The appointment of SGV&Co. as external auditor of the Company for 2019 is subject to stockholders’ approval during this year’s stockholders’ meeting.

**PROXY FORM**

The undersigned stockholder of **PREMIUM LEISURE CORP.** (the **Company**) hereby appoints ________________________________ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on **April 22, 2019** and at any of the adjournments thereof for the purpose of acting on the following matters:

| | |
|---|---|
| 1. Approval of minutes of previous meeting held on April 23, 2018.<br><br>____ Yes _____ No _____ Abstain<br><br>2. Approval of 2018 Operations and Results.<br><br>____ Yes _____ No _____ Abstain<br><br>3. Ratification of the acts of the Board of Directors and the management during their term of office.<br><br>____ Yes _____ No _____ Abstain<br><br>4. Election of Directors.<br>_______ Vote for all nominees listed below<br>___________ Willy N. Ocier<br>___________ Armin Antonio B. Raquel-Santos<br>___________ A. Bayani K. Tan<br>___________ Exequiel P. Villacorta, Jr.<br>___________ Joseph C. Tan (Independent)<br>___________ Juan Victor S. Tanjuatco (Independent)<br>___________ Roman Felipe S. Reyes (Independent)<br><br>____ Withhold authority for all nominees listed above<br><br>____ Withhold authority to vote for the nominees listed below:<br>_________________ _________________<br>_________________ _________________<br>_________________ _________________ | 5. Election of Sycip Gorres Velayo & Co. as external auditors.<br><br>____ Yes _____ No _____ Abstain<br><br>6. At their discretion, the proxies named above are authorized to vote upon such other matters properly come before the meeting.<br><br>____ Yes _____ No _____ Abstain |

________________________________
PRINTED NAME OF STOCKHOLDER

________________________________
SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

DATE:

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY AT LEAST THREE (3) BUSINESS DAYS BEFORE THE DATE SET FOR THE ANNUAL MEETING AS PROVIDED IN THE BY-LAWS.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED “FOR” THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

THIS PROXY FORM SHALL BE VALID FOR FIVE (5) YEARS FROM DATE HEREOF.

**SECRETARY'S CERTIFICATE**

I, __________________________________, Filipino, of legal age and with office address at ______________________________________________________, do hereby certify that:

1. I am the duly appointed Corporate Secretary of_________________________________________ (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at _________________________________________.

2. Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on ______________________, the following resolutions were passed and approved:

> "RESOLVED, That __________________________________, __________________ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of Premium Leisure Corp. (PLC) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in PLC and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.
>
> "RESOLVED, FINALLY, That PLC be furnished with a certified copy of this resolution and PLC may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

3. The foregoing resolutions have not been modified, amended or revoked in accordance with the records of the Corporation presently in my custody.

IN WITNESS WHEREOF, I have signed this instrument in ________________________________ on __________________________.

_____________________________
Printed Name and Signature of the
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on __________________ in _________________. Affiant exhibited to me his Competent Evidence of Identity by way of _____________________ issued on _______________ at ________________.

Doc. No. ______;
Page No. ______;
Book No. ______;
Series of _______.

| | |
| --- | --- |
| **WILLY N. OCIER** |  |
| **EXPERIENCE / EDUCATION** | Mr. Ocier, 62, is the Chairman of the Board and Director of Premium Leisure Corp., APC Group, Inc., PremiumLeisure and Amusement, Inc. and is concurrently one of the Vice Chairpersons of Belle Corporation, and the Vice Chairman of Tagaytay Highlands International Golf Club, Inc. He is the Chairman and President of Pacific Online Systems Corporation, Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge, Inc., and Vice Chairman of Highlands Prime, Inc. He also sits as Chairman and Chief Executive Officer of Philippine Global Communications, Inc., Chairman of Total Gaming and Technologies, Inc., and Director of Leisure and Resorts World Corporation, Vantage Equities, Philequity Management, Inc. Philequity Funds, AbaCore Capital Holdings, Inc. and Toyota Corporation Batangas.<br><br>He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics. |

| | |
| --- | --- |
| **ARMIN ANTONIO B. RAQUEL-SANTOS** |  |
| **EXPERIENCE / EDUCATION** | Mr. Raquel-Santos, 51, is concurrently a Director, the President and Chief Executive Officer of Premium Leisure Corp. and PremiumLeisure and Amusement Inc. and the Executive Vice President – Integrated Resorts of Belle Corporation. He is also a Director of Pacific Online Systems Corporation, Tagaytay Highlands International Golf Club, Inc. and member of the Board of Trustees of Melco Resorts (Philippines) Foundation Corporation. Formerly, he was Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II. His experience include stints with multinational companies such as Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York.<br><br>He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A. |

<table>
<tr><td colspan="2">ROMAN FELIPE S. REYES</td><td></td></tr>
<tr><td>EXPERIENCE / EDUCATION</td><td colspan="2">Mr. Reyes, 67, is the Lead Independent Director of Premium Leisure Corp. He is a Certified Public Accountant and is the Founding Partner and Chairman of Reyes Tacandong & Co. He serves as an Independent Director of Pakistan International Container Terminal Limited, Radio Philippines Network – RPN 9, Philippine Geothermal Production Company, Pampanga Sugar Development Company, All Asian Countertrade, Macawiwili Gold Mining and Development Co., Inc., FF Cruz & Co., and Rockwell Leisure Club.<br><br>He is also a current Trustee of San Beda University and the San Beda College Alumni Foundation, and is the Chairman of the Board of San Beda College Alabang and the Chairman of the Board of Governors of Nicanor Reyes Memorial Foundation. Mr. Reyes was formerly a member of the GSIS Board of Trustees and formerly Director of Bank of Commerce, National Reinsurance Corporation of the Philippines and PNCC. He was a Senior Partner and the Vice Chairman for Client Services and Accounts of SGV & Co. from 1984-2009, and the President of Knowledge Institute in 2009.<br><br>Mr. Reyes earned his Bachelor of Science degree in Commerce, major in Accounting, from San Beda College in 1972, and obtained his MBA degree in Finance from the University of Detroit in 1975.</td></tr>
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<tr><td colspan="2">A. BAYANI K. TAN</td><td></td></tr>
<tr><td>EXPERIENCE / EDUCATION</td><td colspan="2">Atty. A. Bayani K. Tan, 63, Filipino, is a Non-Executive Director of Premium Leisure Corp. and is also a Director of the following listed companies: Discovery World Corporation, I-Remit, Inc., TKC Metals Corporation. He is a Director, Corporate Secretary or both of the following companies: Belle Corporation, Pacific Online Systems Corporation, Vantage Equities, Inc., Coal Asia Holdings, Inc., Philequity Dividend Yield Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity PSE Index Fund, Inc., Tagaytay Highlands International Golf Club, Inc., Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., The Spa and Lodge at Tagaytay Highlands, Inc.<br><br>Atty. Tan is also a Director and the Corporate Secretary of Sterling Bank of Asia, Inc. He is the Managing Partner of the law offices of Tan Venturanza Valdez, and the Managing Director / President of Shamrock Development Corporation. He is a Director of Destiny LendFund, Inc., Pascual Laboratories, Inc. and Pure Energy Holdings Corporation. He is the President of Catarman Chamber Elementary School Foundation, Inc., Managing Trustee of SC Tan Foundation, Inc., Trustee and Treasurer of Rebisco Foundation, Inc. and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc.<br><br>Atty. Tan holds a Master of Laws degree from New York University and earned his Bachelor of Laws degree from the University of the Philippines where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.</td></tr>
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<tr><td colspan="2">JOSEPH C. TAN</td><td></td></tr>
<tr><td>EXPERIENCE / EDUCATION</td><td colspan="2">Atty. Joseph C. Tan, 61, is an Independent Director of Premium Leisure Corp. He is the Founding Partner of MOST Law Firm from September 2006 to present. Concurrently, he serves as an Independent Director to 2GO Group, Inc., Pacific Online Systems Corporation and LMG Chemicals Corporation. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He was a director of San Carlos Bioenergy Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011.<br><br>Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).</td></tr>
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<tr><td colspan="2">JUAN VICTOR S. TANJUATCO</td><td></td></tr>
<tr><td>EXPERIENCE / EDUCATION</td><td colspan="2">Mr. Tanjuatco, 71, is an Independent Director of Premium Leisure Corp., IP Ventures, Inc., and a Director of Ketmar Fast Food Corporation. Previously, he served in the same capacity on the board of Insular Savings Bank and Asiatrust Development Bank. A career banker, he was the former President of Export and Industry Bank and was assigned to various managerial and executive positions at Credit Agricole Indosuez in Manila, New Zealand and Hongkong, where, after 21 years, he retired as Deputy General Manager in Manila.<br><br>Mr. Tanjuatco holds a Bachelor of Arts Degree in Economics from the Ateneo de Manila University (cum laude) and a Masters in Business Administration, major in Finance, from the Wharton School, University of Pennsylvania.</td></tr>
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| EXEQUIEL P. VILLACORTA, JR. |  |
|---|---|
| **EXPERIENCE / EDUCATION** | Mr. Villacorta, 73, is a Non-Executive Director of Premium Leisure Corp. He is also an elected Director of BDO Leasing and Finance, Inc. Prior to this position, he was a Director of Equitable PCI Bank, EBC Insurance Brokerage, and Maxicare Healthcare Corporation. He was the former Chairman of EBC Strategic Holdings Corporation, EBC Investments (now BDO Strategic Holdings), Jardine Equitable Finance Corporation, Strategic Property Holdings, PCIB Properties, Equitable Data Center, and PCI Automation Center. He was a past President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of the Private Development Corporation of the Philippines. He was Senior Adviser and BSP Controller of Equitable PCI Bank and PBCom, and Adviser to the Board of PCI Capital Corporation.<br><br>Mr. Villacorta holds a Bachelor of Science degree in Business Administration from De La Salle University and a Master's degree in Business Management from the Asian Institute of Management. |

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 20-IS**

**Information Statement Pursuant to Section 20**
**of the Securities Regulation Code**

1. Check the appropriate box
   [*X*] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter: **PREMIUM LEISURE CORP.**

3. Province, country or other jurisdiction of incorporation or organization:
   **Philippines**

4. SEC Identification Number: **AS093-009289**

5. BIR Tax Identification Number: **003-457-827**

6. Address of principal office and Postal Code:
   **5th Floor, Tower A, Two E-Com Center, Palm Coast Avenue, Mall of Asia Complex, Pasay City**

7. Registrant's telephone number, including area code: **(632) 662-8888**

8. Date, time, and place of the meeting of security holders:

| | | |
|---|---|---|
| **Date** | **:** | **22 April 2019 (Monday)** |
| **Time** | **:** | **9:00 A.M.** |
| **Venue** | **:** | **Function Room 1, SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City** |

9. Approximate date on which the Information Statement is to be sent or given to security holders:
   **22 March 2019**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common Stock** | **31,598,931,000** (As of 28 February 2019) |

11. Are any or all of Registrant's securities listed on a Stock Exchange?

| | | |
|---|---|---|
| Common Shares | Yes [ X] | No [ ] |
| Preferred Shares | Yes [ ] | No [ X] |

If so disclose name of the Exchange: **The Philippine Stock Exchange, Inc.**

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

## GENERAL INFORMATION

**Item 1. Date, time and place of meeting of security holders**

| | | | |
|---|---|---|---|
| (a) | Date | - | **22 April 2019 (Monday)** |
| | Time | - | **9:00 A.M.** |
| | Place | - | **Function Room 1**, **SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City, Metro Manila** |

The approximate date on which the Information Statement will be sent or given to security holders is on **22 March 2019**.

(b) The complete mailing address of the principal office of Premium Leisure Corp. ("the Company") is:

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

**Item 2. Dissenters' Right of Appraisal**

The matters to be voted upon in the Annual Stockholders' Meeting on **April 22, 2019** are not among the instances enumerated in Section 42 and 81, Title X of the Corporation Code whereby the right of appraisal, defined to be the right of any stockholder to dissent and demand payment of the fair value of his shares, may be exercised. The instances where the right of appraisal may be exercised are as follows:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and
4. In case of merger or consolidation.

In case the right of appraisal will be exercised, Section 82 of the Corporation Code provides for the appropriate procedure, viz:

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares: Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, That no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

(a) No person who has been a director or officer or a nominee for election as director of the Company or associate of such persons, has a substantial interest, direct or indirect, in any matter to be acted upon other than the election of directors for the year 2019-2020.

(b) The Company is not aware of any director or security holder who intends to oppose any action to be taken by the Registrant during the stockholders' meeting.

## CONTROL AND COMPENSATION INFORMATION

**Item 4. Voting Securities and Principal Holders Thereof**

(a) As of **January 31, 2019**, the Registrant had 31,598,931,000 common shares outstanding and each share is entitled to one vote. As of **January 31, 2019**, out of the outstanding capital stock of the Corporation, **693,252,440** common shares or **2.19%** is owned by foreigners.

(b) The record date with respect to the determination of the stockholders entitled to notice of and vote at the Annual Stockholders' Meeting is **March 21, 2019.**

(c) With respect to the election of directors of seven (7) directors, each stockholder may vote such number of shares for as many as seven (7) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by seven (7) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by seven (7).

(d) Security ownership of certain record and beneficial owners and management.

a. Security Ownership of Certain Record and Beneficial Owners

The persons or groups identified in the table below are known to the Company as directly or indirectly the record or beneficial owners of more than five percent (5%) of the Company's voting securities as of **January 31, 2019**:

| Title of Class | Name and Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizen - ship | No. of Shares Held | Percent |
|---|---|---|---|---|---|
| Common | Belle Corporation (Belle) *<br><br>5/F Tower A, Two E-Com Center Palm Coast Ave., Mall of Asia Complex, CPB-1A Pasay City | Belle Corporation (affiliate and majority shareholder) | Filipino | 24,904,904,324 | 78.745 |
| Common | PCD Nominee Corp. (Filipino) **<br><br>G/F Makati Stock Exchange, 6767 Ayala Avenue, Makati City | *(please see footnote)* | Filipino | 5,737,465,915 | 18.157 |

*Belle Corporation is the parent company of Premium Leisure Corp. The shares held by Belle Corporation, being a corporate shareholder, shall be voted or disposed of, by the persons who shall be duly authorized by Belle for the purpose. The natural person/s that has/have the power to vote on the shares of Belle shall be determined upon the submission of its proxy form to the Company, which is not later than three (3) days before the date of the meeting.

**PCD Nominee Corporation ("PCDNC") is a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"). The beneficial owners of such shares registered under the name of PCDNC are PCD's participants who hold the shares in their own behalf or in behalf of their clients. The PCD is prohibited from voting these shares; instead the participants have the power to decide how the PCD shares in Premium Leisure Corp. are to be voted. As of December 31, 2018, the participants of PCD who owns more than 5% of the Company's outstanding capital are:

a. BDO Securities Corporation with 1,729,737,000 shares or 5.47% ownership
b. Banco De Oro - Trust Banking Group with 1,653,274,000 shares or 5.23% ownership

As of **January 31, 2019**, **693,252,440** common shares of the Company are owned by non-Filipinos, constituting **2.19**% of the Company's outstanding capital stock.

b. Security Ownership of Management

The following table shows the shares beneficially owned by the directors and officers of the Company as of January 31, 2019:

| Title of Class | Name of Beneficial Owner | Amount* and Nature of Beneficial Ownership | Citizenship | Percent |
|---|---|---|---|---|
| Common | Willy N. Ocier | 39,888,001 Direct | Filipino | 0.126% |
| Common | A. Bayani K. Tan | 2,000,002 Direct | Filipino | 0% |
| Common | Exequiel P. Villacorta, Jr. | 1 Direct<br>500,000 Indirect | Filipino | 0% |
| Common | Joseph C. Tan | 1 Direct | Filipino | 0% |
| Common | Juan Victor S. Tanjuatco | 1 Direct | Filipino | 0% |
| Common | Roman Felipe S. Reyes | 1 Direct | Filipino | 0% |
| Common | Armin B. Raquel-Santos | 1,000 Direct | Filipino | 0% |
| Common | Jackson T. Ongsip | 0 | Filipino | 0% |
| Common | Maria Neriza C. Banaria | 0 | Filipino | 0% |
| Common | Arthur A. Sy | 20,000 Direct | Filipino | 0% |
| Common | Elmer B. Serrano | 0 | Filipino | 0% |
| Common | Phil Ivan A. Chan | 0 | Filipino | 0% |

*Number of shares

(3) Voting Trust Holders of 5% or More

The Company is not aware of any party which holds any voting trust or any similar agreement for 5% or more of Premium Leisure Corp.'s voting securities.

**<u>Changes in Control</u>**

On June 2, 2014, the Company's Board of Directors approved to take on the gaming business and interests of the Belle Group. The transaction involved the sale to Belle of PLC's non-gaming assets (comprising primarily real properties and corporate club membership shares) and acquisition of all of Belle's interest in PremiumLeisure and Amusement, Inc. (PLAI) and 34.5% interest in Pacific Online Systems Corporation (POSC). The transfers of the said assets were completed on July 24, 2014. As part of the consideration for the transfer of assets, PLC undertook to increase its authorized capital stock, and out of such increase, Belle agreed to subscribe to new shares to increase its stake in the Company to 90% of the outstanding capital.

As a result of the transactions, the Company directly owns 100% of PLAI and 34.5% of POSC. Belle, together with other principal shareholders agreed to offer a certain number of shares for sale, and as a result of which, its shareholdings in PLC was reduced. As of December 31, 2015, Belle directly owns 78.745% (24,904,904,324 shares) of PLC.

On August 5, 2015, PLC acquired additional 47,851,315 shares of POSC, thereby increasing its ownership from 34.5% to 50.1%. This resulted to the line by line consolidation of POSC by PLC. As of December 31, 2016, PLC owns 50.1% of POSC's issued shares.

**<u>Item 5. Directors and Executive Officers</u>**

**Directors and Executive Officers**

The names and ages of all the incumbent Directors, elected on April 23, 2018 during the Annual Stockholders' Meeting and who are to serve for a term of one (1) year until their successor shall have been duly elected and qualified, and the Executive Officers are:

| Name | Citizenship | Age | Position | Period Served |
|---|---|---|---|---|
| Willy N. Ocier | Filipino | 62 | Chairman of the Board;<br>Executive Director | Jun 25, 1999 - present |
| Armin B. Raquel-Santos | Filipino | 51 | President and Chief Executive Officer;<br>Executive Director | Jul 18, 2014 – July 03, 2017 as EVP & COO<br>July 01, 2017 – present, as President & CEO |
| Roman Felipe S. Reyes | Filipino | 67 | Independent Director | Jul 18, 2014 – present |
| A. Bayani K. Tan | Filipino | 63 | Non-Executive Director | Jun 23, 1998 – present |
| Joseph C. Tan | Filipino | 61 | Independent Director | Jul 18, 2014 – present |
| Juan Victor S. Tanjuatco | Filipino | 71 | Independent Director | Jul 18, 2014 – present |
| Exequiel P. Villacorta, Jr. | Filipino | 73 | Non-Executive Director | Jul 18, 2014 – present |
| Jackson T. Ongsip | Filipino | 45 | Vice President for Finance and Chief Financial Officer | Apr 23, 2012 - present |
| Maria Neriza C. Banaria | Filipino | 36 | Assistant Vice President and Controller | Apr 25, 2016 - present |
| Elmer B. Serrano | Filipino | 51 | Corporate Secretary | Apr 27, 2015 - present |
| Arthur A. Sy | Filipino | 49 | Assistant Corporate Secretary | Jul 19, 2011 – present |
| Phil Ivan A. Chan | Filipino | 36 | Assistant Corporate Secretary | May 11, 2015 - present |

**BOARD OF DIRECTORS**

The following are brief descriptions of the business experiences over the past five (5) years of the incumbent members of the Board.

All of the incumbent members of the Board have been nominated for re-election by the Corporate Governance Committee.

**Willy N. Ocier**
Chairman, Executive Director
Date of first appointment – June 1999
Chairman, Executive Committee
Member, Compensation and Remuneration Committee

Mr. Ocier, 62, is the Chairman of the Board and Director of Premium Leisure Corp., APC Group, Inc., PremiumLeisure and Amusement, Inc. and is concurrently one of the Vice Chairpersons of Belle Corporation, and the Vice Chairman of Tagaytay Highlands International Golf Club, Inc. He is the Chairman and President of Pacific Online Systems Corporation, Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge, Inc., and Vice Chairman of Highlands Prime, Inc. He also sits as Chairman and Chief Executive Officer of Philippine Global Communications, Inc., Chairman of Total Gaming and Technologies, Inc., and Director of Leisure and Resorts World Corporation, Vantage Equities, Philequity Management, Inc. Philequity Funds, AbaCore Capital Holdings, Inc. and Toyota Corporation Batangas.

He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics.

**Armin B. Raquel-Santos**
Executive Director, President and Chief Executive Officer
Date of first appointment – July 2017
Chairman, Compensation and Remuneration Committee
Member, Executive Committee

Mr. Raquel-Santos, 51, is concurrently a Director, the President and Chief Executive Officer of Premium Leisure Corp. and PremiumLeisure and Amusement Inc. and the Executive Vice President – Integrated Resorts of Belle Corporation. He is also a Director of Pacific Online Systems Corporation, Tagaytay Highlands International Golf Club, Inc. and member of the Board of Trustees of Melco Resorts (Philippines) Foundation Corporation. Formerly, he was Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II. His experience include stints with multinational companies such as Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York.

He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A.

**Roman Felipe S. Reyes**
Independent Director
Date of first appointment – July 2014
Lead Independent Director
Chairman, Audit Committee
Member, Board Risk Oversight Committee
Member, Corporate Governance Committee
Member, Related Party Transactions Committee

Mr. Reyes, 67, is an Independent Director of Premium Leisure Corp. He is a Certified Public Accountant and is the Founding Partner and Chairman of Reyes Tacandong & Co. He serves as an Independent Director of Pakistan International Container Terminal Limited, Radio Philippines Network – RPN 9, Philippine Geothermal Production Company, Pampanga Sugar Development Company, All Asian Countertrade, Macawiwili Gold Mining and Development Co., Inc., FF Cruz & Co., and Rockwell Leisure Club.

He is also a current Trustee of San Beda University and the San Beda College Alumni Foundation, and is the Chairman of the Board of San Beda College Alabang and the Chairman of the Board of Governors of Nicanor Reyes Memorial Foundation. Mr. Reyes was formerly a member of the GSIS Board of Trustees and formerly Director of Bank of Commerce, National Reinsurance Corporation of the Philippines and PNCC. He was a Senior Partner and the Vice Chairman for Client Services and Accounts of SGV & Co. from 1984-2009, and the President of Knowledge Institute in 2009.

Mr. Reyes earned his Bachelor of Science degree in Commerce, major in Accounting, from San Beda College in 1972, and obtained his MBA degree in Finance from the University of Detroit in 1975.

**A. Bayani K. Tan**
Non- Executive Director
Date of first appointment – June 1998
Member, Executive Committee
Member, Compensation and Remuneration Committee
Member, Related Party Transactions Committee

Atty. A. Bayani K. Tan, 63, Filipino, is a Non-Executive Director of Premium Leisure Corp. and is also a Director of the following listed companies: Discovery World Corporation, I-Remit, Inc. and TKC Metals Corporation. He is a Director, Corporate Secretary or both of the following companies: Belle Corporation, Pacific Online Systems Corporation, Vantage Equities, Inc., Coal Asia Holdings, Inc., Philequity Dividend Yield Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Philequity Peso Bond Fund, Inc., Philequity PSE Index Fund, Inc., Tagaytay Highlands International Golf Club, Inc., Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., The Spa and Lodge at Tagaytay Highlands, Inc.

Atty. Tan is also a Director and the Corporate Secretary of Sterling Bank of Asia, Inc. He is the Managing Partner of the law offices of Tan Venturanza Valdez, and the Managing Director / President of Shamrock Development Corporation. He is a Director of Destiny LendFund, Inc., Pascual Laboratories, Inc. and Pure Energy Holdings Corporation. He is the President of Catarman Chamber Elementary School Foundation, Inc., Managing Trustee of SC Tan Foundation, Inc., Trustee and Treasurer of Rebisco Foundation, Inc. and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc.

Atty. Tan holds a Master of Laws degree from New York University and earned his Bachelor of Laws degree from the University of the Philippines where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from the San Beda College from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

**Joseph C. Tan**
Independent Director
Date of first appointment – July 2014
Chairman, Board Risk Oversight Committee
Member, Audit Committee
Member, Corporate Governance Committee

Atty. Joseph C. Tan, 61, is an Independent Director of Premium Leisure Corp. He is the Founding Partner of MOST Law Firm from September 2006 to present. Concurrently, he serves as an Independent Director to 2GO Group, Inc., Pacific Online Systems Corporation and LMG Chemicals Corporation. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He was a director of San Carlos Bioenergy Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011.

Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).

**Juan Victor S. Tanjuatco**
Independent Director
Date of first appointment – July 2014
Chairman, Corporate Governance Committee
Chairman, Related Party Transactions Committee
Member, Audit Committee
Member, Board Risk Oversight Committee

Mr. Tanjuatco, 71, is an Independent Director of Premium Leisure Corp., IP Ventures, Inc., and a Director of Ketmar Fast Food Corporation. Previously, he served in the same capacity on the board of Insular Savings Bank and Asiatrust Development Bank. A career banker, he was the former President of Export and Industry Bank and was assigned to various managerial and executive positions at Credit Agricole Indosuez in Manila, New Zealand and Hongkong, where, after 21 years, he retired as Deputy General Manager in Manila.

Mr. Tanjuatco holds a Bachelor of Arts Degree in Economics from the Ateneo de Manila University (cum laude) and a Masters in Business Administration, major in Finance, from the Wharton School, University of Pennsylvania.

**Exequiel P. Villacorta, Jr**
Non-Executive Director
Date of first appointment – July 2014
Member, Audit Committee
Member, Board Risk Oversight Committee

Mr. Villacorta, 73, is a Non-Executive Director of Premium Leisure Corp. and an elected Director of BDO Leasing and Finance, Inc. Prior to this position, he was a Director of Equitable PCI Bank, EBC Insurance Brokerage, and Maxicare Healthcare Corporation. He was the former Chairman of EBC Strategic Holdings

Corporation, EBC Investments (now BDO Strategic Holdings), Jardine Equitable Finance Corporation, Strategic Property Holdings, PCIB Properties, Equitable Data Center, and PCI Automation Center. He was a past President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of the Private Development Corporation of the Philippines. He was Senior Adviser and BSP Controller of Equitable PCI Bank and PBCom, and Adviser to the Board of PCI Capital Corporation.

Mr. Villacorta holds a Bachelor of Science degree in Business Administration from De La Salle University and a Master's degree in Business Management from the Asian Institute of Management.

***Independent Directors***

The nomination, pre-screening and election of independent directors were made in compliance with the requirements of the Code of Corporate Governance and the Securities and Exchange Commission's Guidelines on the Nomination and Election of Independent Directors which have been adopted and made part of the Corporation's By-Laws.

The Corporate Governance Committee constituted by the Company's Board of Directors, indorsed the nominations for re-election as independent directors given in favor of Messrs. Joseph C. Tan, Juan Victor S. Tanjuatco and Roman Felipe S. Reyes. The Corporate Governance Committee, composed of Juan Victor S. Tanjuatco (Chairman), Joseph C. Tan and Roman Felipe S. Reyes, has determined that these nominees for independent directors possess all the qualifications and have none of the disqualifications for independent directors as set forth in the Company's Manual on Corporate Governance and Rule 38 of the Implementing Rules of the Securities Regulation Code (SRC).

The nominees, whose required information are discussed above, are in no way related to the stockholders who nominated them and have signified their acceptance of the nominations. These nominees are expected to attend the scheduled Annual Stockholders' Meeting.

**Directorships in other reporting companies**

During the last five (5) years, the following directors are also directors of other reporting companies as listed below:

| Name of Director | Name of Listed Company | **Type of Directorship** (Executive, Non-Executive, Independent); Indicate if Director is also Chairman |
|---|---|---|
| Willy N. Ocier | AbaCore Capital Holdings, Inc.<br>APC Group, Inc.<br>Belle Corporation<br>Leisure & Resorts World Corp.<br>Pacific Online Systems Corporation<br>Vantage Equities, Inc. | Non-Executive<br>Non-Executive / Chairperson<br>Executive / Vice Chairperson<br>Non-Executive<br>Executive / Chairman<br>Non-Executive |
| Armin Antonio B. Raquel-Santos | Pacific Online Systems Corporation | Non-Executive |
| Roman Felipe S. Reyes | No directorship in other listed companies | n/a |
| A. Bayani K. Tan | Discovery World Corporation<br>I-Remit, Inc.<br>TKC Metals Corporation | Non-Executive<br>Non-Executive<br>Non-Executive |
| Joseph C. Tan | 2GO Group, Inc.<br>Pacific Online Systems Corporation<br>LMG Chemicals Corporation | Independent<br>Independent<br>Independent |
| Juan Victor S. Tanjuatco | No directorship in other listed companies | n/a |
| Exequiel P. Villacorta, Jr. | BDO Leasing and Finance, Inc. | Non-Executive |

***Other Executive Officers***

**Jackson T. Ongsip**

Mr. Ongsip, 45, is the Vice President for Finance and Chief Financial Officer of the Company. He is concurrently the Vice President for Portfolio Investments of SM Investments Corporation, the Executive Vice President and Chief Financial Officer of Belle Corporation and a Director, the President and Chief Executive Officer of APC Group, Inc. He is a Certified Public Accountant with an extensive audit and finance background accumulated from 5 years in external audit with SyCip, Gorres, Velayo & Co. (SGV) and 11 years with Globe Telecom. He graduated from the University of Santo Tomas with a Bachelor of Science in Accountancy.

**Carlo R. Climaco**

Mr. Climaco, 42, is the Assistant Vice President for Operations of Premium Leisure Corp. He has almost 10 years of experience in the Gaming Industry. He holds a Bachelor of Arts Degree in Humanities from Ateneo de Manila University and earned his Bachelor of Laws Degree from Philippine Law School.

**Maria Neriza C. Banaria**

Ms. Banaria, 36, is the Financial Controller and Assistant Vice President of Premium Leisure Corp. As a Certified Public Accountant, she has a strong background in accounting, audit and finance that have been accumulated through extensive experience and exposure to various industries. She holds a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines.

**Elmer B. Serrano**

Atty. Serrano, 51, is the Corporate Secretary of the Company. He is a Senior Partner of the law firm Martinez Vergara Gonzalez & Serrano and has been practicing law for over two decades specializing in Corporate Law, Mergers & Acquisitions, and Banking & Finance. Atty. Serrano was a senior officer of BDO Unibank, Inc. handling investment banking, corporate finance, and mergers & acquisitions until 2005. Mr. Serrano is a director of 2GO Group, Inc. and DFNN Inc., both listed with the Philippine Stock Exchange. He is Corporate Secretary of some of the largest and most respected public companies in the Philippines, including SM Investments Corporation, SM Prime Holdings, Inc., Crown Equities, Inc., as well as various subsidiaries of BDO Unibank. He is Corporate Secretary of, and counsel to, prominent banking industry associations and companies such as the Bankers Association of the Philippines, PDS Group of Companies and the Philippine Payments Management, Inc. He is a graduate of the Ateneo Law School and Trust Institute of the Philippines, a Certified Associate Treasury Professional, and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

**Arthur A. Sy**

Atty. Sy, 49, is the Assistant Corporate Secretary of Premium Leisure Corp. He is the Senior Vice President of Corporate Legal Affairs and Assistant Corporate Secretary at SM Investments Corporation, and is the Corporate Secretary of various major corporations within the SM Group of Companies. He is also the Corporate Secretary of National University. A member of the New York Bar, Mr. Sy holds a Bachelor of Arts degree in Philosophy from the University of Santo Tomas and a Juris Doctor degree from the Ateneo Law School.

