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, 2019 and 2018, 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 28th day of February 2020

5th Floor, Tower A, Two E-Com Center, Palm Coast Ave., Mall of Asia Complex, CBP 1-A, Pasay City *Tel. No. 662-8803 / Fax No. 662-8898

MAKATI CITY 28 FEB 2020

SUBSCRIBED AND SWORN to before me this ____ day of ________ 2020 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	[redacted]		
ARMIN ANTONIO B. RAQUEL SANTOS	[redacted]		
JACKSON T. ONGSIP	[redacted]		

DOC NO. : 357

PAGE NO. : 73

BOOK NO. : 67

SERIES OF : 2020.

ATTY. JOSHUA P. LAPUZ
Notary Public for and in Makati City
Appointment No. M-55 until 12/31/2021
PTR No. 8116016, Jan. 2, 2020, Makati City
Roll No. 45790, IBP Lifetime N. 04897
MCLE No. VI-0010565 / Jan. 14, 2019
G/F Fedman Suites, 199 Salcedo Street,
Legaspi Village, Makati City

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

AS093-009289

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
plc@premiumleisurecorp.com	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.*

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

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

BOA/PRC Reg. No. 0001,
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

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, 1300 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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 (POSC)

Under PFRS, the Company is required to annually test the amount of goodwill for impairment. As at December 31, 2019, goodwill arising from the acquisition of Pacific Online Systems Corporation amounted to ₱1,358.3 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 in determining the value-in-use. These assumptions include revenue growth rate, discount rate and the long-term growth rate. We compared the key assumptions used, such as revenue growth and long-term growth rates 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.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Company adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Company's accounting policy for leases. The Company's adoption of PFRS 16 is significant to our audit because (a) the Company has high volume of lease agreements; (b) the change in accounting policy requires policy elections; (c) this involves application of significant judgment and estimation in determining whether the contract contains a lease and in determining the incremental borrowing rate. This resulted in an increase in right of use assets by ₱118.6 million and lease liabilities by ₱143.2 million as at January 1, 2019 and the recognition of depreciation expense and interest expense of ₱62.7 million and ₱9.5 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Company are included in Notes 3 and 28 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Company's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the selection of the transition approach and any election of available practical expedients. We reviewed the Company's lease agreement by agreeing the terms of the contract with the lease calculation. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management, including the transition adjustments.

For the subsidiaries audited by the other auditors, we reviewed the working papers of other auditor on the adoption of PFRS 16, specifically on the procedures performed on the review of the population of the lease contracts covered by PFRS 16, the application of the short-term lease exemption, the selection of the transition approach and any election of available practical expedients. We also reviewed procedures performed on selected sample contracts such as agreeing the terms, conditions and lease data to the lease calculation prepared by management, the testing of incremental borrowing rate and test computation of financial impact of PFRS 16, including the transition adjustments.

We reviewed the disclosures related to leases, including the transition adjustments, based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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, 2019, 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, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0943-AR-3 (Group A),
March 14, 2019, valid until March 13, 2022
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 8125213, January 7, 2020, Makati City

February 28, 2020

PREMIUM LEISURE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 30)	**₱3,537,075,479**	₱2,314,012,081
Investments held for trading (Notes 8 and 30)	**140,456,581**	155,704,892
Receivables (Notes 9, 27 and 30)	**337,535,176**	350,735,545
Notes receivable (Notes 10, 27 and 30)	**3,705,925,000**	3,705,925,000
Contract assets - current portion (Note 32)	**40,510,763**	37,892,531
Other current assets (Notes 11 and 30)	**268,546,967**	319,087,307
Total Current Assets	**8,030,049,966**	6,883,357,356
Noncurrent Assets		
Intangible asset (Note 12)	**9,191,127,003**	9,429,599,487
Financial assets at fair value through other comprehensive income (Notes 13, 27 and 30)	**334,516,031**	387,744,261
Property and equipment (Note 14)	**107,432,510**	259,903,572
Investment property (Note 15)	**285,510,452**	285,510,452
Goodwill (Notes 16 and 17)	**1,358,298,121**	1,721,326,738
Deferred tax assets - net (Note 26)	**52,824,625**	8,864,126
Retirement asset (Note 20)	**10,311,588**	7,855,553
Right-of-use assets (Notes 3 and 28)	**73,225,966**	–
Contract assets - net of current portion (Note 32)	**89,612,359**	130,123,123
Other noncurrent assets (Notes 30 and 32)	**398,013,734**	75,504,420
Total Noncurrent Assets	**11,900,872,389**	12,306,431,732
TOTAL ASSETS	**₱19,930,922,355**	₱19,189,789,088
LIABILITIES AND EQUITY		
Current Liabilities		
Trade payables and other current liabilities (Notes 18 and 20)	**₱1,618,365,470**	₱1,535,792,345
Loans payable (Notes 19 and 30)	**150,000,000**	–
Lease liabilities - current portion (Notes 3 and 28)	**75,030,683**	–
Current portion of obligations under finance lease (Notes 28 and 30)	–	19,379,463
Income tax payable	**4,274,940**	9,415,467
Total Current Liabilities	**1,847,671,093**	1,564,587,275
Noncurrent Liabilities		
Deferred tax liabilities - net (Note 26)	–	46,161,265
Lease liabilities - net of current portion (Notes 3 and 28)	**16,576,645**	
Obligations under finance lease (Notes 28 and 30)	–	15,995,011
Retirement liability (Note 20)	**48,950,570**	6,981,493
Total Noncurrent Liabilities	**65,527,215**	69,137,769
Total Liabilities	**1,913,198,308**	1,633,725,044

(Forward)

	December 31	
	2019	2018
Equity Attributable to the Equity Holders of the Parent (Notes 21 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)**	(29,430,080)
Cost of Parent Company shares held by a subsidiary	**(509,597,055)**	(509,597,055)
Other reserves	**(788,608,550)**	(736,930,415)
Retained earnings	**3,660,924,536**	2,967,544,418
Total Equity Attributable to Equity Holders of the Parent	**17,478,838,275**	16,837,136,292
Non-controlling Interests (Note 16)	**538,885,772**	718,927,752
Total Equity	**18,017,724,047**	17,556,064,044
TOTAL LIABILITIES AND EQUITY	**₱19,930,922,355**	₱19,189,789,088

See accompanying Notes to Consolidated Financial Statements.

PREMIUM LEISURE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Gaming revenue share - net (Notes 22 and 32)	**₱2,976,366,472**	₱3,211,856,964	₱2,609,352,639
Commission and distribution income (Note 32)	**308,381,639**	487,626,385	479,472,385
Equipment rental (Notes 28 and 32)	**681,483,757**	1,448,317,610	1,840,520,991
	3,966,231,868	5,147,800,959	4,929,346,015
COST AND EXPENSES			
Cost of services (Note 23)	**986,207,833**	1,297,488,594	1,539,038,409
General and administrative expenses (Note 24)	**961,494,609**	1,532,830,606	1,018,683,377
Amortization of intangible asset (Note 12)	**238,472,484**	238,472,484	238,472,484
	2,186,174,926	3,068,791,684	2,796,194,270
OTHER INCOME (EXPENSES)			
Interest income (Notes 7, 10 and 32)	**279,857,146**	157,453,311	75,918,013
Dividend income (Notes 8 and 13)	**24,708,086**	24,952,521	20,927,342
Finance costs (Note 28)	**(9,525,989)**	(6,187,352)	(10,859,855)
Other income (expense) - net (Note 25)	**(32,888,983)**	235,430,085	19,006,861
	262,150,260	411,648,565	104,992,361
INCOME BEFORE INCOME TAX	**2,042,207,202**	2,490,657,840	2,238,144,106
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)			
Current	**22,422,019**	133,572,412	235,892,039
Deferred	**(81,838,677)**	47,432,314	(413,893)
	(59,416,658)	181,004,726	235,478,146
NET INCOME	**₱2,101,623,860**	₱2,309,653,114	₱2,002,665,960
Net Income Attributable to:			
Equity holders of the parent	**₱2,261,962,747**	₱2,157,768,639	₱1,756,459,152
Non-controlling interests	**(160,338,887)**	151,884,475	246,206,808
	₱2,101,623,860	₱2,309,653,114	₱2,002,665,960
Basic/Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent (Note 29)	**₱0.072448**	₱0.069080	₱0.056140

See accompanying Notes to Consolidated Financial Statements.

PREMIUM LEISURE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱2,101,623,860**	₱2,309,653,114	₱2,002,665,960
OTHER COMPREHENSIVE INCOME (LOSS)			
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)	**(53,228,230)**	(261,173,629)	–
Remeasurement gain (loss) on net retirement benefits - net of tax	**(18,152,998)**	12,297,225	1,248,964
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
Realized loss on available-for-sale financial assets transferred to profit or loss (Note 13)	**–**	–	31,647,929
	(71,381,228)	(248,876,404)	165,396,942
TOTAL COMPREHENSIVE INCOME	**₱2,030,242,632**	₱2,060,776,710	₱2,168,062,902
Total Comprehensive Income Attributable to:			
Equity holders of the parent	**₱2,210,284,612**	₱1,954,907,883	₱1,873,300,753
Non-controlling interests	**(180,041,980)**	105,868,827	294,762,149
	₱2,030,242,632	₱2,060,776,710	₱2,168,062,902

See accompanying Notes to Consolidated Financial Statements.

