COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						5	2	4	1	2

COMPANY NAME

BELLE CORPORATION 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, CBP-1A, 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
info@bellecorp.com	662-8888	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,784	4th Monday of April	12/31

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	info@bellecorp.com	662-8888	0917-5578203

CONTACT PERSON's ADDRESS

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Belle Corporation
5th Floor, Tower A, Two E-Com Center
Palm Coast Avenue, Mall of Asia Complex
CPB-1A, Pasay City

Opinion

We have audited the consolidated financial statements of Belle Corporation and its subsidiaries ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill in Pacific Online Systems Corporation (POSC)

Under PFRS, the Company is required to annually test the amount of goodwill for impairment. As of December 31, 2018, goodwill arising from the acquisition of POSC amounted to ₱1,717.6 million out of a total goodwill balance of ₱1,721.3 million. The Company's assessment of the recoverable amount of the POSC cash generating unit (CGU) was based on value-in-use calculation. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the long-term growth rate. Given the significant level of management judgment and estimation involved in the value-in-use calculation, we considered this area to be a key audit matter.

The Company's disclosures about goodwill are included in Note 18 to the consolidated financial statements.

Audit Response

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

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Company's revenue process, policies and procedures and revenue recognition accounting policy. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining real estate revenue; (5) determination of the actual costs incurred as cost of sales; and (6) recognition of cost to obtain a contract.

The Company identifies the contract to sell to meet all the criteria required under PFRS 15 for a valid revenue contract that contains each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

In evaluating whether collectability of the amount of consideration is probable, the Company considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical sales cancellations if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Company considers the selling price of the real estate property and other fees and charges collected from the buyers that are not held on behalf of other parties.

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In measuring the progress of its performance obligation over time, the Company uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the Company's project engineers.

In determining the actual costs incurred to be recognized as cost of sales, the Company estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Company identifies sales commission after contract inception as the cost of obtaining the contract. For contracts which qualified for revenue recognition, the Company capitalizes the total sales commission due to sales agent as cost to obtain contract and recognizes the related commission payable. The Company uses percentage of completion (POC) method in amortizing sales commission consistent with the Company's revenue recognition policy.

The disclosures related to the adoption of PFRS 15, including available practical expedients applied by the Company, are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Company's revenue recognition process, including the process of implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as contract to sell, term sheets and receivables schedule.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., transfer taxes and real property taxes).

For the application of the output method in determining real estate revenue, we obtained an understanding of the Company's processes for determining the POC. We obtained the certified POC reports prepared by the project engineers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of sales, we obtained an understanding of the Company's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as contracts, notice to proceed and progress billings.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and portion recognized in profit or loss, particularly (a) the percentage of commission due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from real estate sales.

We evaluated the disclosures made in the financial statements on the adoption of PFRS 15.

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Company adopted PFRS 9, *Financial Instruments*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss. The Company adopted the modified retrospective approach in adopting PFRS 9.

1. Classification of Financial Assets

   As at January 1, 2018 (the transition date), the Company classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted to transition adjustments that increased retained earnings and decreased other comprehensive income by ₱548.0 million. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were also classified based on the PFRS 9 classification criteria.

   The Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

   The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Notes 3 and 14 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the approved business models for the Company's portfolios of financial assets. We compared the parameters set within the business models with the investment/risk management policies of the Company. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

We test computed the transition adjustments and evaluated the disclosures on the adoption of the PFRS 9 classification criteria made in the financial statements.

2. Expected Credit Loss

The Company's adoption of the expected credit loss (ECL) model on real estate receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: determining the method to estimate lifetime ECL; defining default; determining assumptions to be used in the ECL model such as the expected life of the financial asset and timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Note 3 to the consolidated financial statements for the details of the allowance for credit losses using the ECL model.

Audit Response

We obtained an understanding of the approved methodologies and models used for the Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money and, the best available forward-looking information. We (a) assessed the Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (c) compared the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (d) tested loss given default by inspecting historical recoveries including the timing, related direct costs, and write-offs; (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Company's lending portfolios and broader industry knowledge; and (f) tested the effective interest rate, or an approximation thereof, used in discounting the expected loss.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and recovery data, by reconciling data from the source system reports and schedules to models. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We test computed the transition adjustments and evaluated the disclosures made in the financial statements on allowance for credit losses using the ECL model.

Reclassification of Lease

Under PFRS, the Company can reassess its lease classification if there are changes in the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease if the changed terms had been in effect at the inception of the lease. In 2018, the Company reclassified its lease of building from finance lease to operating lease as a result of modification of the terms and cash flows of the existing lease with the change in use of the leased asset. The reclassification of the lease involves significant management judgments and estimates. Thus, we considered this as a key audit matter.

The Company's disclosures on the reclassification of lease was disclosed in Notes 15 and 37 to the consolidated financial statements.

Audit Response

We obtained understanding of the Company's basis and assessment process on the reclassification of the lease. We obtained third party occupancy study evaluating the actual use of the leased asset. We involved our internal specialist in evaluating the methodologies and assumptions used in estimating the fair value of the leased asset. We reviewed management's assessment of the factors that are relevant in the reclassification of the lease, which includes the present value of the minimum lease payments, fair value of the leased asset and useful life of the asset.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-2 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332528, January 3, 2019, Makati City

February 28, 2019

BELLE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2018	2017 (As Reclassified - Note 11)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 43)	**₱2,653,717**	₱3,711,248
Financial assets at fair value through profit or loss (Notes 9 and 43)	**155,705**	2,279,666
Receivables (Notes 10 and 43)	**1,309,181**	1,706,269
Contract assets - current (Notes 3, 10 and 43)	**417,164**	–
Real estate for sale - at cost (Note 11)	**475,785**	643,265
Land held for future development - at cost (Note 3 and 11)	**2,998,577**	3,099,166
Current portion of finance lease receivable (Notes 37 and 43)	**–**	1,689,973
Other current assets (Notes 12 and 43)	**1,763,057**	1,347,963
Total Current Assets	**9,773,186**	14,477,550
Noncurrent Assets		
Contract assets - net of current portion (Notes 3, 10 and 43)	**640,569**	–
Financial assets at fair value through other comprehensive income (Notes 14 and 43)	**4,770,772**	–
Investments in and advances to associates - net (Notes 13, 39 and 43)	**78,017**	77,975
Investment properties (Notes 15 and 37)	**20,094,843**	1,869,025
Intangible asset (Note 17)	**4,581,040**	5,001,237
Goodwill (Note 18)	**1,721,327**	1,832,261
Property and equipment (Note 16)	**363,939**	648,444
Pension asset (Note 38)	**7,856**	13,414
Receivable from real estate - net of current portion (Notes 10 and 43)	**–**	389,515
Available-for-sale financial assets (Notes 14 and 43)	**–**	2,475,287
Finance lease receivable - net of current portion (Notes 37 and 43)	**–**	16,393,208
Deferred tax assets (Note 36)	**8,864**	15,440
Other noncurrent assets (Notes 19 and 43)	**450,673**	540,337
Total Noncurrent Assets	**32,717,900**	29,256,143
TOTAL ASSETS	**₱42,491,086**	₱43,733,693
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities (Notes 20, 39 and 43)	**₱2,110,143**	₱2,011,183
Loans payable (Notes 21 and 43)	**1,500,017**	2,500,017
Income tax payable	**9,415**	29,434
Estimated liability on construction costs (Note 15)	**–**	18,646
Current portion of:		
Long-term debt (Notes 23 and 43)	**2,091,319**	1,056,944
Obligations under finance lease (Notes 37 and 43)	**19,379**	39,489
Total Current Liabilities	**5,730,273**	5,655,713

(Forward)

	December 31	
	2018	2017 (As Reclassified – Note 11)
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 23 and 43)	**₱3,911,111**	₱5,202,431
Obligations under finance lease (Notes 37 and 43)	**15,995**	35,374
Pension liability (Note 38)	**8,582**	24,102
Deferred tax liabilities - net (Note 36)	**2,667,581**	2,220,559
Other noncurrent liabilities (Note 22)	**312,313**	234,340
Total Noncurrent Liabilities	**6,915,582**	7,716,806
TOTAL LIABILITIES	**12,645,855**	13,372,519
Equity Attributable to Equity Holders of the Parent		
Common stock (Note 25)	**10,561,000**	10,561,000
Additional paid-in capital	**5,503,731**	5,503,731
Treasury shares (Note 25)	**(2,476,700)**	(181,185)
Equity share in cost of Parent Company shares held by associates (Note 13)	**(2,501)**	(2,501)
Cost of Parent Company common shares held by subsidiaries (Note 25)	**(1,695,369)**	(1,585,336)
Other reserves (Notes 2 and 38)	**4,106,775**	4,411,261
Excess of acquisition cost over net assets of acquired subsidiaries	**252,040**	252,040
Retained earnings (Note 25)	**10,221,830**	8,194,187
Total Equity Attributable to Equity Holders of the Parent	**26,470,806**	27,153,197
Non-controlling Interests	**3,374,425**	3,207,977
Total Equity	**29,845,231**	30,361,174
TOTAL LIABILITIES AND EQUITY	**₱42,491,086**	₱43,733,693

See accompanying Notes to Consolidated Financial Statements.

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Amounts)

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Gaming revenue share - net (Notes 26 and 40)	**₱3,211,857**	₱2,609,353	₱1,642,976
Interest income on finance lease (Note 37)	**1,663,824**	2,069,841	2,003,840
Equipment rental (Notes 37 and 40)	**1,448,318**	1,840,521	1,579,661
Lease income (Notes 15 and 37)	**724,431**	190,021	190,042
Sale of real estate	**670,527**	596,667	350,253
Commission and distribution income	**487,626**	479,472	308,438
Revenue from property management	**186,194**	115,939	127,168
Others (Note 27)	**122,235**	110,246	119,130
	8,515,012	8,012,060	6,321,508
COSTS AND EXPENSES			
Cost of lottery services (Note 28)	**(1,270,160)**	(1,238,442)	(931,263)
Cost of real estate sold (Notes 11 and 30)	**(363,568)**	(256,500)	(120,517)
Cost of gaming operations (Note 29)	**(178,264)**	(234,630)	(416,507)
Cost of lease income (Note 31)	**(341,600)**	(196,831)	(209,391)
Cost of services for property management (Note 32)	**(134,960)**	(68,907)	(63,813)
General and administrative expenses (Note 33)	**(1,668,051)**	(1,467,255)	(957,280)
	(3,956,603)	(3,462,565)	(2,698,771)
OTHER INCOME (EXPENSES)			
Interest expense (Note 34)	**(464,861)**	(503,665)	(355,779)
Interest income (Note 34)	**58,251**	29,577	28,782
Unrealized gain (loss) on financial asset at fair value through profit or loss (Note 9)	**(11,903)**	67,705	148,554
Net foreign exchange gain (loss)	**(683)**	(1,641)	(10,816)
Accretion of nontrade liability (Note 24)	–	–	(455,229)
Gain on finance lease	–	–	15,882
Other income (loss) (Note 35)	**(325,169)**	166,149	981,628
	(744,365)	(241,875)	353,022
INCOME BEFORE INCOME TAX	**3,814,044**	4,307,620	3,975,759
PROVISION FOR INCOME TAX (Note 36)			
Current	**225,415**	316,330	283,461
Deferred	**363,495**	480,649	596,175
	588,910	796,979	879,636
NET INCOME	**3,225,134**	3,510,641	3,096,123

(Forward)

	Years Ended December 31		
	2018	2017	2016
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Unrealized gain on available-for-sale financial assets - net (Note 14)	**₱–**	₱605,066	₱653,381
Realized gain on available-for-sale financial assets transferred to profit or loss (Note 14)	–	(76,546)	(351,680)
	–	528,520	301,701
Items not to be reclassified to profit or loss in subsequent periods:			
Unrealized gain on financial assets at FVOCI (Note 14)	**283,020**	–	–
Remeasurement gain (loss) of pension asset/liability - net (Note 38)	**23,430**	(7,184)	(5,972)
Income tax effect	**(7,029)**	2,155	2,797
	299,421	(5,029)	(3,175)
TOTAL OTHER COMPREHENSIVE INCOME	**299,421**	523,491	298,526
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱3,524,555**	₱4,034,132	₱3,394,649
Net income attributable to:			
Equity holders of the parent (Note 42)	**₱2,647,757**	₱2,872,412	₱2,700,117
Non-controlling interests	**577,377**	638,229	396,006
	₱3,225,134	₱3,510,641	₱3,096,123
Total comprehensive income attributable to:			
Equity holders of the parent	**₱2,944,525**	₱3,395,620	₱2,998,685
Non-controlling interests	**580,030**	638,512	395,964
	₱3,524,555	₱4,034,132	₱3,394,649
Basic/Diluted Earnings Per Share (Note 42)	**₱0.267**	₱0.282	₱0.266

See accompanying Notes to Consolidated Financial Statements.