**Phil Ivan A. Chan**

Atty. Chan, 36, is the Assistant Corporate Secretary of Premium Leisure Corp. He is a Senior Associate Lawyer at Martinez Vergara Gonzalez & Serrano. He also acts as the Assistant Corporate Secretary of listed company Crown Equities, Inc. Atty. Chan holds a degree of B.S. Legal Management from Ateneo de Manila University and a Juris Doctor degree from Ateneo Law School.

**Significant Employees**

There are no other significant employees.

**Family Relationships**

No director and/or executive officer of Premium Leisure Corp. are related up to the fourth degree by affinity or consanguinity.

**Involvement in Certain Legal Proceedings**

Except as here disclosed, the Company is not aware of any of the following events wherein any of its directors, executive officers, nominees for election as director, executive officers, underwriter or control persons were involved during the past five (5) years up to the latest date:

(1) Any bankruptcy petition filed by or against any business of which any of the above persons was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;

(2) Any conviction by final judgment, in a criminal proceeding, domestic or foreign;

(3) Any order or judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the above persons in any type of business, securities, commodities, or banking activities; and,

(4) Any findings by a domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, that any of the above persons has violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

The Company and its major subsidiaries and associates are not involved in, nor are any of their properties subject to, any material legal proceedings that could potentially affect their operations and financial capabilities.

**Certain Relationships and Related Transactions**

No director or executive officer or any member of their immediate family has, during the last two years, had a direct or indirect, material interest in a transaction or proposed transaction to which the Company was a party.

As summarized and disclosed in the corporation’s consolidated financial statements, in the ordinary course of business, the Company has transactions with related parties which consist mainly of extension of interest-bearing notes to, or availment of noninterest-bearing advances from, Belle Corporation. 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. Aside from these transactions, the Company has no other significant transactions that need to be disclosed.

The related party transactions are described in Note 28 (Related Party Transactions) of the Notes to the Consolidated Financial Statements.

**Disagreement with Director**

No director has resigned nor declined to stand for re-election to the Board of Directors since the date of the last annual meeting of stockholders because of a disagreement with the Company on any matter relating to the latter's operations, policies, or practices.

## Item 6. Compensation of Directors and Executive Officers

### Summary of Annual Compensation

| Name and Principal Position | Year | Salary/ Per Diem Allowance | Bonus | Other Annual Compensation | Total Annual Compensation |
|---|---|---|---|---|---|
| Willy N. Ocier, Chairman of the Board<br>Armin Raquel-Santos, President & CEO**<br>Jackson T. Ongsip, CFO<br>Carlo R. Climaco, AVP for Operations<br>Maria Neriza C. Banaria, Controller | | | | | |
| President and 4 most highly compensated executive officers | 2019*<br>2018<br>2017 | 10,114,555<br>10,114,555<br>11,709,011 | –<br>–<br>– | 580,409<br>580,409<br>757,040 | 10,694,964<br>10,694,964<br>12,466,050 |
| All other officers and directors as a Group (Unnamed) | 2019*<br>2018<br>2017 | 13,360,000<br>13,360,000<br>10,760,000 | –<br>–<br>– | –<br>–<br>– | 13,360,000<br>13,360,000<br>10,760,000 |

* Compensation based on estimates only

Other annual compensation pertains to leave conversion and other employee benefits. Except as provided above, there are no other officers of the Company receiving compensation.

### Compensation of Directors

For Board of Directors meetings, all independent directors are given a per diem of Php50,000.00 each per meeting, while other directors are given a per diem of Php20,000 each. For committee meetings, each director is given a per diem of Php10,000.00 per day regardless of the number of meetings during the same day.

### Employment Contracts and Termination of Employment and Change in Control Arrangements

There is no compensatory plan or arrangement with respect to named executive officers.

### Warrants and Options Outstanding

None.

## Item 7. Independent Public Accountants

a. The Company's external auditors for 2018-2019 is SyCip, Gorres, Velayo & Co. (SGV), with Ms. Belinda T. Beng Hui as the partner-in-charge.
b. Representatives of SGV are expected to be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.
c. There was no event in the past five (5) years where SGV and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.
d. In compliance with SRC Rule 68 3 (b) (iv), the assignment of SGV's engagement partner for the Company shall not exceed five (5) consecutive years.
e. The aggregate fees paid by the Company for professional services rendered by the external auditor for the audit of financial statements for the years ended December 31, 2018 and 2017 are as follows:

| | (₱000's omitted) |
|---|---|
| 2018 | ₱443.0 |
| 2017 | 410.0 |

f. There were no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements. The rotation of independent auditors and the two-year cooling off period has been observed in the audit of the Company’s financial statements.

g. The Audit Committee, composed of Roman Felipe S. Reyes (Chairman), Joseph Tan and Exequiel P. Villacorta, Jr., recommends to the Board of Directors the appointment of the external auditors. The Board of Directors and the stockholders approve the Audit Committee’s recommendation. The Executive Committee approves the audit fees as recommended by the Management.

**Item 8. Compensation Plans**

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## ISSUANCE AND EXCHANGE OF SECURITIES

**Item 9. Authorization or Issuance of Securities Other than for Exchange**

No action will be presented for shareholders’ approval at this year’s annual meeting which involves authorization or issuance of any securities.

**Item 10. Modification or Exchange of Securities**

No action will be presented for shareholders’ approval at this year’s annual meeting which involves the modification of any class of the Company’s securities, or the issuance of one class of Company’s securities in exchange for outstanding securities of another class.

**Item 11. Financial and Other Information**

The Audited Financial Statements of the Company and the Management Report, incorporating the Management’s Discussion & Analysis, is attached as **Annex “B”**.

Representatives of the external auditor, Sycip Gorres Velayo & Co., are expected to be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the shareholders. The Company has had no material disagreement with Sycip Gorres Velayo & Co. on any matter of accounting principle or practices or disclosures in the Company’s financial statements.

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

*Acquisition of POSC shares*

On August 5, 2015, the Company purchased additional 47,851,315 shares in POSC at ₱20.90 per share, for an aggregate amount of approximately ₱1.0 billion. The acquisition resulted in providing controlling interest to PLC over POSC at 50.1% ownership. The acquisition was accounted for using the pooling of interest method, and resulted in the consolidation of POSC in PLC books.

*Acquisition of Falcon Resources, Inc.*
On June 16, 2014, Total Gaming Technologies Inc., a subsidiary of Pacific Online, and the shareholders of Falcon Resources Inc. (FRI) entered into a Memorandum of Understanding (MOU) for the former's intention to acquire the latter's interest in FRI representing 100% ownership. As at December 11, 2014, the Deed of Sale for the transfer of shares of stock has been executed. FRI was incorporated primarily to engage in the business of trading or selling of goods on wholesale or retail basis, such as sweepstakes tickets, lottery tickets, instant game tickets, and other gaming tickets, including, but not limited to, those introduced by Philippine Charity Sweepstakes Office; as well as tickets of shows, concerts and other events. FRI is a company incorporated in the Philippines.

*Acquisition of Lucky Circle Corporation (LCC) Subsidiaries.*
On July 1, 2017, LCC, a subsidiary of Pacific Online, acquired 100% ownership interest in the following nine entities engaged in lotto/keno outlets and retail of scratchit tickets: Athena Ventures, Inc., Avery Integrated Hub, Inc., Circle 8 Gaming Ventures, Inc., Luckydeal Leisure, Inc., Luckyfortune Business Ventures, Inc., Luckypick Leisure Club Corp., Luckyventures Leisure Corp., Lucky Games Entertainment Ventures Inc. and Orbis Valley Corporation. The acquisition is assessed by the Company to be an acquisition of a business. The net assets recognized in the December 31, 2017 consolidated financial statements were based on provisional assessment of their fair values. The valuation was not completed as at February 23, 2018. Goodwill recognized as at December 31, 2017 amounted to ₱3.7 million.

## Item 13. Acquisition or Disposition of Property

No action will be presented for shareholders' approval at this year's annual meeting in respect of any acquisition or disposition of property of the Company.

## Item 14. Restatement of Accounts

No action will be presented for shareholders' approval at this year's annual meeting which involves the restatement of any of the Company's assets, capital or surplus account.

## OTHER MATTERS

**Item 15. Action with Respect to Reports**

There is no action to be taken with respect to any report of the Company or of its directors, officers or committees, except for the approval of the minutes of the previous annual meeting of the Company.

At the annual meeting, shareholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management for the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, the significant acts or transactions of which are covered by appropriate disclosures with the Securities and Exchange Commission and Philippine Stock Exchange, Inc. are as follows:

| Date | Subject |
|---|---|
| April 23, 2018 | Submission of the Results of the Annual Stockholders' and Organizational Board Meetings of PLC |
| February 22, 2019 | 1. Declaration of cash dividends in the amount of *Php0.05024* per share to be paid to all stockholders of record as of *March 8, 2019* and payable on *March 22, 2019*; and<br><br>2. Setting of Annual Stockholders' Meeting on *April 22, 2019 (9:00am)*, to be held at SMX Convention Center, Seashell Lane, Mall of Asia Complex, Pasay City, *with March 21, 2019* as the Record Date for shareholders entitled to notice of, and to vote at, the meeting. |

**Item 16. Matters Not Required to be Submitted**

No action is to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

**Item 17. Amendment of Articles of Incorporation / By-Laws**

Shareholders have the right to approve or disapprove any proposed amendments to the Articles of Incorporation of the Company. On the other hand, the Board of Directors have the power to amend the By-Laws pursuant to the authority delegated to it by the stockholders on December 20, 1993.

No action will be presented for shareholders' approval at this year's annual meeting with respect to the amendment of the Company's Articles of Incorporation.

**Item 18. Other Proposed Actions**

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

**Item 19. Voting Procedures**

(a) The amendment of the Articles of Incorporation requires the vote of two-thirds (2/3) of the Company's outstanding capital stock while other actions to be taken at the Annual Stockholders' Meeting (ASM) shall require the vote of the stockholders representing at least a majority of the Company's outstanding capital stock.

(b) Two inspectors, who shall be officers or employees of the Corporation, shall be appointed by the Board of Directors before or at each meeting of the stockholders, at which an election of directors shall take place; if no such appointment shall have been made or if the inspectors appointed by the Board of Directors refused to act or fail to attend then the appointment shall be made by the presiding officer of the meeting.

A third party will be appointed by the Company to validate the votes and its tabulation as necessary. For the ASM on April 22, 2019, the Company shall engage Alberto, Pascual and Associates (APA) to validate the votes and tabulate the same. APA is an auditing firm duly accredited with the Board of Accountancy.

(c) Stockholders may vote at all meetings either in person or by proxy duly given in writing in favor of any person of their confidence and each stockholder shall be entitled to one vote for each share of stock standing in his name in the books of the corporation; provided, however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner provided for by law.

(d) The Company's By-Laws does not prescribe a manner of voting. However, voting will be conducted by ballot if so requested by voting stockholders.

(e) With respect to the election of seven (7) directors, each stockholder may vote such number of shares for as many as seven (7) persons he may choose to be elected from the list of nominees, or he may cumulate said shares and give one candidate as many votes as the number of his shares multiplied by seven (7) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by seven (7).

(f) Upon confirmation by the inspectors that there is a mathematical impossibility for certain nominees to be elected into office based on proxies held and votes present/represented in the meeting, the actual casting and counting of votes for the election of Directors may be dispensed with.

## SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I hereby certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Pasay, Metro Manila on 22 February 2019.

A. Raquel Santos

**ARMIN ANTONIO B. RAQUEL SANTOS**
President and Chief Executive Officer

## MANAGEMENT REPORT

## PREMIUM LEISURE CORP.
## BUSINESS AND GENERAL INFORMATION

### Background

Premium Leisure Corp., formerly Sinophil Corporation ("PLC" or the "Company") was incorporated as Sinophil Exploration Co., Inc. on November 26, 1993. PLC was organized with oil and gas exploration and development as its primary purpose. The Company and other companies (Contractors), were participants in several Geophysical Survey and Exploration Contracts and Non-Exclusive Geophysical Permits entered into with the Philippine Government, through the Department of Energy, covering certain petroleum contract areas in various locations. It also had passive equity investments in Dragon Oil Plc (Dragon Oil) and Sinoil Asia Limited (Sinoil). In 1996, with investor interest in oil exploration and mining companies remaining generally soft, the Company's management recommended conversion of PLC from an oil exploration company to an investment holding company. In line with the Company's decision to change its primary purpose, the Company assigned its interests in Dragon Oil and Sinoil to Belle Corporation ("Belle") and/or its subsidiaries. To finance the Company's projects, acquisitions and investments in 1997, private placements of PLC's shares were made to several investors, both in the country and overseas.

On June 3, 1997, the Securities and Exchange Commission (SEC) approved the Company's application for a change in primary purposes from oil and gas exploration and development to being an investment holding company. As an investment holding firm, it shall engage in the acquisition (by purchase, exchange, assignment or otherwise), ownership and use for investment any and all properties and other assets of every kind and description.

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

a. To sell to Belle its non-gaming related assets consisting of the following:

- Membership shares in Tagaytay Midlands Golf Club, Inc.
- 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 Highlands Complex.
- Undeveloped land located in the City of Tanauan, Province of Batangas.

b. To acquire from Belle the following:

- 100% ownership interest in PremiumLeisure and Amusement, Inc. ("PLAI") for a consideration of ₱10,847.8 million; and
- 34.5% ownership interest in Pacific Online Systems Corporation ("POSC") for a consideration of ₱1,525.0 million.

c. 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 ₱1,000.0 million.

On July 24, 2014, the transfer of the above assets were completed.

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 Board of Directors 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.

**Material acquisitions of investments**

The Company has invested in various companies as follows:

1. 100% Equity Investment in Premium Leisure and Amusement, Inc. ("PLAI")

PLAI is a co-grantee together with Belle Corporation and other SM consortium members (under CA/License Reg. No. 08-003) by the Philippine Amusement and Gaming Corporation ("PAGCOR") of a Certificate of Affiliation and Provisional License (the "Provisional License") to operate an integrated casino resort, complex in the approved site located in the vicinity of the Bagong Nayong Pilipino Manila Bay Entertainment City ("PAGCOR Entertainment City"), which site was originally referred to as "Belle Grande". On April 29, 2015, PAGCOR granted the Regular Gaming License ("License") to the consortium. This regular casino license has the same terms and conditions of the Provisional License, as applicable, and runs concurrent with PAGCOR's Congressional Franchise, which expires in 2033, and renewable for another 25 years, by the Philippine Congress. PLAI was the special purpose entity authorized by PAGCOR to perform the casino operations for the consortium.

On October 25, 2012, Belle Corp., together with PLAI, and SM Investments Corporation (Philippine Parties), formally entered into a Cooperation Agreement with Melco Resorts and Entertainment (Philippines) Corporation ("MRP Parties"), which took effect on March 13, 2013, the date on which the conditions to closing under the Closing Agreement were fulfilled, or waived. Under the Cooperation Agreement, the Philippine Parties agreed to include the MRP Parties as co-licensees for which PAGCOR issued an Amended Certificate of Affiliation and Provisional License dated January 2013. The Cooperation Agreement further specified the respective roles of the Philippine Parties and the MRP Parties in the casino resort project.

Under the Cooperation Agreement, the Philippine Parties, through Belle Corporation, would provide the land and building structures for the casino complex. The land and building structures are leased to the MRP Parties who will in turn provide the fit outs and operate the entire casino complex.

Likewise under the Cooperation Agreement, the new special purpose entity to perform the casino operations was agreed to be MRP. In consideration, MRP Parties agreed to pay the Philippine Parties, through PLAI, certain amounts based on gaming revenues as follows:

***Fees payable to PLAI***

PLAI will be entitled to receive from MRP agreed-upon monthly payments consisting of the following:

a) the higher of (i) one-half of the Project's Mass Market gaming EBITDA (after deductions comprising 2% management allowance, Mass Market operating expenses and an agreed deductible of 7% of Mass Market Gaming EBITDA) **(PLAI MASS EBITDA)** or (ii) 15% of the Project's net Mass Market gross gaming revenues (after deduction of amounts for PAGCOR non-VIP license fees) **(PLAI MASS Net Win)**, whichever is higher; and

b) the higher of (i) one-half of the Project's VIP gaming EBITDA (after deductions comprising 2% management allowance, VIP operating expenses and an agreed deductible of 7% of VIP gaming EBITDA) (**PLAI VIP EBITDA**) or (ii) 2% of the Project's net VIP gross gaming revenues (after deduction of amounts for PAGCOR VIP license fees, VIP commissions and incentives, as well as VIP bad debt expenses) (**PLAI VIP Net Win**), whichever is higher (the **PLAI VIP Monthly Payment**).

In addition, at the end of each fiscal period of 24 months, a calculation is made to determine the difference between (i) the higher of PLAI VIP EBITDA and 5.0% of the Project's PLAI VIP NET WIN, and (ii) the cumulative PLAI VIP Monthly Payments made for the fiscal period. If (i) is higher, the difference is paid to PLAI as an additional payment for the following period. If (ii) is higher, the difference is deducted from the first VIP payment for the following fiscal period. Meanwhile, MRP will retain all revenues from the non-gaming operations of the Project.

City of Dreams Manila integrated resort opened to the public in December 2014, and had its grand opening on February 2015. The resort complex is located on a land area of around 6.2 hectares in the gateway of the Entertainment City. It is composed of hotel, retail and dining areas with an allotment of around 380 mass and VIP gaming tables, 2,260 slot machines and 1,130 electronic gaming tables. As of December 31, 2018, City of Dreams Manila boasts of 302 gaming tables, 1,891 slot machines and 234 electronic gaming tables in operation. With approximately 22,507 square meters of gaming gross floor area and around 20,000 square meters of retail and restaurant facilities and various entertainment options, City of Dreams Manila is one of the main players in the Philippine gaming industry. Total gross floor area of the entire complex is at 310,565 square meters.

The City of Dreams Manila features top hotel brands with approximately 950 hotel rooms from 6 towers within its vicinity. Nuwa has approximately 260 luxurious rooms, while Hyatt, managed by Hyatt International Corporation, holds 365 rooms. Asia’s first Nobu Hotel, meanwhile, owns 321 rooms.

City of Dreams Manila also showcases three entertainment areas, including DreamPlay by DreamWorks, a one-of-a-kind entertainment for the whole family, Centerplay, the central lounge in the casino that features live performances and its night club, Chaos.

*Melco Resorts & Entertainment Limited (“Melco”) is a developer, owner and operator of casino gaming and entertainment casino resort facilities in Asia.*

*In Manila, the City of Dreams Manila opened its doors to the public in December 2014 and marked the formal entry of Melco into the fast-growing and dynamic tourism industry in the Philippines. The integrated casino resort at Entertainment City, Manila Bay, Manila, is operated and managed by its Philippine subsidiary, MRP.*

2. Controlling Interest in Pacific Online Systems Corporation (“LOTO’)

Pacific Online Systems Corporation, with PSE ticker symbol LOTO was incorporated in 1993. A systems integrator of gaming solutions, it is primarily engaged in the development, design and management of online computer systems, terminals and software for the gaming industry, with the Philippine Charity Sweepstakes Office (PCSO) as its main customer. It has been consistently profitable since its fiscal year 2002.

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 ₱1,525,034,310. On August 5, 2015, PLC acquired additional 47,851,315 shares of Pacific Online Systems Corp. (“POSC”), thereby obtaining an overall ownership of 50.1% of POSC. The purchase resulted in combining PLC’s and POSC’s financial statements on a line-by-line basis. Based on management’s judgment, PLC’s investment gives PLC controlling interest over POSC as evidenced by more than 50% voting interest.

As of December 31, 2018, PLC has 50.1% ownership in POSC issued shares, with a total of 224,280,403 shares.

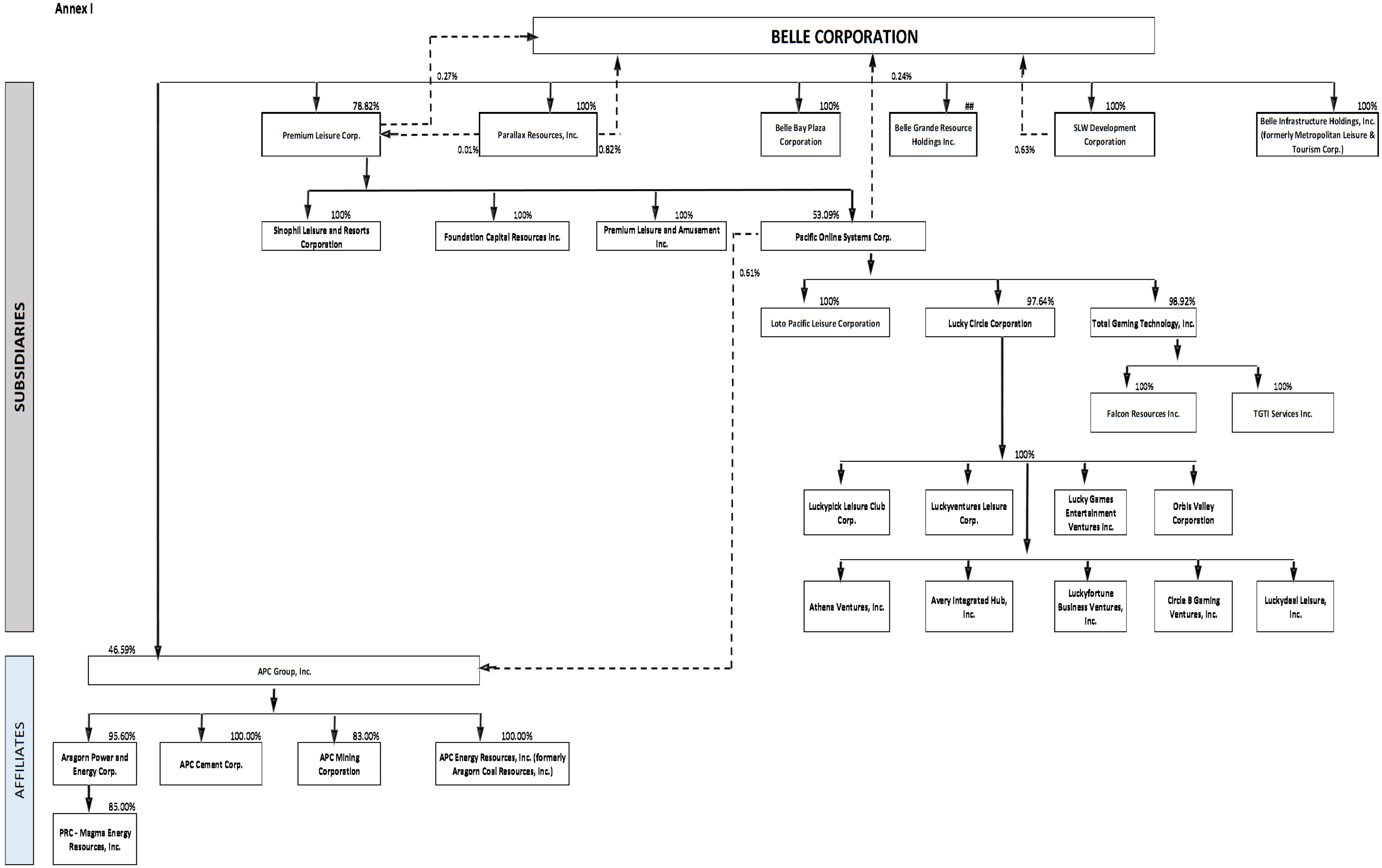
3. Acquisition of Falcon Resources, Inc.

On June 16, 2014, Total Gaming Technologies Inc., a subsidiary of Pacific Online, and the shareholders of Falcon Resources Inc. (FRI) entered into a Memorandum of Understanding (MOU) for the former’s intention to acquire the latter’s interest in FRI representing 100% ownership. As at December 11, 2014, the Deed of Sale for the transfer of shares of stock has been executed. FRI is a company engaged in consultancy services for TGTI and a sub-distributor for POSC. FRI is a company incorporated in the Philippines.

4. Acquisition of Lucky Circle Corporation (LCC) Subsidiaries.

On July 1, 2017, LCC, a subsidiary of Pacific Online, acquired 100% ownership interest in the following nine entities engaged in lotto/keno outlets and retail of scratchit tickets: Athena Ventures, Inc., Avery Integrated Hub, Inc., Circle 8 Gaming Ventures, Inc., Luckydeal Leisure, Inc., Luckyfortune Business Ventures, Inc., Luckypick Leisure Club Corp., Luckyventures Leisure Corp., Lucky Games Entertainment Ventures Inc. and Orbis Valley Corporation. The acquisition is assessed by the Company to be an acquisition of a business. The net assets recognized in the December 31, 2017 consolidated financial statements were based on provisional assessment of their fair values. The valuation was not completed as at February 23, 2018. Goodwill recognized as at December 31, 2017 amounted to ₱3.7 million.

**Belle Corporation**
**Conglomerate Map**
**As of December 31, 2018**
**Annex I**



**Revenues**

The following are the major revenue and income items in 2018 and 2017:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Year ended December 31 (Php)** | **Amount** | **% to total** | **Amount** | **% to total** |
| Gaming revenue share | 3,211,856,964 | 62% | 2,609,352,639 | 53% |
| Equipment lease rentals | 1,448,317,610 | 28% | 1,840,520,991 | 37% |
| Commission, distribution and instant scratch tickets | 487,626,385 | 9% | 479,472,385 | 10% |
| **Total** | **5,147,800,959** | 100% | **4,929,346,015** | 100% |

**Products**

PLC's investments in companies engaged in gaming and gaming-related activities are indicated below. In the Philippines, the gaming industry is relatively untapped by the private sector, creating opportunities for experienced leisure operators. PLC's gaming businesses are undertaken mainly by the following:

1. PremiumLeisure & Amusement Inc. ("PLAI") is a grantee by PAGCOR of Certificate of Affiliations and Provisional License to operate integrated resorts, including casinos, in the vicinity of PAGCOR Entertainment City. The License runs concurrent with PAGCOR's Congressional Franchise, which expires in 2033, renewable for another 25 years, by the Philippine Congress.

2. Pacific Online Systems Corporation ("POSC"), leases on-line betting equipment to the PCSO for their lottery operations in the Visayas and Mindanao regions for lotto and nationwide for KENO. PLC owns a controlling interest of 50.1% of issued shares of Pacific Online, which is a publicly-listed company.

**Competition**

*Gaming business:* City of Dreams Manila is competing against casinos operated by PAGCOR and the other licensees that are already operating – Resorts World Manila of Travellers International Hotel Group, Inc. ("Travellers"), Solaire Resort and Casino of Bloomberry Resorts Corporation, and Okada Manila, which commenced casino operations on December 30, 2016. Travellers has also broken ground on its planned Resorts World Bayshore project in PAGCOR City, with the opening thereof reportedly estimated to be in 2019.

*Lottery equipment leasing, distribution and retail business:* POSC, PLC's subsidiary, expects that the aggressive push for small town lottery (STL) and the prevalence of illegal gambling particularly in interior towns and remote areas will provide competition to its online lotto revenues. However, management believes that POSC has limited competition with its online KENO games that appeal to a different market segment.

**Employees**

The Company is a holding company whose business is not manpower intensive; hence, its transactions are extremely manageable through temporary secondment of personnel from its affiliates on an as-needed basis. This arrangement is also resorted to in keeping with austerity measures adopted due to present economic conditions. These personnel seconded to the Company are not subject to Collective Bargaining Agreements.

**Risks**

Economic and Political Conditions

The Company's business is mainly the acquisition of investments in gaming, which are generally influenced by Philippine political and economic conditions. Events and conditions that may have a negative impact on the Philippine economy as a whole may also adversely affect the Company's ability to acquire various investments.

POSC experienced some opposition from the Local Government Unit (LGU) officials in certain VISMIN areas during its introductory phase. Future opposition from government officials in certain areas is difficult to predict. Any opposition may hinder or slowdown the opening of other untapped areas in VISMIN for lotto and keno outlets. Any incidence of, or a perception of political resistance may adversely affect POSC's business and financial growth.

In order to mitigate the risk above, management keeps abreast of any potential condition that may adversely affect its operations, and, with the leadership of the Company's board of directors, considers available options and applicable steps to take to minimize risks.

Changes to the Philippine Laws and Regulations

Although laws and regulations are enacted for the common benefit, changes to these laws and regulations may create negative effects to the operating and financial condition of PLC, including its subsidiaries and affiliates.

In order to mitigate the risks mentioned above, the Company continues to exercise fiscal prudence and adopt what it considers conservative financial and operational controls.

Competition Risk

As the Entertainment City grows and accommodates more players, the increase in competition also poses a risk to the Company especially as it obtains gaming share revenue, through PLAI, from City of Dreams Manila, whose operations may be affected by the increase of players in the market. Aside from the Entertainment City, new developments are also expected in other parts of Metro Manila as well as in other cities like Cebu.

In spite of the increase in competition, the increase in number of players in the gaming industry is expected to improve the Philippines' ability to attract more foreign players to the Entertainment City, making the gaming industry in the country more robust. The Company monitors the Company's performance and the performance of its competitors. The Company also endeavors to always be up-to-date on market trends.

Risks relating to the Equipment Lease Agreement (ELA) of POSC with PCSO

POSC's ELA with PCSO ended by July 31, 2018, however, PCSO is still unable to hold its bidding process for an online lottery provider as of January 2019 after it was aborted in July 2017 via a TRO from Philippine Gaming Management Corporation (PGMC). This means that the Company will have to continue operating under the current ELA terms beyond July 2018 for at least another year, when PCSO is able to hold its bidding, award the new ELA contract and undertake a lottery system transition prior to turnover to the new service provider. Should the PCSO bidding for online lottery system be held, the Company is ready to join said bidding.

While the Company relied on lotto revenues in the past, it is expected that presence of other gaming-related business will support the Company's earnings stream.

Risk relating to the Company and its subsidiaries

a. Dependence on Suppliers
   POSC's lottery operations is anchored on a two-system network. The Company has existing contracts, each distinct and entered into separately, with two global leaders in the lottery industry, namely Scientific Games and Intralot, for the supply of computer supported lottery gaming systems. In the event that the contracts, whether collectively or individually, are terminated or suspended, operations and business of the Company may be impaired.

b. Business Interruption Risk
   The operations of POSC and its subsidiaries are dependent on the reliability of its central computer system and the communications infrastructure needed to run it. Any breakdown or failure in the system provided by its suppliers, failure in the communication infrastructure may negatively affect the Company's financial performance. However, this risk of business interruption is unlikely to happen due to the redundancy offered by the two suppliers. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe. The Company also contracted VSAT to provide connectivity to sites where Smart and Globe are not available.

Data Privacy

PLC may be at risk for breach of data privacy as detailed information is gathered from customers and prospective buyers, suppliers, contractors and other business partners. This risk is mitigated through company-wide orientation on the Data Privacy Act, the topics of which include legal bases and implementing rules and regulations, rights of the individuals owning the information, exercising breach reporting procedures and other advisories.