PREMIUM LEISURE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

					Other Reserves						
	Capital Stock (Note 21)	**Additional Paid-in Capital** (Note 21)	**Treasury Shares** (Note 21)	**Cost of Parent Company Shares Held by a Subsidiary** (Note 21)	**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 20)	**Other Reserves**	**Retained Earnings** (Note 21)	**Total Equity Attributable to the Equity Holders of the Parent**	**Non-controlling Interest** (Note 2)	**Total**
Balance at January 1, 2019	**₱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**
Net income	–	–	–	–	–	–	–	**2,261,962,747**	**2,261,962,747**	**(160,338,887)**	**2,101,623,860**
Other comprehensive (income) loss:											
Remeasurement gain on net retirement benefits - net of tax	–	–	–	–	–	**(9,094,653)**	–	–	**(9,094,653)**	**(9,058,345)**	**(18,152,998)**
Marked-to-market loss on financial assets at fair value through other comprehensive income	–	–	–	–	**(42,583,482)**	–	–	–	**(42,583,482)**	**(10,644,748)**	**(53,228,230)**
Total comprehensive income	–	–	–	–	**(42,583,482)**	**(9,094,653)**	–	**2,261,962,747**	**2,210,284,612**	**(180,041,980)**	**2,030,242,632**
Cash dividends (Note 21)	–	–	–	–	–	–	–	**(1,568,582,629)**	**(1,568,582,629)**	–	**(1,568,582,629)**
Balance at December 31, 2019	**₱7,906,827,500**	**₱7,238,721,924**	**(₱29,430,080)**	**(₱509,597,055)**	**(₱529,769,146)**	**(₱4,519,707)**	**(₱254,319,697)**	**₱3,660,924,536**	**₱17,478,838,275**	**₱538,885,772**	**₱18,017,724,047**

					Other Reserves							
	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Treasury Shares (Note 21)	Cost of Parent Company Shares Held by a Subsidiary (Note 21)	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 20)	Other Reserves	Retained Earnings (Note 21)	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)	–	(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 21)	–	–	–	(34,170,020)	–	–	–	–	–	(34,170,020)	–	(34,170,020)
Cash dividends (Note 21)	–	–	–	–	–	–	–	–	(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

				Other Reserves						
	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Cost of Parent Company Shares Held by a Subsidiary (Note 21)	Cumulative Unrealized Mark-to-Market Gain on Available-for-Sale Financial Assets (Note 13)	Remeasurement Losses on Defined Benefit Obligation (Note 20)	Other Reserves	Retained Earnings (Note 21)	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 21)	–	–	(36,549,130)	–	–	–	–	(36,549,130)	–	(36,549,130)
Cash dividends (Note 21)	–	–	–	–	–	–	(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

See accompanying Notes to Consolidated Financial Statements.

PREMIUM LEISURE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,042,207,202**	₱2,490,657,840	₱2,238,144,106
Adjustments for:			
Impairment loss on goodwill (Note 17)	**363,028,617**	110,933,996	–
Interest income (Notes 7, 10 and 32)	**(279,857,146)**	(157,453,311)	(75,918,013)
Amortization of intangible asset (Note 12)	**238,472,484**	238,472,484	238,472,484
Depreciation and amortization of property and equipment and right-of-use assets (Notes 14 and 28)	**235,948,840**	223,271,046	225,559,130
Dividend income (Notes 8 and 13)	**(24,708,086)**	(24,952,521)	(20,927,342)
Marked-to-market loss (gain) of investments held for trading (Note 25)	**15,248,311**	11,903,085	(2,204,528)
Finance costs (Note 28)	**9,525,989**	6,187,352	10,859,855
Foreign exchange loss (Note 25)	**1,180,826**	845,519	1,671,684
Write-off of input VAT (Notes 11 and 24)	**–**	–	25,000,000
Loss (gain) on sale of:			
Investments held for trading (Note 25)	**–**	(1,548,225)	–
Property and equipment (Note 25)	**(839,812)**	(1,038,518)	(155,142)
Available-for-sale financial asset (Note 25)	**–**	–	31,647,929
Operating income before working capital changes	**2,600,207,225**	2,897,278,747	2,672,150,163
Decrease (increase) in:			
Receivables	**2,382,904**	351,483,786	(107,930,214)
Contract assets	**46,492,534**	(168,015,654)	–
Other current assets	**34,786,133**	(114,758,361)	(47,823,031)
Increase (decrease) in:			
Trade payables and other current liabilities	**80,889,069**	84,982,687	876,816,020
Installment payable	**–**	3,761,219	5,443,823
Retirement liability	**13,580,187**	12,661,865	1,797,113
Cash generated from operations	**2,778,338,052**	3,067,394,289	3,400,453,874
Income taxes paid	**(13,924,734)**	(152,262,768)	(242,991,545)
Interest received	**282,074,609**	155,890,287	77,453,124
Net cash provided by operating activities	**3,046,487,927**	3,071,021,808	3,234,915,453
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property and equipment (Note 14)	**(29,546,701)**	(45,682,606)	(150,346,076)
Fair value through other comprehensive income (Note 13)	**–**	(320,000)	–
Available-for-sale financial asset (Note 13)	**–**	–	(31,653,940)
Investments held for trading (Note 8)	**–**	–	(17,034,130)
Dividends received	**24,708,086**	24,952,521	20,927,342
Decrease (increase) in:			
Other noncurrent assets	**(322,509,314)**	3,803,486	(772,618)
Notes receivable (Note10)	**–**	(2,100,000,000)	(800,000,000)
Proceeds from sale of:			
Property and equipment	**991,675**	1,610,461	1,069,280
Available-for-sale financial assets (Note 13)	**–**	–	172,933,901
Investments held for trading (Note 8)	**–**	12,423,090	6,746,030
Net cash acquired from acquisition of subsidiaries (Note 16)	**–**	–	66,444,703
Net cash used in investing activities	**(326,356,254)**	(2,103,213,048)	(731,685,508)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	**(₱1,568,582,630)**	(₱1,490,549,616)	(₱1,041,930,481)
Proceeds from loan	**150,000,000**	–	–
Payment of principal portion of lease liabilities	**(78,485,645)**	–	–
Purchase of treasury shares by a subsidiary	**–**	(16,606,788)	(211,841,591)
Additional cost of parent company shares held by a subsidiary (Note 21)	**–**	(34,170,020)	(36,549,130)
Acquisition of treasury shares	**–**	(29,430,080)	–
Increase (decrease) in obligations under finance lease	**–**	(45,675,862)	(61,777,018)
Net cash used in financing activities	**(1,497,068,275)**	(1,616,432,366)	(1,352,098,220)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,223,063,398**	(648,623,606)	1,151,131,725
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,314,012,081**	2,962,635,687	1,811,503,962
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱3,537,075,479**	₱2,314,012,081	₱2,962,635,687

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. On July 19, 2019 the SEC approved the change in PLC's primary purpose to include that the Company shall not engage in real estate business activities.

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, 2019 and 2018.

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			
	2019		2018	
	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**	**–**	53.09	–
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			
	2019		2018	
	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
TGTI Services, Inc.	**–**	**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 28, 2020.

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 (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2019 and 2018 (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 having a deficit balance. When necessary, NCI 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 Parent 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. NCI is 46.9% as at December 31, 2019 and 2018.

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

Summarized Consolidated Statements of Financial Position

	2019	2018
Total current assets	**₱864,695,033**	₱1,156,967,831
Total noncurrent assets	**858,445,984**	946,111,550
Total current liabilities	**(360,318,424)**	(289,167,455)
Total noncurrent liabilities	**(49,403,241)**	(53,292,150)
Total equity	**₱1,313,419,352**	₱1,760,619,776
Attributable to:		
Equity holders of the Parent	**₱1,308,075,909**	₱1,753,714,977
Non-controlling interests	**5,343,443**	6,904,799
Total	**₱1,313,419,352**	₱1,760,619,776

Summarized Consolidated Statements of Comprehensive Income

	2019	2018
Revenues	**₱989,865,396**	₱1,935,943,996
Costs and expenses	**(1,370,091,622)**	(1,614,488,192)
Other income (expense) - net	**(15,161,445)**	161,422,797
Income before income tax	**(395,387,671)**	482,878,601
Provision for income tax	**74,415,297**	(178,830,586)
Net income	**(320,972,374)**	304,048,015
Other comprehensive income (loss)	**(126,228,049)**	(294,405,190)
Total comprehensive income	**(₱447,200,423)**	₱9,642,825
Attributable to:		
Equity holders of the Parent	**(₱445,639,067)**	₱8,254,176
Non-controlling interests	**(1,561,356)**	1,388,649
Total	**(₱447,200,423)**	₱9,642,825

Summarized Cash Flow Information

	2019	2018
Operating	**(₱275,108,818)**	₱553,206,300
Investing	**3,112,421**	(33,241,696)
Financing	**37,911,899**	(395,794,561)
Net decrease in cash and cash equivalents	**(₱234,084,498)**	₱124,170,043

Dividends paid to non-controlling interests amounted to nil and ₱121.3 million in 2019 and 2018, 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, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 supersedes Philippine Accounting Standard (PAS) 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

  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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

  The Company adopted PFRS 16 in 2019 using the modified retrospective approach and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  The Company has lease contracts for office spaces, warehouses, retail equipment and retail outlets. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 5 for the accounting policy prior to January 1, 2019.

  Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases. Refer to Note 5 for the accounting policy beginning January 1, 2019.

The effect of adoption PFRS 16 as at January 1, 2019 is as follows:

Consolidated Statement of Financial Position:	**Increase (decrease)**
Right-of-use assets	₱118,562,183
Lease liabilities	143,194,992
Obligations under finance lease	(35,374,474)
Property and equipment	(8,625,269)
Other current assets	(2,116,394)

Leases previously classified as finance leases
The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:
- Right-of -use assets of ₱118.6 million were recognized and presented separately in the statement of financial position. This includes lease assets recognized previously under finance leases of ₱8.6 million that were reclassified from property and equipment.
- Additional lease liabilities of ₱143.2 million were recognized.
- Prepayments of ₱2.1 million related to advance payment of rent were deducted against lease liabilities.

The lease liability at as January 1, 2019 as can be reconciled to the operating lease commitments as at December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	₱239,035,699
Other adjustments	43,500,000
Operating lease commitments as at December 31, 2018, as adjusted	282,535,699
Weighted average incremental borrowing rate at January 1, 2019	7.14%
Discounted operating lease commitments at January 1, 2019	209,643,165
Less: Commitments relating to short term leases	(101,822,646)
Add: Commitments relating to leases previously classified as finance leases	35,374,474
Lease liabilities recognized at January 1, 2019	₱143,194,992

Due to the adoption of PFRS 16, the Company's operating profit in 2019 improved, while its interest expense increased. This is due to the change in the accounting for rent expense related to leases that were previously classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

- 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*. It 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

  The Company is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Company shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Company concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company assessed whether the Interpretation had an impact on its consolidated financial statements. The Company determined, based on its tax compliance review/assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the consolidated financial statements of the Company.

- 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.

- 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.

- 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*.

- *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.

- 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.

- 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.

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 PFRSs and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, Business Combinations, *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 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.

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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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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 consolidated 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.

<u>"Day 1" Difference</u>
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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
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.

<u>Financial Assets Starting January 1, 2018 (Upon Adoption of PFRS 9, Financial Instruments)</u>

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.

Initial Recognition and Subsequent Measurement of Financial Assets. Financial assets are classified as financial assets measured at amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). 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.

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, *Revenue from Contracts with Customers.*

In order for a financial asset to be classified and measured at amortized cost or FVOCI, 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. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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, 2019 and 2018.