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Amounts in Thousands)

	Attributable to Equity Holders of the Parent														
						Other Reserves									
	Common Stock (Note 25)	Additional Paid-in Capital	Treasury Shares (Note 25)	Equity Share in Cost of Parent Company Shares Held by Associates (Notes 13 and 25)	Cost of Parent Company Common Shares Held by Subsidiaries (Note 25)	Unrealized Gain on Available-for-Sale Financial Assets - net (Note 14)	Unrealized Gain on Financial Assets at Fair Value Through OCI - net (Note 14)	Share in Unrealized Gain (Loss) on Available-for-Sale Financial Assets of Associates (Note 13)	Remeasurement of Pension Income (Expense) (Note 38)	Transactions with Non-Controlling Interests	Excess of Acquisition Cost over Net Assets of Acquired Subsidiaries	Retained Earnings (Note 25)	Total	Non-controlling Interests (Note 25)	Total Equity
Balance at January 1, 2018	₱10,561,000	₱5,503,731	(₱181,185)	(₱2,501)	(₱1,585,336)	₱1,365,375	₱–	₱14,061	(₱12,303)	₱3,044,128	₱252,040	₱8,194,187	₱27,153,197	₱3,207,977	₱30,361,174
Adoption impact of PFRS 9:															
Unrealized loss transferred from retained earnings to other comprehensive income	–	–	–	–	–	–	(547,998)	–	–	–	–	547,998	–	–	–
Realized gain on sale previously recognized in profit or loss	–	–	–	–	–	528,002	–	–	–	–	–	(528,002)	–	–	–
Reclassification of realized gain to retained earnings	–	–	–	–	–	(528,002)	–	–	–	–	–	528,002	–	–	–
Impairment loss transferred from retained earnings to other comprehensive income	–	–	–	–	–	–	(23,355)	–	–	–	–	23,355	–	–	–
Reclassification of cumulative unrealized gain	–	–	–	–	–	(1,365,375)	1,365,375	–	–	–	–	–	–	–	–
Balance at January 1, 2018, as restated	10,561,000	5,503,731	(181,185)	(2,501)	(1,585,336)	–	794,022	14,061	(12,303)	3,044,128	252,040	8,765,540	27,153,197	3,207,977	30,361,174
Purchase of treasury shares	–	–	(2,295,515)	–	–	–		–	–	–	–	–	(2,295,515)	(16,607)	(2,312,122)
Acquisition of additional Parent Company shares by POSC (Note 25)	–	–	–	–	(110,033)	–	–	–	–	–	–	–	(110,033)	–	(110,033)
Cash dividends (Notes 2 and 25)	–	–	–	–	–	–	–	–	–	–	–	(1,221,368)	(1,221,368)	(396,975)	(1,618,343)
Realized gain on financial assets at FVOCI transferred to retained earnings	–	–	–	–	–	–	(29,901)	–	–	–	–	29,901	–	–	–
Net income	–	–	–	–	–	–	–	–	–	–	–	2,647,757	2,647,757	577,377	3,225,134
Unrealized gain on financial assets at FVOCI - net (Note 14)	–	–	–	–	–	–	282,936	–	–	–	–	–	282,936	84	283,020
Remeasurement loss on pension asset (liability) – net	–	–	–	–	–	–	–	–	13,832	–	–	–	13,832	2,569	16,401
Total comprehensive income (loss) for the year	–	–	–	–	–	–	282,936	–	13,832	–	–	2,647,757	2,944,525	580,030	3,524,555
Balance at December 31, 2018	₱10,561,000	₱5,503,731	(₱2,476,700)	(₱2,501)	₱1,695,369	₱–	₱1,047,057	₱14,061	₱1,529	₱3,044,128	₱252,040	₱10,221,830	₱26,470,806	₱3,374,425	₱29,845,231

	Attributable to Equity Holders of the Parent													
						Other Reserves								
	Common Stock (Note 25)	Additional Paid-in Capital	Treasury Shares (Note 25)	Equity Share in Cost of Parent Company Shares Held by Associates (Notes 13 and 25)	Cost of Parent Company Common Shares Held by Subsidiaries (Note 25)	Unrealized Gain on Available-for-Sale Financial Assets - net (Note 14)	Share in Unrealized Gain (Loss) on Available-for-Sale Financial Assets of Associates (Note 13)	Remea-surement of Pension Income (Expense) (Note 38)	Transactions with Non-Controlling Interests	Excess of Acquisition Cost over Net Assets of Acquired Subsidiaries	Retained Earnings (Note 25)	Total	Non-controlling Interests (Note 25)	Total Equity
Balance at January 1, 2017	₱10,561,000	₱5,503,731	(₱181,185)	(₱2,501)	(₱1,758,264)	₱836,876	₱14,061	(₱7,012)	₱3,075,776	₱252,040	₱6,289,302	₱24,583,824	₱3,159,958	₱27,743,782
Purchase of treasury shares by POSC	–	–	–	–	–	–	–	–	–	–	–	–	(211,841)	(211,841)
Acquisition of non-controlling interest in subsidiaries (Note 25)	–	–	–	–	–	–	–	–	–	–	–	–	(36,549)	(36,549)
Sale of Parent Company shares by POSC	–	–	–	–	204,582	–	–	–	(31,648)	–	–	172,934	–	172,934
Acquisition of additional Parent Company shares by POSC	–	–	–	–	(31,654)	–	–	–	–	–	–	(31,654)	–	(31,654)
Cash dividends (Notes 2 and 25)	–	–	–	–	–	–	–	–	–	–	(967,527)	(967,527)	(342,103)	(1,309,630)
Net income	–	–	–	–	–	–	–	–	–	–	2,872,412	2,872,412	638,229	3,510,641
Remeasurement loss of pension asset (liability) – net	–	–	–	–	–		–	(5,291)	–	–	–	(5,291)	262	(5,029)
Unrealized gain on available-for-sale financial assets - net (Note 14)	–	–	–	–	–	528,499	–	–	–	–	–	528,499	21	528,520
Total comprehensive income (loss) for the year	–	–	–	–	–	528,499	–	(5,291)	–	–	2,872,412	3,395,620	638,512	4,034,132
Balance at December 31, 2017	₱10,561,000	₱5,503,731	(₱181,185)	(₱2,501)	(₱1,585,336)	₱1,365,375	₱14,061	(₱12,303)	₱3,044,128	₱252,040	₱8,194,187	₱27,153,197	₱3,207,977	₱30,361,174

	Attributable to Equity Holders of the Parent												Non-controlling Interests	Total Equity
						Other Reserves								
	Common Stock (Note 25)	Additional Paid-in Capital	Treasury Shares (Note 25)	Equity Share in Cost of Parent Company Shares Held by Associates (Notes 13 and 25)	Cost of Parent Company Common Shares Held by Subsidiaries (Note 25)	Unrealized Gain on Available-for-Sale Financial Assets - net (Note 14)	Share in Unrealized Gain (Loss) on Available-for-Sale Financial Assets of Associates (Note 13)	Remea-surement of Pension Income (Expense) (Note 38)	Transactions with Non-Controlling Interests	Excess of Acquisition Cost over Net Assets of Acquired Subsidiaries	Retained Earnings (Note 25)	Total		
Balance at January 1, 2016	₱10,561,000	₱5,503,731	(₱134,442)	(₱2,501)	(₱1,749,628)	₱535,237	₱14,061	(₱3,941)	₱3,075,776	₱252,040	₱4,552,639	₱22,603,972	₱3,132,530	₱25,736,502
Purchase of treasury shares (Note 25)	–	–	(46,743)	–	–	–	–	–	–	–	–	(46,743)	–	(46,743)
Purchase of treasury shares by POSC	–	–	–	–	–	–	–	–	–	–	–	–	(56,819)	(56,819)
Acquisition of additional Parent Company shares by POSC	–	–	–	–	(8,636)	–	–		–	–	–	(8,636)	–	(8,636)
Cash dividends (Notes 2 and 25)	–	–	–	–	–	–	–	–	–	–	(963,454)	(963,454)	(311,717)	(1,275,171)
Net income	–	–	–	–	–	–	–	–	–	–	2,700,117	2,700,117	396,006	3,096,123
Remeasurement loss of pension - asset (liability) – net	–	–	–	–	–	–	–	(3,071)	–	–	–	(3,071)	(104)	(3,175)
Unrealized gain on available-for-sale financial assets - net (Note 14)	–	–	–	–	–	301,639	–	–	–	–	–	301,639	62	301,701
Total comprehensive income (loss) for the year	–	–	–	–	–	301,639	–	(3,071)	–	–	2,700,117	2,998,685	395,964	3,394,649
Balance at December 31, 2016	₱10,561,000	₱5,503,731	(₱181,185)	(₱2,501)	(₱1,758,264)	₱836,876	₱14,061	(₱7,012)	₱3,075,776	₱252,040	₱6,289,302	₱24,583,824	₱3,159,958	₱27,743,782

See accompanying Notes to Consolidated Financial Statements

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,814,044**	₱4,307,620	₱3,975,759
Adjustments for:			
Interest income on finance lease (Note 37)	**(1,663,824)**	(2,069,841)	(2,003,840)
Interest expense (Note 34)	**464,861**	503,665	355,779
Write off of deposits	**150,000**		
Impairment of goodwill (Note 35)	**110,934**	–	–
Depreciation and amortization (Notes 16, 17, 28, 29, 32 and 33)	**594,571**	381,222	363,990
Write off of intangible asset (Notes 17 and 35)	**292,512**	–	–
Gain on pre-termination of ABLGI advances (Note 24)	**–**	–	(634,800)
Accretion of nontrade liability (Note 24)	**–**		455,229
Gain on sale of:			
Other assets (Notes 12 and 35)	**–**	(85,678)	–
Available-for-sale investments (Notes 14 and 35)	**–**	(76,546)	(351,680)
Property and equipment (Notes 16 and 35)	**(1,039)**	(20,102)	(30)
Investment in associate (Notes 13 and 35)	**–**	–	(5,603)
Investments held for trading (Notes 9, 27 and 35)	**–**	(11,610)	(13,533)
Unrealized mark-to-market loss (gain) on financial assets at fair value through profit or loss (Note 9)	**11,903**	(67,705)	(148,554)
Amortization of discount on trade receivables (Notes 10 and 27)	**(68,619)**	(56,297)	(48,204)
Interest income (Note 34)	**(58,251)**	(29,577)	(28,782)
Write-off of input VAT	**–**	25,000	–
Dividend income (Note 27)	**(26,998)**	(22,794)	(28,371)
Unrealized foreign exchange loss – net	**683**	1,593	13,021
Provision for (reversal of):			
Impairment loss on investment in associates (Note 35)	**–**	–	(45,928)
Impairment loss on advances to associates (Note 35)	**–**	–	29,398
Gain in finance lease	**–**	–	(15,882)
Working capital adjustments:			
Decrease (increase) in:			
Receivables and contract assets	**1,207,246**	1,397,144	1,295,385
Real estate for sale and land held for future development	**268,069**	152,822	(33,664)
Increase (decrease) in trade and other current liabilities	**171,882**	683,821	(309,649)
Net cash generated from operations	**5,267,974**	5,012,737	2,820,041
Income taxes paid	**(152,262)**	(242,992)	(193,417)
Other assets	**(485,563)**	76,062	992,840
Interest received	**53,200**	29,482	28,782
Pension asset/liability (Note 38)	**13,503**	2,541	(15,814)
Net cash provided by operating activities	**4,696,852**	4,877,830	3,632,432
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures on investment properties (Note 15)	**(18,646)**	(328,064)	(2,517,578)
Acquisitions of:			
Financial assets through other comprehensive income	**(15,350)**	–	–
Property and equipment (Notes 16 and 44)	**(66,567)**	(183,632)	(134,661)
Investments held for trading (Note 9)	**–**	(17,034)	(19,712)
Intangible asset (Note 17)	**–**	(310,000)	–
Proceeds from disposal of:			
Financial assets at fair value through other comprehensive income (Note 14)	**104,068**	–	–
Available-for-sale financial assets (Note 14)	**–**	156,723	774,440
Investments held for trading (Note 9)	**12,420**	49,393	74,036
Property and equipment (Notes 16 and 35)	**1,706**	21,019	8,673

(Forward)

	Years Ended December 31		
	2018	2017	2016
Cash received from acquisition of subsidiaries (Note 18)	**₱–**	₱66,445	₱–
Dividends received (Note 27)	**26,998**	22,794	27,342
Decrease (increase) in investments in and advances to associates and related parties	**(42)**	(72)	9,550
Net cash provided by (used in) investing activities	**43,042**	(522,428)	(1,777,910)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debt and loans payable (Notes 21 and 23)	**(3,656,945)**	(2,362,500)	(662,500)
Interest (see Note 34)	**(459,810)**	(492,806)	(355,779)
Proceeds from:			
Availment of loans and long-term debt (Notes 21 and 23)	**2,400,000**	4,500,000	1,300,000
Acquisition (Disposal) of Parent Company shares held by a subsidiary	**–**	172,934	–
Dividends paid	**(1,618,343)**	(1,309,630)	(1,275,171)
Acquisition of:			
Treasury shares by Parent Company (Note 25)	**(2,295,515)**	–	(46,743)
Treasury shares by POSC	**(16,607)**	(211,841)	(56,819)
Acquisition of PLC shares by a subsidiary	**–**	(36,549)	–
Acquisition of Belle shares by a subsidiary (Note 25)	**(110,033)**	(31,654)	(8,636)
Increase (decrease) in:			
Nontrade liability	**–**	(3,762,000)	(1,353,487)
Obligations under finance lease	**(39,489)**	(61,777)	787
Advances from related parties	**–**	–	44
Net cash used in financing activities	**(5,796,742)**	(3,595,823)	(2,458,304)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(683)**	(1,593)	(13,021)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,057,531)**	757,986	(616,803)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,711,248**	2,953,262	3,570,065
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱2,653,717**	₱3,711,248	₱2,953,262

See accompanying Notes to Consolidated Financial Statements.