Information Technology

With the current business environment, Information Technology risks are ever increasing. These cover unauthorized access to confidential data, loss or release of critical information, corruption of data, regulatory violations, and possible increase in costs and inefficiencies.

In order to address these risks, PLC, thru Belle Corporation and SM Investments Corp., has a co-location arrangement with redundant capability and automatic fail-over set-up for disaster recovery. It also continues to implement enterprise security solutions to manage external and internal threats. Annual review of technology roadmap to ensure the alignment between the business and information technology is performed.

Enterprise Risk Management Committee

The Company has an Enterprise Risk Management Committee (ERMC) which is an oversight committee created to act as the monitoring body for the individual risk management activities of the Corporation. The ERMC has the responsibility of developing a formal framework to assist the Company in managing its risks and is mandated to report regularly to the Board Risk Oversight Committee on any risk concerns.

**Properties**

The Company has real estate property recorded as noncurrent asset held for sale. This pertains to an undeveloped land in the City of Tanauan, Province of Batangas, amounting to ₱285.5 million. These properties are not subject to mortgage, lien and encumbrances.

POSC's online lottery operations are conducted mainly in Cebu, where its central system data center and logistics center are located. It also has set up 6 logistics hubs in 6 major VisMin cities to ensure efficient service delivery to the PCSO lottery agents. The Company Head Office is located in Pasig City.

POSC has no real properties owned and there are no plans to acquire them in the next twelve (12) months. POSC leases all of its data center, logistics centers and hubs, and business offices. These properties are not mortgaged nor are there any liens and encumbrances that limit ownership or usage of the same.

The leased properties for business offices, data center, logistics facilities, and retail outlets reached about 8,081 sqm by year end 2017. About 67% of these properties are located in Luzon, and 33% in VisMin. Majority of the properties in Luzon are found in Metro Manila while those in VisMin are in Cebu. The logistics centers' area are about 3,518 sqm in total, with 1,460 sqm in Cebu and 2,058 sqm in Metro Manila. Lease terms for certain office spaces are for a period of one to seven years. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates ranging from 3% to 10%.

POSC's major assets are lottery equipment under finance lease, which consists mainly of lottery terminals, data center equipment, software and operating systems.

**Legal Proceedings**

1. "TMA Group of Companies, et al. vs. Philippine Charity Sweepstakes Office (PCSO), et al."
   RTC 66, Makati City- Civil Case No. 11-310/569 [321-106]

This is a complaint for specific performance and damages filed by TMA Australia Pty. Ltd. and its local subsidiary, TMA Group Philippines, Inc. (TMAP), against PCSO as regards their contract for the supply of lotto paper. The complainants subsequently amended their complaint to include Pacific Online Systems Corporation (Pacific Online) and Philippine Gaming Management Corporation (PGMC) as defendants. They prayed for a temporary restraining order and/or writ of preliminary injunction to enjoin all defendants from doing anything in violation or derogation of the contractual terms of the Joint Venture Agreement (JVA) dated December 4, 2009 for the supply of lotto paper. No damages were prayed for against Pacific Online.

On June 22, 2017, a Notice of Dismissal dated June 15, 2017 was received from TMAP praying for the dismissal of the Supplemental Complaint against Pacific Online pursuant to Section 1 of Rule 17. No objection was interposed to and/or comment on the Notice of Dismissal. Thus, in an Order dated June 28, 2017, the court dismissed the case against Pacific Online.

2. “TMA Australia Pty. Ltd. And TMA Group Philippines, Inc. v. Pacific Online.”
   RTC 66, Pasig City-Civil Case No. R-PSG-17-02130 [321-108]

This refers to a case for Tortious Interference and payment of Damages filed by TMA Australia Pty. Ltd. and TMAP against Pacific Online in August 2017. They alleged that Pacific Online wrongfully interfered with the implementation of the Contractual Joint Venture Agreement (CJVA) between the TMA Group and PCSO when it entered into several lease agreements with the latter that included a supply of paper provision. They also applied for a writ of preliminary injunction (WPI) against Pacific Online and prayed for damages in the amount of at least One Million Pesos (P1,000,000.00). On August 30, 2017, an Opposition against the issuance of an injunction on the ground that TMAP failed to establish its clear and unmistakable right under the CJVA.

On September 6, 2017, the presentation of evidence regarding the injunction was concluded. But to date, no order was yet received from the court denying or granting the TMAP’s application for injunctive writ. On September 13, 2017, a Motion to Dismiss the principal case of Tortious Interference was filed by Pacific Online on grounds of lack of subject matter jurisdiction, failure to state a cause of action, forum shopping and failure to implead an indispensable party. As of December 31, 2017, no order was yet received from the court denying or granting Pacific Online’s Motion to Dismiss.

3. “Philippine Charity Sweepstakes Office, et al. v. Hon. Rommel C. Baybay et al.”
   CA GR SP No. 128259 [321-105].

This case arose when Judge Rommel Baybay of RTC-Makati, Br. 143, in Civil Case 12-530, granted PGMC’s application for injunction enjoining Pacific Online from leasing its equipment for PCSO’s online lottery operations in Luzon. 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 Pacific Online and PCSO, 2) ordering or allowing the Pacific Online, or any third party, to install or operate any equipment, computer or terminal relating to online lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. Pacific Online filed a case with the Supreme Court to nullify the Injunction. PCSO also filed a case with the Court of Appeals likewise questioning the Injunction. On July 17, 2013, the Supreme Court decided that the case brought by Pacific Online be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making the Pacific Online a party to the case before the Court of Appeals.

Meanwhile, PGMC and PCSO entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the terminals already installed in Luzon by Pacific Online are concerned. In the same Interim Settlement, PGMC and PCSO also agreed to submit to arbitration before the International Court of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO’s opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations. This matter was not resolved by the Court of Appeals.

On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC of Makati, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to said agreement, PCSO withdrew its Petition for Certiorari in the Court of Appeals, which was granted by virtue of the Resolution dated March 1, 2016. PCSO also prayed for the dismissal of the RTC case, but this was denied by the RTC Makati after PGMC opposed PCSO's motion to dismiss.

In the meantime, the Court of Appeals required the parties to file their respective Memoranda in the case. On September 13, 2017, Pacific Online filed its Memorandum. PCSO opted not to file its own Memorandum, but manifested instead that it was adopting the Memorandum of Pacific Online. The case is now submitted for the resolution of the Court of Appeals. As of December 31, 2017, the Management is still waiting for the resolution.

The Management is not expecting any substantial impact from the on-going litigation between Philippine Gaming Management Corporation (PGMC) and PCSO. Pacific Online's lotto operations in Luzon have only been contributing about 6% the Company's online lottery revenues for the year. Thus, on the assumption that the case will be resolved in favor of PGMC which will have the effect of cancelling the existing terminals currently operating in Luzon, Pacific Online will be experiencing a slight reduction in its total revenues. It should be noted, however, that the contractual arrangement with PCSO will expire by the end of July 2018.

Aside from the foregoing, and to the best of the Company's knowledge, neither the Company nor any of its subsidiaries or affiliates is a party to, nor are they involved in, any litigation that will materially affect its interests.

**Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the calendar year covered by this report.

## OPERATIONAL AND FINANCIAL INFORMATION

**Market for Registrant's Common Equity and Related Stockholder Matters**

**MARKET INFORMATION**

The principal market where the registrant's common equity is traded is the Philippine Stock Exchange (PSE). The high and low sales prices for each quarter within the last two fiscal years of the registrant's common shares, as quoted on the PSE, are as follows:

**STOCK PRICES**

| **2018** | **High** | **Low** |
|---|---|---|
| First Quarter | 1.34 | 1.08 |
| Second Quarter | 1.20 | 0.85 |
| Third Quarter | 0.98 | 0.84 |
| Fourth Quarter | 0.89 | 0.62 |

| **2017** | **High** | **Low** |
|---|---|---|
| First Quarter | 1.60 | 1.16 |
| Second Quarter | 1.66 | 1.47 |
| Third Quarter | 1.70 | 1.53 |
| Fourth Quarter | 1.64 | 1.26 |

As of February 26, 2019, Premium Leisure Corp. market capitalization on 31,598,931,000 outstanding shares in the PSE amounted to ₱31,914,920,310.00 based on the closing price of ₱1.01 per share.

## SECURITY HOLDERS

The number of shareholders of record as of January 31, 2019 was 364. Common shares outstanding as of January 31, 2019 were 31,598,931,000. The top twenty (20) shareholders as of January 31, 2019 are as follows:

| Name | Citizenship | No. of Shares | % to Outstanding |
|---|---|---|---|
| BELLE CORPORATION | FILIPINO | 24,904,904,324 | 78.816% |
| PCD NOMINEE CORP. (FILIPINO) | FILIPINO | 5,737,465,915 | 18.157% |
| PCD NOMINEE CORPORATION (NON-FILIPINO) | OTHERS | 675,036,320 | 2.136% |
| SYSMART CORPORATION | FILIPINO | 128,270,000 | 0.406% |
| SYNTRIX HOLDINGS, INC. | FILIPINO | 74,040,000 | 0.234% |
| WILLY NG OCIER AND/OR GERALDINE ESCOLAR YU OCIER | FILIPINO | 22,000,000 | 0.070% |
| WILLY NG OCIER | FILIPINO | 16,888,000 | 0.053% |
| PARKORAM DEVELOPMENT LIMITED | OTHERS | 14,264,119 | 0.045% |
| OSCAR S. CU ITF ANTHONY CU | FILIPINO | 10,430,000 | 0.033% |
| OSCAR S. CU | FILIPINO | 9,070,000 | 0.029% |
| PARALLAX RESOURCES, INC. | FILIPINO | 4,570,300 | 0.014% |
| WASHINGTON Z. SYCIP | AMERICAN | 1,597,000 | 0.005% |
| ALEXANDER AUSTRIA &/OR DOMINICA AUSTRIA | FILIPINO | 1,520,000 | 0.005% |
| AUGUSTO LITONJUA &/OR LUIS SALVADOR | FILIPINO | 1,520,000 | 0.005% |
| CAI CHANG CHU | CHINESE | 1,400,000 | 0.004% |
| LEONCIO TAN TIU | FILIPINO | 1,300,000 | 0.004% |
| ELIZABETH CHENG | FILIPINO | 1,100,000 | 0.003% |
| WILLIAM T. GABALDON | FILIPINO | 1,000,000 | 0.003% |
| MARY ANGELI F. BASILIO | FILIPINO | 900,000 | 0.003% |
| OSCAR S. CU | FILIPINO | 850,000 | 0.003% |

## DIVIDENDS

The Company’s Board of Directors approved on February 22, 2019 the declaration of cash dividends of ₱0.05024 per share for a total cash dividend payment to its common shareholders of approximately ₱1,588.8 million payable on March 22, 2019 to shareholders of record as of March 8, 2019.

In 2018, the Company declared and paid cash dividends of ₱0.04391 per share for a total cash dividend payment to its common shareholders of approximately ₱1,388.8 million. This was paid on March 23, 2018 to shareholders of record as of March 9, 2018.

In 2017, the Company declared and paid cash dividends of ₱0.0281 per share for a total cash dividend payment to its common shareholders of approximately ₱888 million.  This was paid on March 23, 2017 to shareholders of record as of March 10, 2017.

In 2016, the Company declared and paid cash dividends of ₱0.0215 per share for a total cash dividend payment to its common shareholders of approximately ₱680 million. This was paid on March 23, 2016 to shareholders of record as of March 10, 2016.

In 2015, the Company declared and paid cash dividends of ₱0.022 per share for a total cash dividend payment to its common shareholders of approximately ₱700 million. This was paid on April 17, 2015 to shareholders of record as of March 20, 2015.

There is no legal restriction that limits or would likely limit the Company’s ability to pay dividends, aside from its retained earnings available for such.

## DIVIDEND POLICY

The Board of Directors adopted, as a matter of policy, that the Corporation shall declare dividends of at least 80% of the prior year’s unrestricted retained earnings, taking into consideration the availability of cash, restrictions that may be imposed by current and prospective financial covenants, projected levels of cash, operating results of its businesses/subsidiaries, working capital needs and long term capital expenditures of its businesses/subsidiaries, and regulatory requirements on dividend payments, among others.

Dividends shall be paid to all shareholders on record within thirty (30) days from date of declaration.

## RECENT SALES OF UNREGISTERED SECURITIES

The Company did not sell or issue securities within the past three (3) years that were not registered under the Securities Regulation Code.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**OF OPERATING PERFORMANCE AND FINANCIAL CONDITION**

**Analysis of Results of Operations and Financial Condition – 2018 compared to 2017**

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Increase (Decrease) | | 2017 | 2016 |
| **REVENUE** | | | Amount | % | | |
| Gaming revenue share | **3,211,856,964** | **2,609,352,639** | 602,504,325 | 23% | 62% | 53% |
| Equipment lease rentals | **1,448,317,610** | **1,840,520,991** | (392,203,381) | -21% | 28% | 37% |
| Commission and distribution income | **487,626,385** | **479,472,385** | 8,154,000 | 2% | 9% | 10% |
| | **5,147,800,959** | **4,929,346,015** | 218,454,944 | 4% | 100% | 100% |
| **COST AND EXPENSES** | | | | | | |
| Cost of services | **1,297,488,594** | **1,539,038,409** | (241,549,815) | -16% | 25% | 31% |
| General and administrative expenses | **1,421,896,610** | **1,018,683,377** | 403,213,233 | 40% | 28% | 21% |
| Amortization of intangible asset | **238,472,484** | **238,472,484** | - | 0% | 5% | 5% |
| | **2,957,857,688** | **2,796,194,270** | 161,663,418 | 6% | 57% | 57% |
| **OTHER INCOME (EXPENSES)** | | | | | | |
| Interest income | **157,453,311** | **75,918,013** | 81,535,298 | 107% | 3% | 2% |
| Dividend income | **24,952,521** | **20,927,342** | 4,025,179 | 19% | 0% | 0% |
| Finance charges | **(6,187,352)** | **(10,859,855)** | 4,672,503 | -43% | 0% | 0% |
| Other expense - net | **124,496,089** | **19,006,861** | 105,489,228 | 555% | 2% | 0% |
| | **300,714,569** | **104,992,361** | 195,722,208 | 186% | 6% | 2% |
| **INCOME BEFORE INCOME TAX** | **2,490,657,840** | **2,238,144,106** | 252,513,734 | 11% | 48% | 45% |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | | | |
| Current | **133,572,412** | **235,892,039** | (102,319,627) | -43% | 3% | 5% |
| Deferred | **47,432,314** | **(413,893)** | 47,846,207 | -11560% | 1% | 0% |
| | **181,004,726** | **235,478,146** | (54,473,420) | -23% | 4% | 5% |
| **NET INCOME** | **2,309,653,114** | **2,002,665,960** | 306,987,154 | 15% | 45% | 41% |
| **Net Income Attributable to:** | | | | | | |
| Equity holders of the parent | **2,157,768,639** | **1,756,459,152** | 401,309,487 | 23% | 42% | 36% |
| Non-controlling interests | **151,884,475** | **246,206,808** | (94,322,333) | -38% | 3% | 5% |
| | **2,309,653,114** | **2,002,665,960** | 306,987,154 | 15% | 45% | 41% |

Premium Leisure Corp. recognized consolidated net income of Php2.3 billion for full-year 2018, which is higher by 15% (or Php307.0 million) compared with the 2017 reported net income of Php2.0 billion. Operating EBITDA (proxy for cash flow) for the year is at Php2.7 billion, 2% more than its reported EBITDA of Php2.6 billion in 2017.

The Company's consistent profitability enabled PLC to declare a regular cash dividend of Php0.05024 per share on February 22, 2019, for a total dividend payment of approximately Php1,588.8 million, payable on March 22, 2019 to shareholders of record as of March 8, 2019. This cash dividend is 14% higher than the dividends declared and paid in 2018.

2018 gaming share revenues increased considerably by 23%, from Php2.6 billion to Php3.2 billion. This increase was brought about by the growth in the gaming segments of City of Dreams Manila, especially driven by the strong mass market. This increase was reduced in part by the decrease in revenue from equipment lease rentals by 21% (Php392 million) in 2018 due the decrease in lotto and KENO ticket sales volume immediately after the effectivity of the Tax Reform for Acceleration and Inclusion (TRAIN) law which drove the increase in ticket prices because of the documentary stamp tax and at the same time lowered the prize payout due to the tax on winnings.

Costs and expenses increased by Php161.7 million or 6% in 2018. Other income, on the other hand, increased by 186% or Php195.7 million to Php300.7 million in 2018 due to higher passive income earned by the Company.

**Consolidated Statements of Comprehensive Income**

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2018 | 2017 |
| | 2018 | 2017 | Amount | % | | |
| **NET INCOME** | **2,309,653,114** | 2,002,665,960 | 306,987,154 | 15% | 45% | 41% |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | | | | |
| Mark-to-market gains (losses) on available-for-sale financial assets | - | 132,500,049 | (132,500,049) | -100% | 0% | 3% |
| Realized loss transferred to profit or loss | - | 31,647,929 | (31,647,929) | 100% | 0% | 1% |
| Marked-to-market losses on financial assets at fair value through OCI | **(261,173,629)** | - | (261,173,629) | 100% | -5% | 0% |
| Remeasurement gain (loss) on net retirement benefits - net of tax | **12,297,225** | 1,248,964 | 11,048,261 | 885% | 0% | 0% |
| | **(248,876,404)** | 165,396,942 | (414,273,346) | -250% | -5% | 3% |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **2,060,776,710** | 2,168,062,902 | (107,286,192) | -5% | 40% | 44% |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | |
| Equity holders of the parent | **1,954,907,883** | 1,873,300,753 | 81,607,130 | 4% | 38% | 38% |
| Non-controlling interests | **105,868,827** | 294,762,149 | (188,893,322) | -64% | 2% | 6% |
| | **2,060,776,710** | 2,168,062,902 | (107,286,192) | -5% | 40% | 44% |

PLC recognized comprehensive income of Php2.1 billion for 2018 versus Php2.2 billion in 2017. This is mainly due to unrealized marked-to-market losses on financial assets of the Company versus gains in the previous year.

Aside from what has been mentioned in the foregoing, there were no significant elements that arose from continuing operations, nor were there any seasonal events that had a material effect on the results of operations of PLC in 2018.

## Consolidated Statements of Financial Position

| | December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2018 | 2017 |
| | 2018 | 2017 | Amount | % | | |
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | **2,314,012,081** | 2,962,635,687 | (648,623,606) | -22% | 12% | 16% |
| Investments held for trading | **155,704,892** | 178,482,842 | (22,777,950) | -13% | 1% | 1% |
| Receivables | **350,735,545** | 700,656,306 | (349,920,761) | -50% | 2% | 4% |
| Notes receivable | **3,705,925,000** | 1,605,925,000 | 2,100,000,000 | 131% | 19% | 9% |
| Contract assets | **37,892,531** | - | 37,892,531 | 100% | 0% | 0% |
| Other current assets | **319,087,307** | 205,657,568 | 113,429,739 | 55% | 2% | 1% |
| | **6,883,357,356** | 5,653,357,403 | 1,229,999,953 | 22% | 36% | 30% |
| Noncurrent asset held for sale | **-** | 285,510,452 | (285,510,452) | -100% | 0% | 2% |
| Total Current Assets | **6,883,357,356** | 5,938,867,855 | 944,489,501 | 16% | 36% | 32% |
| **Noncurrent Assets** | | | | | | |
| Intangible asset | **9,429,599,487** | 9,668,071,971 | (238,472,484) | -2% | 49% | 52% |
| Available-for-sale financial assets | **-** | 648,597,890 | (648,597,890) | -100% | 0% | 3% |
| Financial assets at fair value through OCI | **387,744,261** | - | 387,744,261 | 100% | 2% | 0% |
| Property and equipment | **259,903,572** | 438,063,955 | (178,160,383) | -41% | 1% | 2% |
| Investment property | **285,510,452** | - | 285,510,452 | 100% | 1% | 0% |
| Goodwill | **1,721,326,738** | 1,832,260,734 | (110,933,996) | -6% | 9% | 10% |
| Deferred tax assets | **8,864,126** | 15,439,685 | (6,575,559) | -43% | 0% | 0% |
| Retirement asset | **7,855,553** | 13,413,273 | (5,557,720) | -41% | 0% | 0% |
| Contract assets - net of current portion | **130,123,123** | - | 130,123,123 | 100% | 1% | 0% |
| Other noncurrent assets | **75,504,420** | 79,307,906 | (3,803,486) | -5% | 0% | 0% |
| Total Noncurrent Assets | **12,306,431,732** | 12,695,155,414 | (388,723,682) | -3% | 64% | 68% |
| **TOTAL ASSETS** | **19,189,789,088** | 18,634,023,269 | 555,765,819 | 3% | 100% | 100% |
| **LIABILITIES AND EQUITY** | | | | | | |
| **Current Liabilities** | | | | | | |
| Trade payables and other current liabilities | **1,535,792,345** | 1,440,759,097 | 95,033,248 | 7% | 8% | 8% |
| Current portion of obligations under finance lease | **19,379,463** | 39,488,510 | (20,109,047) | -51% | 0% | 0% |
| Income tax payable | **9,415,467** | 29,434,444 | (20,018,977) | -68% | 0% | 0% |
| Total Current Liabilities | **1,564,587,275** | 1,512,362,879 | 52,224,396 | 3% | 8% | 8% |
| **Noncurrent Liabilities** | | | | | | |
| Deferred tax liability | **46,161,265** | - | 46,161,265 | 100% | 0% | 0% |
| Obligation under finance lease | **15,995,011** | 35,374,474 | (19,379,463) | -55% | 0% | 0% |
| Retirement liability | **6,981,493** | 17,479,083 | (10,497,590) | -60% | 0% | 0% |
| Installment payable | **-** | 2,762,995 | (2,762,995) | 100% | 0% | 0% |
| Total Noncurrent Liabilities | **69,137,769** | 55,616,552 | 13,521,217 | 24% | 0% | 0% |
| Total Liabilities | **1,633,725,044** | 1,567,979,431 | 65,745,613 | 4% | 9% | 8% |
| **Equity Attr to the Equity Holders of the Parent** | | | | | | |
| Capital stock | **7,906,827,500** | 7,906,827,500 | - | 0% | 41% | 42% |
| Additional paid-in capital | **7,238,721,924** | 7,238,721,924 | - | 0% | 38% | 39% |
| Treasury shares | **(29,430,080)** | - | (29,430,080) | 100% | 0% | 0% |
| Cost of parent company shares held by a subsidiary | **(509,597,055)** | (475,427,035) | (34,170,020) | 7% | -3% | -3% |
| Other reserves | **(736,930,415)** | 40,848,816 | (777,779,231) | -1904% | -4% | 0% |
| Retained earnings | **2,967,544,418** | 1,604,112,304 | 1,363,432,114 | 85% | 15% | 9% |
| Total Equity Attr to Equity Holders of the Parent | **16,837,136,292** | 16,315,083,509 | 522,052,783 | 3% | 88% | 88% |
| **Non-controlling Interests** | **718,927,752** | 750,960,329 | (32,032,577) | -4% | 4% | 4% |
| Total Equity | **17,556,064,044** | 17,066,043,838 | 490,020,206 | 3% | 91% | 92% |
| **TOTAL LIABILITIES AND EQUITY** | **19,189,789,088** | 18,634,023,269 | 555,765,819 | 3% | 100% | 100% |

As of December 31, 2018, PLC’s total assets amounted to Php19,2 billion, higher by Php555.8 million, or 3% versus total assets as at December 31, 2017. Key movements in balance sheet items are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash in bank and short-term investments or cash equivalents of the Company.

Cash and cash equivalents decreased by 22% (Php648.6 million) to Php2,314 million in 2018. This decrease pertains to the increase in notes receivable for the Company and the payment of higher cash dividends for the year, offset in part by the collections of higher gaming share revenue and higher interest income for the year.

Investments held for trading

Investments held for trading decreased by 13% mainly due to disposals of investments for the year as well as mark-to-market gains and losses due to changes in share prices.

Receivables

Receivables includes trade receivables from PCSO for POSC's equipment rentals and receivables from Melco for City of Dreams Manila's gaming share revenue as well as operational advances to customers, suppliers and employees. The Company recorded net decrease of 50% or Php350.0 million in receivables.

Notes Receivable

Notes receivable includes interest-bearing short-term notes due on demand.

Intangible Asset

The Company's intangible asset pertains to the PAGCOR gaming license obtained by PLC through its subsidiary, PremiumLeisure and Amusement, Inc. (PLAI). On April 1, 2016, the Company implemented a change in accounting estimate extending of the life of the intangible asset to concur with the term of PAGCOR's Congressional Franchise which is renewable for another twenty-five (25) years upon its expiration in 2033.

The decrease in the intangible asset account is brought about by the amortization of the intangible asset.

Property and equipment

Property and equipment (PPE) of the Company pertains to online lottery equipment, leasehold improvements, office and transportation equipment. There is an overall decrease of Php178.2 million in the account compared to balances at December 31, 2017 due to the recognized depreciation and disposals for the year that was tempered by additions in PPE for the period.

Goodwill

Goodwill pertains mostly to the goodwill recognized upon acquisition of controlling interest in POSC through the pooling method in 2015. It also includes goodwill from POSC's acquisition of FRI and LCC subsidiaries. The decrease in the account pertains to the provision for impairment of goodwill from FRI worth Php110.9 million in 2018.

Total Liabilities

Total liabilities increased by Php65.7 million or 4% as at December 31, 2018 from total liabilities of Php1,568 million as at December 31, 2017. The increase is due mostly to the increase in trade and other payables as well as increase in deferred tax liability for the year.

Equity

Stockholders' equity increased by Php522.1 million as of December 31, 2018 from Php16,315.1 million as of December 31, 2017. The increase was due mainly to the increase in retained earnings from the net income earned for the year, offset in part by the declaration and payment of dividends during the period and adjustments in other reserves pertaining to unrealized gains and losses thru other comprehensive income. Minority interest is at Php718.9 million as at December 31, 2018.

*Below are the comparative key performance indicators of the Company and its majority-owned subsidiaries:*

| Ratio | Manner in which the financial rations are computed | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Current ratio | Current assets divided by current liabilities | 4.40 : 1.00 | 3.93 : 1.00 |
| Return on assets | Net income (loss) divided by average total assets during the period | 12.21% | 11.27% |
| Return on equity | Net income (loss) divided by average total equity during the period | 13.34% | 12.04% |
| Asset to equity | Total assets divided by total equity | 1.09 : 1.00 | 1.09 : 1.00 |
| Debt to equity | Interest bearing debt divided by total equity | 0.00 : 1.00 | 0.00 : 1.00 |
| Interest rate coverage | Earnings before interest, tax, depreciation and amortizaton divided by interest expense | 428.57 | 239.15 |

The current ratio of the Company increased in 2018 from 3.93 to 4.40. This is mainly brought about by the increase in current assets for 2018.

Return on assets (from 11.27% to 12.21%) and return on equity (from 12.04% to 13.34%) improved in 2018. This is mainly because of the increase in net income for 2018 compared with previous year.

Interest-bearing debt refers to obligations under finance lease of lottery equipment of POSC. These are minimal compared with the Company's total equity.

No material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities were created during the year.

As of December 31, 2018, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on the Company;
- Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;
- Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
- Significant elements of income or loss that did not arise from the Company's continuing operations;
- Seasonal aspects that had a material impact on the Company's results of operations; and

The Company does not foresee any liquidity problem over the next 12 months.

**2019 Plan of Operations**

PLC remains committed to look for various opportunities for growth through profitable investments that will increase the company's shareholder value for partners and investors alike. It shall likewise continue to partner with its parent corporation's corporate social responsibility arm, Belle Kaagapay, to continue on enhancing quality of life for its host communities.

## Analysis of Results of Operations and Financial Condition – 2017 compared to 2016

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (Decrease) | | 2017 | 2016 |
| **REVENUE** | | | Amount | % | | |
| Gaming revenue share | **2,609,352,639** | 1,642,976,365 | 966,376,274 | 59% | 53% | 47% |
| Equipment lease rentals | **1,840,520,991** | 1,579,660,972 | 260,860,019 | 17% | 37% | 45% |
| Commission and distribution income | **479,472,385** | 308,438,496 | 171,033,889 | 55% | 10% | 9% |
| | **4,929,346,015** | 3,531,075,833 | 1,398,270,182 | 40% | 100% | 100% |
| **COST AND EXPENSES** | | | | | | |
| Cost of services | **1,539,038,409** | 1,238,853,192 | 300,185,217 | 24% | 31% | 35% |
| General and administrative expenses | **1,018,683,377** | 561,531,251 | 457,152,126 | 81% | 21% | 16% |
| Amortization of intangible asset | **238,472,484** | 324,769,436 | (86,296,952) | -27% | 5% | 9% |
| | **2,796,194,270** | 2,125,153,879 | 671,040,391 | 32% | 57% | 60% |
| **OTHER INCOME (EXPENSES)** | | | | | | |
| Interest income | **75,918,013** | 47,139,103 | 28,778,910 | 61% | 2% | 1% |
| Dividend income | **20,927,342** | 24,616,646 | (3,689,304) | -15% | 0% | 1% |
| Finance charges | **(10,859,855)** | (12,748,505) | 1,888,650 | -15% | 0% | 0% |
| Other expense - net | **19,006,861** | (24,228,217) | 43,235,078 | -178% | 0% | -1% |
| | **104,992,361** | 34,779,027 | 70,213,334 | 202% | 2% | 1% |
| **INCOME BEFORE INCOME TAX** | **2,238,144,106** | 1,440,700,981 | 797,443,125 | 55% | 45% | 41% |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | | | |
| Current | **235,892,039** | 254,329,643 | (18,437,604) | -7% | 5% | 7% |
| Deferred | **(413,893)** | 28,271,202 | (28,685,095) | -101% | 0% | 1% |
| | **235,478,146** | 282,600,845 | (47,122,699) | -17% | 5% | 8% |
| **NET INCOME** | **2,002,665,960** | 1,158,100,136 | 844,565,824 | 73% | 41% | 33% |
| **Net Income Attributable to:** | | | | | | |
| Equity holders of the parent | **1,756,459,152** | 959,849,646 | 796,609,506 | 83% | 36% | 27% |
| Non-controlling interests | **246,206,808** | 198,250,490 | 47,956,318 | 24% | 5% | 6% |
| | **2,002,665,960** | 1,158,100,136 | 844,565,824 | 73% | 41% | 33% |

PLC recognized full-year 2017 audited consolidated net income of Php2.0 billion, higher by 73% (or Php844.6 million) than the 2016 reported net income of Php1,158.1 million. Operating EBITDA (proxy for cash flow) for the year is at Php2.6 billion, 37% more than its reported EBITDA of Php1.9 billion in 2016.

The Company's consistent profitability enabled PLC to declare a regular dividend of Php0.04391 per share on February 23, 2018, for a total dividend payment of approximately Php1,388.8 million, payable on March 23, 2018 to shareholders of record as of March 9, 2018. This cash dividend is 56% higher than the dividends declared and paid in 2017.

2017 revenues increased considerably by 40% to Php4.9 billion from the 2016 revenues of Php3.5 billion due mostly to the following factors: 1) the growth in the gaming segments of City of Dreams Manila contributed Php2.6 billion in gaming revenue share, up by 59% versus Php1.6 billion recognized in 2016; 2) the improvement in the sales of lotto and keno tickets for 2017 provided Php1,840.5 million in equipment lease rental revenues, increasing by 17% versus the prior year's revenues of Php1,579.7 million; and 3) higher commission and distribution income by 55% or Php171.0 million.