- *Financial Assets at FVTPL.* Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

  This category includes listed equity investments held for trading. Dividends on listed equity investments are recognized as other income in the profit or loss when the right of payment has been established.

  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.

As at December 31, 2019 and 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, 2019 and 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 effective interest rate 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, 2019 and 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 FVOCI 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 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 FVOCI are not subject to impairment assessment.

  The Company elected to classify irrevocably its non-listed equity investments under this category. As at December 31, 2019 and 2018, this category includes the Company's investments in shares of stock.

<u>Derecognition of Financial Assets</u>
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset 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 of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. 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.

Impairment of Financial Assets

The Company recognizes an allowance for expected credit losses (ECLs) 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 effective interest rate. 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 Company 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 Company 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.

Financial Assets Prior to January 1, 2018 (Prior to Adoption of PFRS 9)

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 and Subsequent Measurement 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.

Financial assets are classified as financial assets FVTPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (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 Instruments: Recognition and Measurement*.

  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.

  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 changes, 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.

  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. 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.

Impairment of Financial Assets. 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 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.

- *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.

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 and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent Measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:
- Financial liabilities at FVTPL
- Financial liabilities at amortized cost (loans and borrowings)

As at December 31, 2019 and 2018, the Company has no financial liabilities at FVTPL.

Financial Liabilities at Amortized Cost (Loans and Borrowing).
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. 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. The EIR amortization is included as finance costs in the profit or loss.

This category includes the Company's trade payables and other current liabilities, loans payable, lease liabilities and obligations under finance lease.

Derecognition of Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the profit or loss.

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.

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

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.

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 cost, less impairment, which reflects market conditions at the reporting date.

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. In determining the amount of consideration from the derecognition of investment property, the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

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 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 equity is not remeasured and its subsequent settlement is accounted for within equity. 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 the changes in fair value recognized in profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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*.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

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 has been allocated to 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 right-of-use assets, intangible asset and property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's 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.

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 Starting January 1, 2018 (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 Company 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", 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) 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, other than the usual business operations, control of goods and services are transferred to the customer.

Revenue Recognition Prior to January 1, 2018 (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.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Except for the "Commission income," the Company has concluded that it is acting as principal in all of its revenue arrangements since it is the principal obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

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) 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 PAGCOR license fee.

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 PGEC is recognized monthly in accordance with the OMOA.

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

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

Leases Starting January 1, 2019 (Upon Adoption of PFRS 16)

Leases. The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as Lessee. The Company applies a single recognition and measurement approach for all leases, except for short-term leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- *Right-of-use Assets.* The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow:

Lottery equipment	1 year
Warehouse and office spaces	1 year to 2 years
Corporate Suite	2 years and 5 months

  Right-of-use assets are subject to impairment.

- *Lease Liabilities.* At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases.* The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date or initial application of PFRS 16 and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Company as Lessor. Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging 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.

<u>Leases Prior to January 1, 2019 (Prior to Adoption of PFRS 16)</u>

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 recognizes 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 arrangements, 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:

- when 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 arrangements, 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 and liabilities 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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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. 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 assets or liabilities affected in future periods.

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.

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 2019 and 2018 as a subsidiary with material non-controlling interests.

Starting January 1, 2019, Upon adoption of PFRS 16)

Determination of lease term of contracts with renewal options – Company as a lessee. The Company has several lease contracts that include extension options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew. The Company did not include the renewal period as part of the lease term of its various lease arrangements since the Company assessed that its renewal option is not enforceable.

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 ₱681.5 million, ₱1,448.3 million and ₱1,840.5 million in 2019, 2018 and 2017, respectively (see Note 28).

Operating Lease - as a Lessee (Prior to January 1, 2019 - Prior to Adoption of PFRS 16). 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 and ₱87.1 million in 2018 and 2017, respectively (see Note 28).

Finance Lease - as a Lessee (Prior to January 1, 2019 - Prior to Adoption of PFRS 16). 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 as at December 31, 2018 (see Notes 14 and 28).

Estimates and Assumptions

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

The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Provision for Expected Credit Losses of Financial Assets at Amortized Cost and Contract Assets (Starting January 1, 2018 – 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 a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

In 2019, the Company recognized provision for ECL amounting to ₱2.1 million (see Note 24). No provision was recognized in 2018. Allowance for doubtful accounts amounted to ₱429.8 million and ₱427.7 million as at December 31, 2019 and 2018, respectively. The aggregate carrying values of receivables, notes receivables and contract assets amounted to ₱4,173.6 million and ₱4,224.7 million as at December 31, 2019 and 2018, respectively (see Notes 9, 10 and 32).

Determination of Impairment of Receivables and Notes Receivables (Prior to January 1, 2018 - 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 amounted to ₱7.7 million (see Note 24).

Determination of Impairment of AFS Financial Assets (Prior to January 1, 2018 - 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.

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, property and equipment and right-of-use assets was recognized in 2019, 2018 and 2017.

The carrying values of nonfinancial assets (excluding goodwill) as at December 31, 2019 and 2018 are as follows:

	2019	2018
Intangible asset (see Note 12)	**₱9,191,127,003**	₱9,429,599,487
Investment property (see Note 15)	**285,510,452**	285,510,452
Property and equipment (see Note 14)	**107,432,510**	259,903,572
Right-of-use assets (see Note 28)	**73,225,966**	–

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 ₱104.1 million and ₱19.8 million as at December 31, 2019 and 2018, respectively. Unrecognized deferred tax assets amounted to ₱140.4 million and ₱137.3 million as at December 31, 2019 and 2018, respectively (see Note 26).

Revenue from Contracts with Customers. The Company has identified the following estimations 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.

Estimation of Useful Life of Gaming License. The useful life of the Company's gaming license recognized as "Intangible asset" account in the consolidated statement of financial position is estimated based on the period over which the asset is expected to be available for use. The estimated useful life of intangible asset is reviewed periodically and updated if expectations differ from previous estimates. The gaming license runs concurrent with Philippine Amusement and Gaming Corporation's (PAGCOR) congressional franchise which is set to expire in 2033, renewable for another 25 years by the Philippine Congress.

In 2019 and 2018, there were no changes in the estimated useful life of gaming license. The carrying value of the gaming license as at December 31, 2019 and 2018 amounted to ₱9,191.1 million and ₱9,429.6 million, respectively (see Note 12).

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. Impairment loss amounted to ₱363.0 million in 2019. There was no impairment loss of goodwill in 2018. The carrying values of goodwill amounted to ₱1,358.3 million and ₱1,721.3 million as at December 31, 2019 and 2018, respectively (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 ₱20.0 million, ₱13.7 million and ₱12.9 million in 2019, 2018 and 2017, respectively. Remeasurement gain (loss) on retirement benefits amounted to ₱25.9 million, ₱17.6 million and ₱2.3 million in 2019, 2018 and 2017, respectively. The carrying values of retirement asset amounted to ₱10.3 million and ₱7.9 million as at December 31, 2019 and 2018, respectively. The carrying values of retirement liability amounted to ₱49.0 million and ₱7.0 million as at December 31, 2019 and 2018, respectively (see Note 20).

Leases - Estimating the incremental borrowing rate (Starting January 1, 2019 – Upon Adoption of PFRS 16). The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (such as for entities within the group that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the entity's stand-alone credit rating).

The Company's lease liabilities amounted to ₱91.6 million as at December 31, 2019 (see Note 28).

Evaluation of 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 Notes 17 and 33).

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand and in banks	**₱704,732,546**	₱2,220,564,179
Cash equivalents	**2,832,342,933**	93,447,902
	₱3,537,075,479	₱2,314,012,081

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 ₱57.1 million, ₱36.2 million and ₱21.1 million in 2019, 2018 and 2017, 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.

Movements in this account are as follows:

	2019	2018
Balance at beginning of year	**₱155,704,892**	₱178,482,842
Disposals	–	(10,874,865)
Marked-to-market-loss (see Note 25)	**(15,248,311)**	(11,903,085)
Balance at end of year	**₱140,456,581**	₱155,704,892

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 2019, 2018 and 2017 amounting to (₱15.2 million), (₱11.9 million) and ₱2.2 million, respectively, were recognized in "Other income (expense) - net" account in the consolidated statements of income (see Note 25).

Realized gain from sale of investments held for trading amounted to nil, ₱1.5 million and nil in 2019, 2018 and 2017, respectively (see Note 25).

Dividend income realized from investments held for trading amounted ₱4.70 million, ₱5.0 million and ₱5.7 million in 2019, 2018 and 2017, respectively.

9. **Receivables**

This account consists of:

	2019	2018
Trade receivables	**₱332,479,558**	₱331,628,182
Loan assets (see Note 32)	**422,341,815**	422,341,815
Advances to officers and employees	**4,575,259**	4,939,898
Accrued interest on notes receivable (see Note 27)	–	2,217,463
Other receivables (Note 27)	**7,976,873**	17,299,125
	767,373,505	778,426,483
Less allowance for doubtful accounts	**429,838,329**	427,690,938
	₱337,535,176	₱350,735,545

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 32). The loan assets were fully provided with allowance as at December 31, 2019 and 2018.

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:

	2019	2018
Balance at beginning of year	**₱427,690,938**	₱434,440,938
Provision for impairment loss (see Note 24)	**2,147,391**	–
Write-off during the year	–	(6,750,000)
Balance at end of year	**₱429,838,329**	₱427,690,938

10. **Notes Receivable**

Notes receivable, unsecured and bearing interest rates ranging from 4.80% to 6.38% in 2019 and 3.25% to 5.46% in 2018, amounted to ₱3,705.9 million as at December 31, 2019 and 2018 (see Note 27).

Interest income from notes receivable recognized in the consolidated statement of income amounted to ₱214.1 million, ₱108.7 million and ₱54.8 million in 2019, 2018 and 2017, respectively (see Note 27).

11. **Other Current Assets**

This account consists of:

	2019	2018
Creditable withholding taxes	**₱151,493,307**	₱170,275,739
Prepaid expenses	**72,178,205**	70,341,728
Spare parts and supplies - at cost	**37,430,911**	60,978,544
Input VAT	**5,232,880**	3,681,383
Advances to contractors and suppliers	**2,249,254**	3,847,376
Bonds and deposits (see Note 32)	–	10,000,000
Others	**25,280**	25,280
	268,609,837	319,150,050
Less allowance for probable loss on input VAT	**62,870**	62,743
	₱268,546,967	₱319,087,307

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

Spare parts and supplies are carried at lower and 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. In 2018, the cash bond of POSC amounting to ₱10.0 million was reclassified from "Other noncurrent assets" to "Other current assets". In 2019, the ₱10.0 million cash bond was collected (see Note 32).