1. General Information

Corporate Information
Belle Corporation ("Belle", "Parent Company" or "Ultimate Parent Company") is a stock corporation organized in the Philippines on August 20, 1973 and was listed at the Philippine Stock Exchange (PSE) on February 2, 1977. The businesses of Belle, direct and through subsidiaries and associates, include mainly real estate development, principally in the high-end leisure property market, gaming and various investment holdings.

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

Authorization of the Issuance of the Consolidated Financial Statements
The accompanying consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors (BOD) on February 28, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for equity financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Parent Company's functional and presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which include availment of the relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular Nos. 14-2018 and No. 3-2019 as discussed in Note 3.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries (collectively referred to as "the Company") as at December 31, 2018 and 2017. 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 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; and
- 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 the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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 loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements comprise the financial statements of Belle and the following subsidiaries that it controls:

		2018			2017		
		Percentage of Ownership			Percentage of Ownership		
Subsidiaries	Industry	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
Belle Bay Plaza Corporation (Belle Bay Plaza)*	Investment	**100.0**	–	**100.0**	100.0	–	100.0
Belle Infrastructure Holdings, Inc., (formerly Metropolitan Leisure and Tourism Corporation)*	Investment	**100.0**	–	**100.0**	100.0	–	100.0
Parallax Resources, Inc. (Parallax)*	Investment	**100.0**	–	**100.0**	100.0	–	100.0
SLW Development Corporation (SLW)*	Investment	**100.0**	–	**100.0**	100.0	–	100.0
Belle Grande Resource Holdings Inc. (BGRHI)	Investment	**100.0**	–	**100.0**	100.0	–	100.0
Premium Leisure Corp. (PLC) and Subsidiaries:	Gaming	**78.8**	**0.3**	**79.0**	78.7	0.3	79.0
PremiumLeisure and Amusement, Inc. (PLAI)	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Foundation Capital Resources Inc.*	Investment	–	**100.0**	**100.0**	–	100.0	100.0
Sinophil Leisure and Resorts Corporation*	Investment	–	**100.0**	**100.0**	–	100.0	100.0
Pacific Online Systems Corporation (POSC) and Subsidiaries:	Gaming	–	**53.1**	**53.1**	–	52.9	52.9
Loto Pacific Leisure Corporation (LotoPac)	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Lucky Circle Corporation (LCC) and Subsidiaries	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Athena Ventures, Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Avery Integrated Hub, Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Circle 8 Gaming Ventures, Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Luckydeal Leisure, Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Luckyfortune Business Ventures, Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Luckypick Leisure Club Corp. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Luckyventures Leisure Corp. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Lucky Games Entertainment Ventures Inc. **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Orbis Valley Corporation **	Gaming	–	**100.0**	**100.0**	–	100.0	100.0
Total Gaming Technologies, Inc. (TGTI)	Gaming	–	**98.9**	**98.9**	–	98.9	98.9
Falcon Resources Inc. (FRI)	Gaming	–	**100.0**	**100.0**	–	100.0	100.0

**Non-operating*
***Accounted as subsidiaries starting July 1, 2017*

The Company's subsidiaries are all incorporated in the Philippines.

Material Partly-owned Subsidiaries

PLC

The non-controlling interests in PLC are material to the Company in 2018, 2017 and 2016. Non-controlling interests (NCI) hold 21.0% as at December 31, 2018 and 2017.

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

Summarized consolidated statements of financial position as at December 31, 2018 and 2017:

	2018	2017
	(In Thousands)	
Total current assets	**₱6,883,357**	₱5,938,868
Total noncurrent assets	**12,306,432**	12,695,155
Total current liabilities	**1,564,587**	1,512,363
Total noncurrent liabilities	**69,138**	55,617
Total equity	**₱17,556,064**	₱17,066,043
Attributable to:		
Equity holders of the Parent	**₱16,837,136**	₱16,315,083
Non-controlling interests	**718,928**	750,960
Total	**₱17,556,064**	₱17,066,043

Summarized consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(In Thousands)	
Revenue	**₱5,147,801**	₱4,929,346	₱3,531,076
Costs and expenses	**(2,957,858)**	(2,796,194)	(2,125,154)
Other income - net	**300,715**	104,992	34,779
Income before income tax	**2,490,658**	2,238,144	1,440,701
Provision for income tax	**(181,005)**	(235,478)	(282,601)
Net income	**2,309,653**	2,002,666	1,158,100
Other comprehensive income (loss)	**(248,876)**	165,397	61,701
Total comprehensive income	**₱2,060,777**	₱2,168,063	₱1,219,801
Attributable to:			
Equity holders of the Parent	**₱1,954,908**	₱1,873,301	₱1,005,381
Non-controlling interests	**105,869**	294,762	214,420
Total	**₱2,060,777**	₱2,168,063	₱1,219,801

Summarized consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
		(In Thousands)	
Operating	**₱3,071,022**	₱3,234,915	₱1,609,347
Investing	**(2,103,213)**	(731,685)	(52,508)
Financing	**(1,616,433)**	(1,352,098)	(932,891)
Net increase (decrease) in cash and cash equivalents	**(₱648,624)**	₱1,151,132	₱623,948

Dividends paid in 2018, 2017 and 2016 to non-controlling interests amounted to ₱397.0 million, ₱342.1 million and ₱311.7 million, respectively.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

  On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 29, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of 3 years:

  a) Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
  b) Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
  c) Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 – Accounting for Cancellation of Real Estate Sales was also deferred. The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

a) The accounting policies applied
b) Discussion of the deferral of the subject implementation issues in the PIC Q&A
c) Qualitative discussion of the impact in the financial statements had the concerned application guideline in the PIC Q&A been adopted.
d) Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Company availed of the deferral of adoption of the above specific provisions of PIC Q&A as follows:

- Exclusion of uninstalled materials in the determination of POC discussed in PIC Q&A No. 2018-12-E
- Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D

Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

- The exclusion of uninstalled materials in the determination of POC would reduce the percentage of completion of real estate projects resulting in a decrease in retained earnings as at January 1, 2018 as well as a decrease in the revenue from real estate sales in 2018.
- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2018. Currently, the Company records the repossessed inventory at selling price at the date of the sale.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard only to contracts that are not yet complete as at January 1, 2018. The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balances of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18, *Revenue*, and related Interpretations.

The effect of adopting PFRS 15 as at December 31, 2018 and January 1, 2018 arising from sale of real estate is as follows:

	Increase (Decrease)	
	December 31, 2018	January 1, 2018
	(In Thousands)	
ASSETS		
Receivables	(₱889,718)	(₱752,822)
Contract assets – current portion	379,272	363,307
Contract assets – net of current portion	510,446	389,515
TOTAL ASSETS	₱–	₱–
LIABILITIES		
Customer' deposits (under "Trade and other current liabilities" account)	(₱43,310)	(₱86,475)
Contract liabilities (Under "Trade and other current liabilities" account)	42,846	41,534
Contract liabilities (Under "Other noncurrent liabilities" account)	464	44,941
TOTAL LIABILITIES	₱–	₱–

Contract assets
Prior to the adoption of PFRS 15, the Company recognized receivables from real estate sales, even if the receipt of the total consideration was conditional on the completion of the property. Under PFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than a receivable. Upon adoption of PFRS 15, the Company reclassified "Trade receivables" amounting to ₱752.8 million to "Contract assets".

Contract liabilities
Prior to adoption of PFRS 15, the Company recognized collections prior to revenue recognition as "Customer deposits". Under PFRS 15, considerations received from the customer prior to revenue recognition are recognized as contract liabilities. Upon adoption of PFRS 15, the Company reclassified "Customers deposits" to "Contract liabilities" amounting to ₱86.5 million.

The contract liabilities also include excess of collections over percentage of completion.

The effect of adopting PFRS 15 as at December 31, 2018 arising from brand and trademark income is as follows:

Consolidated Statement of Financial Position	Under PAS 18 (Old)	Under PFRS 15 (New)	Impact Increase (Decrease)
ASSETS		*(In Thousands)*	
Contract asset – current portion	₱–	₱37,893	₱37,893
Contract asset – noncurrent portion	–	130,123	130,123
TOTAL ASSETS	₱–	₱168,016	₱168,016
LIABILITIES AND EQUITY			
Income tax payable	₱14,400	₱14,400	₱–
Deferred tax liability	–	50,405	50,405
Retained Earnings	33,600	151,211	117,611
TOTAL LIABILITIES AND EQUITY	₱33,600	₱210,616	₱168,016

Consolidated Statement of Comprehensive Income	Under PAS 18 (Old)	Under PFRS 15 (New)	Impact Increase (Decrease)
OTHER INCOME (EXPENSES)			
Brand and trademark income	₱48,000	₱203,459	₱155,459
Interest income	–	12,556	12,556
Income before income tax	48,000	216,015	168,016
Provision for current income tax	14,400	14,400	–
Provision for deferred income tax	–	50,405	50,405
NET INCOME	₱33,600	₱151,210	₱117,610

Contract assets

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

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

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company adopted PFRS 9 using the modified retrospective method of adoption. The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies resulting to adjustments. In accordance with the transitional provisions of PFRS 9, comparative figures have not been restated, thereby resulting in the following impact:

a) Comparative information for prior periods are not restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 are retained for the comparative periods.

b) The accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39 are disclosed in the notes to the financial statements.

c) As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

d) Classification and measurement

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

   The assessment of the Company’s business model was made as of the date of initial application, January 1, 2018, and then applied prospectively with the related adjustment to the impact in the beginning retained earnings. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

   The classification and measurement requirements of PFRS 9 did not have significant impact to the Company. The Company continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Company’s financial assets:

   - Receivables classified as “Loans and receivables” as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are classified and measured as “Debt instruments at amortized cost” beginning January 1, 2018.

   - Investment in club shares previously classified as *Investment held for trading* are now classified as “Equity instruments designated at fair value through other comprehensive income” (“FVOCI”). The Company elected to classify irrevocably its investment in club shares under this category as it intends to hold these investments in foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior period. Marked-to-market loss as at January 1, 2018 on this investment amounted to ₱548.0 million. As a result of reclassification of investment in club shares, the cumulative marked-to-market loss in retained earnings are reclassified to OCI as at January 1, 2018.

- Equity investments previously classified as AFS financial assets are now classified as "Equity instruments designated at FVOCI". The Company has previously recognized impairment loss of ₱23.4 million in profit or loss. As a result of the reclassification, the impairment loss on equity investments that were previously recognized in profit or loss was reclassified to OCI as at January 1, 2018.

The Company has elected to transfer to retained earnings all realized change in market value on its "Equity investment designated at FVOCI". Realized gain on club shares and equity investments as at January 1, 2018 amounted to ₱528.0 million.

The statement of financial position as at January 1, 2018 was restated, resulting in a decrease in OCI and an increase in retained earnings of ₱528.0 million.

Presented below is the impact of the adoption of PFRS 9 as at January 1, 2018 on the Company's consolidated financial statements:

	Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	₱3,711,248	₱3,711,248
Investment held for trading (other than club shares)	Investment held for trading	Financial assets at fair value through profit or loss (FVPL)	178,483	178,483
Investment held for trading (club shares)	Investment held for trading	Fair value through OCI	2,101,183	2,101,183
Receivables	Loans and receivables	Financial assets at amortized cost	2,095,784	2,095,784
AFS financial assets	AFS investments	Fair value through OCI	2,475,287	2,475,287
Finance lease receivable	Loans and receivables	Financial assets at amortized cost	18,083,181	18,083,181
Advances to associate	Loans and receivables	Financial assets at amortized cost	120,889	120,889
Deposits	Loans and receivables	Financial assets at amortized cost	27,955	27,955
Refundable deposits and construction bonds	Loans and receivables	Financial assets at amortized cost	23,074	23,074
Guarantee bonds	Loans and receivables	Financial assets at amortized cost	35,000	35,000
			₱28,852,084	₱28,852,084
Financial liabilities				
Loans payable	Other financial liabilities	Financial liabilities at amortized cost	₱2,500,017	₱2,500,017
Trade and other current liabilities*	Other financial liabilities	Financial liabilities at amortized cost	1,753,944	1,753,944
Installment payable	Other financial liabilities	Financial liabilities at amortized cost	5,444	5,444
Refundable deposit	Other financial liabilities	Financial liabilities at amortized cost	115,979	115,979
Long-term debt	Other financial liabilities	Financial liabilities at amortized cost	6,259,375	6,259,375
Obligations under finance lease	Other financial liabilities	Financial liabilities at amortized cost	74,863	74,863
			₱10,709,622	₱10,709,622

The accounting for the Company's financial liabilities remains largely the same as it was under PAS 39.

e) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record an allowance for impairment losses for all loans and other debt financial assets not held at FVPL. 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. The shortfall is then discounted at an approximation to the asset's original effective interest rate (EIR). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For installment contracts receivables (ICR) presented under trade receivables and contract assets, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. 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 used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given ICR pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on inflation were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Company's definition of default and historical data of five years for the origination, maturity date and default date. The Group considers an ICR in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature. 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.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating the recovery rates, the Company considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, association dues, refurbishment, payment required under Maceda law, cost to complete (for incomplete units).