Costs and expenses increased by Php671.0 million in 2017 due to the increase in costs of services directly attributable to the Company's gaming share revenue, equipment lease rentals, commission, distribution and instant scratch tickets income and the increase in general and administrative expenses.

## Consolidated Statements of Comprehensive Income

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2017 | 2016 |
| | 2017 | 2016 | Amount | % | | |
| **NET INCOME** | **2,002,665,960** | 1,158,100,136 | 844,565,824 | 73% | 41% | 33% |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | | | | |
| Mark-to-market gains (losses) on available-for-sale financial assets | **132,500,049** | 62,197,638 | 70,302,411 | 113% | 3% | 2% |
| Realized loss transferred to profit or loss | **31,647,929** | - | 31,647,929 | 100% | 1% | 0% |
| Remeasurement gain (loss) on net retirement benefits - net of tax | **1,248,964** | (496,546) | 1,745,510 | -352% | 0% | 0% |
| | **165,396,942** | 61,701,092 | 103,695,850 | 168% | 3% | 2% |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **2,168,062,902** | 1,219,801,228 | 948,261,674 | 78% | 44% | 35% |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | |
| Equity holders of the parent | **1,873,300,753** | 1,005,380,815 | 867,919,938 | 86% | 38% | 28% |
| Non-controlling interests | **294,762,149** | 214,420,413 | 80,341,736 | 37% | 6% | 6% |
| | **2,168,062,902** | 1,219,801,228 | 948,261,674 | 78% | 44% | 35% |

PLC recognized comprehensive income of Php2.2 billion for 2017 versus Php1.2 billion in 2016. This is mainly due to a significantly higher net income realized for 2017 as well as the recovery of the share prices of its available-for-sale investments.

Aside from what has been mentioned in the foregoing, there were no significant elements that arose from continuing operations, nor were there any seasonal events that had a material effect on the results of operations of PLC in 2017.

## Consolidated Statements of Financial Position

| | December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2017 | 2016 |
| | **2017** | 2016 | Amount | % | | |
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | **2,962,635,687** | 1,811,503,962 | 1,151,131,725 | 64% | 16% | 11% |
| Investments held for trading | **178,482,842** | 165,990,214 | 12,492,628 | 8% | 1% | 1% |
| Receivables | **700,656,306** | 731,760,497 | (31,104,191) | -4% | 4% | 4% |
| Notes receivable | **1,605,925,000** | 805,925,000 | 800,000,000 | 99% | 9% | 5% |
| Other current assets | **205,657,568** | 164,427,432 | 41,230,136 | 25% | 1% | 1% |
| | **5,653,357,403** | 3,679,607,105 | 1,973,750,298 | 54% | 30% | 22% |
| Noncurrent asset held for sale | **285,510,452** | 285,510,452 | - | 0% | 2% | 2% |
| Total Current Assets | **5,938,867,855** | 3,965,117,557 | 1,973,750,298 | 50% | 32% | 23% |
| **Noncurrent Assets** | | | | | | |
| Intangible asset | **9,668,071,971** | 9,906,544,455 | (238,472,484) | -2% | 52% | 59% |
| Available-for-sale financial assets | **648,597,890** | 657,377,802 | (8,779,912) | -1% | 3% | 4% |
| Property and equipment | **438,063,955** | 479,088,812 | (41,024,857) | -9% | 2% | 3% |
| Goodwill | **1,832,260,734** | 1,828,577,952 | 3,682,782 | 0% | 10% | 11% |
| Deferred tax assets | **15,439,685** | 14,576,327 | 863,358 | 6% | 0% | 0% |
| Retirement asset | **13,413,273** | 8,630,802 | 4,782,471 | 55% | 0% | 0% |
| Other noncurrent assets | **79,307,906** | 47,879,065 | 31,428,841 | 66% | 0% | 0% |
| Total Noncurrent Assets | **12,695,155,414** | 12,942,675,215 | (247,519,801) | -2% | 68% | 77% |
| **TOTAL ASSETS** | **18,634,023,269** | 16,907,792,772 | 1,726,230,497 | 10% | 100% | 100% |
| **LIABILITIES AND EQUITY** | | | | | | |
| **Current Liabilities** | | | | | | |
| Trade payables and other current liabilities | **1,440,759,097** | 544,597,585 | 896,161,512 | 165% | 8% | 3% |
| Current portion of obligations under finance lease | **39,488,510** | 47,698,388 | (8,209,878) | -17% | 0% | 0% |
| Income tax payable | **29,434,444** | 43,000,753 | (13,566,309) | -32% | 0% | 0% |
| Current portion of installment payable | **2,680,828** | - | 2,680,828 | 100% | 0% | 0% |
| Total Current Liabilities | **1,512,362,879** | 635,296,726 | 877,066,153 | 138% | 8% | 4% |
| **Noncurrent Liabilities** | | | | | | |
| Obligation under finance lease | **35,374,474** | 71,644,208 | (36,269,734) | -51% | 0% | 0% |
| Retirement liability | **17,479,083** | 12,549,700 | 4,929,383 | 39% | 0% | 0% |
| Installment payable | **2,762,995** | - | 2,762,995 | 100% | 0% | 0% |
| Total Noncurrent Liabilities | **55,616,552** | 84,193,908 | (28,577,356) | -34% | 0% | 0% |
| Total Liabilities | **1,567,979,431** | 719,490,634 | 848,488,797 | 118% | 8% | 4% |
| **Equity Attr to the Equity Holders of the Parent** | | | | | | |
| Capital stock | **7,906,827,500** | 7,906,827,500 | - | 0% | 42% | 47% |
| Additional paid-in capital | **7,238,721,924** | 7,238,721,924 | - | 0% | 39% | 43% |
| Cost of parent company shares held by a subsidiary | **(475,427,035)** | (438,877,905) | (36,549,130) | 8% | -3% | -3% |
| Other reserves | **40,848,816** | (75,992,785) | 116,841,601 | -154% | 0% | 0% |
| Retained earnings | **1,604,112,304** | 727,181,016 | 876,931,288 | 121% | 9% | 4% |
| Total Equity Attr to Equity Holders of the Parent | **16,315,083,509** | 15,357,859,750 | 957,223,759 | 6% | 88% | 91% |
| **Non-controlling Interests** | **750,960,329** | 830,442,388 | (79,482,059) | -10% | 4% | 5% |
| Total Equity | **17,066,043,838** | 16,188,302,138 | 877,741,700 | 5% | 92% | 96% |
| **TOTAL LIABILITIES AND EQUITY** | **18,634,023,269** | 16,907,792,772 | 1,726,230,497 | 10% | 100% | 100% |

As of December 31, 2017, PLC's total assets amounted to Php18,634.0 million, higher by Php1,726.2 million, or 10% versus total assets as at December 31, 2016. Key movements in balance sheet items are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash in bank and short-term investments or cash equivalents of the Company.

Cash and cash equivalents increased by 64% (Php1,151.1 million) to Php2,962.6 million in 2017. This increase pertains to the collections of higher gaming revenue share, cash dividends from the Company's available for sale investments, interest income from banks and short-term investments, offset by the payment of dividends to shareholders in March 2017 and operating expenses.

Investments held for trading

Investments held for trading increased by 8% mainly due to additional investments for the year as well as mark-to-market gains and losses due to changes in share prices.

Receivables

Receivables includes trade receivables from PCSO for POSC's equipment rentals and receivables from Melco for City of Dreams Manila's gaming share revenue as well as operational advances to customers, suppliers and employees. The Company recorded net decrease of 4% or Php31.1 million in receivables.

Intangible Asset

The Company's intangible asset pertains to the PAGCOR gaming license obtained by PLC through its subsidiary, PremiumLeisure and Amusement, Inc. (PLAI). On April 1, 2016, the Company implemented a change in accounting estimate extending of the life of the intangible asset to concur with the term of PAGCOR's Congressional Franchise which is renewable for another twenty-five (25) years upon its expiration in 2033.

The decrease in the intangible asset account is brought about by the amortization of the intangible asset.

Property and equipment

Property and equipment (PPE) of the Company pertains to online lottery equipment, leasehold improvements, office and transportation equipment. There is an overall decrease of Php41.0 million in the account compared to balances at December 31, 2016 due to the recognized depreciation for the year that was tempered by additions in PPE for the period.

Goodwill

Goodwill pertains to the goodwill recognized upon acquisition of controlling interest in POSC through the pooling method in 2015. The increase in the account pertains to additional goodwill recognized by the Company upon LCC's acquisition of 100% ownership interest in the following nine entities engaged in lotto/keno outlets and retail of scratchit tickets.

Total Liabilities

Total liabilities increased by P848.5 million or 118% as at December 31, 2017 from total liabilities of Php719.5 million as at December 31, 2016. The increase is due mostly to the increase in trade and other payables related to POSC's operations as well as increased service fees related to the increase in gaming share revenue from City of Dreams Manila.

Equity

Stockholders' equity increased by P877.7 million as of December 31, 2017 from Php16,907.8 million as of December 31, 2016. The increase was due mainly to the increase in retained earnings from the net income earned for the year, offset in part by the declaration and payment of dividends during the period worth approximately Php888 million. Minority interest is at Php751.0 million as at December 31, 2017.

*Below are the comparative key performance indicators of the Company and its majority-owned subsidiaries:*

| Ratio | Manner in which the financial rations are computed | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Current ratio | Current assets divided by current liabilities | 3.93 : 1.00 | 6.24 : 1.00 |
| Return on assets | Net income (loss) divided by average total assets during the period | 11.27% | 6.95% |
| Return on equity | Net income (loss) divided by average total equity during the period | 12.04% | 7.22% |
| Asset to equity | Total assets divided by total equity | 1.09 : 1.00 | 1.04 : 1.00 |
| Debt to equity | Interest bearing debt divided by total equity | 0.00 : 1.00 | 0.01 : 1.00 |
| Interest rate coverage | Earnings before interest, tax, depreciation and amortizaton divided by interest expense | 239.15 | 149.19 |

The current ratio of the Company decreased in 2017 from 6.24 to 3.93. This is mainly brought about by the increase in current liabilities for 2017. Despite the increase in current assets of 50%, the increase in current liabilities of 138% contributed to a lower current ratio.

Return on assets (from 6.95% to 11.27%) and return on equity (from 7.22% to 12.04%) significantly improved in 2017. This is mainly because of the 73% increase in net income for 2017 compared with previous year. Net income in 2017 amounted to Php2.0 billion in 2017 versus Php1.2 billion in 2016.

Interest-bearing debt refers to obligations under finance lease of lottery equipment of POSC. These are minimal compared with the Company's total equity.

No material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities were created during the year.

As of December 31, 2017, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on the Company;
- Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;
- Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
- Significant elements of income or loss that did not arise from the Company's continuing operations;
- Seasonal aspects that had a material impact on the Company's results of operations; and

The Company does not foresee any liquidity problem over the next 12 months.

## Analysis of Results of Operations and Financial Condition – 2016 compared to 2015

### Consolidated Statements of Income

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Increase (Decrease) | | 2016 | 2015 |
| **REVENUE** | | | Amount | % | | |
| Gaming revenue share | **1,642,976,365** | 756,237,939 | 886,738,426 | 117% | 47% | 51% |
| Equipment lease rentals | **1,579,660,972** | 630,926,248 | 948,734,724 | 150% | 45% | 43% |
| Commission and instant scratch tickets | **308,438,496** | 88,400,678 | 220,037,818 | 249% | 9% | 6% |
| | **3,531,075,833** | 1,475,564,865 | 2,055,510,968 | 139% | 100% | 100% |
| **COST AND EXPENSES** | | | | | | |
| Cost of services | **1,238,853,192** | 388,947,906 | 849,905,286 | 219% | 35% | 26% |
| General and administrative expenses | **561,531,251** | 257,399,862 | 304,131,389 | 118% | 16% | 17% |
| Amortization of intangible asset | **324,769,436** | 563,277,634 | (238,508,198) | -42% | 9% | 38% |
| | **2,125,153,879** | 1,209,625,402 | 915,528,477 | 76% | 60% | 82% |
| **OTHER INCOME (EXPENSES)** | | | | | | |
| Interest income | **47,139,103** | 42,034,540 | 5,104,563 | 12% | 1% | 3% |
| Dividend income | **24,616,646** | 31,770,513 | (7,153,867) | -23% | 1% | 2% |
| Finance charges | **(12,748,505)** | (4,996,708) | (7,751,797) | 155% | 0% | 0% |
| Equity in net earnings of an associate | **-** | 75,525,743 | (75,525,743) | -100% | 0% | 5% |
| Other expense - net | **(24,228,217)** | (2,355,705) | (21,872,512) | 928% | -1% | 0% |
| | **34,779,027** | 141,978,383 | (107,199,356) | -76% | 1% | 10% |
| **INCOME BEFORE INCOME TAX** | **1,440,700,981** | 407,917,846 | 1,032,783,135 | 253% | 41% | 28% |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** | | | | | | |
| Current | **254,329,643** | 186,833,985 | 67,495,658 | 36% | 7% | 13% |
| Deferred | **28,271,202** | (2,070,488) | 30,341,690 | -1465% | 1% | 0% |
| | **282,600,845** | 184,763,497 | 97,837,348 | 53% | 8% | 13% |
| **NET INCOME** | **1,158,100,136** | 223,154,349 | 934,945,787 | 419% | 33% | 15% |
| **Net Income Attributable to:** | | | | | | |
| Equity holders of the parent | **959,849,646** | 155,232,754 | 804,616,892 | 518% | 27% | 11% |
| Non-controlling interests | **198,250,490** | 67,921,595 | 130,328,895 | 192% | 6% | 5% |
| | **1,158,100,136** | 223,154,349 | 934,945,787 | 419% | 33% | 15% |

PLC recognized full-year 2016 audited consolidated net income of Php1.2 billion, higher by 419% (or Php934.9 million) than 2015 net income of Php223.2 million. Operating EBITDA (proxy for cash flow) for the year is at Php1.9 billion, more than double than its reported EBITDA in 2015.

2016 revenues increased substantially by 139% to Php3.5 billion from 2015's revenues of Php1.5 billion due to mostly to the following factors: 1) the overall improvement in all the gaming segments of City of Dreams Manila contributed Php1.6 billion in gaming revenue share, up by 117% versus Php756.2 million recognized in 2015 and 2) the full-year consolidation of POSC in PLC contributed Php1.8 billion in revenues in 2016 from its equipment lease rentals as well as commission, distribution and instant scratch tickets income, showing a growth of 162% from prior year's Php719.3 million revenues for five months from August 2015.

Costs and expenses increased by Php915.5 million in 2016 mostly due to the increase in costs of services directly attributable to the Company's gaming share revenue, equipment lease rentals, commission, distribution and instant scratch tickets income, which increased substantially for the year. General and administrative expenses increased by Php304.1 million in 2016 mostly due to the full-year consolidation of POSC. Costs and expenses as a percentage to revenues has decreased to 60% from 82% in 2015, an indication of growth in the Company as well as continuous operational efficiency.

Equity in net earnings of an associate was not recognized in 2016 due to POSC's consolidation beginning in August 2015, wherein POSC became a subsidiary instead of an associate. This is the main reason for the decrease in the Company's other income.

### Consolidated Statements of Comprehensive Income

| *(Amounts in Peso except percentages)* | Years Ended December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2016 | 2015 |
| | **2016** | 2015 | Amount | % | | |
| **NET INCOME** | **1,158,100,136** | 223,154,349 | 934,945,787 | 419% | 33% | 15% |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | | | | |
| Mark-to-market gains (losses) on available-for-sale financial assets | **62,197,638** | (252,460,264) | 314,657,902 | -125% | 2% | -17% |
| Share in mark-to-market loss on available-for-sale financial assets of an associate | **-** | (38,258,713) | 38,258,713 | -100% | 0% | -3% |
| Remeasurement gain (loss) on net retirement benefits - net of tax | **(496,546)** | 4,582,575 | (5,079,121) | -111% | 0% | 0% |
| | **61,701,092** | (286,136,402) | 347,837,494 | -122% | 2% | -19% |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **1,219,801,228** | (62,982,053) | 1,282,783,281 | -2037% | 35% | -4% |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | |
| Equity holders of the parent | **1,005,380,815** | (105,673,078) | 1,111,053,893 | -1051% | 28% | -7% |
| Non-controlling interests | **214,420,413** | 42,691,025 | 171,729,388 | 402% | 6% | 3% |
| | **1,219,801,228** | (62,982,053) | 1,282,783,281 | -2037% | 35% | -4% |

PLC recognized comprehensive income of Php1.2 billion for 2016 versus comprehensive loss of Php63.0 million in 2015. This is mainly due to a significantly higher net income realized for 2016 as well as the recovery of the share prices of its available-for-sale investments.

Aside from what has been mentioned in the foregoing, there were no significant elements that arose from continuing operations, nor were there any seasonal events that had a material effect on the results of operations of PLC in 2016.

**Consolidated Statements of Financial Position**

| | December 31 | | Horizontal Analysis | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| | | | Increase (Decrease) | | 2016 | 2015 |
| | **2016** | 2015 | Amount | % | | |
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | **1,811,503,962** | 1,187,556,503 | 623,947,459 | 53% | 11% | 7% |
| Investments held for trading | **165,990,214** | 226,746,690 | (60,756,476) | -27% | 1% | 1% |
| Receivables | **731,760,497** | 509,585,194 | 222,175,303 | 44% | 4% | 3% |
| Notes receivable | **805,925,000** | 805,925,000 | - | 0% | 5% | 5% |
| Other current assets | **164,427,432** | 131,884,988 | 32,542,444 | 25% | 1% | 1% |
| | **3,679,607,105** | 2,861,698,375 | 817,908,730 | 29% | 22% | 17% |
| Noncurrent asset held for sale | **285,510,452** | 285,510,452 | - | 0% | 2% | 2% |
| Total Current Assets | **3,965,117,557** | 3,147,208,827 | 817,908,730 | 26% | 23% | 19% |
| **Noncurrent Assets** | | | | | | |
| Intangible asset | **9,906,544,455** | 10,231,313,891 | (324,769,436) | -3% | 59% | 62% |
| Available-for-sale financial assets | **657,377,802** | 586,543,893 | 70,833,909 | 12% | 4% | 4% |
| Property and equipment | **479,088,812** | 544,628,438 | (65,539,626) | -12% | 3% | 3% |
| Goodwill | **1,828,577,952** | 1,828,577,952 | - | 0% | 11% | 11% |
| Deferred tax assets | **14,576,327** | 42,261,133 | (27,684,806) | -66% | 0% | 0% |
| Retirement asset | **8,630,802** | 10,731,917 | (2,101,115) | -20% | 0% | 0% |
| Other noncurrent assets | **47,879,065** | 50,731,752 | (2,852,687) | -6% | 0% | 0% |
| Total Noncurrent Assets | **12,942,675,215** | 13,294,788,976 | (352,113,761) | -3% | 77% | 81% |
| **TOTAL ASSETS** | **16,907,792,772** | 16,441,997,803 | 465,794,969 | 3% | 100% | 100% |
| **LIABILITIES AND EQUITY** | | | | | | |
| **Current Liabilities** | | | | | | |
| Trade payables and other current liabilities | **544,597,585** | 365,772,706 | 178,824,879 | 49% | 3% | 2% |
| Current portion of obligations under finance lease | **47,698,388** | 25,201,309 | 22,497,079 | 89% | 0% | 0% |
| Income tax payable | **43,000,753** | 49,600,322 | (6,599,569) | -13% | 0% | 0% |
| Total Current Liabilities | **635,296,726** | 440,574,337 | 194,722,389 | 44% | 4% | 3% |
| **Noncurrent Liabilities** | | | | | | |
| Obligation under finance lease | **71,644,208** | 93,527,275 | (21,883,067) | -23% | 0% | 1% |
| Retirement liability | **12,549,700** | 18,638,266 | (6,088,566) | -33% | 0% | 0% |
| Total Noncurrent Liabilities | **84,193,908** | 112,165,541 | (27,971,633) | -25% | 0% | 1% |
| Total Liabilities | **719,490,634** | 552,739,878 | 166,750,756 | 30% | 4% | 3% |
| **Equity Attr to the Equity Holders of the Parent** | | | | | | |
| Capital stock | **7,906,827,500** | 7,906,827,500 | - | 0% | 47% | 48% |
| Additional paid-in capital | **7,238,721,924** | 7,238,721,924 | - | 0% | 43% | 44% |
| Cost of parent company shares held by a subsidiary | **(438,877,905)** | (422,210,490) | (16,667,415) | 4% | -3% | -3% |
| Other reserves | **(75,992,785)** | (121,523,954) | 45,531,169 | -37% | 0% | -1% |
| Retained earnings | **727,181,016** | 440,361,436 | 286,819,580 | 65% | 4% | 3% |
| Total Equity Attr to Equity Holders of the Parent | **15,357,859,750** | 15,042,176,416 | 315,683,334 | 2% | 91% | 91% |
| **Non-controlling Interests** | **830,442,388** | 847,081,509 | (16,639,121) | -2% | 5% | 5% |
| Total Equity | **16,188,302,138** | 15,889,257,925 | 299,044,213 | 2% | 96% | 97% |
| **TOTAL LIABILITIES AND EQUITY** | **16,907,792,772** | 16,441,997,803 | 465,794,969 | 3% | 100% | 100% |

As of December 31, 2016, PLC's total assets amounted to Php16,907.8 million, higher by Php465.8 million, or 3% versus total assets as at December 31, 2015. Key movements in balance sheet items are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash in bank and short-term investments or cash equivalents of the Company.

The 53% increase (Php623.9 million) in cash and cash equivalents pertains to the collections of higher gaming share for 2016, the receipt of cash dividends from the Company's available for sale investments, interest received from banks, short-term investments and loans receivable, offset by the payment of dividends to shareholders in March 2016 and the payments of expenses and fees.

Investments held for trading

Investments held for trading decreased by 27% mainly due to sale of investments for the year as well as mark-to-market gains and losses due to changes in share prices.

Receivables

Receivables includes trade receivables from PCSO for POSC's equipment rentals and receivables from Melco for City of Dreams Manila's gaming share revenue as well as operational advances to customers, suppliers and employees. The Company recorded net increase of 44% or Php222.2 million in receivables due to: 1) City of Dreams Manila recorded high gross gaming revenues for December 2016, thereby translating to higher gaming revenue share for PLC for the month, due to be collected on the following month and 2) Higher POSC receivables in line with the higher revenues.

Intangible Asset

The Company's intangible asset pertains to the PAGCOR gaming license obtained by PLC through its subsidiary, PremiumLeisure and Amusement, Inc. (PLAI). On April 1, 2016, the Company implemented a change in accounting estimate extending of the life of the intangible asset to concur with the term of PAGCOR's Congressional Franchise which is renewable for another twenty-five (25) years upon its expiration in 2033.

The decrease in the intangible asset account is brought about by the amortization of the license.

Property and equipment

Property and equipment (PPE) of the Company pertains to online lottery equipment, leasehold improvements, office and transportation equipment. There is an overall decrease of Php65.5 million in the account compared to balances at December 31, 2015 due to the recognized depreciation for the year that was tempered by additions in PPE for the period.

Goodwill

Goodwill pertains to the goodwill recognized upon PLC's acquisition of controlling interest in POSC through the pooling method in 2015. The increase in goodwill is due to the additional goodwill recognized in 2017 upon LCC's consolidation

Total Liabilities

PLCs total liabilities increased by P166.8 million or 30% as at December 31, 2016 from total liabilities of Php552.7 million as at December 31, 2015. The increase is due mostly to the increase in trade and other payables related to POSC's operations as well as increased service fees related to the increase in gaming share revenue from City of Dreams Manila.

Equity

Stockholders' equity increased by P299.0 million as of December 31, 2016 from Php15,889.3 million as of December 31, 2015. The increase was due mainly to the increase in retained earnings from the net income earned for the year, offset in part by the declaration and payment of dividends during the period worth Php680 million. Minority interest is at Php830.4 million as at December 31, 2016.

Below are the comparative key performance indicators of the Company and its majority-owned subsidiaries:

| Ratio | Manner in which the financial rations are computed | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Current ratio | Current assets divided by current liabilities | 6.24 : 1.00 | 7.14 : 1.00 |
| Return on assets | Net income (loss) divided by average total assets during the period | 6.95% | 1.38% |
| Return on equity | Net income (loss) divided by average total equity during the period | 7.22% | 1.41% |
| Asset to equity | Total assets divided by total equity | 1.04 : 1.00 | 1.03 : 1.00 |
| Debt to equity | Interest bearing debt divided by total equity | 0.01 : 1.00 | 0.01 : 1.00 |
| Interest rate coverage | Earnings before interest, tax, depreciation and amortizaton divided by interest expense | 149.22 | 200.02 |

The current ratio of the Company decreased in 2016 from 7.14 to 6.24. This is mainly brought about by the increase in current liabilities for 2016 due to the consolidation of POSC. Despite the increase in current assets of 26%, the increase in current liabilities of 44% contributed to a lower current ratio. In spite of this, however, the current assets of the Company can more than adequately cover its current liabilities. In addition, the Company does not foresee any cash flow or liquidity problems over the next 12 months.

Return on assets (from 1.38% to 6.95%) and return on equity (from 1.41% to 7.22%) significantly improved in 2016. This is mainly because of the 419% increase in net income for 2016 compared to previous year. Net income in 2016 amounted to Php1.2 billion in 2016 versus Php223 million in 2015.

Interest-bearing debt refers to obligations under finance lease of lottery equipment of POSC. These are minimal compared with the Company’s total equity. Earnings can cover interest charges 114 times for 2016, up from 83 times in 2015.

No material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities were created during the year.

As of December 31, 2016, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on the Company;
- Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;
- Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
- Significant elements of income or loss that did not arise from the Company's continuing operations;
- Seasonal aspects that had a material impact on the Company's results of operations; and

The Company does not foresee any liquidity problem over the next 12 months.

**Key Variables and other Qualitative and Quantitative Factors**

The Company expects no material commitments for capital expenditures and expected funds in 2018. To the best of the Company's knowledge, aside from what has already been mentioned in the preceding, there are no known trends, events or uncertainties that will have a material impact on sales; no significant elements of income or loss that did not arise from continuing operations aside from those disclosed in the Notes to the Audited Financial Statements; and no seasonal aspects with material effect on results of operations.

PLC maintains sufficient cash balances to meet minimum operational requirements, as determined by management from time to time. Additional cash requirements are sourced from affiliates. To the best of the Company's knowledge, there are no known trends, events or uncertainties that will have a material impact on its liquidity.

**Information on Independent Accountant and Other Related Matters**

a. External Audit Fees

a.1. Audit and Audit-Related Fees
The aggregate fees paid by the Company for professional services (excluding Value Added Tax) rendered by the external auditor for the audit of financial statements for the years ended 31 December 2018 and 2017 follow:

| | (₱000's omitted) |
|---|---|
| 2018 | ₱443.0 |
| 2017 | 410.0 |

a.2. There were no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

b. Tax Fees

There were no professional services rendered by the external auditor for tax accounting compliance, advice, planning and any other form of tax services in each of the last two years.

c. All Other Fees

There were no other professional services rendered by the external auditors for each of the last two years other than item (a) and (b) above.

d. The Audit Committee's approval policies and procedures for the above services

The Audit Committee has the oversight responsibility over the audit function and activities of the Company's internal and external auditors. It provides assurance that financial disclosures made by the management as presented in the Auditor's report reasonably reflect (a) the financial condition; the result of operation; and the plans and long-term commitments; and (b) internal controls are operating as intended.

The Audit Committee has the responsibility to recommend an external auditor to be selected and appointed by the stockholders during each annual stockholder's meeting.

It reviews the audit coverage of the External Auditors and deliberates on their audit report prior to endorsement to the Board of Directors and presented to the stockholder's for approval.

**DIRECTORS AND EXECUTIVE OFFICERS**

Please refer to the portion of this Information Statement on "Directors and Executive Officers".

**COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES**

The Company remains focused on insuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders.

In compliance with the initiative of the Securities and Exchange Commission ("SEC"), PLC submitted its Manual on Corporate Governance (the "Manual") to the SEC. This manual institutionalizes the principles of good corporate governance in the entire Company. The Company believes that corporate governance, the framework of rules, systems and processes governing the performance of the Board of Directors and Management of their respective duties and responsibilities, and from which the organization's values and ethics emerge, is of utmost importance to the Company's shareholders and other stakeholders, which include, among others, clients, employees, suppliers, financiers, government and community in which it operates. The Company undertakes every effort possible to create awareness throughout the entire organization.

Even prior to the submission of its Manual, however, the Company already created various Board-level committees. These committees were comprised of:

The Executive Committee – to oversee the management of the Company and is responsible for the Company's goals, finances and policies; Audit Committee – to review financial and accounting matters; Nomination Committee – for the selection and evaluation of qualifications of directors and officers; the Compensation and Remuneration Committee – to look into an appropriate remuneration system; and the Risk Oversight Committee – to review the policies and procedures relating to the identification, analysis, management, monitoring and reporting of financial and non-financial risks. Subsequently, the following Board Committees were created: the Related Party Transactions Committee – to assess material agreements with related parties to ensure that the RPT are conducted at market rates and on an arm's length basis; and the Corporate Governance Committee – to assist and advise the Board of Directors in performing corporate governance compliance responsibilities in relation with the Company's Manual on Corporate Governance, the Philippine Code of Corporate Governance, and the disclsoure rules of the SEC and the PSE. On April 24, 2017, the Nomination Committee was merged with the Corporate Governance Committee. Each of the above is guided by their respective Committee Charters that indicates the purpose, composition, duties and responsibilities. The Board Committee Charters are reviewed annually to reflect any development. Members of the various committees are expected to serve for a term of one (1) year.

The Company conducts annual performance evaluations of the Board of Directors, its individual members and Board Committees to ensure optimum Board performance. In this evaluation process, directors identify areas for improvement, some of which are: the timeliness and integrity of information given to them, directors' access to management, the Corporate Secretary and Board Advisors, and other forms of assistance as needed. In addition, the Board identifies areas of continuing education on corporate governance topics they require. The Board reviews the results of these evaluations and agrees on clear action plans to address any issues raised. In line with governance best practices, the board evaluations shall be facilitated by a third party independent assessor every three (3) years reckoned from January 01, 2017 (effectivity date of the 2016 Code of Corporate Governance for Publicly Listed Companies).

To keep the Board and key officers well-informed of governance related developments, regular annual education programs are conducted for them in coordination with SM Investments Corporation and training providers duly accredited by the Securities and Exchange Commission.

The Board establishes the major goals, policies and objectives of the Company, as well as the means to monitor and evaluate the performance of Management. The Board also ensures that adequate internal control mechanisms are implemented and properly complied in all levels.

The Company remains committed to align with the best corporate governance practices following the release of the 2016 Code of Corporate Governance for Publicly Listed Companies. In addition to the Manual on Corporate Governance (MCG), the Company's Code of Business Conduct and Ethics (CBCE) defines good governance, ethics and compliance practices expected throughout the organization. The MCG and CBCE are communicated to directors, officers and employees to ensure familiarity and adherence. These documents are made public through the Company's website.