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

	2019	2018
Balance at beginning of year	**₱62,743**	₱62,616
Provision for probable losses (see Note 24)	**127**	127
Balance at end of year	**₱62,870**	₱62,743

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.

Movements in intangible asset are as follows:

	2019	2018
Cost		
Balance at beginning and end of year	**₱10,843,215,811**	₱10,843,215,811
Accumulated Amortization		
Balance at beginning of year	**1,413,616,324**	1,175,143,840
Amortization (see Notes 3 and 24)	**238,472,484**	238,472,484
Balance at end of year	**1,652,088,808**	1,413,616,324
	₱9,191,127,003	₱9,429,599,487

The unamortized life of the license as at December 31, 2019 and 2019 is 38.5 years and 39.5 years, respectively.

13. Financial Assets at Fair Value Through Other Comprehensive Income

This account pertains to investments in equity instruments classified as financial assets at FVOCI as at December 31, 2019 and 2018, consisting of the following:

	2019	2018
Quoted shares:		
Belle - common shares (see Note 27)	**₱331,634,931**	₱384,963,161
Golf club shares	**2,800,000**	2,700,000
	334,434,931	387,663,161
Unquoted shares:		
Others	**81,100**	81,100
	₱334,516,031	₱387,744,261

The movements of financial assets at FVOCI in 2019 and 2018 are as follows:

	2019	2018
Cost		
Balance at beginning of year	**₱890,518,604**	₱890,198,604
Additions	**–**	320,000
Balance at end of year	**890,518,604**	890,518,604
Cumulative unrealized mark-to-market loss on financial assets at FVOCI		
Balance at beginning of year	**(502,774,343)**	(241,600,714)
Unrealized mark-to-market loss during the year	**(53,228,230)**	(261,173,629)
Balance at end of year	**(556,002,573)**	(502,774,343)
	₱334,516,031	₱387,744,261

Dividend income earned from financial assets at FVOCI amounted to ₱20.0 million in 2019 and 2018.

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:

	2019				
	Lottery Equipment	**Leasehold Improvements**	**Office Equipment, Furniture and Fixtures**	**Transportation Equipment**	**Total**
Cost					
Balance at beginning of year, as previously reported	**₱911,789,356**	**₱99,270,113**	**₱196,967,691**	**₱79,101,958**	**₱1,287,129,118**
Reclassification (see Notes 3 and 28)	**(163,499,020)**	**–**	**–**	**–**	**(163,499,020)**
Balances at beginning of year, as restated	**748,290,336**	**99,270,113**	**196,967,691**	**79,101,958**	**1,123,630,098**
Additions	**7,759,051**	**2,984,917**	**8,836,568**	**9,966,165**	**29,546,701**
Disposals	**(13,280,268)**	**(87,500)**	**(3,762,911)**	**(11,742,909)**	**(28,873,588)**
Balance at end of year	**742,769,119**	**102,167,530**	**202,041,348**	**77,325,214**	**1,124,303,211**
Accumulated Depreciation and Amortization					
Balance at beginning of year, as previously reported	**₱750,870,733**	**₱83,589,685**	**₱144,355,804**	**₱48,409,324**	**₱1,027,225,546**
Reclassification to (see Notes 3 and 28)	**(154,873,751)**	**–**	**44,983**	**(44,983)**	**(154,873,751)**
Balances at beginning of year, as restated	**595,996,982**	**83,589,685**	**144,400,787**	**48,364,341**	**872,351,795**
Depreciation and amortization (see Notes 23 and 24)	**114,088,548**	**9,701,117**	**34,513,880**	**14,937,086**	**173,240,631**
Disposals	**(13,280,268)**	**(87,500)**	**(3,762,911)**	**(11,591,046)**	**(28,721,725)**
Balance at end of year	**696,805,262**	**93,203,302**	**175,151,756**	**51,710,381**	**1,016,870,701**
Net Book Value	**₱45,963,857**	**₱8,964,228**	**₱26,889,592**	**₱25,614,833**	**₱107,432,510**

	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 23 and 24)	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

Certain lottery equipment was acquired under finance lease agreements. The carrying amount of the equipment under finance lease agreements amounted to ₱30.9 million as at December 31, 2018 (see Note 28).

On January 1, 2019, upon adoption of PFRS 16, property and equipment with carrying value of ₱8.6 million as at December 31, 2018 were reclassified to right-of-use assets (see Notes 3 and 28).

15. **Investment Property**

These accounts pertain to parcels of land amounting to ₱285.5 million classified as investment property as at December 31, 2019 and 2018.

The fair value of the investment property amounted to ₱295.2 million as at December 31, 2019 and 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. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee. The Company believes that the highest and best use of its properties does not differ from their current use.

While fair values of other investment properties were not determined as at December 31, 2019, management believes that there were no conditions present as at December 31, 2019 that would significantly reduce the fair values of the investment properties.

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	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	616,120	
Income tax payable	6,227,122	69,659,125
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, 2019 and 2018 consists of:

	2019	2018
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	**473,962,613**	110,933,996
	₱1,358,298,121	₱1,721,326,738

Movements in this account are as follow:

	2019	2018
Balance at beginning of year	**₱1,721,326,738**	₱1,832,260,734
Impairment loss (see Note 24)	**(363,028,617)**	(110,933,996)
Balance at end of year	**₱1,358,298,121**	₱1,721,326,738

Movements in the allowance for impairment loss is as follows:

	2019	2018
Balance at beginning of year	**₱110,933,996**	₱–
Impairment loss during the year (see Note 24)	**363,028,617**	110,933,996
Balance at end of year	**₱473,962,613**	₱110,933,996

The goodwill from the acquisitions have been subjected to the annual impairment review in 2019 and 2018. 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.

In 2019, the Company recognized impairment of its goodwill in POSC and LCC subsidiaries amounting to ₱359.3 million and ₱3.7 million, respectively. The Company recognized impairment of its goodwill in FRI in 2018 amounting to ₱110.9 million (see Note 25).

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

POSC
Discount Rate. Discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate of 8.45% and 12.21% was used in 2019 and 2018, 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 8% and 3% to 10% per annum were applied in the 5-year cash flow projections in 2019 and 2018, 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 2019 and 2018. 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.

Management assessed that an increase in pre-tax discount rate by 1% or decrease in revenue growth rate by 1% would result to additional impairment.

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 in 2018.

18. **Trade Payables and Other Current Liabilities**

This account consists of:

	2019	2018
Trade payables	**₱75,397,172**	₱154,248,020
Accrued expenses and other payables	**1,244,486,435**	1,247,521,393
Unearned income	**212,652,281**	–
Professional, service and management fees (see Note 27)	**25,181,600**	42,530,367
Communication, rental and utilities	**17,666,835**	16,083,272
Consultancy, software and license fees payable	**17,207,061**	37,585,238
Withholding taxes payable	**5,478,560**	7,681,871
Current portion of installment payable	–	9,205,042
Others (see Note 27)	**20,295,526**	20,937,142
	₱1,618,365,470	₱1,535,792,345

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

Accrued expenses and other payables mainly represent provisions. Other than provisions, accruals 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.

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

19. **Loans Payable**

On December 18, 2019**,** POSC availed an unsecured ₱150.0 million loan from a local bank with an interest rate of 5.25% per annum payable in equal monthly installment for a period of one (1) year.

20. **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 2019 are as follows:

	Fair Value of Plan Assets	**Present Value of Defined Benefit Obligation**	**Retirement Benefits**
At January 1, 2019	**₱80,768,327**	**(₱79,894,267)**	**₱874,060**
Net retirement income (costs) in profit or loss:			
Current service cost	**–**	**(11,099,386)**	**(11,099,386)**
Past service cost	**–**	**(9,357,392)**	**(9,357,392)**
Net interest	**6,658,849**	**(6,282,258)**	**376,591**
	6,658,849	**(26,739,036)**	**(20,080,187)**
Contributions	**6,500,000**	**–**	**6,500,000**
Remeasurement gain (loss) recognized in OCI:			
Actuarial changes due to experience adjustment	**–**	**681,139**	**681,139**
Actuarial changes arising from changes in financial assumptions	**–**	**(33,150,515)**	**(33,150,515)**
Actual return excluding amount included in net interest cost	**(293,111)**	**–**	**(293,111)**
Actuarial changes due to changes in demographic assumptions	**–**	**1,548,460**	**1,548,460**
Effect of asset ceiling	**5,281,172**	**–**	**5,281,172**
	4,988,061	**(30,920,916)**	**(25,932,855)**
At December 31, 2019	**₱98,915,237**	**(₱137,554,219)**	**(₱38,638,982)**

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

(Forward)

	Fair Value of Plan Assets	Present Value of Defined Benefit Obligation	Retirement Benefits
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

The retirement benefits are presented in the consolidated statement of financial position as at December 31, 2019 and 2018 are as follows:

	2019	2018
Retirement asset	**₱10,311,588**	₱7,855,553
Retirement liability	**(48,950,570)**	(6,981,493)
Net retirement asset (liability)	**(₱38,638,982)**	₱874,060

The latest actuarial valuation of the Company is as at December 31, 2019.

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

	2019	2018
Cash and cash equivalents	**₱6,462,731**	₱2,640,981
Debt instruments - government bonds	**49,620,862**	43,122,315
Debt instruments - other bonds	**2,994,707**	2,525,548
Unit investment trust funds	**38,169,995**	35,706,253
Others	**1,666,942**	(3,226,770)
	₱98,915,237	₱80,768,327

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:

	2019	2018
Discount rate	**5.10 %-7.62%**	7.53%-8.06%
Rate of compensation increase	**5.00%-8.00%**	5.00%-8.00%

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, 2019 and 2018 assuming if all other assumptions were held constant:

	2019		2018	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	**1.00%**	**(₱15,318,357)**	1.00%	(₱7,626,037)
	(1.00%)	**18,829,785**	(1.00%)	9,248,824
Salary increase rate	**1.00%**	**18,267,320**	1.00%	8,692,250
	(1.00%)	**(15,201,197)**	(1.00%)	(7,319,760)

The average duration of the defined benefit obligation is 9.9 years to 30.8 years in 2019.

The maturity analysis of the undiscounted benefit payments follows:

	2019	2018
Less than 1 year	**₱28,318,747**	₱14,956,661
More than 1 year to 5 years	**10,979,223**	15,680,137
More than 5 years to 10 years	**54,506,564**	49,852,661

21. Equity

Preferred Stock
As at December 31, 2019 and 2018, 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 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, 2019 and 2018 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
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 32).