As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original effective interest rate (EIR) or an approximation thereof.

For other financial assets, 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 cash and cash equivalents, the Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from the Good Credit Rating Agency to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

f) Other adjustments

In addition to the adjustments described above, upon adoption of PFRS 9, other items of the primary financial statements such as deferred taxes, income tax expense, non-controlling interests and retained earnings were adjusted as necessary.

- PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification

The Company adopted PIC Q&A 2018-11, *Classification of Land by Real Estate Developer* and PIC Q&A 2018-15, *PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. There is no impact on the measurement of land held for sale as a result of adoption of PIC Q&A 2018-15 since the Company's accounting policy is already aligned with the PIC Q&A 2018-15. The impact of adoption of PIC Q&A 2018-11 is applied retrospectively which resulted to the following reclassification in the statement of financial position as at December 31, 2017:

	Current Asset	Noncurrent Asset
Land held for future development	₱3,099,166	(₱3,099,166)

Land held for future development, previously presented as non-current asset pertains to land which the BOD has previously approved to be developed into residential development for sale. Before the adoption of PIC Q&A 2018-11, the classification was based on the Company's timing to start the development of the property. This was reclassified to inventories in the consolidated statement of financial position.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

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

  The amendments are not applicable to the Company since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) -22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

4. Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

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

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

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

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

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

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

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

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

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

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

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

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

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

  The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

5. Summary of Significant Accounting Policies

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

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

All other assets are classified as noncurrent.

A liability is classified as current when it is:

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

The Company classifies all other liabilities as noncurrent.

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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earns interest at the prevailing bank deposit rates.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturity of three months or less from date of acquisition and are subject to an insignificant risk of change in value.

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

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

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
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 of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement effective January 1, 2018

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

Financial Assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL.

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. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15.

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

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

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

- Financial assets at amortized cost (debt instruments)

  This category is the most relevant to the Company. 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 the EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

  The Company's financial assets at amortized cost includes the Company's cash and cash equivalents, receivables, deposits (presented as part of "Other current assets" account and "Other noncurrent assets" account), guarantee bonds (presented as part of "Other noncurrent assets" account) and advances to associates (presented as part of "Investments in and advances to associates" account) in the consolidated statement of financial position.

- 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 profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

  The Company elected to classify irrevocably its investments in equity securities and club shares under this category.

- Financial assets at FVPL

  Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

This category includes listed equity investments which the Company had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

Impairment of financial assets
The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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 (other than those related to real estate), 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 Liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, 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.

As at December 31, 2018, the Company has no financial liabilities classified as FVPL and derivatives designated as hedging instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

- Loans and borrowings

  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 consolidated statement of income.

  As at December 31, 2018, this category includes the Company's trade and other current liabilities (excluding customers' deposits, unearned income, statutory payables and other liabilities to the government), loans payable, nontrade liability, obligations under finance lease, refundable deposits, installment payable and long-term debt.

Derecognition
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 consolidated statement of income.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Date of Recognition of Financial Assets. The Company recognizes financial assets in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on trade date, i.e., the date the Company commits to purchase or sell the asset.

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

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

As at December 31, 2017, the Company has no HTM investments and derivatives designated as hedging instruments.

- Financial assets at FVPL

  Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. 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 also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39.

  Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as "Unrealized marked-to-market gain" account (positive net changes in fair value) or "Unrealized marked-to-market loss" (negative net changes in fair value) in the profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income according to the terms of the contract, or when the right of payment has been established.

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

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

  The Company's financial assets held for trading consist of quoted equity instruments and club shares shown under "Investments held for trading" account in the consolidated statements of financial position.

- Loans and Receivables

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

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

  This category includes the Company's cash and cash equivalents, receivables, finance lease receivable, deposits (presented as part of "Other current assets" account and "Other noncurrent assets" account), guarantee bonds (presented as part of "Other noncurrent assets" account) and advances to associates (presented as part of "Investments in and advances to associates" account) in the consolidated statement of financial position.

- AFS Financial Assets

  AFS financial assets are non-derivative financial assets that are designated as AFS or do not qualify to be classified as loans and receivables, financial assets at FVPL or HTM investments. 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 FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

  This category includes the Company's investments in quoted and unquoted equity securities shown under "Available-for-sale financial assets" account in the consolidated statements of financial position.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually or collectively significant for financial assets that are not individually significant. 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 in the consolidated statement of comprehensive income. Loans and receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Interest income continues to be accrued on the reduced carrying amount based on the EIR of the asset.

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.

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 customers. 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 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 in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

The evidence of impairment for equity securities classified as AFS financial assets would include a significant or prolonged decline in fair value of investments 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 profit or loss. 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 that its cost. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss.

Financial Asset 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 of Financial Liabilities. Financial liabilities are recognized initially at fair value of the consideration received which is determined by reference to the transaction price or other market prices, and in the case of other financial liabilities, inclusive of any directly attributable transaction costs. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

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

As at December 31, 2017, the Company has no financial liabilities classified as FVPL and derivatives designated as hedging instruments.

- Other Financial Liabilities

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

  After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date or the Company does not have an unconditional right to defer payment for at least 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

As at December 31, 2017, this category includes the Company's trade and other current liabilities (excluding customers' deposits, unearned income, statutory payables and other liabilities to the government), loans payable, nontrade liability, obligations under finance lease, refundable deposits, installment payable and long-term debt.

Offsetting of Financial Assets and Financial Liabilities (applies to financial assets before and after January 1, 2018)
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.

Classification of Financial Instruments between Liability and Equity (applies to financial assets before and after January 1, 2018)
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.

Derecognition of Financial Assets and Financial Liabilities (applies to financial instruments before and after January 1, 2018)

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

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

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

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss in the consolidated statement of comprehensive income.

Real Estate for Sale and Land Held for Development
Property acquired or being constructed for sale in the ordinary course of business, rather than held for rental or capital appreciation, is considered as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes land acquisition cost, amounts paid to contractors for construction and development, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs. Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to complete and the estimated costs of sale. The cost of inventory property recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and allocation of any non-specific costs based on the relative size of the property sold. NRV in respect of land under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Investments in Associates
An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or control are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for under the equity method.

Under the equity method, the investments in associates are initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associates since their respective acquisition dates. Goodwill relating to the associates is included in the carrying amount of the investments and is not tested for impairment individually.

The profit or loss in the consolidated statement of comprehensive income reflects the Company's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associates, the Company recognizes its share of any changes and discloses this, when applicable, as part of other comprehensive income and in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

The aggregate of the Company's share in income or loss of associates is shown on the face of the consolidated statement of comprehensive income. This is the income or loss attributable to equity holders of the associates and therefore is income or loss after tax and non-controlling interest in the subsidiaries of the associates.

If the Company's share of losses of an associate equals or exceeds the carrying amount of an investment, the Company discontinues including its share of further losses. After the Company's investment is reported at zero value, additional losses are provided for and a liability is recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits exceeds the share of net losses not recognized.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that each of the investment in associates is impaired. If such evidence exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and recognizes the loss in profit or loss in the consolidated statement of comprehensive income.

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

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

Investment Properties

Investment properties comprise of land and building held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and accumulated impairment, if any. Land is stated at cost less accumulated impairment loss, if any.

Building is depreciated over its economic life of 35 years.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses, which are the difference between the net disposal proceeds and the carrying amount of the investment property, on the retirement or disposal, are recognized in profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with policy stated under property and equipment up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale, the deemed cost of the subsequent accounting is the fair value of the date of change in use.

Business Combinations

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at 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 comprehensive 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 under "Excess of acquisition cost over net assets of acquired subsidiaries" account in the equity section of the consolidated statement of financial position.

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

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

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling inter costs 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 profit or loss as part of the consolidated statement of comprehensive 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 amounts for the items for which the accounting is incomplete. During the measurement period, the Company retrospectively adjusts the provisional amounts 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 group of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment or determined in accordance with PFRS 8, *Operating Segment.*

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. When the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, 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 forecasts calculations generally cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

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

When business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the Company, using the cost of transaction and fair value information at the date of each exchange transactions, 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.

<u>Property and Equipment</u>
Property and equipment, except land, are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes of the cost of replacing part of the property and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection 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 profit or loss in the consolidated statement of comprehensive income as incurred. Land is carried at cost net of accumulated impairment losses, if any.

Depreciation 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	15 years or the term of the lease, whichever is shorter
Machinery and equipment	5 years
Condominium units and improvements	17 years
Transportation equipment	4–5 years or the term of the lease, whichever is shorter
Office furniture, fixtures and equipment	3–5 years

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Construction-in-progress represents property and equipment under construction and is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed. Construction-in-progress is not depreciated until such time that assets are completed and available for use.

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 profit or loss in the consolidated statement of comprehensive 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.

Intangible Assets

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 comprehensive income in the expense category consistent with the function of intangible assets.

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

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

The Company made upfront payments to purchase a license. The license has been granted for a period of 18.6 years, renewable for another 25 years, by the relevant government agency. The license was assessed as having a finite life and is amortized on a straight line basis over the period of the license, i.e., 43.6 years.

Instant Scratch Tickets, Spare Parts and Supplies

Instant scratch tickets, spare parts and supplies are included under "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 NRV. Cost, which includes all costs attributable to acquisition, is determined using the first-in, first-out method. NRV 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 investments in associates, investment properties, property and equipment and intangible asset may be impaired. If any such indication exists and 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 or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs 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. 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.

Any impairment loss is recognized in profit or loss in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired assets.

For asset excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company makes an estimate of the asset's or CGU'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. The reversal is limited so that the carrying amount does not exceed its recoverable amount, nor 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 profit or loss in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Equity
Capital stock is measured at par value for all shares issued. Incremental costs 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.

Retained earnings represent the accumulated earnings of the Company, net of dividends declared to date.

Treasury Shares
Treasury shares represent issued Parent Company shares which were subsequently repurchased. These are recorded at cost and shown in the consolidated statements of financial position as a deduction from equity. Any difference between the carrying amount and the consideration, if reissued, is recognized as additional paid in capital.

Equity Share in Cost of Parent Company Shares Held by Associates
Equity share in cost of Parent Company common shares held by associates represents the amount that reduces the Company's "Investments in and advances to associates" account and equity balance by the Company's effective ownership in Parent Company common shares held by associates.

Cost of Parent Company Common Shares Held by Subsidiaries
Cost of Parent Company common shares held by subsidiaries are equity instruments which are reacquired (treasury shares) and are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration 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 statements of comprehensive income and within equity in the consolidated statements 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 represent the equity interest in PLC and POSC not held by the Parent Company.

Revenue Recognition effective January 1, 2018

Revenue from Contract with Customers
The Company is in the business of sale of real estate, gaming, leasing and distribution. 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 has generally concluded that it is the principal in its revenue arrangements, except for commission income, wherein it is acting as agent.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 6.

Sale of Real Estate. The Company derives its real estate revenue from sale of lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or POC) since based on the terms and conditions of its contract with the buyers, the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

In determining the transaction price, the Company considers the selling price of the real estate property and other fees and charges collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Company uses output method. The Company recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using performance completed to date. This is based on the monthly project accomplishment report prepared by the Company's engineers which integrates the surveys of performance to date of the construction activities.

Estimated development costs of the real estate project include costs of land, land development, building costs, professional fees, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as installment contract receivables, under trade receivables, is included in the "Contract asset" account in the assets section of the consolidated statement of financial position.

Any excess of collections over the total of recognized installment contract receivables is included in the "Contract liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost Recognition
The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees and permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

In addition, the Company recognizes as an asset, only the costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

Receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

The contract liabilities also include payments received by the Company from the customers for which revenue recognition has not yet commenced and payments in excess of percentage of completion.

Cost to obtain a contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. The Company has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Cost of real estate sold" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Contract fulfillment asset
Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company firstly considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Company applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Company's contract fulfillment assets pertain to connection fees and land acquisition costs.

Amortization, de-recognition and impairment of contract fulfillment assets and capitalized costs to obtain a contract
The Company amortizes contract fulfillment assets and capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within cost of sales.

A contract fulfillment asset or capitalized costs to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Company determines whether there is an indication that contract fulfillment asset or cost to obtain a contract maybe impaired. If such indication exists, the Company makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, there judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Gaming Revenue Share - net. Revenue representing monthly payments from Melco Resorts Leisure (PHP) Corporation (Melco), formerly MCE Leisure (Philippines) Corporation, based on the performance of gaming operations of City of Dreams Manila integrated resort and casino is recognized when earned pursuant to an Operating Agreement and is measured at the fair value of the consideration received or receivable, net of 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 from trade receivables and finance lease receivables is recognized as the interest accrues using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount. Interest income from bank deposits is recognized as it accrues.

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).

Lease Income. Lease income arising from operating leases on investment properties is accounted for on a straight-line basis over the terms of the lease.