Company policies on governance were developed, submitted to and approved by the Board to protect the interests and rights of the shareholders and stakeholders and to promote transparency and accountability. Such governance related policies are shown below and may be viewed through the PLC Corporate website https://www.premiumleisurecorp.com/governance-plc/corporate-policies :

1. Accountability, Integrity and Vigilance (Whistle-Blowing)
2. Alternative Dispute Resolution
3. Board Diversity
4. Conflict of Interest
5. Corporate Disclosures
6. Directors' Board Seats Held in Other Companies
7. Employees' Safety, Health and Welfare
8. Gifts / Hospitality / Entertainment
9. Insider Trading
10. Related Party Transactions
11. Succession Planning and Retirement Age for Directors and Key Officers
12. Tenure of Independent Directors
13. Vendor Accreditation and Selection

The Company is not aware of any non-compliance with its Manual on Corporate Governance by any of its directors, officers or employees.

**UNDERTAKING TO PROVIDE COPIES OF THE INFORMATION STATEMENT AND THE ANNUAL REPORT**

**UPON WRITTEN REQUEST OF ANY SHAREHOLDER OF RECORD ENTITLED TO NOTICE OF AND VOTE AT THE MEETING, THE COMPANY SHALL FURNISH SUCH SHAREHOLDER WITH A COPY OF THE COMPANY'S INFORMATION STATEMENT (ON SEC FORM 20-IS) AND ANNUAL REPORT (ON SEC FORM 17-A) WITHOUT CHARGE. ANY SUCH WRITTEN REQUEST SHALL BE ADDRESSED TO:**

THE CORPORATE SECRETARY
PREMIUM LEISURE CORP.
5F TOWER A, TWO E-COM CENTER,
PALM COAST AVENUE,
MALL OF ASIA COMPLEX, PASAY CITY

# C O V E R   S H E E T
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| A | S | 0 | 9 | 3 | - | 0 | 0 | 9 | 2 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

PREMIUM LEISURE CORP. AND SUBSIDIARIES

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

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

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | SEC | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| N/A | 662-8888 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 359 | Any day in May | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Jackson T. Ongsip | plc@premiumleisurecorp.com | 662-8888 | 0917-5578203 |

**CONTACT PERSON's ADDRESS**

5th Floor, Tower A, Two E-Com Center, Palm Coast Avenue, Mall of Asia Complex, 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.*

PREMIUM
LEISURE CORP.

**SECURITIES AND EXCHANGE COMMISSION**
Secretariat Building, PICC Complex
Roxas Boulevard, Metro Manila Philippines

**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, 2018 and 2017, 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

**ARMIN ANTONIO B. RAQUEL SANTOS**
President and Chief Executive Officer

**JACKSON T. ONGSIP**
Chief Finance Officer / Treasurer

**Signed this 22nd day of February 2019**

MAKATI CITY FEB 27 2019

SUBSCRIBED AND SWORN to before me this ____ day of ________2019 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 | P0955319A<br>TIN 101-934-954 | November 18, 2021 | Manila |
| ARMIN ANTONIO B. RAQUEL SANTOS | P1580072A<br>TIN 167-106-732 | January 9, 2022 | Manila |
| JACKSON T. ONGSIP | EC4804332<br>TIN 178-486-617 | July 29, 2020 | Manila |

DOC NO. : 458

PAGE NO. : 93

BOOK NO. : XVI

SERIES OF : 2019.

ATTY. GERVACIO B. ORTIZ, JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31 2020
PTR NO. 7333104 / 01-03-2019 MAKATI
IBP NO. 656155 LIFETIME MEMBER
APPT. NO. M-104 / 2017 / ROLL NO. 4009
MCLE COMPLIANCE NO. V-0006934
UNIT 102 PENINSULA COURT BLDG
8735 MAKATI AVE., MAKATI CITY

# 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, Pasay City

## Opinion

We have audited the consolidated financial statements of Premium Leisure Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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, 2018, goodwill arising from the acquisition of Pacific Online Systems Corporation amounted to ₱1,717.6 million out of a total goodwill balance of ₱1,721.3 million. 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 judgment and estimation involved in the value-in-use calculation, we considered this area to be a key audit matter.

The Company's disclosures about goodwill are included in Note 17 to the consolidated financial statements.

*Audit Response*

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 determination 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.

**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, 2018, 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, 2018 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.

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- 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.

SYCIP GORRES VELAYO & CO.

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. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332528, January 3, 2019, Makati City

February 22, 2019

## PREMIUM LEISURE CORP. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 7 and 29) | **₱2,314,012,081** | ₱2,962,635,687 |
| Investments held for trading (Notes 8 and 29) | **155,704,892** | 178,482,842 |
| Receivables (Notes 9, 26 and 29) | **350,735,545** | 700,656,306 |
| Notes receivable (Notes 10, 26 and 29) | **3,705,925,000** | 1,605,925,000 |
| Contract assets (Note 31) | **37,892,531** | – |
| Other current assets (Notes 11 and 29) | **319,087,307** | 205,657,568 |
| | **6,883,357,356** | 5,653,357,403 |
| Noncurrent asset held for sale (Note 15) | **–** | 285,510,452 |
| Total Current Assets | **6,883,357,356** | 5,938,867,855 |
| **Noncurrent Assets** | | |
| Intangible asset (Note 12) | **9,429,599,487** | 9,668,071,971 |
| Available-for-sale financial assets (Notes 13, 26 and 29) | **–** | 648,597,890 |
| Financial assets at fair value through other comprehensive income (Notes 13, 26 and 29) | **387,744,261** | – |
| Property and equipment (Note 14) | **259,903,572** | 438,063,955 |
| Investment property (Note 15) | **285,510,452** | – |
| Goodwill (Notes 16 and 17) | **1,721,326,738** | 1,832,260,734 |
| Deferred tax assets (Note 25) | **8,864,126** | 15,439,685 |
| Retirement asset (Note 19) | **7,855,553** | 13,413,273 |
| Contract assets – net of current portion (Note 31) | **130,123,123** | – |
| Other noncurrent assets (Notes 29 and 31) | **75,504,420** | 79,307,906 |
| Total Noncurrent Assets | **12,306,431,732** | 12,695,155,414 |
| **TOTAL ASSETS** | **₱19,189,789,088** | ₱18,634,023,269 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade payables and other current liabilities (Notes 18 and 29) | **₱1,535,792,345** | ₱1,443,439,925 |
| Current portion of obligations under finance lease (Notes 27 and 29) | **19,379,463** | 39,488,510 |
| Income tax payable | **9,415,467** | 29,434,444 |
| Total Current Liabilities | **1,564,587,275** | 1,512,362,879 |
| **Noncurrent Liabilities** | | |
| Deferred tax liabilities (Note 25) | **46,161,265** | – |
| Obligations under finance lease (Notes 27 and 29) | **15,995,011** | 35,374,474 |
| Retirement liability (Note 19) | **6,981,493** | 17,479,083 |
| Installment payable (Note 29) | **–** | 2,762,995 |
| Total Noncurrent Liabilities | **69,137,769** | 55,616,552 |
| Total Liabilities | **1,633,725,044** | 1,567,979,431 |

*(Forward)*

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **Equity Attributable to the Equity Holders of the Parent** (Notes 20 and 29) | | |
| Capital stock | **₱7,906,827,500** | ₱7,906,827,500 |
| Additional paid-in capital | **7,238,721,924** | 7,238,721,924 |
| Treasury shares | **(29,430,080)** | – |
| Cost of Parent Company shares held by a subsidiary | **(509,597,055)** | (475,427,035) |
| Other reserves | **(736,930,415)** | 40,848,816 |
| Retained earnings | **2,967,544,418** | 1,604,112,304 |
| Total Equity Attributable to Equity Holders of the Parent | **16,837,136,292** | 16,315,083,509 |
| **Non-controlling Interests** (Note 16) | **718,927,752** | 750,960,329 |
| Total Equity | **17,556,064,044** | 17,066,043,838 |
| **TOTAL LIABILITIES AND EQUITY** | **₱19,189,789,088** | ₱18,634,023,269 |

*See accompanying Notes to Consolidated Financial Statements.*

# PREMIUM LEISURE CORP. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **REVENUE** | | | |
| Gaming revenue share - net (Notes 21 and 31) | **₱3,211,856,964** | ₱2,609,352,639 | ₱1,642,976,365 |
| Commission and distribution income (Note 31) | **487,626,385** | 479,472,385 | 308,438,496 |
| Equipment rental (Notes 27 and 31) | **1,448,317,610** | 1,840,520,991 | 1,579,660,972 |
| | **5,147,800,959** | 4,929,346,015 | 3,531,075,833 |
| **COST AND EXPENSES** | | | |
| Cost of services (Note 22) | **1,297,488,594** | 1,539,038,409 | 1,238,853,192 |
| General and administrative expenses (Note 23) | **1,421,896,610** | 1,018,683,377 | 561,531,251 |
| Amortization of intangible asset (Note 12) | **238,472,484** | 238,472,484 | 324,769,436 |
| | **2,957,857,688** | 2,796,194,270 | 2,125,153,879 |
| **OTHER INCOME (EXPENSES)** | | | |
| Interest income (Notes 7, 10 and 31) | **157,453,311** | 75,918,013 | 47,139,103 |
| Dividend income (Notes 8 and 13) | **24,952,521** | 20,927,342 | 24,616,646 |
| Finance charges | **(6,187,352)** | (10,859,855) | (12,748,505) |
| Other income (expense) - net (Note 24) | **124,496,089** | 19,006,861 | (24,228,217) |
| | **300,714,569** | 104,992,361 | 34,779,027 |
| **INCOME BEFORE INCOME TAX** | **2,490,657,840** | 2,238,144,106 | 1,440,700,981 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 25) | | | |
| Current | **133,572,412** | 235,892,039 | 254,329,643 |
| Deferred | **47,432,314** | (413,893) | 28,271,202 |
| | **181,004,726** | 235,478,146 | 282,600,845 |
| **NET INCOME** | **₱2,309,653,114** | ₱2,002,665,960 | ₱1,158,100,136 |
| **Net Income Attributable to:** | | | |
| Equity holders of the parent | **₱2,157,768,639** | ₱1,756,459,152 | ₱959,849,646 |
| Non-controlling interests | **151,884,475** | 246,206,808 | 198,250,490 |
| | **₱2,309,653,114** | ₱2,002,665,960 | ₱1,158,100,136 |
| **Basic/Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent** (Note 28) | **₱0.069080** | ₱0.056140 | ₱0.030662 |

*See accompanying Notes to Consolidated Financial Statements.*

## PREMIUM LEISURE CORP. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **NET INCOME** | **₱2,309,653,114** | ₱2,002,665,960 | ₱1,158,100,136 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:* | | | |
| Marked-to-market gains on available-for-sale financial assets (Note 13) | **–** | 132,500,049 | 62,197,638 |
| Realized loss on available-for-sale financial assets transferred to profit or loss (Note 13) | **–** | 31,647,929 | – |
| *Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:* | | | |
| Marked-to-market losses on financial assets at fair value through other comprehensive income (Note 13) | **(261,173,629)** | – | – |
| Remeasurement gain (loss) on net retirement benefits - net of tax | **12,297,225** | 1,248,964 | (496,546) |
| | **(248,876,404)** | 165,396,942 | 61,701,092 |
| **TOTAL COMPREHENSIVE INCOME** | **₱2,060,776,710** | ₱2,168,062,902 | ₱1,219,801,228 |
| **Total Comprehensive Income Attributable to:** | | | |
| Equity holders of the parent | **₱1,954,907,883** | ₱1,873,300,753 | ₱1,005,380,815 |
| Non-controlling interests | **105,868,827** | 294,762,149 | 214,420,413 |
| | **₱2,060,776,710** | ₱2,168,062,902 | ₱1,219,801,228 |

*See accompanying Notes to Consolidated Financial Statements.*

# PREMIUM LEISURE CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| | | | | | Other Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 20) | Additional Paid-in Capital (Note 20) | Treasury Shares (Note 20) | Cost of Parent Company Shares Held by a Subsidiary (Note 20) | Cumulative Unrealized Mark-to-Market Gain (Loss) on Available-for-Sale Financial Assets (Note 13) | Cumulative Unrealized Mark-to-Market Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income (Note 13) | Remeasurement Losses on Defined Benefit Obligation (Note 19) | Other Reserves | Retained Earnings (Note 20) | Total Equity Attributable to the Equity Holders of the Parent | Non-controlling Interest (Note 2) | Total |
| Balance at January 1, 2018 | ₱7,906,827,500 | ₱7,238,721,924 | ₱– | (₱475,427,035) | ₱296,714,578 | ₱– | (₱1,546,065) | (₱254,319,697) | ₱1,604,112,304 | ₱16,315,083,509 | ₱750,960,329 | ₱17,066,043,838 |
| PFRS 9 adoption impact: | | | | | | | | | | | | |
| Impairment loss transferred from retained earnings to other comprehensive income | – | – | – | – | (574,918,475) | – | – | – | 574,918,475 | – | – | – |
| Realized loss on sale of available-for-sale financial assets previously recognized in profit or loss | – | – | – | – | (31,647,929) | – | – | – | 31,647,929 | – | – | – |
| Reclassification of realized loss on sale of available-for-sale financial assets to retained earnings | – | – | – | – | 31,647,929 | – | – | – | (31,647,929) | – | – | – |
| Reclassification of unrealized loss | – | – | – | – | 278,203,897 | (278,203,897) | – | – | – | – | – | – |
| Balance at January 1, 2018, as restated | 7,906,827,500 | 7,238,721,924 | – | (475,427,035) | – | (278,203,897) | (1,546,065) | (254,319,697) | 2,179,030,779 | 16,315,083,509 | 750,960,329 | 17,066,043,838 |
| Net income | – | – | – | – | – | – | – | – | 2,157,768,639 | 2,157,768,639 | 151,884,475 | 2,309,653,114 |
| Other comprehensive (income) loss: | | | | | | | | | | | | |
| Remeasurement gain on net retirement benefits - net of tax | – | – | – | – | – | – | 6,121,011 | – | – | 6,121,011 | 6,176,214 | 12,297,225 |
| Marked-to-market loss on financial assets at fair value through other comprehensive income | – | – | – | – | – | (208,981,767) | – | – | – | (208,981,767) | (52,191,862) | (261,173,629) |
| Total comprehensive income | – | – | – | – | – | (208,981,767) | 6,121,011 | – | 2,157,768,639 | 1,954,907,883 | 105,868,827 | 2,060,776,710 |
| Parent Company shares held by a subsidiary (Note 20) | – | – | – | (34,170,020) | – | – | – | – | – | (34,170,020) | – | (34,170,020) |
| Cash dividends (Note 20) | – | – | – | – | – | – | – | – | (1,369,255,000) | (1,369,255,000) | – | (1,369,255,000) |
| Cash dividends received by non-controlling interest (Note 2) | – | – | – | – | – | – | – | – | – | – | (121,294,616) | (121,294,616) |
| Purchase of treasury shares | – | – | (29,430,080) | – | – | – | – | – | – | (29,430,080) | (16,606,788) | (46,036,868) |
| Balance at December 31, 2018 | ₱7,906,827,500 | ₱7,238,721,924 | (₱29,430,080) | (₱509,597,055) | ₱– | (₱487,185,664) | ₱4,574,946 | (₱254,319,697) | ₱2,967,544,418 | ₱16,837,136,292 | ₱718,927,752 | ₱17,556,064,044 |

| | Capital Stock (Note 20) | Additional Paid-in Capital (Note 20) | Cost of Parent Company Shares Held by a Subsidiary (Note 20) | Other Reserves: Cumulative Unrealized Mark-to-Market Gain on Available-for-Sale Financial Assets (Note 13) | Other Reserves: Remeasurement Losses on Defined Benefit Obligation (Note 19) | Other Reserves: Other Reserves | Retained Earnings (Note 20) | Total Equity Attributable to the Equity Holders of the Parent | Non-controlling Interest (Note 2) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2017 | ₱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 |
| Net income | – | – | – | – | – | – | 1,756,459,152 | 1,756,459,152 | 246,206,808 | 2,002,665,960 |
| Other comprehensive income (loss): | | | | | | | | | | |
| Remeasurement gain on net retirement benefits - net of tax | – | – | – | – | 625,731 | – | – | 625,731 | 623,233 | 1,248,964 |
| Marked-to-market gain on available-for-sale financial assets | – | – | – | 100,360,258 | – | – | – | 100,360,258 | 32,139,791 | 132,500,049 |
| Realized loss transferred to profit or loss | – | – | – | 15,855,612 | – | – | – | 15,855,612 | 15,792,317 | 31,647,929 |
| Total comprehensive income | – | – | – | 116,215,870 | 625,731 | – | 1,756,459,152 | 1,873,300,753 | 294,762,149 | 2,168,062,902 |
| Parent Company shares held by a subsidiary (Note 20) | – | – | (36,549,130) | – | – | – | – | (36,549,130) | – | (36,549,130) |
| Cash dividends (Note 20) | – | – | – | – | – | – | (879,527,864) | (879,527,864) | – | (879,527,864) |
| Cash dividends received by non-controlling interest (Note 2) | – | – | – | – | – | – | – | – | (162,402,617) | (162,402,617) |
| Purchase of treasury shares | – | – | – | – | – | – | – | – | (211,841,591) | (211,841,591) |
| Balance at December 31, 2017 | ₱7,906,827,500 | ₱7,238,721,924 | (₱475,427,035) | ₱296,714,578 | (₱1,546,065) | (₱254,319,697) | ₱1,604,112,304 | ₱16,315,083,509 | ₱750,960,329 | ₱17,066,043,838 |

| | | | | Other Reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 20) | Additional Paid-in Capital (Note 20) | Cost of Parent Company Shares Held by a Subsidiary (Note 20) | Cumulative Unrealized Mark-to-Market Gain on Available-for-Sale Financial Assets (Note 13) | Remeasurement Losses on Defined Benefit Obligation (Note 19) | Other Reserves | Retained Earnings (Note 20) | Total Equity Attributable to the Equity Holders of the Parent | Non-controlling Interest (Note 2) | Total |
| 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 loss on net retirement benefits - net of tax | – | – | – | – | (248,770) | – | – | (248,770) | (247,776) | (496,546) |
| Mark-to-market gain 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 20) | – | – | (16,667,415) | – | – | – | – | (16,667,415) | – | (16,667,415) |
| Cash dividends (Note 20) | – | – | – | – | – | – | (673,030,066) | (673,030,066) | – | (673,030,066) |
| Cash dividends received by non-controlling interest (Note 2) | – | – | – | – | – | – | – | – | (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 |

*See accompanying Notes to Consolidated Financial Statements.*

## PREMIUM LEISURE CORP. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱2,490,657,840** | ₱2,238,144,106 | ₱1,440,700,981 |
| Adjustments for: | | | |
| Amortization of intangible asset (Note 12) | **238,472,484** | 238,472,484 | 324,769,436 |
| Depreciation and amortization of property and equipment (Note 14) | **223,271,046** | 225,559,130 | 171,262,447 |
| Interest income (Notes 7, 10 and 31) | **(157,453,311)** | (75,918,013) | (47,139,103) |
| Impairment loss on goodwill (Note 17) | **110,933,996** | – | – |
| Dividend income (Notes 8 and 13) | **(24,952,521)** | (20,927,342) | (24,616,646) |
| Write-off of input VAT (Notes 11 and 23) | **–** | 25,000,000 | – |
| Marked-to-market loss (gain) of investments held for trading (Note 24) | **11,903,085** | (2,204,528) | 37,137,005 |
| Finance charges | **6,187,352** | 10,859,855 | 12,748,505 |
| Foreign exchange loss (Note 24) | **845,519** | 1,671,684 | 1,620,149 |
| Loss (gain) on sale of: | | | |
| Investments held for trading (Note 24) | **(1,548,225)** | – | – |
| Property and equipment (Note 24) | **(1,038,518)** | (155,142) | (29,997) |
| Available-for-sale financial asset (Note 24) | **–** | 31,647,929 | – |
| Operating income before working capital changes | **2,897,278,747** | 2,672,150,163 | 1,916,452,777 |
| Decrease (increase) in: | | | |
| Receivables | **351,483,786** | (107,930,214) | (222,175,303) |
| Contract assets | **(168,015,654)** | – | – |
| Other current assets | **(114,758,361)** | (47,823,031) | (49,725,724) |
| Increase (decrease) in: | | | |
| Trade payables and other current liabilities | **84,982,687** | 876,816,020 | 177,197,756 |
| Installment payable | **3,761,219** | 5,443,823 | – |
| Retirement liability | **12,661,865** | 1,797,113 | (15,802,310) |
| Cash generated from operations | **3,067,394,289** | 3,400,453,874 | 1,805,947,196 |
| Income taxes paid | **(152,262,768)** | (242,991,545) | (243,738,958) |
| Interest received | **155,890,287** | 77,453,124 | 47,139,103 |
| Net cash provided by operating activities | **3,071,021,808** | 3,234,915,453 | 1,609,347,341 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of: | | | |
| Property and equipment (Note 14) | **(45,682,606)** | (150,346,076) | (112,119,120) |
| Fair value through other comprehensive income (Note 13) | **(320,000)** | – | – |
| Available-for-sale financial asset (Note 13) | **–** | (31,653,940) | (8,636,271) |
| Investments held for trading (Note 8) | **–** | (17,034,130) | (5,683,853) |
| Dividends received | **24,952,521** | 20,927,342 | 24,616,646 |
| Decrease (increase) in: | | | |
| Other noncurrent assets | **3,803,486** | (772,618) | 13,584,604 |
| Notes receivable (Note10) | **(2,100,000,000)** | (800,000,000) | – |
| Proceeds from sale of: | | | |
| Property and equipment | **1,610,461** | 1,069,280 | 6,426,296 |
| Available-for-sale financial assets (Note 13) | **–** | 172,933,901 | – |
| Investments held for trading (Note 8) | **12,423,090** | 6,746,030 | 29,303,324 |
| Net cash acquired from acquisition of subsidiaries (Note 16) | **–** | 66,444,703 | – |
| Net cash used in investing activities | **(2,103,213,048)** | (731,685,508) | (52,508,374) |

*(Forward)*

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | **(₱1,490,549,616)** | (₱1,041,930,481) | (₱847,270,422) |
| Purchase of treasury shares by a subsidiary | **(16,606,788)** | (211,841,591) | (56,819,178) |
| Additional cost of parent company shares held by a subsidiary (Note 20) | **(34,170,020)** | (36,549,130) | (16,667,415) |
| Acquisition of treasury shares | **(29,430,080)** | – | – |
| Increase (decrease) in obligations under finance lease | **(45,675,862)** | (61,777,018) | (12,134,493) |
| Net cash used in financing activities | **(1,616,432,366)** | (1,352,098,220) | (932,891,508) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(648,623,606)** | 1,151,131,725 | 623,947,459 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,962,635,687** | 1,811,503,962 | 1,187,556,503 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 7) | **₱2,314,012,081** | ₱2,962,635,687 | ₱1,811,503,962 |

*See accompanying 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” or “Ultimate Parent Company”) and the rest by the public as at December 31, 2018 and 2017.

PLC and its subsidiaries (collectively referred to as “the Company”) have investment portfolio consisting of investment holding, 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, Pasay City.

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

| | Percentage of Ownership | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Direct** | **Indirect** | Direct | Indirect |
| **Gaming Business** | | | | |
| PremiumLeisure and Amusement, Inc. (PLAI) | **100.00** | **–** | 100.00 | – |
| **Real Estate** | | | | |
| Foundation Capital Resources, Inc. (FCRI)[a] | **100.00** | **–** | 100.00 | – |
| **Public Amusement and Recreation** | | | | |
| Sinophil Leisure and Resorts Corporation (SLRC)[a] | **100.00** | **–** | 100.00 | – |
| **Lottery Equipment Leasing, Distribution and Others** | | | | |
| Pacific Online Systems Corporation (POSC) | **53.09** | **–** | 52.91 | – |
| Loto Pacific Leisure Corporation (LotoPac) | **–** | **100.00** | – | 100.00 |
| Lucky Circle Corporation (LCC) | **–** | **100.00** | – | 100.00 |
| Athena Ventures, Inc.[b] | **–** | **100.00** | – | 100.00 |
| Avery Integrated Hub, Inc.[b] | **–** | **100.00** | – | 100.00 |
| Circle 8 Gaming Ventures, Inc.[b] | **–** | **100.00** | – | 100.00 |
| Luckydeal Leisure, Inc.[b] | **–** | **100.00** | – | 100.00 |
| Luckyfortune Business Ventures, Inc.[b] | **–** | **100.00** | – | 100.00 |
| Luckypick Leisure Club Corp. [b] | **–** | **100.00** | – | 100.00 |
| Luckyventures Leisure Corp. [b] | **–** | **100.00** | – | 100.00 |

*(Forward)*

| | Percentage of Ownership | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Direct** | **Indirect** | Direct | Indirect |
| Lucky Games Entertainment Ventures Inc. [b] | **–** | **100.00** | – | 100.00 |
| Orbis Valley Corporation [b] | **–** | **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] *Non-operating*
[b] *Accounted as subsidiaries starting July 1, 2017 (see Note 16).*

Authorization for the Issuance of the Consolidated Financial Statements
The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 22, 2019.

## 2. 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 equity financial assets that 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.

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, 2018 and 2017 (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 Group'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 (NCI) is 46.9% and 47.1% as at December 31, 2018 and 2017, 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

| | **2018** | 2017 |
|---|---|---|
| Total current assets | **₱1,156,967,831** | ₱1,243,786,537 |
| Total noncurrent assets | **946,111,550** | 1,390,060,541 |
| Total current liabilities | **(289,167,455)** | (575,634,737) |
| Total noncurrent liabilities | **(53,292,150)** | (38,137,469) |
| Total equity | **₱1,760,619,776** | ₱2,020,074,872 |
| | | |
| Attributable to: | | |
| Equity holders of the Parent | **₱1,753,714,977** | ₱2,015,538,814 |
| Non-controlling interests | **6,904,799** | 4,536,058 |
| Total | **₱1,760,619,776** | ₱2,020,074,872 |

Summarized Consolidated Statements of Comprehensive Income

| | **2018** | 2017 |
|---|---|---|
| Revenues | **₱1,935,943,996** | ₱2,319,993,376 |
| Costs and expenses | **(1,614,488,192)** | (1,652,402,460) |
| Other income (expense) - net | **161,422,797** | 54,155,446 |
| Income before income tax | **482,878,601** | 721,746,362 |
| Provision for income tax | **(178,830,586)** | (228,880,374) |
| Net income | **304,048,015** | 492,865,988 |
| Other comprehensive income (loss) | **(294,405,190)** | 120,246,512 |
| Total comprehensive income | **₱9,642,825** | ₱613,112,500 |
| Attributable to: | | |
| Equity holders of the Parent | **₱8,254,176** | ₱610,347,733 |
| Non-controlling interests | **1,388,649** | 2,764,767 |
| Total | **₱9,642,825** | ₱613,112,500 |

Summarized Cash Flow Information

| | **2018** | 2017 |
|---|---|---|
| Operating | **₱553,206,300** | ₱678,241,907 |
| Investing | **(33,241,696)** | 26,476,136 |
| Financing | **(395,794,561)** | (516,829,559) |
| Net Increase in cash and cash equivalents | **₱124,170,043** | ₱187,888,484 |

Dividends paid to non-controlling interests amounted to ₱121.3 million and ₱162.4 million in 2018 and 2017, respectively.

## 3. 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, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard only to contracts that are not yet complete as at January 1, 2018.

There were no cumulative effect of applying PFRS 15 at the date of initial application as an adjustment to the opening balance of retained earnings.

The adoption of PFRS 15 did not have a material impact on the Company's consolidated statement of financial position, other comprehensive income or on the Company's operating, investing and financing cashflows as at January 1, 2018.

The effect of adoption of PFRS 15 as at December 31, 2018 is as follows:

| Consolidated Statement of Financial Position | Under PAS 18 (Old) | Under PFRS 15 (New) | Impact Increase (Decrease) |
|---|---|---|---|
| **ASSETS** | | | |
| Contract asset – current portion | ₱– | ₱37,892,531 | ₱37,892,531 |
| Contract asset – noncurrent portion | – | 130,123,123 | 130,123,123 |
| Total | – | 168,015,654 | 168,015,654 |
| **LIABILITIES AND EQUITY** | | | |
| Income tax payable | 14,400,000 | 14,400,000 | – |
| Deferred tax liability | – | 50,404,696 | 50,404,696 |
| Retained earnings | 33,600,000 | 151,210,957 | 117,610,957 |
| Total | ₱48,000,000 | ₱216,015,653 | ₱168,015,653 |

| Consolidated Statement of Income | Under PAS 18 (Old) | Under PFRS 15 (New) | Impact Increase (Decrease) |
|---|---|---|---|
| **OTHER INCOME (EXPENSES)** | | | |
| Brand and trademark income | ₱48,000,000 | ₱203,459,171 | ₱155,459,171 |
| Interest income | – | 12,556,482 | 12,556,482 |
| Income before income tax | 48,000,000 | 216,015,653 | 168,015,653 |
| Provision for current income tax | 14,400,000 | 14,400,000 | – |
| Provision for deferred income tax | – | 50,404,696 | 50,404,696 |
| **NET INCOME** | ₱33,600,000 | ₱151,210,957 | ₱117,610,957 |

*Contract assets*
Under PFRS 15, the Company needs to evaluate the nature of its promise to grant a license of intellectual property in order to determine whether the promise is satisfied (and revenue is recognized) over time or at a point in time. A license provides either a right of access throughout the license period, which results in revenue that is recognized over time or a right to use as it exists at the point in time when the license is granted which results in revenue that is recognized at a point in time.

The Company determines that there is no implicit or implied obligation for the Company to undertake activities during the license period. Thus, exclusive right to use the scratch instant tickets brand and trademarks over a period of five (5) years effective January 1, 2018 qualifies as point in time recognition of revenue. There is no impact on the opening balances as at January 1, 2018 since the contract was only entered by the parties in 2018.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Company applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

  The effect of adoption of PFRS 9 as at January 1, 2018 is as follows:

| **Increase (Decrease) in Consolidated Statement of Financial Position** | |
|---|---|
| AFS financial assets | (₱648,597,890) |
| Financial assets at fair value through other comprehensive income (FVOCI) | 648,597,890 |
| Retained earnings | 574,918,475 |
| Other reserves | (574,918,475) |

  The nature of these adjustments are described below:

  a) Classification and measurement

     Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or FVOCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding.

     The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

     The Company continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Company's financial assets:

     - Receivables classified as "Loans and receivables" as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as "Debt instruments at amortized cost" beginning January 1, 2018.
     - Listed equity investments classified as "FVTPL" as at December 31, 2017 continues to be classified and measured as "FVTPL" beginning January 1, 2018.
     - Listed and non-listed equity investments classified as "AFS financial assets" as at December 31, 2017 are classified and measued as "FVOCI" beginning January 1, 2018. The Company elected to classify irrevocably its equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future. Impairment losses recognized in profit or loss for these investments in prior periods were reclassified from retained earnings to other comprehensive income.

As a result of the change in classification of the Company's equity investments, the impairment loss previously recognized in profit or loss in prior periods amounting to ₱574.9 million was reclassified to other comprehensive income.