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 32).

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 32).

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 32).
As discussed in Note 32, 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, 2019 and 2018 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. On March 19, 2018, the Company commenced its share buyback program. As at December 31, 2019 and 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 as at December 31, 2019 and 2018, respectively, with a cost of ₱509.6 million as at December 31, 2019 and 2018, 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 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. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱18.9 million.

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.

The consolidated retained earnings as at December 31, 2019 and 2018 includes the earnings of the subsidiaries which are not currently available for dividend declaration unless declared by the subsidiaries of the Parent Company. The Parent Company's retained earnings available for dividend declaration, computed based on the regulatory requirements of SEC amounted to ₱2,441.1 million and ₱2,517.9 million as at December 31, 2019 and 2018, respectively.

22. Gaming Revenue Share

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

	2019	2018	2017
Gaming revenue share - gross	**₱5,954,695,862**	₱7,551,166,234	₱6,119,060,974
Less PAGCOR license fee paid by Melco	**2,978,329,390**	4,339,309,270	3,509,708,335
Gaming revenue share - net (see Note 31)	**₱2,976,366,472**	₱3,211,856,964	₱2,609,352,639

23. Cost of Services

This account consists of:

	2019	2018	2017
Payroll and related expenses	**₱138,274,529**	₱157,827,139	₱145,220,203
Depreciation and amortization (see Notes 14 and 28)	**184,639,676**	199,846,955	194,986,126
Rental and utilities (see Note 28)	**79,467,734**	159,011,768	62,975,691
Software and license fees (see Notes 28 and 32)	**136,317,928**	195,747,032	191,656,399
Communication	**120,030,518**	112,113,845	113,335,408
Operating supplies	**37,993,331**	150,145,617	205,296,501
Online lottery system expenses	**285,445,503**	237,205,391	193,378,115
Consultancy fees (see Note 32)	**–**	75,987,317	136,634,323
Service fees (see Notes 27 and 32)	**–**	–	260,564,461
Others	**4,038,614**	9,603,530	34,991,182
	₱986,207,833	₱1,297,488,594	₱1,539,038,409

24. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Impairment loss on goodwill (see Note 17)	**₱363,028,617**	₱110,933,996	₱–
Outside services (see Note 27)	**158,370,084**	60,275,106	12,999,222
Salaries, wages and benefits	**136,935,936**	140,133,637	121,420,783
Transportation and travel	**83,502,861**	77,390,533	91,941,841
Depreciation and amortization (see Notes 14 and 28)	**51,309,164**	23,424,091	30,573,004
Taxes and licenses	**38,047,179**	43,579,008	30,632,398
Professional, service and management fees (see Notes 27 and 32)	**31,690,978**	29,226,287	48,215,605
Rental and utilities (see Note 28)	**26,172,052**	25,616,335	37,718,135
Representation and entertainment	**11,135,287**	35,268,666	49,978,597
Insurance	**8,442,836**	803,164	1,384,637
Repairs and maintenance	**6,956,373**	19,976,689	12,428,642
Communication	**5,007,231**	12,963,789	7,826,803

(Forward)

	2019	2018	2017
Placement and listing fee	**₱2,027,292**	₱2,075,678	₱2,404,625
Provision for doubtful accounts and probable loss on input VAT (see Notes 9 and 11)	**2,147,581**	127	7,703,968
Marketing, advertising and promotion (see Note 27)	**1,563,541**	16,779,397	1,981,220
Termination cost (see Note 32)	–	327,614,359	–
Write-off of input VAT (see Note 11)	–	–	25,000,000
Miscellaneous (see Note 18)	**35,157,660**	606,769,744	536,473,897
	₱961,494,609	₱1,532,830,606	₱1,018,683,377

In 2019 and 2018, miscellaneous expense includes regular provisions of the Company.

25. **Other Income (Expense) -** net

This account consists of:

	2019	2018	2017
Marked-to-market gain (loss) on investments held for trading (see Note 8)	**(₱15,248,311)**	(₱11,903,085)	₱2,204,528
Foreign exchange loss	**(1,180,826)**	(845,519)	(1,671,684)
Gain on sale of property and equipment	**839,812**	1,038,518	155,142
Gain on sale of investments held for trading (see Note 8)	–	1,548,225	–
Loss on sale of AFS financial assets (see Note 13)	–	–	(31,647,929)
Brand and trademark income (see Note 32)	–	203,459,171	–
Other income (expense) - net	**(17,299,658)**	42,132,775	49,966,804
	(₱32,888,982)	₱235,430,085	₱19,006,861

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

26. **Income Taxes**

The components of income tax expense for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Current income tax	**₱22,422,019**	₱133,572,412	₱235,892,039
Deferred income tax relating to origination and reversal of temporary difference	**(81,838,677)**	47,432,314	(413,893)
	(₱59,416,658)	₱181,004,726	₱235,478,146

PLC and its subsidiaries are using itemized deduction in computing their taxable income, except for PLAI, who's revenues are exempt from income tax.

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

	2019	2018
Deferred tax assets:		
NOLCO	**₱71,861,151**	₱2,602,457
Unamortized past service costs	**11,988,761**	10,002,926
Right of use asset	**7,201,599**	–
Retirement liability	**7,506,311**	436,829
Allowance for doubtful accounts on receivables	**4,186,152**	4,045,557
Accrued expenses	**1,067,844**	2,417,101
Unrealized foreign exchange gain	**322,060**	265,884
	₱104,133,878	₱19,770,754
Deferred tax liabilities:		
Contract asset	**₱40,984,696**	₱50,404,696
Lease liabilities	**6,878,369**	–
Retirement asset	**2,730,737**	5,741,338
Others	**715,451**	921,858
	51,309,253	57,067,892
Deferred tax assets (liabilities) – net	**₱52,824,625**	(₱37,297,138)

The deferred taxes are presented in the consolidated statement of financial position as at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets	**₱52,824,625**	₱8,864,126
Deferred tax liabilities	**–**	(46,161,265)
Net deferred tax assets (liabilities)	**₱52,824,625**	(₱37,297,138)

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:

	2019	2018
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	**1,503,015**	2,830,747
Allowance for impairment of AFS investments	**–**	2,000,000
NOLCO	**17,048,667**	99,441
	₱464,620,461	₱450,998,967

Deferred tax assets amounting to ₱140.4 million and ₱137.3 million as at December 31, 2019 and 2018, 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, 2019, 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
2017	December 31, 2020	₱29,380	₱–
2018	December 31, 2021	8,705,228	1,503,015
2019	December 31, 2022	247,851,219	–
		₱256,585,827	₱1,503,015

The movements in NOLCO follow:

	2019	2018
NOLCO:		
Balance at beginning of year	**₱8,774,298**	₱5,050,362
Additions	**247,851,219**	8,705,228
Expirations	**(39,690)**	(91,885)
Applications	–	(4,889,407)
Balance at end of year	**₱256,585,827**	₱8,774,298

The movements in MCIT follow:

	2019	2018
MCIT:		
Balance at beginning of year	**₱2,830,747**	₱1,257,329
Application	**(671,126)**	
Expirations	**(656,606)**	(600,723)
Additions	–	2,174,141
Balance at end of year	**₱1,503,015**	₱2,830,747

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:

	2019	2018	2017
Income tax computed at statutory tax rate	**₱612,662,161**	₱747,197,352	₱671,443,231
Income tax effect of:			
Income not subject to income tax	**(900,322,367)**	(908,018,484)	(785,764,413)
Nondeductible expenses	**243,018,136**	338,235,727	357,133,868
Interest income subject to final tax	**(17,138,335)**	(2,450,189)	(2,059,579)
Change in unrecognized deferred tax assets	**3,157,036**	1,511,904	(8,505,413)
Expired NOLCO	**39,690**	91,885	76,929
Others	**(832,979)**	4,436,531	3,153,523
	(₱59,416,658)	₱181,004,726	₱235,478,146

27. **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.

Related party transactions amounting to 10% or higher of the Company's consolidated total assets are subject to the approval of the BOD.

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	Share in expenses (see Note 18)	**2019**	**₱270,054**	**(₱4,590,877)**	Noninterest-bearing, on demand	Unsecured
			2018	668,842	(4,320,823)		
			2017	985,341	(3,713,633)		
		Notes receivable (see Note 10)	**2019**	–	**3,705,925,000**	3.25% to 6.38% interest-bearing, due on demand	Unsecured, no impairment
			2018	2,100,000,000	3,705,925,000		
			2017	800,000,000	1,605,925,000		
		Financial assets at FVOCI (see Note 13)	**2019**	**–**	**331,634,931**	Noninterest-bearing	Unsecured, no impairment
			2018	320,000	384,963,161		
		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
		Interest income (see Notes 9 and 10)	**2019**	**214,129,362**	**–**	Noninterest-bearing, 30 days	Unsecured, no impairment
			2018	108,707,037	2,217,463		
			2017	54,759,963	654,439		
		Service and management fee (see Notes 18, 23 and 24)	**2019**	**54,000,000**	**–**	Noninterest-bearing, 30 days	Unsecured
			2018	54,000,000	(9,900,000)		
			2017	60,480,000	–		
		Others (see Note 9)	**2019**	**–**	**–**	Noninterest-bearing, due on demand	Unsecured
			2018	–	5,443,618		
			2017	12,543,618	12,543,618		

(Forward)

Related Party	Relationship	Transaction		Transaction Amounts	Outstanding Balance Assets (Liabilities)	Terms	Condition
Belle Grande	Affiliate	Service fees	**2019**	**₱–**	**₱–**	Noninterest-	Unsecured
		(see Notes 18	2018	327,614,359	–		
		and 23)	2017	133,800,340	(35,157,662)	bearing, 30 days	
SM Arena Complex Corporation	Affiliate	Others (see Notes 18, 24 and 28)	**2019**	**18,000,000**	**–**	Noninterest-bearing, 30 days	Unsecured
			2018	18,900,000	(4,950,000)		
			2017	20,701,935	–		
SM Prime Holdings, Inc.	Affiliate	Rental expense	**2019**	**–**	**–**	Noninterest-bearing, 30 days	Unsecured
			2018	27,208,158	–		
		(see Note 23)	2017	12,610,120	–		

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 ₱54.0 million, ₱50.4 million and ₱60.5 million in 2019, 2018 and 2017, 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 23 and 24).