Revenue from Property Management. Revenue is recognized as services of providing utilities and maintenance are performed.

Gain on Finance Lease. Gain on finance lease pertains to the income arising from the difference between the fair value of an asset and its cost. Gain on finance lease is recognized when incremental economic benefit will flow to the entity and the amount can be measured reliably. This is presented under "Other income (expenses)" account in the statement of comprehensive income.

Dividends (presented under "Other revenue" account). Revenue is recognized when the Company's right to receive the payment is established.

Income from Forfeitures (presented under "Other revenue" account). This represents income from forfeitures of the deposits and, to a certain extent, installments from customers in the event of a default and/or from cancellations of sales. Revenue is recognized upon approval of cancellation.

Penalty (presented under "Other revenue" account). Penalty pertains to income from surcharges for buyers' default and late payments. Income is recognized when penalty is actually collected.

Gain on Sale of Club Shares and Income from Playing Rights (presented under "Other revenue" account). Revenue from sale of club shares and playing rights are recognized when the risk and rewards of ownership of the shares and playing rights have been passed to the buyer and the amount of revenue can be reliably measured.

Brand and trademark income (presented under "Other income (loss)" account). 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. Revenue is recognized when there is an incremental economic benefit, other than the usual business operations, that will flow to the Company and the amount of the revenue can be measured reliably.

Revenue Recognition Prior to Adoption of PFRS 15 on Sale of Real Estate

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 received. 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 "Commission income," the Company has concluded that it is acting as a 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:

Sale of Real Estate. Revenue from sale of real estate, which include the sale of lots and condominium units, are accounted for under the full accrual method of accounting. Under this method, revenue and cost is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties.

Real estate sales, where the Company has material obligations under the sales contract to provide improvements after the property are sold, are accounted for under the POC method. Under this method, the gain on sale is realized as the related obligations are fulfilled and the units are completed, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

If none of the revenue recognition criteria are met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is accounted as customers' deposits included under "Trade and other current liabilities" account in the consolidated statements of financial position.

Costs and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in profit or loss in the consolidated statement of comprehensive 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.

Cost of real estate sold is recognized consistent with the revenue recognition method applied. Cost of real estate sold includes all direct materials and labor costs, and those indirect costs related to contract performance. Cost of real estate sold before the completion of the development includes estimated costs for future development work, all estimated by the Company's project engineers. When it is probable that the labor contract cost will exceed total contract revenue, the expected loss is recognized immediately. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins, are recognized in the year in which the revisions are determined. The cost of inventory recognized in profit or loss in the consolidated statement of comprehensive income upon sale is determined with reference to the specific costs incurred on the property, allocated to the saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

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 a 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 comprehensive 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 commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are 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 a Lessor. Leases where the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the term of the lease. 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 bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Finance leases which transfer to the lessee substantially all the risks and benefits incidental to ownership of the leased item, are recorded as finance lease receivable measured at present value of the minimum lease payments. Lease payments from the lessee are apportioned between finance lease income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Lease income is recognized under "Interest income on finance lease" account in the consolidated statement of comprehensive income.

The cost of the leased item is derecognized at inception of the lease. Cost includes estimated cost to complete the construction of a leased item and recognized as "Estimated liability on construction costs" separately shown in the consolidated statements of financial position and shall be settled based on actual billings from the contractors and adjusted upon completion of the construction. Any difference between the actual cost incurred and the estimated liability on construction costs are recognized in profit or loss.

Capitalization of Operating Lease. Where a building will be constructed on a land under operating lease, the operating lease costs that are incurred during the construction period are capitalized as part of the construction cost of the building. Such lease costs are viewed as costs directly attributable to bringing the building to the location and condition necessary for it to be capable of operating in a manner intended by management. Lease costs are necessary and unavoidable costs of constructing the building, because without this lease, no construction could occur. Otherwise, this may be expensed outright.

Borrowing Costs

Borrowing costs directly attributable to the development of the Company's projects that necessarily take a substantial period of time to get ready for its intended use are capitalized as part of the cost of the investment property account in the consolidated statement of financial position. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use is complete. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Pension 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 reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- 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 recognize related restructuring costs.

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

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 at the reporting period.

Foreign Currency-denominated Transactions and Translations

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 settlement or translation are recognized in profit or loss in the consolidated statement of comprehensive income. Nonmonetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income Taxes

Current Income Tax. Current income tax assets and liabilities 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:

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

Deferred tax assets are recognized for all deductible temporary differences the carry forward benefits of unused tax credits and any unused tax losses from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and 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 carry forward benefits of unused tax credits and unused tax losses 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 deferred tax liabilities are measured at the tax rates that are expected to apply in 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 as at the reporting date.

Deferred tax relating to items recognized in "Other comprehensive income" account are included in "Other comprehensive income" account in the consolidated statement of comprehensive income and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, if applicable:

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Input VAT" under "Other current assets" account or "Output VAT" under "Trade and other current liabilities" account, respectively, in the consolidated statements of financial position.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net profit or loss for the year attributable to common equity holders of the parent, after recognition of the dividend requirement of preferred shares, as applicable, 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 EPS 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 EPS does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on EPS.

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

Operating Segments
For management purposes, the Company is organized into business units based on the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services.

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the 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 disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts 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 Company's 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:

Recognition of Revenue and Cost of Sale of Real Estate (beginning January 1, 2018).

Existence of a contract
The Company's primary document for a contract with a customer is a signed contract to sell, which contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of the Company before revenue recognition is to assess the probability that the Company will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age of receivables and contract assets and pricing of the property. Management regularly evaluates the historical cancellations if it would still support its current threshold of customers' equity before commencing revenue recognition.

Revenue recognition method and measure of progress
The Company concluded that revenue for real estate sales is to be recognized over time because (a) the Company's performance does not create an asset with an alternative use and; (b) the Company has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Company's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Company has determined that output method used in measuring the progress of the performance obligation faithfully depicts the Company's performance in transferring control of real estate development to the customers.

Identifying performance obligation
The Company has various contracts to sell covering (a) serviced lot and (b) condominium unit. The Company concluded that there is one performance obligation in each of these contracts because, for serviced lot, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract. For the contract covering condominium unit, the developer has the obligation to deliver the condominium unit duly constructed in a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Company's service is to transfer the title of the real estate unit to the customer.

Recognition of Revenue and Cost of Sale of Real Estate (effective January 1, 2018). Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer, completion of development and existence of a binding sales agreement between the Company and the buyer. The completion of development is determined based on actual costs incurred over the total estimated development costs reconciled with the Company engineer's judgment and estimates on the physical portion of contract work done if the development cost is beyond preliminary stage.

Revenue and cost from sale of real estate amounted to ₱670.5 million and ₱363.6 million, respectively, in 2018 (see Note 30).

Recognition of Revenue and Cost of Sale of Real Estate (prior to January 1, 2018). Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer, completion of development and existence of a binding sales agreement between the Company and the buyer. The completion of development is determined based on actual costs incurred over the total estimated development costs reconciled with the Company engineer's judgment and estimates on the physical portion of contract work done if the development cost is beyond preliminary stage.

Revenue and cost from sale of real estate amount to ₱596.7 million and ₱308.4 million, respectively in 2017, and ₱350.3 million and ₱120.5 million, respectively in 2016 (see Note 30).

Business Combinations. The Company acquires subsidiaries which own real estate and gaming operations. 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 18 for the Company's most recent business combinations.

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

Management determines material subsidiaries with material NCI as those with assets, non-controlling interests, revenues and net income greater than 5% of consolidated assets, NCI, revenues and net income. Material associates are those where the Company's carrying amount of investment or equity in net earnings is greater than 5% of the consolidated assets or net income at year end.

The Company has determined PLC as a subsidiary with material NCI in 2018 and 2017 (see Note 2). The Company has no material associates in 2018 and 2017 (see Note 13).

Evaluation of Lease Commitments. The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains a lease when the fulfillment of the arrangement depends on specific asset or assets and the arrangement conveys a right to use the asset.

Finance Lease - as a Lessor. The Parent Company has entered into a lease agreement with Melco for the lease of a building. Management has determined based on evaluation of the terms and conditions of the arrangement, that the Parent Company transfers substantially all the risks and benefits incidental to ownership of the building and that the present value of the minimum lease payments amounts to at least substantially all of the fair value of the building at the lease inception date. On those bases, the Parent Company accounted for the lease of the building structures under finance lease.

Interest income on finance lease in 2018, 2017 and 2016 amounted to ₱1,663.8 million, ₱2,069.8 million and ₱2,003.8 million, respectively. The outstanding balance of finance lease receivables as at December 31, 2018 and 2017 amounted to nil and ₱18,083.2 million, respectively (see Note 37).

Change in the Classification of Lease from Finance Lease to Operating Lease. The classification of the lease is determined at the inception of the lease, which is based on the risks and rewards incidental to ownership of leased asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and gain from appreciation in value or realization of a residual value. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. If at any time, the lessor and lessee agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term.

In 2018, the parties agreed to change the use of a portion of the building. Also, in 2018, the Parent Company engaged a third party to study the actual use of the building. Based on the result of the study, Management believes that there is a substantial change in the use of the building from the inception of the lease (e.g., parking to retail, non-gaming to gaming). The changes in the use of the building from the inception of the lease resulted to different lease rates as indicated in the lease agreement. The Parent Company assessed that based on the terms of the new agreement and the fair value and useful life of the asset at the date of revision of terms results to change in the classification of lease from finance lease to operating lease. The change in the classification of lease resulted to increase in investment property, rental income and depreciation expense in 2018 by ₱18,225.8 million, ₱532.1 million and ₱116.5 million, respectively. Receivables and interest income decreased in 2018 by ₱18,418 million and ₱461.3 million, respectively. The change in the classification of the lease will also result in an annual increase in rental income and depreciation expense by ₱310.3 million and ₱483.9 million in succeeding periods and will result to decrease in interest income on finance lease by ₱2,166.0 million in 2019 adjusted by the impact of EIR in succeeding period (see Note 15).

Operating Lease - as a Lessor. The Parent Company, as a lessor, has accounted for the lease agreements for its land and building under an operating lease. The Parent Company has determined that it has not transferred the significant risks and rewards of ownership of the leased properties to the lessee because of the following factors:

a) the lessee will not acquire ownership of the leased properties upon termination of the lease;
b) the lessee was not given an option to purchase the assets at a price that is sufficiently lower than the fair value at the date of the option;
c) the lease term is not a major part of the economic life of the asset; and
d) the present value of the minimum lease payments is not substantially all of the fair value of the leased asset.

Lease income earned from lease of land and building amounted to ₱724.4 million in 2018, and ₱190.0 million in 2017 and 2016 (see Note 37).

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 have determined that it has retained substantially all the risks and benefits of ownership of the lottery equipment being leased to PCSO. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and, the lease term is not for the major part of the asset's economic life. Accordingly, the lease is accounted for as an operating lease.

Revenue from equipment rental amounted to ₱1,448.3 million, ₱1,840.5 million and ₱1,579.7 million in 2018, in 2017, and in 2016 (see Note 37).

Finance Lease - as a Lessee. POSC also 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 amount of lottery equipment under finance lease arrangements amounted to ₱30.9 million and ₱103.7 million as at December 31, 2018 and 2017, respectively (see Notes 16 and 37).

Operating Lease - as a Lessee. The Company, as a lessee, has entered into lease agreements for its office space, land, parking lots, machinery, office and transportation equipment. The Company has determined that it has not acquired the significant risks and rewards of ownership of the leased properties, thus the Company recognized the lease agreements as operating leases.

Rent expense recognized from operating lease amounted to ₱189.5 million, ₱141.8 million, ₱103.1 million in 2018, 2017 and 2016, respectively (see Notes 33 and 37).

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 described 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, many changes due to market changes or circumstances arising that are beyond the control of the Company. Such changes are related in the assumptions when they occur.

Determination of Fair Value of Financial Assets and Financial Liabilities. Certain financial assets and financial liabilities are carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Company utilized a different valuation methodology. Any changes in the assumptions could affect the fair value of these financial assets and financial liabilities. Please refer to Note 43 for the required disclosures on the fair value of the Company's financial assets and financial liabilities.

Determination of Impairment of Receivables, Contract Assets and Advances to Associates (Upon Adoption of PFRS 9). The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selected inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

There was no provision for impairment recognized in 2018. The aggregate carrying values of receivables, contract assets and advances to associates amounted to ₱2,367.5 million (see Notes 10 and 13).

Determination of Impairment of Receivables, Finance Lease Receivables and Advances to Associates (Prior to Adoption of PFRS 9). The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables and advances. 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 are not limited to, the age and status of receivable, the length of relationship with the customers and related parties, the counterparty's 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. 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 operating expenses and decrease its assets.

Provision for doubtful accounts amounted to ₱7.7 million and ₱43.2 million in 2017 and 2016, respectively (see Notes 10 and 35). The aggregate carrying values of receivables, finance lease receivables, contract assets and advances to associates amounted to ₱20,179.5 million as at December 31, 2017. Allowance for doubtful accounts amounted to ₱396.4 million as at December 31, 2017 (see Notes 10 and 13).