There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon the adoption of PFRS 9, the Company had the following required or elected reclassifications as at January 1, 2018:

| | | PFRS 9 measurement category | | |
|---|---|---|---|---|
| **PAS 39 measurement category** | | Fair value through profit or loss | Amortized cost | Fair value through OCI |
| ***Loans and receivables*** | | | | |
| Cash and cash equivalents | ₱2,962,635,687 | ₱– | ₱2,962,635,687 | ₱– |
| Receivables* | 696,356,857 | – | 696,356,857 | – |
| Notes receivable | 1,605,925,000 | – | 1,605,925,000 | – |
| Guarantee bonds** | 35,000,000 | – | 35,000,000 | – |
| ***Fair value through profit or loss*** | | | | |
| Investments held for trading | 178,482,842 | 178,482,842 | – | – |
| ***Available for sale*** | | | | |
| Listed equity investments | 646,216,790 | – | – | 646,216,790 |
| Non-listed equity investments | 2,381,100 | – | – | 2,381,100 |
| | ₱6,126,998,276 | ₱178,482,842 | ₱5,299,917,544 | ₱648,597,890 |

**Excluding advances to contractors and suppliers amounting to ₱4.3 million.*
***Included as part of "Other noncurrent assets" account in the consolidated statements of financial position.*

b) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

- 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after

January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *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 FVTPL. 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. Retrospective application is required.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation International Financial Reporting Interpretations Committee (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 nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

## 4. Future Changes in Accounting Policies

The Company intends to 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 to have significant impact on its consolidated financial statements.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures.*

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material.*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

5. **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 is 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, respectively.

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 of liability.

The principal or the most advantageous market must be accessible to 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 FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

*Categories of Financial Assets and Subsequent Measurement.*

a. Categories of Financial Assets and Subsequent Measurement Prior to Adoption of PFRS 9

   Financial assets are classified as financial assets FVTPL, 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.

   The Company has no HTM investments as at December 31, 2017.

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

     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 FVTPL unless they are designated as effective hedging instruments as defined by PAS 39.

     Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as "Unrealized marked-to-market gain" (positive net changes in fair value) or "Unrealized marked-to-market loss" (negative net changes in fair value) in the 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 FVTPL (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 FVTPL using the fair value option at designation.

The Company's investments held for trading are classified as financial assets at FVTPL. The Company has no derivatives designated as hedging instruments as at December 31, 2017.

- *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.

  As at December 31, 2017, this category includes the Company's cash and cash equivalents, receivables (excluding advances to contractors and suppliers), notes receivables, deposits and guarantee bonds (presented as part of "Other current assets").

- *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 FVTPL or HTM investments. AFS financial assets include equity 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 FVTPL. 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.

  After initial measurement, AFS financial assets are subsequently measured 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.

As at December 31, 2017, this category includes the Company's investments in shares of stock.

b. Categories of Financial Assets and Subsequent Measurement Upon Adoption of PFRS 9

Financial assets are classified as financial assets measured at amortized cost, FVTPL and FVOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

For the purpose of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Company has no financial assets through OCI with recycling of cumulative gains or losses (debt instruments) as at December 31, 2018.

- *Financial Assets at FVTPL.* Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value.

  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 FVTPL unless they are designated as effective hedging instruments as defined by PFRS 9. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as "Unrealized marked-to-market gain" (positive net changes in fair value) or "Unrealized marked-to-market loss" (negative net changes in fair value) in the 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.

As at December 31, 2018, the Company's investments held for trading are classified as financial assets at FVTPL. The Company has no derivatives designated as hedging instruments as at December 31, 2018.

- *Financial assets at Amortized Cost.* The Company measures financial assets at amortized cost if both of the following conditions are met:

  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Financial assets at amortized cost are subsequently measured using EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

  Financial assets at amortized cost 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.

  As at December 31, 2018, this category includes the Company's cash and cash equivalents, receivables (excluding advances to contractors and suppliers), notes receivables, deposits and guarantee bonds (presented as part of "other current assets" and "other noncurrent assets").

- *Financial Assets designated at FVOCI (equity instruments).* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

  Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its non-listed equity investments under this category. As at December 31, 2018, 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 FVTPL 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 FVTPL and derivatives designated as hedging instruments as at December 31, 2018 and 2017.

- *Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL 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 EIR. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss in the consolidated statement of comprehensive 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), unearned income, obligations under finance lease and installment payable are classified under this category.

Classification of Financial Instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or 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 of 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

a. *Impairment of Financial Assets Prior to Adoption of PFRS 9*

The Company assesses at each reporting period 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 financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and 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 EIR. 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 EIR 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. However, for those receivables associated with pre-terminated contracts, the Company directly writes them off from the account since there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other income in the profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

*AFS Financial Assets.* For equity investments classified as 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.

The determination of what is "significant" or "prolonged" required judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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.

b. *Impairment of Financial Assets Upon Adoption of PFRS 9*

The Company recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

<u>Offsetting of Financial Assets and Financial Liabilities</u>
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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

*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 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 and is amortized on a straight line basis over the period of the license (i.e., 43.6 years).

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 |
| Transportation equipment | 4-5 years |
| Office equipment, furniture and fixtures | 3-4 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 and any significant part initially recognized 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.

Investment properties
The Company applied cost model in measuring its investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized when either they have been disposed of or when permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in PFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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 NCI 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 PFRS 9 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 PFRS 9, it is measured at fair value at each reporting date with the changes in fair value recognized in the profit or loss. 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 acquiree 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. When 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.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGU to which the goodwill is allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

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.

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.

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 and property and equipment may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's CGU's fair value less cost to dispose 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 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.

The consolidated retained earnings includes the earnings of the subsidiaries which are not available for dividend declaration.

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

Treasury shares and Cost of Parent Company Shares Held by a Subsidiary
The Company's own reacquired equity instruments are 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.

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

a. Revenue Recognition Prior to Adoption of PFRS 15

   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.

b. Revenue from Contracts with Customers Upon Adoption of PFRS 15

   Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Except for the "Commission income" and "Gaming revenue share," the Company has concluded that it is acting as principal in all of its revenue arrangements since it is the principal obligor in all the revenue arrangements because it typically controls the services before transferring them to the customer.

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

*Gaming Revenue Share.* Revenue representing monthly payments from Melco Resorts Leisure (PHP) Corporation (Melco), formerly MCE Leisure (Philippines) Corporation, 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 and is measured at the fair value of the consideration received, net of Philippine Amusement and Gaming Corporation (PAGCOR) license fee.

In determining the transaction price for gaming revenue share, the Company considers the effect of variable consideration. The Company estimates the amount of consideration to which it will be entitled in exchange for transferring the service to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

*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 Company's 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 Marketing & Logistics Corp. (PMLC), formerly Powerball Gaming and Entertainment Corporation, is recognized monthly in accordance with the Outsourcing Memorandum of Agreement (OMOA).

*Brand and trademark income.* Income is recognized at point in time upon transfer of a non-assignable, non-transferable and exclusive right to use of instant scratch tickets' brand and trademarks.

*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.

<u>Costs and Expenses Recognition</u>
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 contains, a lease is based on the substance of the arrangement at inception date. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that asset is (or those assets are) not explicitly specified in the arrangement.

*Company as Lessee.* A lease is classified at the inception date as a finance lease or an operating lease.

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.

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

*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.

Past service costs are recognized in the profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs.

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 translated using the Philippine peso closing exchange rate at the reporting date. All differences arising from the settlement or translation 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 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.

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.

Current income tax relating to item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*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:

- When 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 and any unused tax losses 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 levied for the same taxation authority.

*Value-Added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

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 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 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 but 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.

## 6. 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, and the accompanying disclosures, and the disclosures 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.

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.

*Revenue from Contracts with Customers.* The Company has identified the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers.

- *Determining method to estimate variable consideration and assessing the constraint.* In estimating variable consideration for the gaming revenue share, PLAI is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

PLAI determined that the most likely amount method is more appropriate for PLAI's contract with single volume threshold.

Before including any amount of variable consideration in the transaction price, PLAI considers whether the amount of variable consideration is constrained. PLAI determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

- *Significant financing component in a contract.* POSC entered into a brand and trademark license agreement, where POSC granted its customer a non-assignable, non-transferable and exclusive right to use POSC's instant scratch tickets' brand and trademark, effective January 1, 2018. The contract provides right to use to the customer, which exists at a point in time (i.e., January 1, 2018) and the customer gains control over the brand and trademark at the beginning of the period. Thus, the revenue, from which collection shall be received over five years, shall be recognized at the beginning of the period. POSC has concluded that there is a significant financing component considering the length of time between the transfer of control and customer's payments. The impact of the significant financing component is disclosed in Note 3.

*Business Combinations.* At the time of acquisition, the Company considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Company accounts for an acquisition as a business combination where an integrated set of business processes is acquired in addition to the asset acquired. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of services provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values and no goodwill or deferred tax is recognized.

Please refer to Note 16 for the Company's most recent business combinations.

*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 2018 and 2017 as a subsidiary with material non-controlling interests.

*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 and TGTI 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 ₱1,448.3 million, ₱1,840.5 million and ₱1,579.7 million in 2018, 2017 and 2016, respectively (see Note 27).

*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 ₱126.6 million, ₱87.1 million and ₱46.2 million in 2018, 2017 and 2016, respectively (see Note 27).

*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 ₱30.9 million and ₱103.7 million as at December 31, 2018 and 2017, respectively (see Notes 14 and 27).

*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. In 2017, Management assessed that it met the criteria of a noncurrent asset held for sale following the requirements of PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which include, among others:

- On June 2, 2014, 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. PLC is committed to sell its land.

- 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, 2017 (see Note 15).

As at December 31, 2018, the sale was not yet finalized. It does not anymore qualify as noncurrent asset held for sale, thus, the asset was reclassified to investment property (see Note 15).

<u>Estimates and Assumptions</u>
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, 2018 and 2017 are disclosed in Note 29.

*Provision for Expected Credit Losses of Financial Assets at Amortized Cost (Upon Adoption of PFRS 9).* The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selected inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

No provision for ECL recognized in 2018. Allowance for doubtful accounts amounted to ₱427.7 million as at December 31, 2018. The aggregate carrying values of receivables and notes receivables amounted to ₱4,056.7 million as at December 31, 2018 (see Notes 9 and 10).

*Determination of Impairment of Receivables and Notes Receivables (Prior to Adoption of PFRS 9).* 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 2017 and 2016 amounted to ₱7.7 million and nil, respectively (see Notes 9 and 23). Allowance for doubtful accounts amounted to ₱434.4 million as at December 31, 2017. The aggregate carrying values of receivables and notes receivables amounted to ₱2,306.6 million as at December 31, 2017 (see Notes 9 and 10).

*Determination of Impairment of AFS Financial Assets (Prior to Adoption of PFRS 9).* 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 2017 and 2016. The carrying values of AFS financial assets amounted to ₱648.6 million as at December 31, 2017 (see Note 13).

*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 investment property, intangible asset and property and equipment was recognized in 2018, 2017 and 2016.

The carrying values of nonfinancial assets (excluding goodwill) as at December 31, 2018 and 2017 are as follows:

| | **2018** | 2017 |
|---|---|---|
| Investment property (see Note 15) | **₱285,510,452** | ₱– |
| Noncurrent asset held for sale (see Note 15) | – | 285,510,452 |
| Intangible asset (see Note 12) | **9,429,599,487** | 9,668,071,971 |
| Property and equipment (see Note 14) | **259,903,572** | 438,063,955 |

*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 ₱8.9 million and ₱15.4 million as at December 31, 2018 and 2017, respectively. Unrecognized deferred tax assets amounted to ₱137.3 million and ₱135.7 million as at December 31, 2018 and 2017, respectively (see Note 25).

*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 CGUs to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGUs and to choose a suitable discount rate to calculate the present value of those cash flows.

The key assumptions used in the value in use calculations include discount rate, revenue growth rate and long-term growth rate (see Note 17).

*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 ₱13.7 million, ₱12.9 million and ₱9.4 million in 2018, 2017 and 2016, respectively. Remeasurement gain (loss) on retirement benefits amounted to ₱17.6 million, ₱2.3 million and (₱2.1 million) in 2018, 2017 and 2016, respectively. The carrying values of retirement asset amounted to ₱7.9 million and ₱13.4 million as at December 31, 2018 and 2017, respectively. The carrying values of retirement liability amounted to ₱7.0 million and ₱17.5 million as at December 31, 2018 and 2017, respectively (see Note 19).

There was no impairment loss of goodwill in 2018 and 2017. The carrying values of goodwill amounted to ₱1,721.3 million and ₱1,832.3 million as at December 31, 2018 and 2017, respectively (see Note 17).

*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 32).

## 7. Cash and Cash Equivalents

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Cash on hand and in banks | **₱2,220,564,179** | ₱1,727,313,361 |
| Cash equivalents | **93,447,902** | 1,235,322,326 |
| | **₱2,314,012,081** | ₱2,962,635,687 |

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 ₱36.2 million, ₱21.1 million and ₱14.3 million in 2018, 2017 and 2016, respectively.

## 8. 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., APC Group, Inc. and Philippine Long Distance Telephone Company.

The movements in this account are as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **₱178,482,842** | ₱165,990,214 |
| Acquisitions | **–** | 17,034,130 |
| Disposals | **(10,874,865)** | (6,746,030) |
| Marked-to-market gain (loss) (see Note 24) | **(11,903,085)** | 2,204,528 |
| Balance at end of year | **₱155,704,892** | ₱178,482,842 |

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 gain (loss) in 2018, 2017 and 2016 amounting to (₱11.9 million), ₱2.2 million and (₱37.1 million), respectively, were recognized in “Other income (expense) - net” account in the consolidated statements of income (see Note 24).

Realized gain from sale of investments held for trading amounted to ₱1.5 million in 2018 and nil in 2017 and 2016 (see Note 24).

Dividend income realized from investments held for trading amounted to ₱5.0 million, ₱5.7 million and ₱5.2 million in 2018, 2017 and 2016, respectively.

## 9. **Receivables**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Trade receivables | **₱331,628,182** | ₱676,537,438 |
| Loan assets (see Note 31) | **422,341,815** | 422,341,815 |
| Advances to officers and employees | **4,939,898** | 10,019,065 |
| Accrued interest on notes receivable (see Note 26) | **2,217,463** | 654,439 |
| Other receivables (Note 26) | **17,299,125** | 25,544,487 |
| | **778,426,483** | 1,135,097,244 |
| Less allowance for doubtful accounts | **427,690,938** | 434,440,938 |
| | **₱350,735,545** | ₱700,656,306 |

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 Melco for the gaming revenue share in the operations of City of Dreams Manila.

Loan assets pertain to the Parent Company’s receivable from Paxell Investment Limited and Metroplex Berhad (both Malaysian companies, collectively referred to as “Metroplex”) and Legend International Resort H.K. Limited (“LIR-HK”) amounting to ₱422.3 million as a result of the compensation to parties who were in possession of the shares in connection with the cancellation of the remaining 2,000,000,000 undelivered PLC shares (see Note 31). The loan assets were fully provided with allowance as at December 31, 2018 and 2017.

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

Movement in allowance for doubtful accounts is as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **₱434,440,938** | ₱438,497,388 |
| Additions from acquisition of subsidiaries (see Note 16) | – | 6,750,000 |
| Provision for doubtful accounts (see Note 23) | – | 7,703,713 |
| Write-off during the year | **(6,750,000)** | (18,510,163) |
| Balance at end of year | **₱427,690,938** | ₱434,440,938 |

## 10. Notes Receivable

Notes receivable, bearing interest rates ranging from 3.25% to 5.46% in 2018 and 3.25% to 4.05% in 2017, amounted to ₱3,705.9 million and ₱1,605.9 million as at December 31, 2018 and 2017 (see Note 26).

Interest income from notes receivable recognized in the consolidated statement of income amounted to ₱108.7 million, ₱54.8 million and ₱32.8 million in 2018, 2017 and 2016, respectively (see Note 26).

## 11. Other Current Assets

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Creditable withholding taxes | **₱170,275,739** | ₱90,452,593 |
| Prepaid expenses | **70,341,728** | 48,331,195 |
| Spare parts and supplies - at cost | **60,978,544** | 59,296,701 |
| Bonds and deposits (see Note 31) | **10,000,000** | – |
| Advances to contractors and suppliers | **3,847,376** | – |
| Input VAT | **3,681,383** | 7,639,695 |
| Instant scratch tickets - at cost | **25,280** | – |
| | **319,150,050** | 205,720,184 |
| Less allowance for probable loss on input VAT (see Note 23) | **62,743** | 62,616 |
| | **₱319,087,307** | ₱205,657,568 |

Creditable withholding taxes can be applied as tax credits against future income tax payable.

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.

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

Bonds and deposits pertain to cash of POSC deposited in a bank in 2009 as a cash bond in relation to POSC's Memorandum of Agreement (MOA) with PCSO. In 2018, the MOA with PCSO expired and the cash bond is expected to be received within one year from reporting period. Thus, in 2018, the cash bond of POSC amounting to ₱10.0 million was reclassified from "Other noncurrent assets" to "Other current assets" (see Note 31).

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

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | **₱62,616** | ₱62,361 |
| Provision for probable losses (see Note 23) | **127** | 255 |
| Balance at end of year | **₱62,743** | ₱62,616 |

In 2018 and 2017, the Company wrote off input VAT amounting to nil and ₱25.0 million, respectively (see Note 23).

12. **Intangible Asset**

Intangible asset, which was part of the assets acquired from Belle in 2014, 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:

| | **2018** | 2017 |
|---|---|---|
| **Cost** | | |
| Balance at beginning and end of year | **₱10,843,215,811** | ₱10,843,215,811 |
| **Accumulated Amortization** | | |
| Balance at beginning of year | **1,175,143,840** | 936,671,356 |
| Amortization | **238,472,484** | 238,472,484 |
| Balance at end of year | **1,413,616,324** | 1,175,143,840 |
| | **₱9,429,599,487** | ₱9,668,071,971 |

The unamortized life of the license as at December 31, 2018 is 39.5 years.

13. **Available-for-sale Financial Assets and Financial Assets at Fair Value Through Other Comprehensive Income**

These accounts pertain to investments in equity instruments classified as financial assets at FVOCI under PFRS 9 as at December 31, 2018 and AFS financial assets under PAS 39 as at December 31, 2017.

These accounts consist of the following:

| | **2018** | 2017 |
|---|---|---|
| Quoted shares: | | |
| Belle - common shares (see Note 26) | **₱384,963,161** | ₱646,216,790 |
| Golf club shares | **2,700,000** | 2,300,000 |
| | **387,663,161** | 648,516,790 |
| Unquoted shares: | | |
| Others | **81,100** | 81,100 |
| | **₱387,744,261** | ₱648,597,890 |

Financial Assets at FVOCI (December 31, 2018)
The movement of financial assets at FVOCI in 2018 is as follows:

| | |
|---|---|
| **Cost** | |
| Balance at beginning of year, as previously presented | ₱– |
| Reclassification from AFS financial assets | 890,198,604 |
| Balance at beginning of year, as restated | 890,198,604 |
| Additions | 320,000 |
| Balance at end of year | 890,518,604 |
| **Cumulative unrealized mark-to-market gain on financial assets** | |
| Balance at beginning of year, as previously presented | – |
| Reclassification from AFS financial assets | 333,317,761 |
| Reclassification of impairment loss on AFS financial assets previously charged to retained earnings (see Note 3) | (574,918,475) |
| Balance at beginning of year, as restated | (241,600,714) |
| Unrealized mark-to-market loss during the year | (261,173,629) |
| Balance at end of year | (502,774,343) |
| | ₱387,744,261 |

Dividend income earned from financial assets at FVOCI amounted to ₱20.0 million in 2018.

AFS Financial Assets (December 31, 2017)
The movement of AFS financial assets in 2017 is as follows:

| | |
|---|---|
| **Cost** | |
| Balance at beginning of year | ₱1,063,126,494 |
| Additions for the year | 31,653,940 |
| Disposals for the year | (204,581,830) |
| Balance at end of year | 890,198,604 |
| **Cumulative unrealized mark-to-market gain on AFS financial assets** | |
| Balance at beginning of year | 169,169,783 |
| Marked-to-market gains during the year | 132,500,049 |
| Realized loss transferred to profit or loss | 31,647,929 |
| Balance at end of year | 333,317,761 |
| **Accumulated impairment loss** | |
| Balance at beginning and end of year | (574,918,475) |
| | ₱648,597,890 |

Dividend income earned from AFS financial assets amounted to ₱15.2 million and ₱19.4 million in 2017 and 2016, respectively.

The investment in common shares of Belle is based on the quoted price as at reporting date while the investment in golf club shares is based on secondary market prices as at reporting date.

## 14. Property and Equipment

The movements in this account follow:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Lottery Equipment** | **Leasehold Improvements** | **Office Equipment, Furniture and Fixtures** | **Transportation Equipment** | **Total** |
| **Cost** | | | | | |
| Balance at beginning of year | **₱1,204,933,561** | **₱86,026,218** | **₱199,463,629** | **₱82,058,362** | **₱1,572,481,770** |
| Additions | **8,395,671** | **20,686,942** | **5,399,776** | **11,200,217** | **45,682,606** |
| Disposals | **(301,539,876)** | **(7,443,047)** | **(7,895,714)** | **(14,156,621)** | **(331,035,258)** |
| Balance at end of year | **911,789,356** | **99,270,113** | **196,967,691** | **79,101,958** | **1,287,129,118** |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | **880,721,990** | **72,888,038** | **132,930,804** | **47,876,983** | **1,134,417,815** |
| Depreciation and amortization (see Notes 22 and 23) | **171,522,876** | **18,144,694** | **19,314,514** | **14,288,962** | **223,271,046** |
| Disposals | **(301,374,133)** | **(7,443,047)** | **(7,889,514)** | **(13,756,621)** | **(330,463,315)** |
| Balance at end of year | **750,870,733** | **83,589,685** | **144,355,804** | **48,409,324** | **1,027,225,546** |
| **Net Book Value** | **₱160,918,623** | **₱15,680,428** | **₱52,611,887** | **₱30,692,634** | **₱259,903,572** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Lottery Equipment | Leasehold Improvements | Office Equipment, Furniture and Fixtures | Transportation Equipment | Total |
| **Cost** | | | | | |
| Balance at beginning of year | ₱1,138,331,261 | ₱78,896,849 | ₱185,122,340 | ₱81,254,117 | ₱1,483,604,567 |
| Acquisition of subsidiaries (see Note 16) | – | 4,357,896 | 24,306,888 | – | 28,664,784 |
| Additions | 116,251,464 | 3,009,913 | 22,970,532 | 14,551,718 | 156,783,627 |
| Disposals | (49,649,164) | (238,440) | (32,936,131) | (13,747,473) | (96,571,208) |
| Balance at end of year | 1,204,933,561 | 86,026,218 | 199,463,629 | 82,058,362 | 1,572,481,770 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | 755,875,479 | 61,862,142 | 138,983,773 | 47,794,360 | 1,004,515,754 |
| Depreciation and amortization (see Notes 22 and 23) | 174,495,675 | 11,264,336 | 26,864,903 | 12,934,216 | 225,559,130 |
| Disposals | (49,649,164) | (238,440) | (32,917,872) | (12,851,593) | (95,657,069) |
| Balance at end of year | 880,721,990 | 72,888,038 | 132,930,804 | 47,876,983 | 1,134,417,815 |
| **Net Book Value** | ₱324,211,571 | ₱13,138,180 | ₱66,532,825 | ₱34,181,379 | ₱438,063,955 |

Certain lottery equipment was acquired under finance lease agreements. The carrying amount of the equipment under finance lease agreements amounted to ₱30.9 million and ₱103.7 million as at December 31, 2018 and 2017, respectively (see Note 27).

The cost of fully depreciated property and equipment still in use as at December 31, 2018 and 2017 amounted to ₱542.4 million and ₱615.7 million, respectively. There are no temporary idle property and equipment as at December 31, 2018 and 2017.

## 15. Investment Property and Noncurrent Asset Held for Sale

These accounts pertain to parcels of land amounting to ₱285.5 million classified as investment property as at December 31, 2018 and noncurrent asset held for sale as at December 31, 2017.

<u>Noncurrent Asset Held for Sale</u>
As at December 31, 2017, these parcels of land were classified as held for sale since these will be sold to Belle in relation to the Investment Plan, as approved by PLC's BOD on June 2, 2014.

As at December 31, 2017, 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.

As at December 31, 2018, the sale was not yet finalized, thus, the Company reclassified the land held for sale to investment property. The reclassification in 2018 has no impact on the results of operations in 2018 and in prior periods.

Investment Property
The fair value of the investment property amounted to ₱295.2 million as at December 31, 2018, which was estimated using market approach, as determined by an independent appraiser. The value of the land was based on the sales and listings of comparable property registered within the vicinity and within Level 3 fair value hierarchy.

## 16. **Business Combination**

Acquisition of LCC Subsidiaries
On July 1, 2017, LCC acquired 100% ownership interest in nine entities (see Note 1). Based on management's judgment, the acquisition is assessed to be an acquisition of a business. The total consideration, provisional fair values of the assets acquired and liabilities assumed from the nine entities and provisional goodwill as at July 1, 2017 are as follows:

| | | |
|---|---|---|
| Total consideration: | | |
| Purchase price of shares | ₱10,250,000 | |
| Receivables in the acquired entities | 144,613,142 | |
| Payables to the acquired entities | (60,000,000) | ₱94,863,142 |
| Total assets acquired: | | |
| Cash and cash equivalents | 76,694,703 | |
| Receivables (net of allowance for doubtful accounts amounting to ₱6.8 million) | 7,113,848 | |
| Other current assets | 24,873,909 | |
| Property and equipment (see Note 14) | 28,664,784 | |
| Deferred tax assets | 1,466,821 | |
| Other noncurrent assets | 22,025,420 | 160,839,485 |
| Less liabilities assumed: | | |
| Trade payables and other current liabilities | 62,815,883 | |
| Retirement liability (see Note 19) | 616,120 | |
| Income tax payable | 6,227,122 | 69,659,125 |
| Provisional Goodwill | | ₱3,682,782 |

Net cash flows on acquisition is as follows:

| | |
|---|---|
| Cash acquired from subsidiaries | ₱76,694,703 |
| Cash paid on acquisition | (10,250,000) |
| | ₱66,444,703 |

The goodwill of ₱3.7 million represents the value of expected synergies arising from the business combination (see Note 17).

In 2018, the fair values of the assets acquired and liabilities assumed were finalized. There were no changes or adjustments made from that of provisionally recognized in 2017. Goodwill recognized is not expected to be deductible for income tax purposes.

The gross amount and fair value of the trade receivables amounted to ₱13.9 million and ₱7.1 million in 2017, respectively. The Company expects to collect an amount equal to the fair value of the LCC subsidiaries' receivables as of acquisition date.

From the date of acquisition, LCC subsidiaries contributed ₱142.2 million of revenue and ₱10.1 million net income from continuing operations of the Company in 2017. If the combination had taken place at the beginning of the year in 2017, revenue from continuing operations would have been ₱276.2 million and net income from continuing operations for the Company would have been ₱27.4 million in 2017.

## 17. Goodwill

Goodwill acquired from the business combination as at December 31, 2018 and 2017 consists of:

| | **2018** | 2017 |
|---|---|---|
| POSC | **₱1,717,643,956** | ₱1,717,643,956 |
| FRI | **110,933,996** | 110,933,996 |
| LCC subsidiaries (see Note 16) | **3,682,782** | 3,682,782 |
| | **1,832,260,734** | 1,832,260,734 |
| Less: allowance for impairment (see Note 24) | **110,933,996** | – |
| | **₱1,721,326,738** | ₱1,832,260,734 |

Movements in this account are as follow:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **₱1,832,260,734** | ₱1,828,577,952 |
| Impairment loss (see Note 24) | **(110,933,996)** | – |
| Additions (see Note 16) | **–** | 3,682,782 |
| Balance at end of year | **₱1,721,326,738** | ₱1,832,260,734 |

The goodwill from the acquisitions have been subjected to the annual impairment review in 2018 and 2017. The recoverable amounts of the operations 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 cover five years.

The Company did not identify any impairment indicators relating to goodwill in POSC and LCC subsidiaries as at December 31, 2018 and 2017 as it expects to realize the synergies from the business combinations.

The Company recognized impairment of its goodwill in FRI in 2018 amounting to ₱110.9 million (see Note 24).

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
Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill in 2018 and 2017 to materially exceed its recoverable amount.

*Discount Rate.* Discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate of 12.21% and 10.61% was used in 2018 and 2017, respectively, based on the Weighted Average Cost of Capital (WACC) of POSC.

*Revenue Growth Rate, Long-Term Growth Rate and Terminal Values.* An annual increase in revenue ranging from 3% to 10% and 2% to 6% per annum were applied in the 5-year cash flow projections in 2018 and 2017, respectively, based on historical performance of POSC. The long-term growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts is 4% in 2018 and 2017. The long-term growth rate used in the normalization of free cash flows represents the expected growth rate of the economy at the end of the 5th year and onwards, with reference to growth rates compiled by industry specialist.

FRI
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.

With the recent change in FRI's exclusivity arrangement with its principal, the carrying amount of the goodwill and cash generating unit to which goodwill relates to materially exceed its recoverable amount.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates, operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable WACC. The pre-tax discount rate applied to cash flow projections is 9.4% and 8.7% in 2018 and 2017, respectively. The long-term growth rate is 6.6% in 2017.

LCC subsidiaries
The recoverable amount of goodwill from the acquisition of LCC subsidiaries was determined based on a 5-year value-in-use calculation, using actual past results and observable market data.

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 pretax cash flow projections was 10.2% and 3.0% for the terminal growth rate.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of the goodwill and cash generating unit to which goodwill relates to materially exceed its recoverable amount.

## 18. Trade Payables and Other Current Liabilities

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Trade payables | **₱154,248,020** | ₱279,006,308 |
| Accrued expenses and other payables | **1,247,521,393** | 727,968,788 |
| Professional, service and management fees (see Note 26) | **42,530,367** | 65,855,180 |
| Consultancy, software and license fees payable | **37,585,238** | 55,742,294 |
| Communication, rental and utilities | **16,083,272** | 27,265,480 |
| Current portion of installment payable | **9,205,042** | 2,680,828 |
| Withholding taxes payable | **7,681,871** | 12,343,677 |
| Unearned income | **–** | 268,863,737 |
| Others (see Note 26) | **20,937,142** | 3,713,633 |
| | **₱1,535,792,345** | ₱1,443,439,925 |

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

Accrued expenses and other payables mainly represent accrual for service and professional fees, general and administrative expenses and provisions. These are usually payable within 30 days term upon receipt of billing. The Company regularly provides for its usual potential liabilities. Provisions represents estimated probable losses. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the Company's position.

Unearned income pertains to the advance payment from Melco, which will be applied as payment of PLAI's future gaming revenue share. The unearned income was realized in 2018.

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 31). These are normally settled within the next financial year.