Other Transactions

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

	2019	2018	2017
Short-term employee benefits	**₱46,432,466**	₱42,714,891	₱45,139,351
Retirement benefits costs	**3,567,771**	3,881,441	3,819,419
	₱50,000,237	₱46,596,332	₱48,958,770

28. Leases

Starting January 1, 2019 - Upon adoption of PFRS 16

As Lessee. The Company has various lease contracts for office spaces, warehouses, retail equipment, retail outlets and corporate suite. The leases generally have lease terms of between 2 and 5 years. As at January 1, 2019, the remaining lease term is from 1 to 3 years. Previously, these leases were classified as operating leases under PAS 17 except for the lease contracts for the supply of online lottery system entered into by POSC with Scientific Games and Intralot and by TGTI with Intralot which were classified as finance lease.

The Company also has certain leases with lease terms of 12 months or less. The Company applies the "short-term lease" recognition exemptions for these leases. Rent expense on short-term lease amounted to ₱89.0 million (see Notes 23 and 24).

Right-of-use assets
The rollforward analysis of right-of-use assets is follows:

	Right-of-use Suite	Right-of-use Equipment	Right-of-use Office and Warehouse	Right-of-use Total
Cost				
At January 1, 2019, as previously presented	₱–	₱–	₱–	₱–
Reclassification (see Notes 3 and 15)	–	163,499,020	–	163,499,020
Initial adoption of PFRS 16	39,502,279	–	70,434,635	109,936,914
Effect of adoption of PFRS 16 (see Note 3)	39,502,279	163,499,020	70,434,635	273,435,934
At January 1, 2019, as restated	39,502,279	163,499,020	70,434,635	273,435,934
Additions	–	–	17,371,992	17,371,992
At December 31, 2019	39,502,279	163,499,020	87,806,627	290,807,926
Accumulated Depreciation and Amortization				
At January 1, 2019, as previously presented	–	–	–	–
Reclassification (see Notes 3 and 15)	–	154,873,751	–	154,873,751
Initial recognition	–	–	–	–
Effect of adoption of PFRS 16 (see Note 3)	–	154,873,751	–	154,873,751
At January 1, 2019, as restated	–	154,873,751	–	154,873,751
Depreciation (see Notes 23 and 24)	16,574,383	8,625,269	37,508,557	62,708,209
At December 31, 2019	16,574,383	163,499,020	37,508,557	217,581,960
Net Book Value	₱22,927,895	₱–	₱50,298,071	₱73,225,966

The effect of the adoption of PFRS 16, net depreciation, at January 1, 2019 amounted to ₱118.6 million (see Note 3).

The following are the amounts recognized in statement of income:

	2019
Depreciation expense of right-of-use assets (see Note 23 and 24)	₱62,708,209
Interest expense on lease liabilities	9,525,989
Expenses relating to short-term leases (see Notes 23 and 24)	89,024,069
Total amount recognized in statement of income	₱161,258,267

Lease liability
The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (see Note 3)	143,194,992
At January 1, 2019, as restated	143,194,992
Additions	17,371,992
Interest expense	9,525,989
Payments	(78,485,645)
As at December 31, 2019	₱91,607,328

Shown below is the maturity analysis of the undiscounted lease payments:

	2019
1 year	₱76,353,121
more than 1 years to 2 years	16,748,884

As Lessor. 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 32). The ELA was renewed for another year starting August 1, 2019. Rental payments are 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 ₱427.9 million in 2019.

Future minimum rental income as at December 31, 2019 for the remaining lease term of one year is ₱82.2 million.

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 ₱253.6 million 2019.

Prior to January 1, 2019 – Prior to Adoption of PFRS 16

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 in 2018 is as follows:

	2018
Within one year	₱22,253,929
After one year but not more than five years	16,690,446
Total future minimum lease payments	38,944,375
Less amount representing interest	3,569,901
Present value of lease payments	35,374,474
Less current portion of obligations under finance lease	19,379,463
Noncurrent portion of obligations under finance lease	₱15,995,011

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 23). The interest component of the payments recognized as “Finance costs” account in the consolidated statement of income amounted to ₱6.2 million and ₱10.9 million in 2018 and 2017, respectively.

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

As Lessor

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 and ₱1,036.9 million in 2018 and 2017, respectively.

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

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 and ₱803.6 million in 2018 and 2017, respectively.

Future minimum rental income for the remaining lease terms is as follows:

Within one year	₱98,160,000
After one year but not more than five years	73,620,000
	₱171,780,000

As Lessee

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 and ₱16.2 million in 2018 and 2017, 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 and ₱62.9 million in 2018 and 2017, 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 and ₱8.0 million in 2018 and 2017, respectively.

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

29. Basic/Diluted Earnings Per Common Share

As at December 31, 2019, 2018 and 2017, basic/diluted earnings per share were computed as follows:

	2019	2018	2017
Net income attributable to the equity holders of the Parent (a)	**₱2,261,962,747**	₱2,157,768,639	₱1,756,459,152
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	**(377,143,000)**	(347,951,000)	(323,586,000)
Acquisition of entities holding parent common shares	–	(23,929,036)	(16,323,279)
Weighted average number of treasury shares acquired during the year	**(28,379,000)**	(19,849,526)	–
Weighted average common shares, end (b)	**31,221,788,000**	31,235,580,438	31,287,400,721
Earnings per common share (a/b)	**₱0.072448**	₱0.069080	₱0.056140

30. 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 and receivables that derive directly from its operations. The Company also holds investments held for trading, notes receivable, financial assets at FVOCI, guarantee bonds and deposits included as part of "Other noncurrent assets" in the consolidated statement of financial position

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, receivables, investments held for trading, financial assets at FVOCI, guarantee bonds and deposits, 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.

	2019						
		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*	**₱3,522,420,729**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,522,420,729**
Investment held for trading	**140,456,581**	**–**	**–**	**–**	**–**	**–**	**140,456,581**
Receivables	**337,535,176**	**–**	**–**	**–**	**–**	**429,838,329**	**767,373,505**
Notes receivable	**3,705,925,000**	**–**	**–**	**–**	**–**	**–**	**3,705,925,000**
Financial assets at FVOCI	**334,516,031**	**–**	**–**	**–**	**–**	**–**	**334,516,031**
Guarantee bonds**	**12,000,000**	**–**	**–**	**–**	**–**	**–**	**12,000,000**
Deposits**	**35,424,154**	**–**	**–**	**–**	**–**	**–**	**35,424,154**
	₱8,088,277,671	**₱–**	**₱–**	**₱–**	**₱–**	**₱429,838,329**	**₱8,518,116,000**

**Excluding cash on hand amounting to ₱14.7 million.*
***Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*

	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*

Credit Quality of Financial Assets
The financial assets are grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 90 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 90 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The credit quality of the Company's financial assets are as follows:

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Financial Assets at Amortized Cost				
Cash and cash equivalents*	**₱3,522,420,729**	**₱–**	**₱–**	**₱3,522,420,729**
Trade and other receivables	**337,535,176**	**–**	**429,838,329**	**767,373,505**
Notes receivable	**3,705,925,000**	**–**	**–**	**3,705,925,000**
Guarantee bonds**	**12,000,000**	**–**	**–**	**12,000,000**
Deposits**	**35,424,154**	**–**	**–**	**35,424,154**
Financial assets at FVTPL	**140,456,581**	**–**	**–**	**140,456,581**
Financial assets at FVOCI	**334,516,031**	**–**	**–**	**334,516,031**
Gross Carrying Amount	**₱8,088,277,671**	**₱–**	**₱429,838,329**	**₱8,518,116,000**

**Excluding cash on hand amounting to ₱14.7 million.*
***Included as part of "Other noncurrent assets" account in the consolidated statements of financial position*

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents*	₱2,307,628,061	₱–	₱–	₱2,307,628,061
Trade and other receivables	350,735,545	–	427,690,938	778,426,483
Notes receivable	3,705,925,000	–	–	3,705,925,000
Guarantee bonds**	42,000,000	–	–	42,000,000
Deposits**	35,400,000	–	–	35,400,000
Financial assets at FVTPL	155,704,892	–	–	155,704,892
Financial assets at FVOCI	387,744,261	–	–	387,744,261
Gross Carrying Amount	₱6,985,137,759	₱–	₱427,690,938	₱7,412,828,697

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

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, 2019 and 2018 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:

	2019				
	On Demand	**1 to 60 Days**	**Over 60 Days but less than 1 year**	**Over 1 year**	**Total**
Financial Assets					
Cash and cash equivalents	**₱3,537,075,479**	**₱–**	**₱–**	**₱–**	**₱3,537,075,479**
Investments held for trading	**140,456,581**	–	–	–	**140,456,581**
Receivables	**429,838,329**	**337,535,176**	–	–	**767,373,505**
(Forward)					
Notes receivable	**3,705,925,000**	–	–	–	**3,705,925,000**
Financial assets at FVOCI	–	–	–	**334,516,031**	**334,516,031**
Deposits[(a)]	–	–	–	**35,424,154**	**35,424,154**
Guarantee bonds[(a)]	–	–	–	**12,000,000**	**12,000,000**
Contract Assets					
Contract asset[(b)]	–	**8,000,000**	**40,000,000**	**96,000,000**	**144,000,000**
	₱7,813,295,389	**₱345,535,176**	**₱40,000,000**	**₱477,940,185**	**₱8,676,770,750**

(a) Included as part of "Other noncurrent assets" account in the consolidated statements of financial position
(b) Based on undiscounted payments

	2019				
	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[(a)]	**₱8,618,459**	**₱110,388,602**	**₱53,622,951**	**₱27,627,805**	**₱200,257,817**
Loans payable	–	**37,500,000**	**112,500,000**	–	**150,000,000**
Lease liabilities[(b)]	–	–	**76,353,121**	**16,748,884**	**93,102,005**
	8,618,459	**147,888,602**	**242,476,072**	**44,376,689**	**443,359,822**

(a) Excluding statutory liabilities, provisions and unearned income
(b) Based on undiscounted payments

	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

Equity Price Risk. Equity price risk is the risk that the fair value of quoted investment held for trading and financial assets at FVOCI 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 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

	2019		2018	
	Increase in Equity Price	**Increase in Equity Price**	Increase in Equity Price	Decrease in Equity Price
Percentage increase (decrease) in equity price	**1%**	**1%**	1%	1%
Effect on equity	**₱3,344,349**	**(₱3,344,349)**	₱3,423,323	(₱3,423,323)

Investments held for trading

	2019		2018	
	Increase in Equity Price	**Increase 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	**₱7,022,829**	**(₱7,022,829)**	₱8,148,110	(₱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 ₱50.64 and ₱52.72 to US$1, the Php to US$ exchange rates as at December 31, 2019 and 2018, 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 2019. 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
2019	**5%**	**(₱1,728,296)**	**(₱1,209,807)**
	(5%)	**1,728,296**	**1,209,807**
2018	5%	(₱691,698)	(₱484,188)
	(5%)	691,698	484,188

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 2019 and 2018.