Determination of NRV of Real Estate for Sale and Supplies Inventory. Real Estate for sale and supplies inventory are stated at lower of cost and NRV. The Company writes down the carrying value of real estate for sale and supplies inventory whenever the NRV becomes lower than cost due to changes in estimated selling prices less cost to sell. The carrying value is reviewed at least annually for any decline in value.

There was no provision for write-down of inventories in 2018 and 2017. The carrying values of inventories carried at lower of cost and NRV are as follows:

	2018	2017
	(In Thousands)	
Real estate for sale and land held for future development – at cost (see Note 11)	**₱3,474,362**	₱3,742,431
Spare parts and supplies* (see Note 12)	**63,953**	65,729

**Included under "Other current assets" account in the consolidated statements of financial position.*

Determination of Impairment of AFS Financial Assets (prior to adoption of PFRS 9). The Company determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The Company determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than 12 months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price for quoted equities. In addition, AFS financial assets are considered impaired when the Company believes that future cash flows generated from the

No provision for impairment loss was recognized in 2017 and 2016. The carrying values of AFS financial assets amounted to ₱2,475.3 million as at December 31, 2017 (see Note 14).

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

The Company recognized an impairment loss amounting to ₱110.9 million in 2018 and nil in 2017. The carrying amount of goodwill as at December 31, 2018 and 2017 amounted to ₱1,721.3 million and ₱1,832.3 million, respectively (see Note 18).

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. Investments in associates, investment properties, property and equipment and intangible assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Intangible asset is reviewed annually for impairment while it is still not yet available for use. Determining the value in use 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 consolidated financial statements.

There were no indicators of impairment in 2018 and 2017. Thus, no impairment loss was recognized. The carrying values of nonfinancial assets subjected to impairment review as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(In Thousands)	
Investments in associates (see Note 13)	**₱123,351**	₱123,351
Investment properties (see Note 15)	**20,094,843**	1,869,025
Property and equipment (see Note 16)	**369,939**	648,444
Intangible asset (see Note 17)	**4,581,040**	5,001,237

Realizability of Deferred Tax Assets. Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable income 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 profit together with future tax planning strategies.

The carrying value of recognized deferred tax assets amounted to ₱110.1 million and ₱3,479.7 million as at December 31, 2018 and 2017, respectively. Unrecognized deferred tax assets amounted to ₱1,065.3 million and ₱1,053.3 million as at December 31, 2018 and 2017, respectively (see Note 36).

Determination and Computation of Pension Cost. The cost of defined benefit pension plans and present value of the pension 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. Pension asset amounted to ₱7.9 million and ₱13.4 million as at December 31, 2018 and 2017, respectively. Pension liability amounted to ₱8.6 million and ₱24.1 million as at December 31, 2018 and 2017, respectively (see Note 38). Pension cost recognized in profit or loss amounted to ₱23.5 million, ₱19.5 million and ₱15.7 million in 2018, 2017 and 2016, respectively. The remeasurement gain (loss) recognized in other comprehensive income amounted to ₱23.5 million, (₱7.2 million) and (₱6.0 million) in 2018, 2017 and 2016, respectively (see Note 38).

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

Further details about the assumptions used are provided in Note 38.

Evaluation of Legal Contingencies. The Company recognizes provision for possible claims when it is determined that an unfavorable outcome is probable and the amount of the claim can be reasonably estimated. The determination of reserves required, if any, is based on analysis of such individual issue, often with the assistance of outside legal counsel (see Note 41).

7. 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.

The Company is primarily in the businesses of real estate development, property management and gaming and gaming-related activities. Others pertain to investment companies which are mostly dormant.

Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, receivables, finance lease receivables, real estate for sale, land held for future development, investment properties and property and equipment, net of accumulated depreciation and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

The amounts of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring principles that are similar to those used in measuring assets and liabilities and profit or loss in the consolidated financial statements, which are in accordance with PFRSs.

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

	2018				
	Real Estate Development and Property Management	**Gaming and Gaming Related Activities**	**Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Earnings Information					
Revenue	**₱4,518,820**	**₱5,299,948**	**₱–**	**(₱1,303,756)**	**₱8,515,012**
Costs and expenses	**(1,446,903)**	**(2,961,539)**	**(18,212)**	**470,051**	**(3,956,603)**
Interest expense	**(567,382)**	**(6,187)**	**–**	**108,708**	**(464,861)**
Interest income	**9,412**	**48,770**	**69**	**–**	**58,251**
Other income (loss)	**(31,965)**	**231,869**	**(134,212)**	**(292,513)**	**(226,821)**
Impairment loss on goodwill	**–**	**(110,934)**	**–**	**–**	**(110,934)**
Income before income tax	**2,481,982**	**2,501,927**	**(152,355)**	**(1,017,510)**	**3,814,044**
Provision for income tax	**407,905**	**181,005**	**–**	**–**	**588,910**
Net income for the year	**2,074,077**	**2,320,923**	**(152,356)**	**(1,017,510)**	**3,225,134**
Net income attributable to equity holders of the parent	**2,074,077**	**2,169,039**	**(152,356)**	**(1,443,058)**	**2,647,757**
Other Information					
Investments in and advances to associates	**₱9,970,452**	**₱–**	**₱11,222**	**(₱9,903,657)**	**₱78,017**
Investments at FVPL	**–**	**155,705**	**–**	**–**	**155,705**
Investments at FVOCI	**4,764,540**	**746,827**	**–**	**(740,595)**	**4,770,772**
Total assets	**41,977,085**	**19,617,701**	**284,273**	**(19,387,973)**	**42,491,086**
Total liabilities	**17,085,830**	**1,713,648**	**373,843**	**(6,527,466)**	**12,645,855**
Capital expenditures	**20,883**	**45,683**	**–**	**–**	**66,566**
Depreciation and amortization	**(244,516)**	**(461,473)**	**(11,851)**	**123,539**	**(594,571)**

	2017				
	Real Estate Development and Property Management	Gaming and Gaming Related Activities	Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Earnings Information					
Revenue	₱3,830,857	₱5,153,439	₱–	(₱972,236)	₱8,012,060
Costs and expenses	(991,311)	(2,763,810)	(18,183)	310,739	(3,462,565)
Interest expense	(547,566)	(10,859)	–	54,760	(503,665)
Interest income	7,859	75,977	501	(54,760)	29,577
Other income	124,193	(108,332)	133,545	82,807	232,213
Income before income tax	2,424,032	2,346,415	115,863	(578,690)	4,307,620
Provision for income tax	(513,437)	(255,830)	(27,712)	–	(796,979)
Net income for the year	1,910,595	2,090,585	88,151	(578,690)	3,510,641
Net income attributable to equity holders of the parent	1,910,595	1,844,378	88,151	(970,712)	2,872,412
Other Information					
Investments in and advances to associates	10,066,626	–	–	(9,988,651)	77,975
Investments held for trading	2,101,183	178,483	–	–	2,279,666
Available-for-sale financial assets	2,469,306	1,248,688	–	(1,242,707)	2,475,287
Total assets	41,950,422	19,306,481	522,554	(18,045,764)	43,733,693
Total liabilities	15,864,760	1,653,711	459,768	(4,605,720)	13,372,519
Capital expenditures	97,346	156,789	–	(36,000)	218,135
Depreciation and amortization	(34,492)	(464,032)	(5,636)	122,938	(381,222)

	2016				
	Real Estate Development and Property Management	Gaming and Gaming Related Activities	Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Earnings Information					
Revenue	₱3,388,084	₱3,603,233	₱–	(₱669,809)	₱6,321,508
Costs and expenses	(784,930)	(2,130,972)	(4,005)	221,136	(2,698,771)
Interest expense	(371,721)	(12,750)	(4,139)	32,831	(355,779)
Interest income	14,463	14,314	5	–	28,782
Other income	657,331	(24,225)	63	46,850	680,019
Income before income tax	2,903,227	1,449,600	(8,076)	(368,992)	3,975,759
Provision for income tax	(597,035)	(282,601)	–	–	(879,636)
Net income for the year	2,306,192	1,166,999	(8,076)	(368,992)	3,096,123
Net income attributable to equity holders of the parent	2,306,192	968,750	(8,076)	(566,749)	2,700,117
Other Information					
Investments in and advances to associates	₱9,908,421	₱–	₱3,762,761	(₱13,593,279)	₱77,903
Investments held for trading	2,066,720	165,990	–	–	2,232,710
Available-for-sale financial assets	2,004,811	1,170,226	–	(1,148,093)	2,026,944
Total assets	40,927,293	17,481,494	3,995,540	(20,839,369)	41,564,958
Total liabilities	16,283,684	891,282	4,008,025	(7,361,815)	13,821,176
Capital expenditures	22,542	112,119	–	–	134,661
Depreciation and amortization	(35,094)	(496,032)	–	167,136	(363,990)

Revenues from a certain customer in the Company’s real estate development business and gaming revenue share - net amounting to ₱5,610.1 million, ₱4,869.2 million and ₱3,836.9 million for the years ended December 31, 2018, 2017 and 2016, respectively, are solely collectible from Melco while revenues from the Company’s gaming and other gaming-related activities amounting to ₱1,448.3 million, ₱1,840.5 million and ₱1,579.7 million for the year ended December 31, 2018, 2017 and 2016 are solely collectible from PCSO.

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

	2018	2017	2016
		(In Thousands)	
Revenues			
Total revenue for reportable segments	**₱9,818,768**	₱8,984,296	₱6,991,317
Elimination for intercompany revenue	**(1,303,756)**	(972,236)	(669,809)
Total consolidated revenues	**₱8,515,012**	₱8,012,060	₱6,321,508
Net Profit for the Year			
Total profit for reportable segments	**₱4,242,644**	₱4,089,331	₱3,465,116
Elimination for intercompany profits	**(1,017,510)**	(578,690)	(368,993)
Consolidated net profit	**₱3,225,134**	₱3,510,641	₱3,096,123
Assets			
Total assets for reportable segments	**₱37,486,591**	₱38,900,765	₱37,227,401
Investments in and advances to associates	**78,017**	77,975	77,903
Investments at FVOCI	**4,770,773**	2,475,287	2,026,944
Investments at FVPL	**155,705**	2,279,666	2,232,710
Total assets	**₱42,491,086**	₱43,733,693	₱41,564,958

	2018	2017	2016
		(In Thousands)	
Liabilities			
Total liabilities for reportable segments	**₱2,410,123**	₱2,311,826	₱1,609,374
Loans payable	**1,500,017**	2,500,017	2,000,017
Long-term debt	**6,002,431**	6,259,375	4,621,875
Deferred tax liabilities - net	**2,667,581**	2,220,559	1,742,187
Advances from related parties*	**65,703**	62,096	62,347
Estimated liability on construction costs	–	18,646	23,376
Nontrade liability	–	□	3,762,000
Total liabilities	**₱12,645,855**	₱13,372,519	₱13,821,176

**Presented under "Trade payables and other current liabilities" account in the consolidated statements of financial position.*

The Parent Company's Executive Committee, the chief operating decision maker of the Company, 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 operating profit or loss and is measured consistently with operating profit 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. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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.

Capital expenditures consist of additions of property and equipment and expenditures on investment properties.

Disaggregated revenue information

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

Type of service	**Real Estate Development and Property Management**	**Gaming and gaming related activities**	**Total**
		(In Thousands)	
Gaming revenue - share	₱–	₱3,211,857	₱3,211,857
Sale of real estate	670,527	–	670,527
Commission and distribution income	–	487,626	487,626
Revenue from property management	186,194	–	186,194
Revenue from contracts with customers	₱856,721	₱3,699,483	₱4,556,204

All revenue from contracts with customers pertains to revenue transferred over time.

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

Type of service	Real Estate Development and Property Management	Gaming and gaming related activities	Total
		(In Thousands)	
Revenue per segment reporting	₱4,518,820	₱5,299,948	₱9,818,768
Interest income on finance lease	(1,663,824)	–	(1,663,824)
Lease income	(724,431)	–	(724,431)
Other income	(95,327)	–	(95,327)
Dividend income	(22,030)	(4,966)	(26,996)
Equipment rental		(1,448,318)	(1,448,318)
Intracompany eliminated balances			
Dividend income	(1,102,575)	(38,473)	(1,141,048)
Other income	(53,912)	(108,708)	(162,620)
Total revenue from contracts with customers	₱856,721	₱3,699,483	₱4,556,204

8. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(In Thousands)	
Cash on hand and in banks	**₱2,448,886**	₱2,088,403
Cash equivalents	**204,831**	1,622,845
	₱2,653,717	₱3,711,248

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments which 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 investment rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱45.7 million, ₱29.6 million and ₱28.8 million in 2018, 2017 and 2016, respectively (see Note 34).

9. Financial Assets at Fair Value through Profit or Loss

This account consists of investments of the Parent Company in Tagaytay Midlands Golf Club, Inc. (TMGCI), The Country Club at Tagaytay Highlands, Inc. (Country Club), Tagaytay Highlands International Golf Club, Inc. (Tagaytay Highlands), and investments of POSC in shares of stock of Leisure and Resorts World Corporation (LRWC), Vantage Equities, Inc. and Philippine Long Distance Telephone Company.

Due to the adoption of PFRS 9, the Company classified its TMGCI, Country Club, and Tagaytay Highlands shares as Financial Assets at FVPL.