## 19. 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 statements of financial position:

Changes in the retirement benefits of the Company in 2018 are as follows:

| | **Fair Value of Plan Assets** | **Present Value of Defined Benefit Obligation** | **Retirement Benefits** |
|---|---|---|---|
| At January 1, 2018 | **₱85,569,924** | **(₱89,635,734)** | **(₱4,065,810)** |
| Net retirement income (costs) in profit or loss: | | | |
| Current service cost | **–** | **(13,467,939)** | **(13,467,939)** |
| Net interest | **4,863,314** | **(5,057,237)** | **(193,923)** |
| | **4,863,314** | **(18,525,176)** | **(13,661,862)** |
| Benefits paid | **(96,206)** | **96,206** | **–** |
| Contributions | **1,000,000** | **–** | **1,000,000** |
| Remeasurement gain (loss) recognized in OCI: | | | |
| Actuarial changes due to experience adjustment | **–** | **(918,318)** | **(918,318)** |
| Actuarial changes arising from changes in financial assumptions | **–** | **23,853,239** | **23,853,239** |
| Actual return excluding amount included in net interest cost | **–** | **5,235,516** | **5,235,516** |
| Actuarial changes due to changes in demographic assumptions | **(7,194,150)** | **–** | **(7,194,150)** |
| Effect of asset ceiling | **(3,374,555)** | **–** | **(3,374,555)** |
| | **(10,568,705)** | **28,170,437** | **17,601,732** |
| At December 31, 2018 | **₱80,768,327** | **(₱79,894,267)** | **₱874,060** |

Changes in the retirement benefits of the Company in 2017 are as follows:

| | Fair Value of Plan Assets | Present Value of Defined Benefit Obligation | Retirement Benefits |
|---|---|---|---|
| At January 1, 2017 | ₱74,299,987 | (₱78,218,885) | (₱3,918,898) |
| Acquisition of subsidiaries (see Note 16) | – | (616,120) | (616,120) |
| | 74,299,987 | (78,835,005) | (4,535,018) |
| Net retirement income (costs) in profit or loss: | | | |
| Current service cost | – | (13,001,637) | (13,001,637) |
| Net interest | 4,309,150 | (4,221,095) | 88,055 |
| | 4,309,150 | (17,222,732) | (12,913,582) |
| Benefits paid out of the Company's fund | – | 111,486 | 111,486 |
| Contributions | 11,004,983 | – | 11,004,983 |

*(Forward)*

| | Fair Value of Plan Assets | Present Value of Defined Benefit Obligation | Retirement Benefits |
|---|---|---|---|
| Remeasurement gain (loss) recognized in OCI: | | | |
| Actuarial changes due to experience adjustment | ₱– | ₱3,258,765 | ₱3,258,765 |
| Actuarial changes arising from changes in financial assumptions | – | 3,345,742 | 3,345,742 |
| Actual return excluding amount included in net interest cost | (3,170,012) | – | (3,170,012) |
| Actuarial changes due to changes in demographic assumptions | – | (293,990) | (293,990) |
| Effect of asset ceiling | (874,184) | – | (874,184) |
| | (4,044,196) | 6,310,517 | 2,266,321 |
| At December 31, 2017 | ₱85,569,924 | (₱89,635,734) | (₱4,065,810) |

The retirement benefits are presented in the consolidated statement of financial position as at December 31, 2018 and 2017 are as follows:

| | **2018** | 2017 |
|---|---|---|
| Retirement asset | **₱7,855,553** | ₱13,413,273 |
| Retirement liability | **(6,981,493)** | (17,479,083) |
| Net retirement asset (liability) | **₱874,060** | (₱4,065,810) |

The latest actuarial valuation of the Company is as at December 31, 2018.

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

| | **2018** | 2017 |
|---|---|---|
| Cash and cash equivalents | **₱2,640,981** | ₱8,184,135 |
| Debt instruments - government bonds | **43,122,315** | 36,250,629 |
| Debt instruments - other bonds | **2,525,548** | 2,792,338 |
| Unit investment trust funds | **35,706,253** | 33,124,533 |
| Others | **(3,226,770)** | 5,218,289 |
| | **₱80,768,327** | ₱85,569,924 |

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:

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **7.53%-8.06%** | 5.60%-5.70% |
| Rate of compensation increase | **5.00%-8.00%** | 5.00%-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, 2018 and 2017 assuming if all other assumptions were held constant:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Increase (Decrease)** | **Increase (Decrease) in Defined Benefit Obligation** | Increase (Decrease) | Increase (Decrease) in Defined Benefit Obligation |
| Discount rate | **1.00%** | **(₱7,626,037)** | 1.00% | (₱11,248,835) |
| | **(1.00%)** | **9,248,824** | (1.00%) | 13,962,224 |
| Salary increase rate | **1.00%** | **8,692,250** | 1.00% | 12,594,578 |
| | **(1.00%)** | **(7,319,760)** | (1.00%) | (10,433,740) |

The average duration of the defined benefit obligation is 9.9 years to 13.4 years in 2018.

The maturity analysis of the undiscounted benefit payments follows:

| | **2018** | 2017 |
|---|---|---|
| Less than 1 year | **₱14,956,661** | ₱13,514,581 |
| More than 1 year to 5 years | **15,680,137** | 13,471,690 |
| More than 5 years to 10 years | **49,852,661** | 28,627,278 |

## 20. Equity

Preferred Stock
As at December 31, 2018 and 2017, 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
Common stock as at December 31, 2018 and 2017 consists of the following:

| | Number of Shares |
|---|---|
| Authorized - ₱0.25 par value per share | 37,630,000,000 |
| Issued and Subscribed - Balance at beginning and end of year | 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 |

*(Forward)*

| Date of SEC Approval | Authorized Shares | Number of Shares Issued | Issue/ Offer Price |
|---|---|---|---|
| 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 31).

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 31).

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 31).

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 31).

As discussed in Note 31, 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.

On May 29, 2014, the SEC approved the PLC's application for equity restructuring which included the following:

- Reduction in par value per share 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 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.

Additional Paid-in Capital

Additional paid-in capital as at December 31, 2018 and 2017 consists of the following:

| | |
|---|---:|
| Subscription and/or issuance of shares | ₱6,941,634,391 |
| Business combination | 297,087,533 |
| | ₱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 step acquisition of POSC in 2015, which was accounted for as business combination under common control using pooling of interest method.

Treasury shares

The BOD has authorized the buy-back of the Company's common shares to enhance the shareholder value. The Company is authorized to repurchase up to ₱500.0 million worth of common shares. In March 19, 2018, the Company commenced its share buyback program. As at December 31, 2018, 28,379,000 shares have been bought back by the Company with a cost of ₱29.43 million. This is presented as "Treasury shares" and are treated as a reduction in equity.

Parent Company Shares Held by a Subsidiary

POSC holds common shares of the Parent Company totaling 377,143,000 shares and 347,951,000 shares as at December 31, 2018 and 2017, respectively, with a cost of ₱509.6 million and ₱475.4 million as at December 31, 2018 and 2017, respectively. These are presented as "Cost of Parent Company shares held by a subsidiary" and are treated as a reduction in equity.

Retained Earnings

On February 23, 2018, the Parent Company's BOD approved the declaration of cash dividends of ₱0.04391 per share amounting to ₱1,388.8 million to shareholders of record as at March 10, 2018. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱19.5 million.

On February 23, 2017, the Parent Company's BOD approved the declaration of cash dividends of ₱0.0281 per share amounting to ₱888.7 million to shareholders of record as at March 10, 2017. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱9.2 million.

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. Dividend attributed to Parent Company shares held by a subsidiary, which was eliminated in the consolidated financial statements, amounted to ₱7.0 million.

The consolidated retained earnings as at December 31, 2018 and 2017 includes the earnings of the subsidiaries and associates which are not currently available for dividend declaration unless declared by the subsidiaries and associates of the Parent Company. The Parent Company's retained earnings available for dividend declaration, computed based on the regulatory requirements of SEC amounted to ₱2,517.9 million and ₱1,708.2 million as at December 31, 2018 and 2017, respectively.

## 21. Gaming Revenue Share

PLAI's gaming revenue share is determined in accordance with PLAI's operating agreement with Melco as follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Gaming revenue share – gross | **₱7,551,166,234** | ₱6,119,060,974 | ₱2,171,573,454 |
| Less PAGCOR license fee paid by Melco | **4,339,309,270** | 3,509,708,335 | 528,597,089 |
| Gaming revenue share – net (see Note 30) | **₱3,211,856,964** | ₱2,609,352,639 | ₱1,642,976,365 |

## 22. Cost of Services

This account consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Online lottery system expenses | **₱237,205,391** | ₱193,378,115 | ₱122,887,521 |
| Depreciation and amortization (see Note 14) | **199,846,955** | 194,986,126 | 138,892,148 |
| Software and license fees (see Notes 27 and 31) | **195,747,032** | 191,656,399 | 186,644,134 |
| Rental and utilities (see Note 27) | **159,011,768** | 62,975,691 | 23,799,546 |
| Payroll and related expenses | **157,827,139** | 145,220,203 | 65,583,792 |
| Operating supplies | **150,145,617** | 205,296,501 | 183,151,089 |
| Communication | **112,113,845** | 113,335,408 | 95,691,927 |
| Consultancy fees (see Note 31) | **75,987,317** | 136,634,323 | 122,801,401 |
| Service fees (see Notes 26 and 31) | **–** | 260,564,461 | 269,814,397 |
| Others | **9,603,530** | 34,991,182 | 29,587,237 |
| | **₱1,297,488,594** | ₱1,539,038,409 | ₱1,238,853,192 |

## 23. General and Administrative Expenses

This account consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Termination cost (see Note 31) | **₱327,614,359** | ₱– | ₱– |
| Salaries, wages and benefits | **140,133,637** | 121,420,783 | 104,449,785 |
| Transportation and travel | **77,390,533** | 91,941,841 | 62,194,960 |
| Outside services (see Note 26) | **60,275,106** | 12,999,222 | 12,124,621 |
| Taxes and licenses | **43,579,008** | 30,632,398 | 34,247,590 |
| Representation and entertainment | **35,268,666** | 49,978,597 | 26,763,840 |

*(Forward)*

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Professional, service and management fees (see Notes 26 and 31) | **₱29,226,287** | ₱48,215,605 | ₱45,687,390 |
| Rental and utilities (see Note 27) | **25,616,335** | 37,718,135 | 36,657,677 |
| Depreciation and amortization (see Note 14) | **23,424,091** | 30,573,004 | 32,370,299 |
| Repairs and maintenance | **19,976,689** | 12,428,642 | 11,166,018 |
| Marketing, advertising and promotion (see Note 26) | **16,779,397** | 1,981,220 | 3,120,168 |
| Communication | **12,963,789** | 7,826,803 | 17,076,146 |
| Placement and listing fee | **2,075,678** | 2,404,625 | 2,005,662 |
| Insurance | **803,164** | 1,384,637 | 1,025,956 |
| Provision for doubtful accounts and probable loss on input VAT (see Notes 9 and 11) | **127** | 7,703,968 | 6,974 |
| Write-off of input VAT (see Note 11) | **–** | 25,000,000 | – |
| Miscellaneous (see Note 18) | **606,769,744** | 536,473,897 | 172,634,165 |
| | **₱1,421,896,610** | ₱1,018,683,377 | ₱561,531,251 |

Miscellaneous expense includes regular provisions of the Company.

## 24. **Other Income (Expense) - net**

This account consists of:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Brand and trademark income (see Note 31) | **₱203,459,171** | ₱– | ₱– |
| Impairment loss on goodwill (see Note 17) | **(110,933,996)** | – | – |
| Marked-to-market gain (loss) on investments held for trading (see Note 8) | **(11,903,085)** | 2,204,528 | (37,137,005) |
| Gain on sale of investments held for trading (see Note 8) | **1,548,225** | – | – |
| Gain on sale of property and equipment | **1,038,518** | 155,142 | 29,997 |
| Foreign exchange loss | **(845,519)** | (1,671,684) | (1,620,149) |
| Loss on sale of AFS financial assets (see Note 13) | **–** | (31,647,929) | – |
| Other income | **42,132,775** | 49,966,804 | 14,498,940 |
| | **₱124,496,089** | ₱19,006,861 | (₱24,228,217) |

Other income includes excess standard input VAT from transactions with government and service income earned in providing repairs and maintenance services.

## 25. **Income Taxes**

The components of income tax expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current income tax | **₱133,572,412** | ₱235,892,039 | ₱254,329,643 |
| Deferred income tax relating to origination and reversal of temporary difference | **47,432,314** | (413,893) | 28,271,202 |
| | **₱181,004,726** | ₱235,478,146 | ₱282,600,845 |

PLC and its subsidiaries are using itemized deduction in computing their taxable income, except for PLAI, who elected to use Optional Standard Deduction (OSD) until third quarter of 2016.

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

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued expenses | **₱2,417,101** | ₱2,788,503 |
| Unamortized past service costs | **10,002,926** | 7,726,070 |
| Allowance for doubtful accounts on receivables | **4,045,557** | 4,045,557 |
| NOLCO | **2,602,457** | 1,466,822 |
| Retirement liability | **436,829** | – |
| Unrealized foreign exchange gain | **265,884** | 476,920 |
| | **19,770,754** | 16,503,872 |
| Deferred tax liabilities: | | |
| Contract asset | **50,404,696** | – |
| Retirement asset | **5,741,338** | 753,636 |
| Others | **921,858** | 310,551 |
| | **57,067,892** | 1,064,187 |
| Deferred tax assets (liabilities) – net | **(₱37,297,139)** | ₱15,439,685 |

The deferred taxes are presented in the consolidated statement of financial position as at December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets | **₱8,864,126** | ₱15,439,685 |
| Deferred tax liabilities | **(46,161,265)** | – |
| Net deferred tax assets (liabilities) | **(₱37,297,139)** | ₱15,439,685 |

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:

| | 2018 | 2017 |
|---|---|---|
| Allowance for doubtful accounts on receivables | **₱427,690,938** | ₱427,690,938 |
| Allowance for deferred oil exploration and development costs | **18,377,841** | 18,377,841 |
| Excess MCIT over regular corporate income tax | **2,830,747** | 1,257,329 |
| Allowance for impairment of AFS investments | **2,000,000** | 2,000,000 |
| NOLCO | **99,441** | 160,955 |
| | **₱450,998,967** | ₱449,487,063 |

Deferred tax assets amounting to ₱137.3 million and ₱135.7 million as at December 31, 2018 and 2017, 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, 2018, the carryforward benefits of NOLCO and MCIT that can be claimed as deductions from regular taxable income and RCIT due, respectively, are as follows:

| Year Incurred/Paid | Expiry Date | NOLCO | MCIT |
|---|---|---|---|
| 2016 | December 31, 2019 | ₱39,690 | ₱656,606 |
| 2017 | December 31, 2020 | 29,380 | – |
| 2018 | December 31, 2021 | 8,705,228 | 2,174,141 |
| | | ₱8,774,298 | ₱2,830,747 |

The movements in NOLCO follow:

| | **2018** | 2017 |
|---|---|---|
| NOLCO: | | |
| Balance at beginning of year | **₱5,050,362** | ₱8,661,197 |
| Additions | **8,705,228** | 4,903,393 |
| Applications | **(4,889,407)** | (8,437,299) |
| Expirations | **(91,885)** | (76,929) |
| Balance at end of year | **₱8,774,298** | ₱5,050,362 |

The movements in MCIT follow:

| | **2018** | 2017 |
|---|---|---|
| MCIT: | | |
| Balance at beginning of year | **₱1,257,329** | ₱1,257,329 |
| Additions | **2,174,141** | – |
| Expirations | **(600,723)** | – |
| Balance at end of year | **₱2,830,747** | ₱1,257,329 |

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:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Income tax computed at statutory tax rate | **₱747,197,352** | ₱671,443,231 | ₱432,210,294 |
| Income tax effect of: | | | |
| Income not subject to income tax | **(908,018,484)** | (785,764,413) | (289,972,725) |
| Nondeductible expenses | **338,235,727** | 357,133,868 | 212,640,574 |
| Interest income subject to final tax | **(2,450,189)** | (2,059,579) | (4,275,333) |
| Change in unrecognized deferred tax assets | **1,511,904** | (8,505,413) | (4,203,247) |
| Expired NOLCO | **91,885** | 76,929 | 40,590 |
| Excess of itemized deduction over OSD | **–** | – | (65,900,842) |
| Others | **4,436,532** | 3,153,523 | 2,061,534 |
| | **₱181,004,726** | ₱235,478,146 | ₱282,600,845 |

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that generally affect businesses on a prospective basis, the management assessed that the same do not have any significant impact on the financial statement balances as of the reporting date.

## 26. **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.

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 on demand. There have been no guarantees provided or received for any related party receivables or payables and settlements occur in cash.

The amounts included in these transactions are as follows:

| Related Party | Relationship | Transaction | | Transaction Amounts | Outstanding Balance Assets (Liabilities) | Terms | Condition |
|---|---|---|---|---|---|---|---|
| Belle | Parent | Advances (see Note 18) | **2018** | **₱668,842** | **(₱4,320,823)** | Noninterest-bearing, due and demandable | Unsecured, no impairment |
| | | | 2017 | 985,341 | (3,713,633) | | |
| | | | 2016 | 754,616 | (2,728,292) | | |
| | | Notes receivable (see Note 10) | **2018** | **2,100,000,000** | **3,705,925,000** | 3.25% to 5.46% interest-bearing, due on demand | Unsecured, no impairment |
| | | | 2017 | 800,000,000 | 1,605,925,000 | | |
| | | | 2016 | – | 805,925,000 | | |
| | | Financial assets at FVOCI (see Note 13) | **2018** | **320,000** | **384,963,161** | Noninterest-bearing | Unsecured, no impairment |
| | | Available-for-sale financial assets (see Note 13) | 2017 | 31,653,940 | 646,216,790 | Noninterest-bearing | Unsecured, with allowance for impairment amounting to ₱569.9 million as at December 31, 2017 and 2016 |
| | | | 2016 | 8,636,271 | 655,096,702 | | |
| | | Interest income (see Notes 9 and 10) | **2018** | **108,707,037** | **2,217,463** | Noninterest-bearing, 30 days | Unsecured, no impairment |
| | | | 2017 | 54,759,963 | 654,439 | | |
| | | | 2016 | 32,830,279 | 2,189,550 | | |
| | | Service and management fee (see Notes 18, 22 and 23) | **2018** | **54,000,000** | **(9,900,000)** | Noninterest-bearing, 30 days | Unsecured |
| | | | 2017 | 60,480,000 | – | | |
| | | | 2016 | 60,480,000 | – | | |
| | | Others (see Note 9) | **2018** | **–** | **5,443,618** | Noninterest-bearing, due on demand | Unsecured |
| | | | 2017 | 12,543,618 | 12,543,618 | | |
| | | | 2016 | – | – | | |
| Belle Grande | Affiliate | Service fees (see Notes 18 and 22) | **2018** | **327,614,359** | **–** | Noninterest-bearing, 30 days | Unsecured |
| | | | 2017 | 133,800,340 | (35,157,662) | | |
| | | | 2016 | – | – | | |

*(Forward)*

| Related Party | Relationship | Transaction | | Transaction Amounts | Outstanding Balance Assets (Liabilities) | Terms | Condition |
|---|---|---|---|---|---|---|---|
| SM Arena Complex Corporation | Affiliate | Others (see Notes 18, 22 and 23) | **2018** | **₱18,900,000** | **(₱4,950,000)** | Noninterest-bearing, 30 days | Unsecured |
| | | | 2017 | 20,701,935 | – | | |
| | | | 2016 | 20,160,000 | (1,680,000) | | |
| SM Prime Holdings, Inc. | Affiliate | Rental expense (see Note 22) | **2018** | **27,208,158** | **–** | Noninterest-bearing, 30 days | Unsecured |
| | | | 2017 | 12,610,120 | – | | |
| | | | 2016 | 12,384,984 | – | | |

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. Effective January 1, 2018, PLAI transferred its Service Agreement with Belle to the Parent Company. Management and service fees amounting to ₱50.4 million, ₱60.5 million and ₱60.5 million in 2018, 2017 and 2016, 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 22 and 23).

Other Transactions

Compensation of key management personnel of the Company are as follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Short-term employee benefits | **₱42,714,891** | ₱45,139,351 | ₱42,477,708 |
| Retirement benefits costs | **3,881,441** | 3,819,419 | 3,240,233 |
| | **₱46,596,332** | ₱48,958,770 | ₱ 45,717,941 |

## 27. 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.

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

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱22,253,929** | ₱45,340,826 |
| After one year but not more than five years | **16,690,446** | 38,944,375 |
| Total future minimum lease payments | **38,944,375** | 84,285,201 |
| Less amount representing interest | **3,569,901** | 9,422,217 |
| Present value of lease payments | **35,374,474** | 74,862,984 |
| Less current portion of obligations under finance lease | **19,379,463** | 39,488,510 |
| Noncurrent portion of obligations under finance lease | **₱15,995,011** | ₱35,374,474 |

The contracts of POSC remain effective until July 31, 2019, 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 operations or a fixed amount of 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 22).

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 percentage of the gross receipts of PCSO from its "Online KENO" game or a fixed amount of US$60 per terminal per month, whichever is higher.

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.

b. Operating Lease

<u>As Lessor</u>
POSC leases online lotto equipment and accessories to PCSO for a period of 1 year until July 31, 2019 as provided in the 2018 Amended ELA (see Note 31). 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 ₱788.6 million, ₱1,036.9 million and ₱931.8 million in 2018, 2017 and 2016, respectively.

Future minimum rental income as at December 31, 2018 and 2017 for the remaining lease term of one year is ₱82.2 million and ₱85.9 million, respectively.

TGTI leases "Online KENO" equipment and accessories to PCSO 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 ₱659.7 million, ₱803.6 million and ₱647.9 million in 2018, 2017 and 2016, respectively. Future minimum rental income for the remaining lease terms is as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱98,160,000** | ₱96,400,000 |
| After one year but not more than five years | **73,620,000** | 141,400,000 |
| | **₱171,780,000** | ₱237,800,000 |

<u>As Lessee</u>

a. POSC leases certain office spaces for periods of one to three years up to 2019. The lease agreements provide for minimum rental commitments with annual rental escalation rate of 5% to 10%. Rent expense recognized in the consolidated statement of income amounted to ₱18.6 million, ₱16.2 million and ₱11.0 million in 2018, 2017 and 2016, respectively.

b. LotoPac, LCC and FRI lease certain properties that are renewed annually at the option of both companies. Rent expense recognized in the consolidated statement of income amounted to ₱97.4 million, ₱62.9 million and ₱29.2 million in 2018, 2017 and 2016, 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 which commenced on February 1, 2011 expired on January 31, 2016 which was renewed for a period of two years which commenced on February 1, 2016 to January 31, 2018, (2) MBH Trading & Manufacturing Corporation for the lease of its warehouse for a period of seven years commencing on August 1, 2010 and expired on July 31, 2017 which was also renewed up to July 2020, 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 ₱10.6 million, ₱8.0 million and ₱6.0 million in 2018, 2017 and 2016, respectively.

The above operating leases have no restrictions and contingent rental provisions.

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

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱104,845,379** | ₱87,509,954 |
| After one year but not more than five years | **95,245,945** | 42,407,810 |
| | **₱200,091,324** | ₱129,917,764 |

## 28. Basic/Diluted Earnings Per Common Share

As at December 31, 2018, 2017 and 2016, basic/diluted earnings per share were computed as follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net income attributable to the equity holders of the Parent (a) | **₱2,157,768,639** | ₱1,756,459,152 | ₱959,849,646 |
| Weighted average common shares, beginning | **31,627,310,000** | 31,627,310,000 | 31,627,310,000 |
| Number of parent company common shares held by subsidiaries - basic, at beginning of year | **(347,951,000)** | (323,586,000) | (290,660,000) |
| Acquisition of entities holding parent common shares | **(23,929,036)** | (16,323,279) | (32,130,230) |
| Weighted average number of treasury shares acquired during the year | **(19,849,526)** | – | – |
| Weighted average common shares, end (b) | **31,235,580,438** | 31,287,400,721 | 31,304,519,770 |
| Earnings per common share (a/b) | **₱0.069080** | ₱0.056140 | ₱0.030662 |

## 29. Financial Assets and Financial Liabilities

Financial Risk Management Objectives and Policies and Capital Management
The Company's principal financial liabilities comprise trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include cash and cash equivalents, receivables and guarantee bonds that derive directly from its operations. The Company also holds investments held for trading, notes receivable, AFS financial assets and financial assets at FVOCI.

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, financial assets at FVOCI 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 Melco, 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 Melco 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, financial assets at FVOCI 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.

| | **2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Past Due but not Impaired** | | | | | |
| | **Neither Past Due nor Impaired** | **Less than 30 days** | **31 Days to 1 Year** | **Over 1 Year up to 3 Years** | **Over 3 Years** | **Impaired** | **Total** |
| Cash and cash equivalents* | **₱2,307,628,061** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱2,307,628,061** |
| Investment held for trading | **155,704,892** | **–** | **–** | **–** | **–** | **–** | **155,704,892** |
| Receivables | **350,735,545** | **–** | **–** | **–** | **–** | **427,690,938** | **778,426,483** |
| Notes receivable | **3,705,925,000** | **–** | **–** | **–** | **–** | **–** | **3,705,925,000** |
| Financial assets at FVOCI | **387,744,261** | **–** | **–** | **–** | **–** | **–** | **387,744,261** |
| Guarantee bonds** | **42,000,000** | **–** | **–** | **–** | **–** | **–** | **42,000,000** |
| Deposits*** | **35,400,000** | **–** | **–** | **–** | **–** | **–** | **35,400,000** |
| | **₱6,985,137,759** | **₱–** | **₱–** | **₱–** | **₱–** | **₱427,690,938** | **₱7,412,828,697** |

**Excluding cash on hand amounting to ₱6.4 million.*
***Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*
****Included as part of "Other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position*

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Past Due but not Impaired | | | | | |
| | Neither Past Due nor Impaired | Less than 30 days | 31 Days to 1 Year | Over 1 Year up to 3 Years | Over 3 Years | Impaired | Total |
| Cash and cash equivalents* | ₱2,956,671,884 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱2,956,671,884 |
| Investment held for trading | 178,482,842 | – | – | – | – | – | 178,482,842 |
| Receivables** | 696,108,833 | – | – | – | 248,024 | 434,440,938 | 1,130,797,795 |
| Notes receivable | 1,605,925,000 | – | – | – | – | – | 1,605,925,000 |
| AFS financial assets | 648,597,890 | – | – | – | – | 574,918,475 | 1,223,516,365 |
| Guarantee bonds*** | 35,000,000 | – | – | – | – | – | 35,000,000 |
| | ₱6,120,786,449 | ₱– | ₱– | ₱– | ₱248,024 | ₱1,009,359,413 | ₱7,130,393,886 |

**Excluding cash on hand amounting to ₱6.0 million.*
***Excluding advances to contractors and suppliers amounting to ₱4.3 million.*
****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.

| | **2018** | | |
|---|---|---|---|
| | **High Grade** | **Medium Grade** | **Total** |
| Cash and cash equivalents* | **₱2,307,628,061** | **₱–** | **₱2,307,628,061** |
| Investment held for trading | **155,704,892** | **–** | **155,704,892** |
| Receivables | **350,735,545** | **–** | **350,735,545** |
| Notes receivable | **3,705,925,000** | **–** | **3,705,925,000** |
| Financial assets at FVOCI | **384,963,161** | **2,781,100** | **387,744,261** |
| Guarantee bonds** | **42,000,000** | **–** | **42,000,000** |
| Deposits | **35,400,000** | **–** | **35,400,000** |
| | **₱6,982,356,659** | **₱2,781,100** | **₱6,985,137,759** |

**Excluding cash on hand amounting to ₱6.3 million.*
***Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*

| | 2017 | | |
|---|---|---|---|
| | High Grade | Medium Grade | Total |
| Cash and cash equivalents* | ₱2,956,671,884 | ₱– | ₱2,956,671,884 |
| Investment held for trading | 178,482,842 | – | 178,482,842 |
| Receivables** | 696,108,833 | – | 696,108,833 |
| Notes receivable | 1,605,925,000 | – | 1,605,925,000 |
| AFS financial assets | 646,216,790 | 2,381,100 | 648,597,890 |
| Guarantee bonds*** | 35,000,000 | – | 35,000,000 |
| | ₱6,118,405,349 | ₱2,381,100 | ₱6,120,786,449 |

**Excluding cash on hand amounting to ₱6.0 million.*
***Excluding advances to contractors and suppliers amounting to ₱4.3 million.*
****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, 2018 and 2017 as the total current assets can cover the total current liabilities as they fall due.

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **1 to 60 Days** | **Over 60 Days but less than 1 year** | **Over 1 year** | **Total** |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | **₱2,314,012,081** | **₱–** | **₱–** | **₱–** | **₱2,314,012,081** |
| Investments held for trading | **155,704,892** | **–** | **–** | **–** | **155,704,892** |
| Receivables | **–** | **350,735,545** | **–** | **–** | **350,735,545** |
| Notes receivable | **3,705,925,000** | **–** | **–** | **–** | **3,705,925,000** |
| Financial assets at FVOCI | **–** | **–** | **–** | **387,744,261** | **387,744,261** |
| Guarantee bonds[(a)] | **–** | **–** | **–** | **42,000,000** | **42,000,000** |
| Deposits | **–** | **–** | **35,400,000** | **–** | **35,400,000** |
| **Contract Assets** | | | | | |
| Contract asset* | **–** | **8,000,000** | **40,000,000** | **144,000,000** | **192,000,000** |
| | **₱6,175,641,973** | **₱358,735,545** | **₱75,400,000** | **₱573,744,261** | **₱7,183,521,779** |

**based on undiscounted payments*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **1 to 60 Days** | **Over 60 Days but less than 1 year** | **Over 1 year** | **Total** |
| **Financial Liabilities** | | | | | |
| Trade payables and other current liabilities[(b)] | **₱43,763,639** | **₱280,407,822** | **₱–** | **₱–** | **₱324,171,461** |
| Obligations under finance lease[(c)] | **–** | **3,708,988** | **18,544,941** | **16,690,446** | **38,944,375** |
| Installment payable [(d)] | **–** | **–** | **9,205,042** | **–** | **9,205,042** |
| | **₱43,763,639** | **₱284,116,810** | **₱27,749,983** | **₱16,690,446** | **₱372,320,878** |

*(a)Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*
*(b)Excluding statutory liabilities, provisions, unearned income and current portion of installment payable amounting to ₱1,211.6 million*
*(c)Based on undiscounted future payments*
*(d) Including current portion*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | On Demand | 1 to 60 Days | Over 60 Days but less than 1 year | Over 1 year | Total |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | ₱2,962,635,687 | ₱– | ₱– | ₱– | ₱2,962,635,687 |
| Investments held for trading | 178,482,842 | – | – | – | 178,482,842 |
| Receivables[(a)] | 248,024 | 696,108,833 | – | – | 696,356,857 |
| Notes receivable | 1,605,925,000 | – | – | – | 1,605,925,000 |
| AFS financial assets | – | – | – | 648,597,890 | 648,597,890 |
| Guarantee bonds[(b)] | – | – | – | 35,000,000 | 35,000,000 |
| | ₱5,181,732,491 | ₱696,108,833 | ₱– | ₱683,597,890 | ₱6,126,998,276 |
| | | | | | |
| **Financial Liabilities** | | | | | |
| Trade payables and other current liabilities[(c)] | ₱51,679,679 | ₱487,620,086 | ₱– | ₱– | ₱539,299,765 |
| Obligations under finance lease[(d)] | – | 9,476,305 | 35,864,521 | 38,944,375 | 84,285,201 |
| Installment payable [(e)] | – | 670,207 | 2,010,621 | 2,762,995 | 5,443,823 |
| | ₱51,679,679 | ₱497,766,598 | ₱37,875,142 | ₱41,707,370 | ₱629,028,789 |

*(a)Excluding advances to contractors and suppliers amounting to ₱4.3 million.*
*(b)Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*
*(c)Excluding statutory liabilities, provisions, unearned income and current portion of installment payable amounting to ₱904.4 million*
*(d)Based on undiscounted future payments*
*(e) Including current portion*

*Equity Price Risk.* Equity price risk is the risk that the fair value of quoted investment held for trading, AFS financial assets, and financial assets at fair value through other comprehensive income decrease as the result of changes in the value of individual stocks. The Company's exposure to equity price risk primarily to the Company's quoted investments held for trading, AFS financial assets and financial assets at FVOCI. The Company monitors the equity investments based on market expectations. Significant movements within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the BOD.