The Company considers the total equity attributable to the equity holders of the Parent as its capital amounting to ₱17,478.8 million and ₱16,837.1 million as at December 31, 2019 and 2018, 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 investments held for trading and financial assets at FVOCI that are 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.

The fair values of lease liabilities in 2019 were calculated using Bloomberg Valuation Service (PHP BVAL) rates as at reporting date plus 0.012% to 0.95% spread.

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% in 2018.

The carrying value of guarantee bonds approximates fair value as at December 31, 2019 and 2018 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, 2019 and 2018:

	2019				
	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, 2019**	**₱140,456,581**	**₱–**	**₱–**	**₱140,456,581**
Financial assets at FVOCI	**December 31, 2019**	**331,634,931**	**2,800,000**	**81,100**	**334,516,031**
Liabilities					
Liabilities for which fair value is disclosed -					
Lease liabilities	**December 31, 2019**	**–**	**–**	**90,557,014**	**90,557,014**

	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

There were no transfers between fair value measurements in 2019 and 2018.

31. **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, 2019 and 2018, 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:

	2019						
	Investment Holding	**Real Estate**	**Public Amusement and Recreation**	**Gaming Business**	**Lottery equipment leasing, distribution and others**	**Eliminations/ Adjustments**	**Consolidated**
Earnings Information							
Revenue:							
External	–	–	–	2,976,366,472	989,865,396	–	3,966,231,868
Internal	1,468,947,664	–	–	–	–	(1,468,947,664)	–
Cost and expenses, excluding depreciation and amortization	(145,053,371)	(16,997)	(14,243)	(52,902,194)	(1,150,738,180)	–	(1,348,724,985)
Interest income	225,696,122	1,551	–	44,009,957	10,149,516	–	279,857,146
Finance charges	(2,503,051)	–	–	–	(7,022,938)	–	(9,525,990)
Dividend income	11,998,526	–	–	–	12,709,560	–	24,708,086
Depreciation and amortization	(16,577,474)	–	–	(17,924)	(219,353,441)	(238,472,484)	(474,421,324)
Other income (loss)	–	–	–	10,000	(49,945,249)	17,046,266	(32,888,983)
Impairment loss on goodwill	(359,345,835)	–	–	–	(3,682,782)	–	(363,028,617)
Provision for income tax	(14,675,409)	–	–	–	74,415,297	(323,230)	59,416,658
Net income (loss) for the year	1,168,487,172	(15,445)	(14,243)	2,967,466,311	(343,602,821)	(1,690,697,113)	2,101,623,860
Other information							
Investments held for trading and Financial assets at FVOCI	201,856,661	–	–	–	488,087,461	(214,971,510)	474,972,612
Total assets	18,886,415,855	774,394	29,695,135	4,341,232,443	1,723,141,011	(5,050,336,483)	19,930,922,355
Total liabilities	2,063,838,988	260,405,318	5,000	1,420,393,246	409,721,657	(2,241,165,901)	1,913,198,308
Capital expenditure	–	–	–	–	29,536,478	–	29,536,478
Goodwill	–	–	–	–	1,358,298,121	–	1,358,298,121
Earnings before interest taxes, depreciation and amortization (EBITDA)	–	–	–	–	–	–	2,651,686,801

	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

Disaggregated Revenue Information

Set out below is the disaggregation of the Company's revenue from contracts with customers for the years ended December 31, 2019 and 2018:

	2019		
Type of Service	Gaming Business	Lottery Equipment Leasing, Distribution and Others	Total
Gaming revenue share – net	**₱2,976,366,472**	**₱–**	**₱2,976,366,472**
Commission and distribution income	**–**	**308,381,639**	**308,381,639**
Total revenue from contracts with customers	**₱2,976,366,472**	**₱308,381,639**	**₱3,284,748,111**

	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:

	2019		
Type of Service	Gaming Business	Lottery Equipment Leasing, Distribution and Others	Total
External customer	**₱2,976,366,472**	**₱989,865,396**	**3,966,231,868**
Equipment rental (presented separately from revenues from contract with customers)	**–**	**(681,483,757)**	**(681,483,757)**
Total revenue from contracts with customers	**₱2,976,366,472**	**₱308,381,639**	**₱3,284,748,111**

	2018		
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 ₱2,976.4 million, ₱3,211.9 million and ₱2,609.4 million in 2019, 2018 and 2017, respectively, are solely collectible from Melco and revenue from lottery equipment leasing, distribution and others business segment amounting to ₱989.9 million and ₱1,935.9 million and ₱2,320.0 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:

	2019	2018	2017
Net Profit for the Year			
Total profit for reportable segments	**₱3,792,320,973**	₱4,198,822,290	₱3,740,210,193
Elimination for intercompany profits	**(1,690,697,113)**	(1,889,169,176)	(1,737,544,233)
Consolidated net profit	**₱2,101,623,860**	₱2,309,653,114	₱2,002,665,960
Assets			
Total assets for reportable segments	**₱19,455,949,743**	₱18,646,339,935	₱17,806,942,537
Investments and advances	**474,972,612**	543,449,153	827,080,732
Consolidated assets	**₱19,930,922,355**	₱19,189,789,088	₱18,634,023,269

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.

32. 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 2019, 2018, and 2017 amounted to ₱2,976.4 million, ₱3,211.9 million and ₱2,609.4 million, respectively (see Notes 22 and 31).

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 24).

Professional fee amounted to nil in 2019 and 2018 and ₱72.9 million in 2017, presented as part of "Service fees" account under cost of services in the consolidated statements of income (see Note 23).

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 21).

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 33). 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 21).

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 28). 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.

2019 Amended ELA. On July 31, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020.

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 3,785 and 4,029 as at December 31, 2019 and 2018, 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.

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).

Brand and Trademark Agreement with PMLC
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, in 2018, POSC recognized revenue on the use of the brand and trademark amounting to ₱203.5 million (see Note 25). Interest income earned in 2019 and 2018 amounted to ₱8.6 million and ₱12.5 million, respectively.

Contract asset was recognized for the earned consideration but not yet collected. Current portion of contract asset amounted to ₱40.5 million and ₱37.9 million as at December 31, 2019 and 2018, respectively, while noncurrent portion amounted to ₱89.6 million and ₱130.1 million, at December 31, 2019 and 2018, respectively.

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 to September 30, 2020. This covers PCSO's online KENO lottery operations. The lease includes online KENO equipment and accessories. 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, 2019 and 2018, there are 1,833 and 2,454 "Online KENO" terminals in operation, respectively.

On October 1, 2019, the ELA was amended to a lower lease rate, inclusive of VAT. The minimum price per KENO bet was reduced from ₱12 to ₱10, inclusive of documentary stamp tax.

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.

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.

On August 2018, the contract with Scientific Games was further amended to extend the period until July 31, 2019.

On September 4, 2019, the contract with Scientific Games was further amended to extend the period until July 31, 2020.

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.

On July 1, 2019, the contract with Intralot was further amended to extend the period until July 31, 2020.

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 contract was further amended for Intralot to supply additional online keno terminals to TGTI and reduced the percentage charged by Intralot to TGTI or US$60.00 per terminal per month on an average basis, whichever is higher. TGTI also 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 ₱136.3 million, ₱195.7 million and ₱191.7 million in 2019, 2018 and 2017, respectively (see Note 23).

Consultancy and management fees recognized under “Consultancy fees” as part of “Cost of services” amounted to nil, ₱76.0 million and ₱136.6 million in 2019, 2018 and 2017, respectively (see Note 23). Consultancy fees recognized under “Professional, service and management fees” as part of “General and Administrative Expenses” amounted to nil, ₱25.9 million and nil in 2019, 2018 and 2017, respectively (see Note 24).

33. **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 32). 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 28, 2020, the Supreme Court has yet to resolve this petition. However, as discussed in Note 32, 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 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. The main issue in the case before the RTC-Makati involves the claim by PGMC that the 2012 ELA conferred on it the exclusive right to install or operate equipment for 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 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 PCSO to refrain from allowing 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 POSC be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making the POSC 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 POSC 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. POSC 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 POSC with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include POSC in the negotiations.

   On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC-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, POSC filed its Memorandum. PCSO opted not to file its own Memorandum but manifested instead that it was adopting the Memorandum of POSC.

On January 8, 2019, POSC's counsel received a Decision by the Court of Appeals dated December 17, 2018 dismissing POSC's Petition for Certiorari and Prohibition. POSC decided to no longer pursue a Motion for Reconsideration. To a certain extent, the Petition served its purpose as after the same was filed, the RTC Makati put on hold the hasty implementation of the injunction. Subsequent events have rendered moot the issues in the case. Aside from the ICA arbitration decision, the ELA at issue in the case has also been amended and superseded thrice. Moreover, the ELAs of both POSC and PGMC were extended for one year starting 1 August 2018, and then again for another year through July 31, 2020 to give PCSO enough time to prepare for the required public bidding for lotto equipment supply. With this development, the adverse effect against POSC - the reason that this case was initiated in the first place - is no longer attendant.

34. Events after the Reporting Period

On February 6, 2020, POSC's BOD approved the sale of LCC for POSC to focus its resources to its principal business of providing modern and efficient online gaming facilities and equipment to its customers. On the same date, the Company's investment in LCC qualifies as assets held for sale or assets under disposal group since its carrying amount will be recovered principally through a sale transaction rather than continuing use. The disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal group and its sale is highly probable. Management is committed to a plan to sell the disposal group and an active programme to locate a buyer and complete the plan have been initiated.

LCC is included as part of "Lottery equipment, leasing, distribution and others" in the Company's reportable segment.

On February 13, 2020, POSC has concluded the sale of all of the POSC's equity interest in LCC, equivalent to 125.0 million shares for ₱1.082 per share. LCC currently operates and/or manages several outlets throughout the Philippines which sell products of the PCSO, including lotto, keno and instant scratch tickets.

On February 21, 2020, 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 9, 2020. Payments will be made on March 20, 2020.

On February 21, 2020, the Parent Company's BOD approved the expansion of its share buy-back program by increasing the maximum aggregate value of the shares to be re-acquired from ₱500.0 million to ₱1,000.0 million. On February 12, 2020, pursuant to the Parent Company's share buy-back program, the Parent Company purchased 382.0 million shares for ₱191.0 million to be held under treasury shares.