The movements in financial assets at FVPL in 2018 and 2017 are as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year, as previously presented	**₱2,279,666**	₱2,232,710
Reclassification to financial assets at FVOCI (see Notes 3 and 14)	**(2,101,183)**	–
Balance at beginning of year, as restated	**178,483**	2,232,710
Additions	–	17,034
Disposals	**(10,875)**	(37,783)
Unrealized marked-to-market gain (loss)	**(11,903)**	67,705
Balance at end of year	**₱155,705**	₱2,279,666

Dividend income realized from financial assets at FVPL amounted to ₱5.0 million, ₱5.7 million and ₱5.2 million in 2018, 2017 and 2016, respectively (see Note 27).

10. Receivables and Contract Assets

Receivables

This account consists of:

	2018	2017
	(In Thousands)	
Trade receivables:		
Leases (see Note 37)	**₱559,760**	₱353,877
Equipment rental and instant scratch ticket sales	**400,539**	492,662
Property management	**139,431**	125,503
Gaming revenue share receivable	**99,105**	183,875
Real estate sales	**98,144**	935,249
Accrued interest	**2,406**	750
Others	**274,309**	279,935
	1,573,694	2,371,851
Less allowance for doubtful accounts	**264,513**	276,067
	1,309,181	2,095,784
Less non-current portion of receivables from real estate sale	–	389,515
	₱1,309,181	₱1,706,269

- Trade receivables from real estate sales are noninterest-bearing and are generally collected in installment within 3 to 5 years.
- Trade receivables from equipment rentals and sales of instant scratch tickets, leases and property management are generally on a 30 to 60 days credit term.
- Gaming revenue share receivable is collectible on a 20 days credit term. This pertains to the Company’s receivable from Melco for the gaming revenue share in the operations of City of Dreams Manila.

- Other receivables pertain primarily to receivables from sale of land to third parties. These are noninterest-bearing and generally have 30 to 90 days term.

Movement in allowance for doubtful accounts is as follows:

	2018		
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at beginning of year	**₱103,383**	**₱172,684**	**₱276,067**
Write-off	**(6,750)**	**(4,804)**	**(11,554)**
Balance at end of year	**₱96,633**	**₱167,880**	**₱264,513**

	2017		
	Trade	Others	Total
		(In Thousands)	
Balance at beginning of year	₱107,440	₱172,684	₱280,124
Additions from acquisition of subsidiaries (see Note 18)	6,750	–	6,750
Provision (see Note 35)	7,704	–	7,704
Write-off	(18,511)	–	(18,511)
Balance at end of year	₱103,383	₱172,684	₱276,067

Contract Assets
This account in 2018 consists of:

	(in Thousands)
Current portion	₱417,164
Noncurrent portion	640,569
	₱1,057,733

As at December 31, 2018 and 2017, trade receivables and contract assets from real estate with nominal amount of ₱1,254.3 million and ₱1,010.8 million, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using applicable interest rates ranging from 3.29% to 19.75% and 3.85% to 13.95% in 2018 and 2017, respectively. The unamortized discount amounted to ₱98.4 million and ₱75.5 million as at December 31, 2018 and 2017, respectively. Amortization of discount on trade receivables from real estate, shown under “Other revenue” account in the consolidated statements of comprehensive income, amounted to ₱68.6 million, ₱56.3 million and ₱48.2 million in 2018, 2017 and 2016, respectively (see Note 27).

Movement of unamortized discount on trade receivables from real estate sales and contract assets are as follows:

	2018	2017
	(In Thousands)	
Contract assets at nominal amount	**₱1,156,115**	₱–
Trade receivables at nominal amount	**98,144**	1,010,751
	1,254,259	1,010,751
Less discount on trade receivables:		
Balance at beginning of year	**75,502**	56,574
Discount recognized during the year	**91,499**	75,225
Amortization during the year (see Note 27)	**(68,619)**	(56,297)
	98,382	75,502
Balance at end of year	**₱1,155,877**	₱935,249

11. **Real Estate for Sale and Land Held for Future Development**

These accounts, measured at cost, consist of:

	2018	2017
	(In Thousands)	
Land held for future development	**₱2,998,577**	₱3,099,166
Real estate for sale	**475,785**	643,265
	₱3,474,362	₱3,742,431

Real Estate for Sale
A summary of the movement in real estate for sale is set out below:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱643,265**	₱802,854
Cost of real estate sold (see Note 30)	**(363,568)**	(256,500)
Reclassifications from land held for future development	**118,329**	(5,527)
Construction/development costs incurred	**51,221**	53,072
Repossession	**26,538**	49,366
Balance at end of year	**₱475,785**	₱643,265

Land Held for Future Development
A summary of the movement in land held for development in 2018 and 2017 is set out below:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱3,099,166**	₱3,092,399
Land acquired/additional costs during the year	**33,764**	1,240
Reclassifications to inventories	**(118,329)**	5,527
Other adjustments	**(16,024)**	–
Balance at end of year	**₱2,998,577**	₱3,099,166

Land held for future development consists of properties in Tagaytay City, Batangas and Cavite. It includes certain parcels of land with a carrying value amounting to ₱946.1 million and ₱931.2 million as at December 31, 2018 and 2017, respectively, which are already in the Company's possession but are not yet fully paid pending the transfer of certificates of title to the Company. Outstanding payable related to the acquisition shown under "Trade and other current liabilities" account in the consolidated statements of financial position amounted to ₱183.6 million and ₱177.3 million as at December 31, 2018 and 2017, respectively (see Note 20).

In 2018, in compliance with PIC Q&A 2018-11, the Company's land held for future development qualifies as inventory. There was no change in the accounting policy adopted by the Company. However, the Company changed its classification of land held for future development from noncurrent asset to current asset to be aligned with its accounting policy (i.e., inventory). Accordingly, the prior year balance of land held for future development account was reclassified to current asset to be aligned with current period's presentation (see Note 3). The reclassification increased total current assets and decreased total noncurrent assets as at December 31, 2017 by ₱3,099.2 million. The reclassification did not have impact on consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows. The reclassification has also no impact on the Company's basic/diluted earnings per share.

12. **Other Current Assets**

This account consists of:

	2018	2017
	(In Thousands)	
Creditable withholding tax - net of allowance for probable loss of ₱4.3 million in 2018 and 2017	**₱842,344**	₱659,793
Input VAT - net of allowance for probable loss of ₱0.1 million in 2018 and 2017	**435,619**	361,593
Prepaid expenses and others	**219,844**	177,451
Spare parts and supplies - net of allowance for decline in value of ₱3.8 million in 2018 and 2017	**63,953**	65,729
Advances to contractors and suppliers - net of allowance for doubtful accounts of ₱14.9 million in 2018 and 2017	**190,895**	54,740
Deposits (see Note 40)	**10,000**	27,955
Advances to officers and employees - net of allowance for doubtful accounts of ₱3.5 million in 2018 and 2017	**402**	702
	₱1,763,057	₱1,347,963

- Creditable withholding tax pertains to the withholding tax related to the goods sold and services rendered by the Company.

- Input VAT pertains to the VAT arising from the construction of the investment properties and land under development.

- Prepaid expenses and others pertain to various prepaid expenses such as insurance, commission, subscription and refundable deposits for various contracts.

- Advances to contractors and suppliers are noninterest-bearing and are expected to be applied against future billings.

- Advances to officers and employees are noninterest-bearing and are normally liquidated within a year.

In 2017, the Company sold other current assets resulting to gain amounting to ₱85.7 million (see Note 35).

In 2017, the Company wrote-off input VAT amounting to ₱25.0 million (see Note 35).

13. **Investments in and Advances to Associates** - net

This account consists of investments in APC Group, Inc., an entity incorporated in the Philippines, where the Company has an effective interest of 48.8%:

	2018	2017
	(In Thousands)	
Investments in associates - net of impairment in value of ₱354.0 million in 2018 and 2017	**₱123,351**	₱123,351
Subscription payable	**(45,928)**	(45,928)
Advances to associates - net of allowance for doubtful accounts of ₱120.3 million in 2018 and 2017 (see Note 39)	**594**	552
	₱78,017	₱77,975

In April 2016, the Parent Company sold Woodland Development Corporation for a consideration of ₱9.6 million resulting to a gain amounting to ₱5.6 million (see Note 35).

Investments in associates as of December 31, 2018 and 2017 consist of:

	(In Thousands)
Acquisition cost	₱5,716,536
Accumulated equity in net losses	(5,250,726)
Accumulated share in unrealized gain on AFS financial assets of associates - Balance at beginning and end of year	14,061
Total	479,871
Allowance for impairment in value:	(354,019)
Equity in cost of Parent Company common shares held by associates	(2,501)
	₱123,351

Fair values of investment in APC, which is publicly listed in the Philippine stock exchange, amounted to ₱1,417.5 million and ₱1,680.0 million as at December 31, 2018 and 2017, respectively. Fair values were determined by reference to quoted market price at the close of business as at reporting date.

Allowance for Doubtful Accounts of Advances to Associates
Allowance for doubtful accounts on advances to associates amounted to ₱120.3 million as at December 31, 2018 and 2017.

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

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

These accounts consist of:

	2018	2017
	(In Thousands)	
Shares of stock:		
Quoted	**₱2,257,121**	₱2,365,728
Unquoted	**851**	839
Club shares	**2,512,800**	108,720
	₱4,770,772	₱2,475,287

The Company has a Development Agreement (DA) with TMGCI for the construction and development of a 36-hole golf course which was amended on December 15, 1999. The terms of the amended DA call for as many subscriptions as there are shares, such that the club shares issued by TMGCI to the Company as the development progresses were in proportion to pre-agreed amount of development cost, inclusive of the initial capital contribution.

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

	(In Thousands)
Cost	
Balance at beginning of year, as previously presented	₱–
Reclassification from AFS financial assets	1,133,184
Reclassification from investments held for trading (see Notes 3 and 9)	2,649,181
Balance at beginning of year, as restated	3,782,365
Additions	15,350
Disposals	(74,167)
Balance at end of year	3,723,548
Cumulative unrealized gain (loss) on financial assets at FVOCI	
Balance at beginning of year, as previously presented	–
Reclassification from AFS financial assets	1,365,458
Reclassification from investments held for trading (see Notes 3 and 9)	(547,998)
Reclassification of impairment loss on AFS financial assets previously charged to retained earnings	(23,355)
Balance at beginning of year, as restated	794,105
Unrealized gain during the year	283,020
Realized gain on disposal during the year	(29,901)
Balance at end of year	1,047,224
	₱4,770,772

Dividend income earned from financial assets at FVOCI amounted to ₱22.0 million in 2018 (see Note 27).

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

	(In Thousands)
Cost	
Balance at beginning of year	₱1,213,361
Disposals for the year	(80,177)
Balance at end of year	1,133,184
Cumulative unrealized gain on AFS financial assets	
Balance at beginning of year	836,938
Unrealized gain during the year	605,066
Realized loss transferred to profit or loss	(76,546)
Balance at end of year	1,365,458
Accumulated impairment loss	
Balance at beginning and end of year	(23,355)
	₱2,475,287

Dividend income earned from AFS financial assets amounted to ₱17.1 million and ₱23.2 million in 2017 and 2016, respectively (see Note 27).

Gain from sale of AFS investments amounted to ₱76.5 million and ₱351.7 million in 2017 and 2016, respectively (see Note 35).

15. **Investment Properties**

Movements in investment properties are as follows:

	2018		
	Land	**Building**	**Total**
		(In Thousands)	
Cost			
Balance at beginning of year	**₱1,869,025**	**₱–**	**₱1,869,025**
Reclassification (see Note 37)	–	**18,342,299**	**18,342,299**
Balance at end of year	**1,869,025**	**18,342,299**	**20,211,324**
Accumulated depreciation			
Balance at beginning of year	–	–	–
Depreciation (see Note 31)	–	**116,481**	**116,481**
Balance at end of year	–	**116,481**	**116,481**
	₱1,869,025	**₱18,225,818**	**₱20,094,843**

2017	
	Land
	(In Thousands)
Cost	
Balance at beginning of year	₱1,540,961
Addition	328,064
Balance at end of year	₱1,869,025

Related liability on construction costs amounted to nil and ₱18.6 million as at December 31, 2018 and 2017, respectively.

On October 14, 2018, Melco converted a portion of the leased parking spaces to a food and entertainment area. Consequently, the change in the usage of leased premises prompted the Company to reassess its lease accounting of the City of Dreams Manila building. After considering the impact of the changes introduced by the change in usage of leased premises, the Company changed its lease accounting from finance lease to operating lease effective October 14, 2018. As part of the Company's accounting policy, the balance of finance lease receivables as of the date of change amounting to ₱18,342.3 million was reclassified to "Investment property" account, and was considered as the cost of the City of Dreams Manila building.

The fair value of investment properties as at January 18, 2018 and August 2, 2018 are higher than its carrying value as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on income approach for the building and sales comparison approach for the land. 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.

In determining the fair value of the investment properties, the independent appraisers considered the neighborhood data, community facilities and utilities, land data, sales prices of similar or substitute properties and the highest and best use of investment properties. The Company assessed that the highest and best use of its properties does not differ from their current use.

The Company believes that same conditions were present as at date of valuation and as at December 31, 2018.