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.

Financial assets at FVOCI

| | **2018** | |
|---|---|---|
| | **Increase in Equity Price** | **Decrease in Equity Price** |
| Percentage increase (decrease) in equity price | **1%** | **1%** |
| Effect on equity | **₱3,423,323** | **(₱3,423,323)** |

Available-for-sale financial assets

| | 2017 | |
|---|---|---|
| | Increase in Equity Price | Decrease in Equity Price |
| Percentage increase (decrease) in equity price | 1% | (1%) |
| Effect on equity | ₱1,641,680 | (₱5,196,681) |

Investments held for trading

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **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 profit or loss | **₱8,148,110** | **(₱8,148,110)** | ₱8,924,142 | (₱8,291,536) |

*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 ₱52.72 and ₱49.92 to US$1, the Php to US$ exchange rates as at December 31, 2018 and 2017, 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 2018. 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 |
|---|---|---|---|
| **2018** | **5%** | **(₱691,698)** | **(₱484,188)** |
| | **(5%)** | **691,698** | **484,188** |
| 2017 | 5% | (₱754,779) | (₱528,345) |
| | (5%) | 754,779 | 528,345 |

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 2018 and 2017.

The Company considers the total equity attributable to the equity holders of the Parent as its capital amounting to ₱16,837.1 million and ₱16,315.1 million as at December 31, 2018 and 2017, 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 Bloomberg Valuation Service (PHP BVAL) rates ranging from 6.7% to 6.9% and 2.4% to 4.3% in 2018 and 2017, respectively.

The carrying value of guarantee bonds approximates fair value as at December 31, 2018 and 2017 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, 2018 and 2017:

| | | **2018** | | | |
|---|---|---|---|---|---|
| | **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, 2018** | **₱155,704,892** | **₱–** | **₱–** | **₱155,704,892** |
| Financial assets at FVOCI | **December 31, 2018** | **384,963,161** | **2,700,000** | **81,100** | **387,744,261** |
| **Liabilities** | | | | | |
| Liabilities for which fair value is disclosed - | | | | | |
| Obligations under finance lease | **December 31, 2018** | – | – | **38,944,375** | **38,944,375** |
| Installment payable | **December 31, 2018** | – | – | **9,205,042** | **9,205,042** |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | 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, 2017 | ₱178,482,842 | ₱– | ₱– | ₱178,482,842 |
| AFS financial assets - quoted shares | December 31, 2017 | 646,216,790 | 2,300,000 | – | 648,516,790 |
| Liabilities | | | | | |
| Liabilities for which fair value is disclosed - | | | | | |
| Obligations under finance lease | December 31, 2017 | – | – | 84,285,201 | 84,285,201 |
| Installment payable | December 31, 2017 | – | – | 5,210,804 | 5,210,804 |

There were no transfers between fair value measurements in 2018 and 2017.

## 30. 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, 2018 and 2017, 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.

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

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Lottery equipment leasing, distribution and others | Eliminations/ Adjustments | Consolidated |
| **Earnings Information** | | | | | | | |
| Revenue: | | | | | | | |
| External | **₱–** | **₱–** | **₱–** | **₱3,211,856,964** | **₱1,935,943,995** | **₱–** | **₱5,147,800,959** |
| Internal | **1,634,568,242** | – | – | – | **16,128,450** | **(1,650,696,692)** | – |
| Cost and expenses, excluding depreciation and amortization | **(106,463,099)** | **(11,808)** | **(10,141)** | **(998,341,000)** | **(1,391,288,110)** | – | **(2,496,114,158)** |
| Interest income | **115,028,840** | **1,577** | – | **28,391,280** | **14,031,614** | – | **157,453,311** |
| Finance charges | – | – | – | – | **(6,187,352)** | – | **(6,187,352)** |
| Dividend income | **11,998,526** | – | – | – | **12,953,995** | – | **24,952,521** |
| Depreciation and amortization | **(6,852)** | – | – | **(64,113)** | **(223,200,081)** | **(238,472,484)** | **(461,743,530)** |
| Other income | – | – | – | – | **235,430,085** | – | **235,430,085** |
| Impairment loss on goodwill | – | – | – | – | **(110,933,996)** | – | **(110,933,996)** |
| Provision for income tax | **(2,174,141)** | – | – | – | **(178,830,585)** | – | **(181,004,726)** |
| Net income (loss) for the year | **1,652,951,516** | **(10,231)** | **(10,141)** | **2,241,843,131** | **304,048,015** | **(1,889,169,176)** | **2,309,653,114** |
| | | | | | | | |
| **Other information** | | | | | | | |
| Investments held for trading and Financial assets at FVOCI | **233,752,731** | – | – | – | **611,410,822** | **(301,714,400)** | **543,449,153** |
| Total assets | **19,091,936,495** | **787,224** | **29,704,378** | **2,607,727,905** | **2,111,943,509** | **(4,652,310,423)** | **19,189,789,088** |
| Total liabilities | **2,158,818,606** | **260,402,703** | – | **1,204,355,019** | **351,323,731** | **(2,341,175,015)** | **1,633,725,044** |
| Capital expenditure | – | – | – | – | **45,682,606** | – | **45,682,606** |
| Goodwill | – | – | – | – | **1,721,326,738** | – | **1,721,326,738** |
| Earnings before interest taxes, depreciation and amortization (EBITDA) | – | – | – | – | – | – | **2,651,686,801** |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Lottery equipment leasing, distribution and others | Eliminations/ Adjustments | Consolidated |
| **Earnings Information** | | | | | | | |
| Revenue: | | | | | | | |
| External | ₱– | ₱– | ₱– | ₱2,609,352,639 | ₱2,319,993,376 | ₱– | ₱4,929,346,015 |
| Internal | 1,467,423,869 | – | – | – | – | (1,467,423,869) | – |
| Cost and expenses, excluding depreciation and amortization | (25,700,352) | (15,162) | (14,472) | (640,149,925) | (1,427,810,261) | – | (2,093,690,172) |
| Interest income | 61,625,227 | 1,603 | – | 13,471,123 | 820,060 | – | 75,918,013 |
| Finance charges | – | – | – | – | (10,859,855) | – | (10,859,855) |
| Dividend income | 299,287 | – | – | – | 20,628,055 | – | 20,927,342 |
| Depreciation and amortization | (6,852) | – | – | (238,580,484) | (225,444,278) | (238,472,484) | (702,504,098) |
| Other income | | | – | 6,235,476 | 44,419,265 | (31,647,880) | 19,006,861 |
| Provision for income tax | (6,597,772) | – | – | – | (228,880,374) | – | (235,478,146) |
| Net income (loss) for the year | 1,497,043,407 | (13,559) | (14,472) | 1,750,328,829 | 492,865,988 | (1,737,544,233) | 2,002,665,960 |
| | | | | | | | |
| **Other information** | | | | | | | |
| Investments held for trading and AFS financial assets | 390,333,450 | – | – | – | 906,481,132 | (469,733,850) | 827,080,732 |
| Total assets | 17,039,766,864 | 800,900 | 29,719,518 | 1,594,561,087 | 2,645,903,082 | (2,676,728,182) | 18,634,023,269 |
| Total liabilities | 184,834,510 | 260,406,147 | 5,000 | 932,951,374 | 625,828,207 | (436,045,807) | 1,567,979,431 |
| Capital expenditure | – | – | – | 8,932 | 150,337,144 | – | 150,346,076 |
| Goodwill | – | – | – | – | 1,832,260,734 | – | 1,832,260,734 |
| Earnings before interest taxes, depreciation and amortization (EBITDA) | – | – | – | – | – | – | 2,597,183,359 |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Holding | Real Estate | Public Amusement and Recreation | Gaming Business | Lottery equipment leasing, distribution and others | Eliminations/ Adjustments | Consolidated |
| **Earnings Information** | | | | | | | |
| Revenue: | | | | | | | |
| External | ₱– | ₱– | ₱– | ₱1,642,976,365 | ₱1,888,099,468 | ₱– | ₱3,531,075,833 |
| Internal | 1,069,895,814 | – | – | – | – | (1,069,895,814) | – |
| Cost and expenses, excluding depreciation and amortization | (16,715,640) | (23,852) | (22,812) | (491,972,904) | (1,120,386,788) | – | (1,629,121,996) |
| 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) |
| Other expense | – | – | – | – | (24,228,217) | – | (24,228,217) |
| Provision for income tax | (656,606) | – | – | (98,851,263) | (183,092,976) | – | 282,600,845 |
| Net income (loss) for the year | 1,095,083,437 | (22,052) | (22,812) | 1,058,362,467 | 399,364,346 | (1,394,665,250) | 1,158,100,136 |
| | | | | | | | |
| **Other Information** | | | | | | | |
| Investments held for trading 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 |
| EBITDA | – | – | – | – | – | – | 1,901,953,837 |

Disaggregated Revenue Information

Set out below is the disaggregation of the Company's revenue from contracts with customers for the year ended December 31, 2018:

| Type of Service | Gaming Business | Lottery Equipment Leasing, Distribution and Others | Total |
|---|---|---|---|
| Gaming revenue share – net | ₱3,211,856,964 | ₱– | ₱3,211,856,964 |
| Commission and distribution income | – | 487,626,385 | 487,626,385 |
| Total revenue from contracts with customers | ₱3,211,856,964 | ₱487,626,385 | ₱3,699,483,349 |

All revenue from contracts with customers enumerated above are all transferred over time.

Reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information follows:

| Type of Service | Gaming Business | Lottery Equipment Leasing, Distribution and Others | Total |
|---|---|---|---|
| External customer | ₱3,211,856,964 | ₱1,935,943,995 | ₱5,147,800,959 |
| Equipment rental (presented separately from revenues from contract with customers) | – | (1,448,317,610) | (1,448,317,610) |
| Total revenue from contracts with customers | ₱3,211,856,964 | ₱487,626,385 | ₱3,699,483,349 |

EBITDA pertains to the Company's income before tax, excluding other income (expense) and before interest, taxes, depreciation and amortization.

Revenue from gaming business segment amounting to ₱3,211.9 million, ₱2,609.4 million and ₱1,643.0 million in 2018, 2017 and 2016, respectively, are solely collectible from Melco and revenue from lottery equipment leasing, distribution and others business segment amounting to ₱1,935.9 million and ₱2,320.0 million and ₱1,888.1 million in 2018, 2017 and 2016, respectively, are solely collectible from PCSO.

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **Net Profit for the Year** | | | |
| Total profit for reportable segments | **₱4,198,822,290** | ₱3,740,210,193 | ₱2,552,765,386 |
| Elimination for intercompany profits | **(1,889,169,176)** | (1,737,544,233) | (1,394,665,250) |
| Consolidated net profit | **₱2,309,653,114** | ₱2,002,665,960 | ₱1,158,100,136 |
| **Assets** | | | |
| Total assets for reportable segments | **₱18,646,339,935** | ₱17,806,942,537 | ₱16,084,424,756 |
| Investments and advances | **543,449,153** | 827,080,732 | 823,368,016 |
| Consolidated assets | **₱19,189,789,088** | ₱18,634,023,269 | ₱16,907,792,772 |

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.

## 31. 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.

In May 2013, the Escrow was terminated as Melco deposited its own Escrow Fund to replace that of the Company.

Operating Agreement with Melco

On March 13, 2013, Belle, together with PLAI, entered into an Operating Agreement with MPHIL Holdings No. 2 Corporation, MPHIL Holdings No. 1 Corporation and Melco. Under the terms of the Operating Agreement, Melco 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 2018, 2017, and 2016 amounted to ₱3,211.9 million, ₱2,609.4 million and ₱1,643.0 million, respectively (see Notes 21 and 30).

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

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

Effective 2017, ABLGI, Belle and PLAI entered into an agreement to assign the ABLGI's advisory and consulting services to Belle Grande.

In 2018, PLAI entered into a termination of advisory services agreement with Belle Grande. Termination cost paid to Belle Grande recognized under “General and administrative expenses” amounted to ₱327.6 million (see Note 23).

Professional fee amounted to nil, ₱206.8 million and ₱216.1 million in 2018, 2017 and 2016, respectively, presented as part of “Service fees” account under cost of services in the consolidated statements of income (see Note 22).

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, PLC’s 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, 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 9). 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 20).

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 32). 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 9 and 20).

Equipment Lease Agreement (ELA) between POSC and PCSO
*ELA*. POSC has an ELA with 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 (VISMIN) 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.

*2012 Amended ELA*. On May 22, 2012, POSC and PCSO amended some provisions of the ELA which reduced the rental fee for the VISMIN 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 VISMIN 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 VISMIN operations, POSC agreed to reduce the rental fee on the lotto terminals for the VISMIN operations and shoulder the cost of betting slips and ticket paper rolls for the PCSO's Luzon and VISMIN 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 (see Note 27). 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.

*2018 Amended ELA*. On September 12, 2018, the ELA was amended to extend the term from August 1, 2018 to July 31, 2019. The amendment required POSC to post an additional deposit of ₱7.0 million cash bond. The total cash bond of ₱12.0 million 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 VISMIN 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 4,029 and 4,205 as at December 31, 2018 and 2017, 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 PMLC for the authorization of PMLC 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.

PMLC 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. PMLC 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, PMLC agreed to pay 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, PMLC agreed to guarantee payment of the share of PCSO to POSC beginning April 2015. An existing consultancy agreement between POSC and PMLC for the scratch ticket operations was immediately terminated upon execution of the OMOA.

The MOA with POSC expired on November 30, 2016 and the OMOA with PMLC also expired accordingly. All tickets distributed to the retailers and agents, shall be allowed to be marketed continuously until fully sold and the corresponding winnings thereof shall be honored and paid even after the period of the MOA with PCSO.

Brand and Trademark Agreement with PMLC

In 2018, POSC received a certification from the PCSO stating the fulfillment of POSC's obligation under the MOA and thereby clearing POSC of any accountability thereunder. PCSO certified that POSC is entitled to the release of the ₱10.0 million cashbond. The cash bond is expected to be collected in the next financial period. Thus, in 2018, the Company reclassified the cash bond amounting to ₱10.0 million from noncurrent asset to "Other current assets" account (see Note 11).

In January 2018, POSC entered into a Brand and Trademark License Agreement (BTLA) with PMLC granting the latter a non-assignable, non-transferable and exclusive right to use POSC's instant scratch tickets' brand and trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. In consideration of the BTLA, PMLC agreed to pay POSC a guaranteed fixed monthly fee of ₱4.0 million starting January 2018. The agreement with PMLC was accounted for as right to use the brand and trademark. POSC already transferred the control over the brand and trademark to PMLC on January 1, 2018 and there are no other performance obligation to be provided to PMLC. Thus, POSC recognized revenue on the use of the brand and trademark amounting to ₱203.5 million (see Note 24). Interest income earned in 2018 amounted to ₱12.5 million.

Contract asset was recognized for the earned consideration but not yet collected. Current portion of contract asset as at December 31, 2018 amounted to ₱37.9 million while noncurrent portion amounted to ₱130.1 million.

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 150 "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, 2018 and 2017, there are 2,454 and 2,400 "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 contract to extend the 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 contract to extend the period 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.

   In August 2018, the contract with Scientific Games was further amended to extend the period until July 31, 2019.

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 and the required training. In consideration, POSC shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation 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.

In April 2016, POSC and Intralot again amended the contract for Intralot to supply additional reconditioned or refurbished lotto terminals to POSC and extend the term of the contract until August 31, 2018.

On September 25, 2018, the contract with Intralot was further amended to extend the period until July 31, 2019.

ii) TGTI has a contract with Intralot effective until September 30, 2020 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 its 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 or US$60 per terminal per month, whichever is higher 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 in the consolidated statements of financial position.

d. Management Agreement

POSC and TGTI entered into a Management Agreement with AB Gaming and Leisure Exponent Specialist, Inc. 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) while TGTI will pay a certain percentage of its EBITDA.

Software and license fee recognized as part of "Cost of services" arising from Scientific Games contract and Intralot contracts above amounted to ₱195.7 million, ₱191.7 million and ₱186.6 million in 2018, 2017 and 2016, respectively (see Note 22).

Consultancy and management fees recognized under "Consultancy fees" as part of "Cost of services" amounted to ₱76.0 million, ₱136.6 million and ₱122.8 million in 2018, 2017 and 2016, respectively (see Note 22). Consultancy fees recognized under "Professional, service and management fees" as part of "General and Administrative Expenses" amounted to ₱25.9 million, nil, and ₱20.5 million in 2018, 2017 and 2016, respectively (see Note 23).

## 32. **Contingencies**

a) 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 31). On July 17, 2013, CA sustained the ruling of the SEC, thus Metroplex filed a petition for review with the Supreme Court on September 4, 2014. As at February 22, 2019, the Supreme Court has yet to resolve this petition. However, as discussed in Note 31, the cancellation of the Swap Agreement was implemented following the Parent Company's filing with the SEC of a Notice of Withdrawal of the Memorandum of Appeal filed on June 20, 2013.

b) 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 of Makati. The Injunction orders PCSO to refrain from: 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the POSC and PCSO; 2) ordering or allowing POSC, 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 CA. 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's Request for Arbitration dated May 12, 2014 was denied by the International Court of Arbitration on July 17, 2014, due to PCSO's opposition. An Urgent Motion to Resolve was filed by POSC with the CA to compel the court to issue an order to PGMC and PCSO to include the POSC in the negotiations.

   On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to the agreement, PCSO prayed for the dismissal of this case which was eventually dismissed by virtue of the Resolution dated March 1, 2016.

On September 13, 2016, POSC filed a Memorandum with the CA. The case is now submitted for the resolution. As at February 22, 2019, the case is still pending with the CA.

## 33. Events after the Reporting Period

On February 22, 2019, the Parent Company's BOD approved the declaration of cash dividends of ₱0.05024 per share amounting to approximately ₱1,588.8 million to shareholders of record as at March 8, 2019. Payments will be made on March 22, 2019.

## 34. Supplemental Disclosure of Cash Flow Information

Changes in Liabilities Arising from Financing Activities

| | **January 1, 2018** | **Additions** | **Cash flows** | **Finance charges** | **December 31, 2018** |
|---|---|---|---|---|---|
| Dividends payable | **₱–** | **₱1,490,549,616** | **(₱1,490,549,616)** | **₱–** | **₱–** |
| Obligations under finance lease | **74,862,984** | **–** | **(45,675,862)** | **6,187,352** | **35,374,474** |
| Total liabilities from financing activities | **₱74,862,984** | **₱1,490,549,616** | **(₱1,536,225,478)** | **₱6,187,352** | **₱35,374,474** |

| | January 1, 2017 | Additions | Cash flows | Finance charges | December 31, 2017 |
|---|---|---|---|---|---|
| Dividends payable | ₱– | ₱1,041,930,481 | (₱1,041,930,481) | ₱– | ₱– |
| Obligations under finance lease | 119,342,596 | 6,437,551 | (61,777,018) | 10,859,855 | 74,862,984 |
| Total liabilities from financing activities | ₱119,342,596 | ₱1,048,368,032 | (₱1,103,707,499) | ₱10,859,855 | ₱74,862,984 |

Finance charges pertains to accretion of obligations under finance lease.

Noncash Activities

a. Unearned income in 2017, realized in 2018 amounting to ₱268.9 million (see Note 18).
b. Additions to property and equipment amounting to nil and ₱6.4 million from lease of lottery equipment accounted for as finance lease in 2018 and 2017, respectively.
c. Net assets from the acquisition of LCC subsidiaries in 2017 (see Note 16).

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S 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, Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Premium Leisure Corp. and its subsidiaries (the Company) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and have issued our report thereon dated February 22, 2019. 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

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. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332528, January 3, 2019, Makati City

February 22, 2019

# PREMIUM LEISURE CORP. AND SUBSIDIARIES

**Index to the Consolidated Financial Statements and Supplementary Schedules**
**December 31, 2018**

# PREMIUM LEISURE CORP.
## Reconciliation of Retained Earnings
## Available for Dividend Declaration
## As at December 31, 2018

| | |
|---|---|
| Unappropriated retained earnings, as adjusted to available for dividend distribution, at December 31, 2017 | ₱1,708,247,062 |
| Restatements - | |
| Impact of adoption of PFRS 9 - Impairment loss transferred from retained earnings to other comprehensive income | 574,918,475 |
| Unappropriated retained earnings available for dividend distribution, at December 31, 2017, as restated | 2,283,165,537 |
| Net income during the year closed to retained earnings | 1,652,951,516 |
| Less: Dividend declarations during the year | (1,388,755,182) |
| Treasury shares | (29,430,080) |
| Total retained earnings as at December 31, 2018 available for dividend declaration | ₱2,517,931,791 |

SCHEDULE II

# PREMIUM LEISURE CORP. AND SUBSIDIARIES

**List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective as at December 31, 2018**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>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: Classification and Measurement of Share-based Payment Transactions | | | ✓ |
| **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 | | | ✓ |
| | Amendments to PFRS 3 and PFRS 11: Previously Held Interest in a Joint Operation* | Not Early Adopted | | |
| | Amendments to PFRS 3: Definition of a Business* | Not Early Adopted | | |

**SCHEDULE II**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | 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 | | | ✓ |
| **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 | ✓ | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation* | Not Early Adopted | | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |

**SCHEDULE II**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2018** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| | Amendments to PFRS 3 and PFRS 11: Previously Held Interest in a Joint Operation* | Not Early adopted | | |
| **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 | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: 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 | ✓ | | |
| **PFRS 16** | Leases* | Not Early Adopted | | |
| **PFRS 17** | Insurance Contracts* | 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 | ✓ | | |
| | Amendments to PAS 1 and PAS 8: Definition of Material* | Not Early Adopted | | |
| **PAS 2** | Inventories | ✓ | | |

**SCHEDULE II**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiatives | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| | Amendments to PAS 1 and PAS 8: Definition of Material* | Not Early Adopted | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **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 | ✓ | | |
| | Amendments to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity* | Not Early Adopted | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16: Classification of servicing equipment | ✓ | | |
| | Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | 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 (Revised)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution | | | ✓ |
| | Amendments to PAS 19: Regional Market Issue Regarding Discount Rate | ✓ | | |
| | Amendments to PAS 19: Plan Amendment, Curtailment or Settlement* | Not Early Adopted | | |
| **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 | | | ✓ |

**SCHEDULE II**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| | Amendments to PAS 23: Borrowing Costs Eligible for Capitalization* | Not Early Adopted | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **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 (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 | | | ✓ |
| | Amendments to PFRS 10 and PAS 28: Long-term interests in Associates and Joint Ventures* | Not Early Adopted | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **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 | ✓ | | |

**SCHEDULE II**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |
| **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 | ✓ | | |
| **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 | | | ✓ |

**SCHEDULE II**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 11** | PFRS 2 - Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | ✓ | | |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration | | | ✓ |
| **IFRIC 23** | Uncertainty over Income Tax Treatment* | 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 | ✓ | | |

**SCHEDULE II**

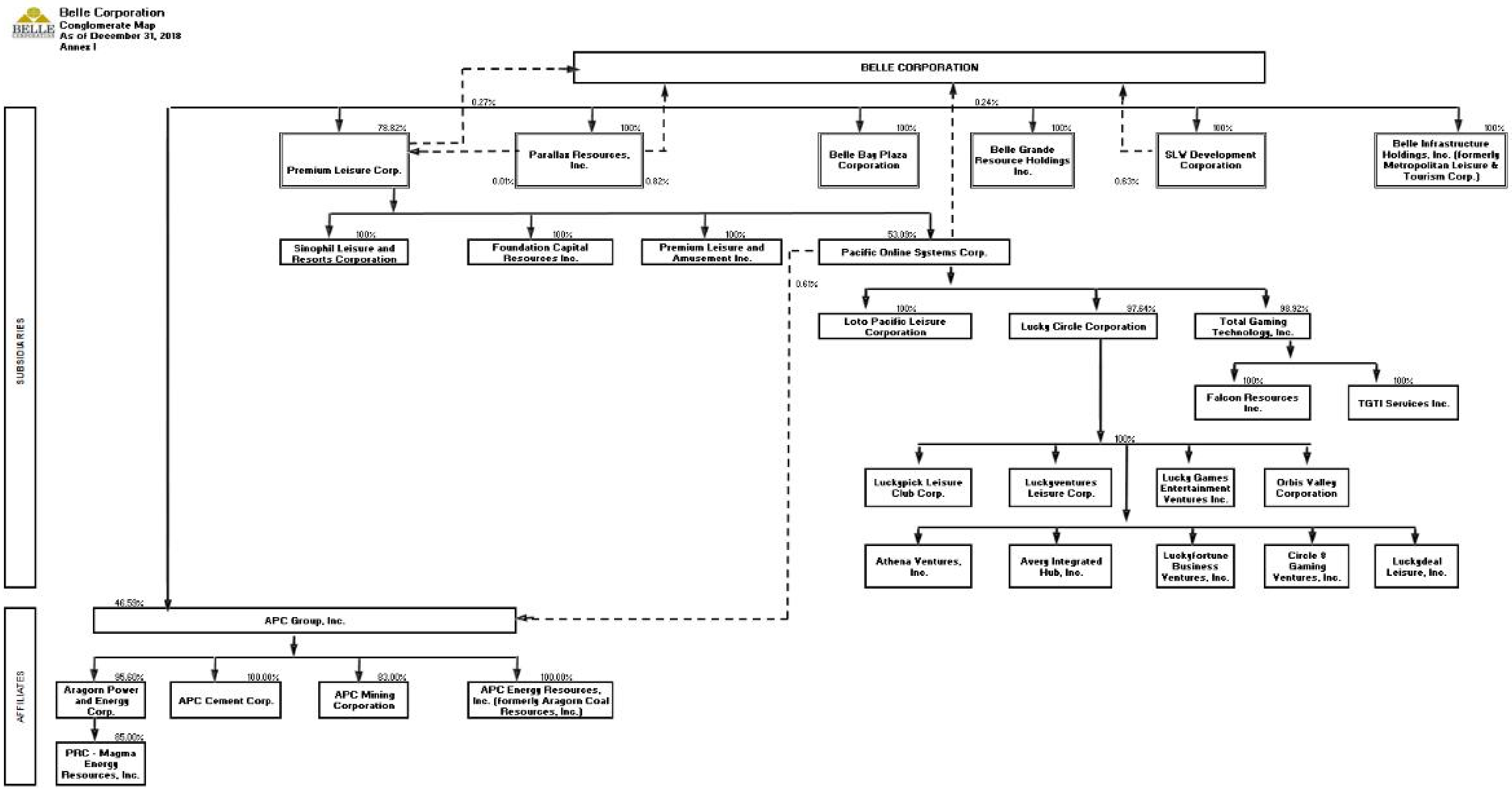
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

** Standards and interpretations which will become effective subsequent to December 31, 2018.*

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, 2018.

**SCHEDULE III**

# PREMIUM LEISURE CORP. AND SUBSIDIARIES
## Map of the Relationship of the Companies within the Group
## December 31, 2018



SCHEDULE IV

# PREMIUM LEISURE CORP. AND SUBSIDIARIES
## Financial Soundness Indicators
## December 31, 2018

| Ratios | Formula | 2018 | 2017 |
|---|---|---|---|
| **Current Ratio** | Current assets / Current liabilities | **4.40** | 3.93 |
| **Asset-to-Equity Ratio** | Total assets / Total stockholders' equity | **1.09** | 1.09 |
| **Return on Asset** | Net income / Average total assets | **12.21%** | 11.27% |
| **Return on Equity** | Net income / Average total stockholders' equity | **13.34%** | 12.04% |
| **Debt-to-Equity Ratio** | Total interest-bearing debt / Total stockholders' equity | **0.002** | 0.004 |
| **Interest Rate Coverage Ratio** | Earnings before interest, tax, depreciation and amortization / Interest expense | **428.57** | 239.15 |

# PREMIUM LEISURE CORP. AND SUBSIDIARIES
**Supplementary Schedules Required by Paragraph 6D, Part II**
**Under SRC Rule 68, As Amended (2011)**
**December 31, 2018**

**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 |
|---|---|---|---|---|
| **Financial assets at amortized cost** | | | | |
| Cash and cash equivalents | ₱2,314,012,081 | ₱2,314,012,081 | N/A | ₱36,189,792 |
| Notes receivable | 3,705,925,000 | 3,705,925,000 | N/A | 108,707,037 |
| Receivables | 350,735,545 | 350,735,545 | N/A | – |
| Guarantee bonds | 42,000,000 | 42,000,000 | N/A | – |
| Deposits | 35,400,000 | 35,400,000 | N/A | – |
| | ₱6,448,072,626 | ₱6,448,072,626 | | ₱144,896,829 |
| **Financial assets at fair value through profit or loss** | | | | |
| APC Group, Inc. | 45,821,000 | 18,557,505 | 18,557,505 | – |
| Leisure & Resorts World Corp. | 10,724,792 | 34,962,822 | 34,962,822 | – |
| Vantage Equities, Inc. | 43,376,750 | 51,184,565 | 51,184,565 | – |
| LRWC Preferred Shares | 50,000,000 | 51,000,000 | 51,000,000 | – |
| | | 155,704,892 | | – |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Belle Corporation | 166,650,719 | 384,963,161 | 384,963,161 | – |
| Tagaytay Highlands International Golf Club | 2 | 1,400,000 | 1,400,000 | – |
| Tagaytay Midlands Golf Club | 2 | 1,300,000 | 1,300,000 | – |
| Asian Petroleum | | 70,000 | | – |
| PLDT | | 11,100 | | – |
| | | 387,744,261 | | – |
| | | **₱6,991,521,779** | | **₱144,896,829** |

## 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 | ₱10,019,065 | ₱5,670,350 | (₱3,999,517) | (₱6,750,000) | ₱4,939,898 | ₱– | ₱4,939,898 |

## 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 | Non Current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| Foundation Capital Resources, Inc. (Subsidiary) | ₱266,970,210 | ₱555 | ₱– | (₱260,145,827) | ₱– | ₱6,824,938 | ₱6,824,938 |
| Pacific Online Systems Corporation (Subsidiary) | 44,856,081 | – | (44,856,081) | – | – | – | – |
| PremiumLeisure and Amusement, Inc. (Subsidiary) | – | 1,950,000,000 | (1,850,000,000) | – | 100,000,000 | – | 100,000,000 |
| Premium Leisure Corp. (Parent) | 29,719,519 | – | (15,268) | 29,704,251 | – | 29,704,251 | 29,704,251 |

## 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 | ₱9,668,071,971 | ₱– | (₱238,472,484) | ₱– | ₱– | ₱9,429,599,487 |
| Goodwill | 1,832,260,734 | – | (110,933,996) | – | – | 1,721,326,738 |

## 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 | ₱– | ₱19,379,463 | ₱15,995,011 |

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

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

## 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 | 31,598,931,000 | – | 24,904,904,324 | 41,409,007 | 6,652,617,669 |
| Preferred stock | 6,000,000,000 | – | – | – | – | – |