35. **Supplemental Disclosure of Cash Flow Information**

Changes in Liabilities Arising from Financing Activities

	January 1, 2019	**Additions**	**Cash flows**	**Finance costs**	**December 31, 2019**
Lease liabilities	**₱143,194,992**	**₱17,371,992**	**(₱78,485,646)**	**₱9,525,989**	**₱91,607,327**
Dividends payables	**–**	**1,593,816,121**	**(1,593,816,121)**	**–**	**–**
Loans payables	**–**	**–**	**150,000,000**	**–**	**150,000,000**
Total liabilities from financing activities	**₱35,374,474**	**₱1,611,188,113**	**(₱1,522,301,767)**	**₱9,525,989**	**₱241,607,327**

	January 1, 2018	Additions	Cash flows	Finance costs	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

Finance costs pertains to accretion of lease liabilities and obligations under finance lease in 2019 and 2018, respectively.

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
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, 1300 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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated February 28, 2020. 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 Revised Securities Regulation Code Rule 68 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. 0943-AR-3 (Group A),
March 14, 2019, valid until March 13, 2022
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 8125213, January 7, 2020, Makati City

February 28, 2020

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6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
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SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 1300 Pasay City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Premium Leisure Corp. and its subsidiaries (the Company) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
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Partner
CPA Certificate No. 88823
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March 14, 2019, valid until March 13, 2022
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February 28, 2020

PREMIUM LEISURE CORP. AND SUBSIDIARIES
Index to the Consolidated Financial Statements and
Supplementary Schedules
December 31, 2019

SCHEDULE I

PREMIUM LEISURE CORP.
Reconciliation of Retained Earnings
Available for Dividend Declaration
As at December 31, 2019

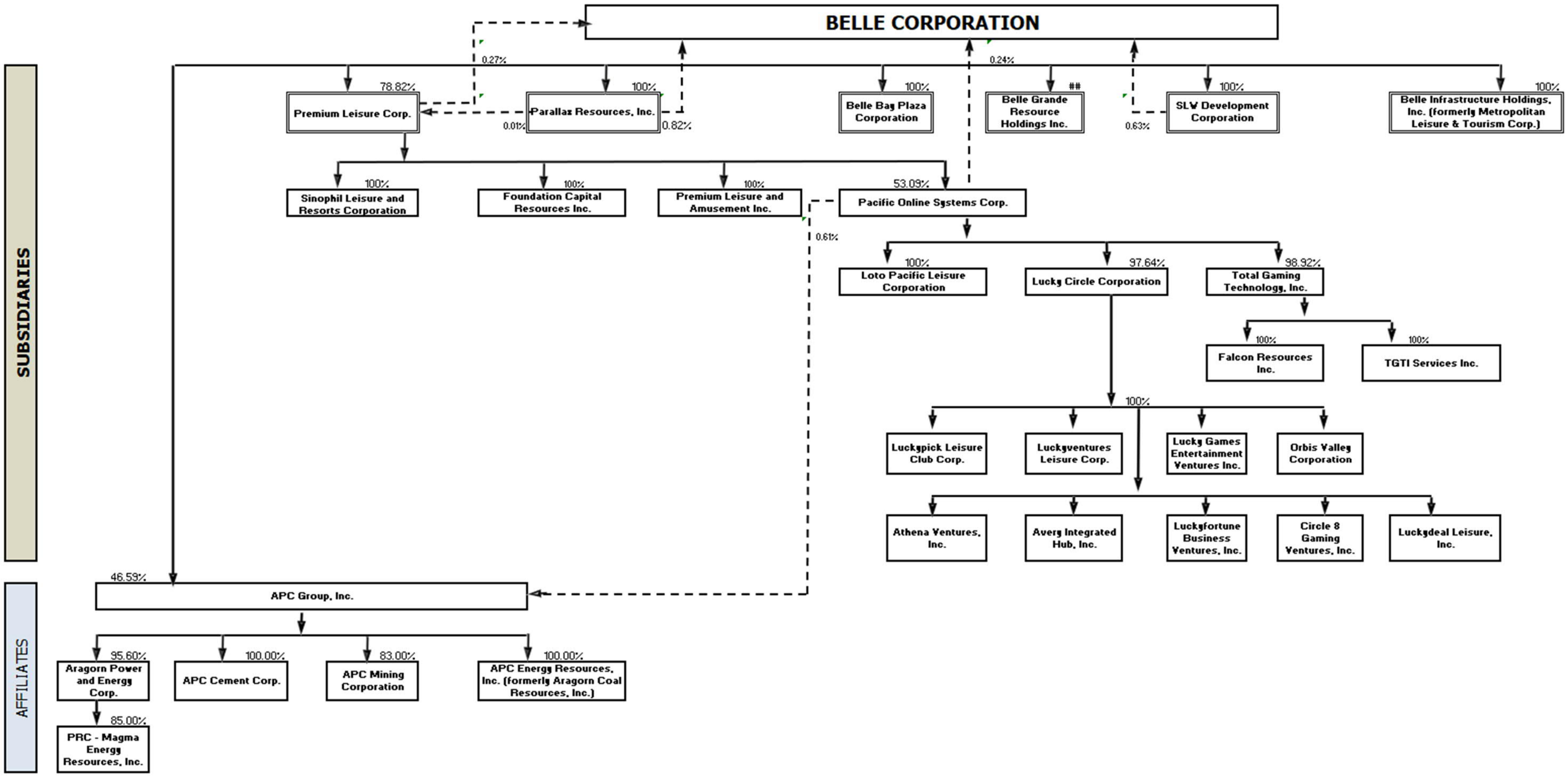
Unappropriated retained earnings available for dividend distribution, at December 31, 2018	₱2,547,361,871
Net income during the year closed to retained earnings	1,510,721,733
Less: Dividend declarations during the year	(1,587,530,294)
Treasury shares	(29,430,080)
Total retained earnings as at December 31, 2019 available for dividend declaration	₱2,441,123,230

SCHEDULE II

PREMIUM LEISURE CORP. AND SUBSIDIARIES

Map of the Relationship of the Companies within the Group

December 31, 2019



PREMIUM LEISURE CORP. AND SUBSIDIARIES
Supplementary Schedules Required by Paragraph 7D, Part II
Under Revised SRC Rule 68
December 31, 2019

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	₱3,537,075,479	₱3,537,075,479	N/A	₱57,127,783
Notes receivable	3,705,925,000	3,705,925,000	N/A	214,129,362
Receivables	337,535,176	337,535,176	N/A	–
Guarantee bonds	35,424,154	35,424,154	N/A	–
Deposits	12,000,000	12,000,000	N/A	–
	₱7,627,959,809	₱7,627,959,809		₱271,257,145
Financial assets at fair value through profit or loss				
APC Group, Inc.	45,821,000	17,870,190	17,870,190	–
Leisure & Resorts World Corp.	10,724,792	25,739,501	25,739,501	–
Vantage Equities, Inc.	43,376,750	46,846,890	46,846,890	–
LRWC Preferred Shares	50,000,000	50,000,000	50,000,000	–
		140,456,581	140,456,581	–
Financial assets at fair value through other comprehensive income				
Belle Corporation	166,650,719	331,634,931	331,634,931	–
Tagaytay Highlands International Golf Club	2	1,400,000	1,400,000	–
Tagaytay Midlands Golf Club	2	1,400,000	1,400,000	–
Asian Petroleum		70,000		–
PLDT		11,100		–
		334,516,031		–
		₱8,102,932,421		**₱271,257,144**

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	₱4,939,898	₱–	(₱364,639)	₱–	₱4,575,259	₱–	₱4,575,259

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)	₱6,824,938	₱–	₱–	₱–	₱–	₱6,824,938	₱6,824,938
Pacific Online Systems Corporation (Subsidiary)	–	130,000,000	(130,000,000)	–	–	–	–
PremiumLeisure and Amusement, Inc. (Subsidiary)	–	–	–	–	–	–	–
Premium Leisure Corp. (Parent)	1,979,704,251	–	(100,009,116)	–	–	1,879,695,135	1,879,695,135

Schedule D. 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	₱–	₱–	₱–

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

	Balance at beginning of period	Balance at end of period
None	₱–	₱–

Schedule F. 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 G. 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	–	–	–	–	–

PREMIUM LEISURE CORP. AND SUBSIDIARIES

Components of Financial Soundness Indicators

December 31, 2019

Ratio	Formula		2019	2018
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		**4.35**	4.40
	Total Current Assets	₱8,030,049,966		
	Divide by: Total Current Liabilities	1,847,671,093		
	Current Ratio	4.35		
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities**		**4.20**	4.20
	Quick Assets	₱7,761,502,999		
	Divided by: Total Current Liabilities	1,847,671,093		
	Current Ratio	4.20		
Solvency Ratio	**Net Income add Non-cash Expenses divide by Total Liabilities**		**1.54**	**1.77**
	Net Income	₱2,101,623,860		
	Add: Non-cash expenses	853,879,078		
		2,955,502,938		
	Divided by: Total Liabilities	1,913,198,308		
		1.54		
Debt-to-Equity Ratio	**Total Interest-Bearing Debt divided by Total Stockholder's Equity**		**0.008**	0.002
	Total interest-bearing debt	₱150,000,000		
	Divided by: Total stockholder's equity	18,017,724,047		
	Debt-to-Equity Ratio	**0.008**		
Asset-to-Equity Ratio	**Total Assets divided by Total Stockholder's Equity**		**1.11**	1.09
	Total Assets	₱19,930,922,355		
	Divided by: Total Stockholder's Equity	18,017,724,047		
	Asset-to-Equity Ratio	**1.11**		
Interest Rate Coverage Ratio	**Earnings Before Interest and Taxes divided by Total Interest Expense**		**215.38**	428.57
	Earnings Before Interest and Taxes	₱2,051,733,192		
	Divided by: Interest Expense	9,525,990		
		215.38		

Return on Equity	**Net Income divided by Average Total Stockholder's Equity**	**11.82%**	13.34%
	Net Income ₱2,101,623,860		
	Divided by: Average Total Stockholders 17,786,894,046		
	Return on Equity 11.82%		
Return on Assets	**Net Income divided by Average Total Assets**	**10.74%**	12.21%
	Net Income ₱2,101,623,860		
	Divided by: Average Total Assets 19,560,355,722		
	Return on Assets 10.74%		
Net Profit Margin	**Net Income divided by Total Revenue**	**52.99%**	45%
	Net Income ₱2,101,623,860		
	Divided by: Total Revenue 3,966,231,868		
	52.99%		