Rent income generated from investment properties amounted to ₱724.4 million in 2018 and ₱190.0 million in 2017 and 2016. Direct cost related to the investment properties amounted to ₱341.6 million, ₱196.8 million and ₱209.4 million in 2018, 2017 and 2016, respectively (see Note 31).

16. Property and Equipment

The movements of this account is as follows:

2018	Lottery Equipment	Land and Leasehold Improvements	Machinery and Equipment	Condominium Units and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Construction-in-progress	Total
	(In Thousands)							
Cost								
Balance at beginning of year	₱1,204,933	₱296,073	₱279,743	₱248,167	₱62,878	₱182,876	₱92,443	₱2,367,113
Additions	13,502	8,324	9,544	1,110	13,889	16,138	4,061	66,568
Reclassification	–	95,374	–	–	–	–	(95,374)	–
Disposal	(301,540)	(7,443)	–	(5,010)	(14,157)	(7,896)	–	(336,046)
Balance at end of year	916,895	392,328	289,287	244,267	62,610	191,118	1,130	2,097,635
Accumulated Depreciation, Amortization and Impairment Loss								
Balance at beginning of year	880,722	284,978	213,268	208,633	18,954	112,114	–	1,718,669
Depreciation and amortization for the year (see Notes 28, 32 and 33)	176,628	100,408	10,789	13,884	16,876	31,821	–	350,406
Disposal	(301,374)	(7,443)	(4,915)	–	(13,757)	(7,890)	–	(335,379)
Balance at end of year	755,976	377,943	219,142	222,517	22,073	136,045	–	1,733,696
Net Book Value	₱160,919	₱14,385	₱70,145	₱21,750	₱40,537	₱55,073	₱1,130	₱363,939

2017	Lottery Equipment	Land and Leasehold Improvements	Machinery and Equipment	Condominium Units and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Construction-in-progress	Total
	(In Thousands)							
Cost								
Balance at beginning of year	₱1,138,331	₱288,247	₱254,393	₱248,089	₱69,570	₱169,011	₱87,279	₱2,254,920
Additions from acquisition of subsidiaries (see Note 18)	–	4,358	–	–	–	24,307	–	28,665
Additions	116,251	3,468	20,267	78	17,540	22,220	10,247	190,071
Reclassification	–	–	5,083	–	–	–	(5,083)	–
Disposal	(49,649)	–	–	–	(24,232)	(32,662)	–	(106,543)
Balance at end of year	1,204,933	296,073	279,743	248,167	62,878	182,876	92,443	2,367,113
Accumulated Depreciation, Amortization and Impairment Loss								
Balance at beginning of year	755,875	271,681	198,672	197,349	27,179	113,786	–	1,564,542
Depreciation and amortization for the year (see Notes 28, 32 and 33)	174,496	13,297	14,596	11,284	15,112	30,967	–	259,752
Disposal	(49,649)	–	–	–	(23,337)	(32,639)	–	(105,625)
Balance at end of year	880,722	284,978	213,268	208,633	18,954	112,114	–	1,718,669
Net Book Value	₱324,211	₱11,095	₱66,475	₱39,534	₱43,924	₱70,762	₱92,443	₱648,444

Allowance for impairment loss on property and equipment amounted to ₱186.3 million as at December 31, 2018 and 2017.

Carrying amount of equipment under finance lease are included as part of "Lottery equipment" under "Property and equipment" account with carrying amount of 30.9 million and 103.7 million as at December 31, 2018 and 2017, respectively (see Note 37).

The cost of fully depreciated property and equipment which are still being used amounted to ₱1,173.8 million and ₱1,184.9 million as at December 31, 2018 and 2017, respectively. The Company has no idle assets as at December 31, 2018 and 2017.

17. Intangible Asset

Intangible asset includes the gaming license granted by PAGCOR for which PLAI is a co-licensee to operate integrated resorts, including casinos. On April 29, 2015, PAGCOR granted the Regular Gaming License ("License"), which has the same terms and conditions of the provisional license. The License runs concurrent with PAGCOR's Congressional Franchise, set to expire in 2033, renewable for another 25 years by the Philippine Congress.

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

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

The movements in intangible asset are as follows:

	2018	2017
	(In Thousands)	
Cost		
Balance at beginning of year	**₱5,571,186**	₱5,261,186
Additions	**–**	310,000
Write-off (see Note 35)	**(310,000)**	–
Balance at end of year	**5,261,186**	5,571,186
Accumulated Amortization		
Balance at beginning of year	**569,949**	448,479
Amortization (see Notes 29 and 33)	**127,685**	121,470
Write-off (see Note 35)	**(17,488)**	–
Balance at end of year	**680,146**	569,949
	₱4,581,040	₱5,001,237

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

18. Goodwill and Business Combination

Goodwill acquired from business combinations as at December 31, 2018 and 2017 consist of:

	2018	2017
	(In Thousands)	
Acquisition of:		
POSC	**₱1,717,644**	₱1,717,644
FRI	**110,934**	110,934
LCC subsidiaries	**3,683**	3,683
	1,832,261	1,832,261
Allowance for impairment (see Note 35)	**(110,934)**	–
	₱1,721,327	₱1,832,261

Movements in this account are as follow:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱1,832,261**	₱1,828,578
Additions	**–**	3,683
Impairment (see Note 35)	**(110,934)**	–
Balance at end of year	**₱1,721,327**	₱1,832,261

The goodwill from the acquisitions have been subjected to the annual impairment review in 2018 and 2017. The recoverable amounts of the operations have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management. The cash flow projections cover five years.

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

Key Assumptions Used in Value in Use Calculations
The calculation of value in use for the cash-generating units are most sensitive to the following assumptions explained as follows:

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

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

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

FRI
The recoverable amount of goodwill from the acquisition of FRI by TGTI was determined based on value-in-use calculations using actual past results and observable market data such as growth rates, operating margins, among others.

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

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

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

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable WACC. The discount rate applied to pretax cash flow projections was 10.2% and 3.0% for the terminal growth rate.

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

Finalization of Goodwill on Acquisition of LCC Subsidiaries

On July 1, 2017, LCC acquired 100% ownership interest in nine entities (see Note 2). Based on management's judgment, the acquisition is assessed to be an acquisition of a business. The provisional fair values of the assets and liabilities of the nine entities acquired, total consideration and provisional goodwill as at July 1, 2017 are as follows:

	(In Thousands)	
Total consideration:		
Purchase price of shares	₱10,250	
Receivables in the acquired entities	144,613	
Payables to the acquired entities	(60,000)	₱94,863
Total assets acquired:		
Cash and cash equivalents	76,695	
Receivables (net of allowance for doubtful accounts amounting to ₱6.8 million)	7,114	
Other current assets	24,874	
Property and equipment (see Note 16)	28,665	
Other noncurrent assets	23,491	160,839
Less liabilities assumed:		
Trade payables and other current liabilities	62,816	
Pension liability (see Note 38)	616	
Income tax payable	6,227	69,659
Goodwill		₱3,683

Net cash flows on acquisition is as follows :

	(In Thousands)
Cash acquired from subsidiaries	₱76,695
Cash paid on acquisition	(10,250)
	₱66,445

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.

The goodwill represents the value of expected synergies arising from the acquisition. None of the goodwill recognized is 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 on January 1, 2017, revenue from continuing operations would have increased by ₱276.2 million and its income before tax would have decreased by ₱27.4 million, for the year ended December 31, 2017.

19. Other Noncurrent Assets

This account consists of:

	2018	2017
	(In Thousands)	
Deferred input VAT	**₱235,510**	₱434,439
Guarantee bonds (see Notes 40 and 43)	**42,000**	35,000
Refundable deposits and construction bond (see Notes 37 and 43)	**22,315**	23,074
Others	**150,848**	47,824
	₱450,673	₱540,337

20. Trade and Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Trade	**₱424,693**	₱478,079
Accrued expenses:		
Project cost accrual	**75,165**	70,304
Interest	**34,089**	29,038
Professional and management fees	**28,934**	1,200
Rent	**9,561**	37,943
Land transfer fees	**8,682**	5,279
Selling	**5,340**	6,941
Salaries	**3,900**	3,331
Others	**1,064,519**	433,489
Payables pertaining to land acquisitions (see Note 11)	**183,582**	177,291
Customers' deposits	**85,535**	129,654
Consultancy, software and license and management fees payable (see Note 40)	**37,585**	85,722
Withholding and output tax payable	**18,799**	124,904
Advances from related parties (see Note 39)	**65,703**	62,095
Unearned income	–	268,864
Refundable deposit and others	**64,056**	97,049
	₱2,110,143	₱2,011,183

- Trade payables are non-interest bearing with an average term of 90 days.

- Accrued expenses and other expenses pertain to accruals for land transfer fees, professional and management fees, selling, interest, salaries, communication, rent and utilities and other expenses which are normally settled with an average term of 30 to 90 days. Accrued expenses also includes provisions. 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 gaming revenue share in the following financial year.

- Payables pertaining to land acquisitions represent unpaid purchase price of land acquired from various land owners (see Note 11). These are noninterest-bearing and are due and demandable.

- Customers' deposits pertain to collections received from buyers for projects with pending recognition of sale.

- Refer to Note 40 for the terms of the consultancy, software and license fees and management fees payable.

21. Loans Payable

Loans payable represents unsecured peso-denominated loans obtained from local banks with interest of 3.25% to 5.50% in 2018 and 3.25% in 2017. Loans payable have historically been renewed or rolled-over.

The carrying amount of outstanding loans payable amounted to ₱1,500.0 million and ₱2,500.0 million as at December 31, 2018 and 2017, respectively.

Interest expense on loans payable charged to operations amounted to ₱96.3 million, ₱90.1 million and ₱51.2 million in 2018, 2017 and 2016 respectively (see Note 34).

22. Other Noncurrent Liabilities

This account consists of the following:

	2018	2017
	(In Thousands)	
Deferred lease income	**₱158,427**	₱115,598
Refundable deposits	**153,422**	115,979
Contract liabilities	**464**	–
Installment payable	–	2,763
	₱312,313	₱234,340

Deferred lease income is recognized initially as the difference between the principal amount and present value of refundable deposits at the lease inception date and subsequently amortized on a straight-line basis over the lease term.

23. **Long-term Debt**

This account consists of the following:

	2018	2017
	(In Thousands)	
Loans	**₱6,002,430**	₱6,259,375
Current portion of long-term debt	**(2,091,319)**	(1,056,944)
Noncurrent long-term debt	**₱3,911,111**	₱5,202,431

Maybank Philippines, Inc. (Maybank)
On June 30, 2014, Belle obtained an unsecured five-year term loan from Maybank in the amount of ₱1,000.0 million for the purpose of financing the construction of Phase 1 City of Dreams Manila. The five-year term loan shall be availed within one year from the signing of the loan agreement and bears an interest floater rate based on applicable 90-days Philippine Dealing System Treasury Reference Rate-Fixing ("PDST-F") plus spread and fixed rate based on 5-year PDST-F plus spread. During the term of the loan, Belle agrees not to sell, lease, dispose any of its assets on the City of Dreams Manila without prior written consent from Maybank and comply with the following financial covenants: minimum current ratio of 1.0x and maximum debt to equity ratio of 2.0x. Amounts of ₱150.0 million, ₱100.0 million and ₱750.0 million were drawn from the facility on August 26, 2014, September 22, 2014 and December 11, 2015, respectively. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱196.9 million and ₱459.4 million, respectively.

On May 26, 2017, Belle obtained an unsecured five-year term loan from Maybank in the amount of ₱500.0 million for the purpose of financing the Termination Agreement (see Note 24). The five-year term loan shall be availed within ninety days from the signing of the loan agreement and bears an fixed interest rate based on applicable 5-year Philippine Dealing System Treasury Reference Rate-R2 ("PDST-R2") plus spread or Bangko Sentral ng Pilipinas (BSP) Overnight Borrowing rate plus spread, whichever is higher. During the term of the loan, Belle should comply with the following financial covenants: minimum current ratio of 1.0x and maximum debt to equity ratio of 2.0x. On June 23, 2017, ₱500.0 million was drawn from the facility. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱388.9 million and ₱500.0 million, respectively.

Rizal Commercial Banking Corporation (RCBC)
On June 9, 2014, Belle obtained an unsecured five-year term loan, reckoned from the date of the initial drawdown, from RCBC in the amount of ₱1,500.0 million for the purpose of financing the construction of real estate developments projects in Tagaytay Highlands and Tagaytay Midlands area and conversion and titling costs of raw lands. The five-year term loan bears a floor rate interest 5.5% plus spread. During the term of the loan, Belle should comply with the following financial covenants: minimum current ratio of 1.3x and maximum debt to equity ratio of 2.0x. Amounts of ₱400.0 million, ₱200.0 million and ₱900.0 million were drawn on July 9, 2014, September 30, 2014 and November 12, 2014, respectively. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱1,200.0 million and ₱1,300.0 million, respectively.

United Coconut Planters Bank (UCPB)
On February 11, 2015, Belle obtained an unsecured four-year term loan from UCPB in the amount of ₱1,000.0 million for the purpose of financing the construction of City of Dreams Manila. The term loan bears a fixed rate of 6.25% per annum. During the term of the loan, Belle agrees not to make investments in, or enter into any other business substantially different from the business in which the Belle is presently engaged, or make capital investments in excess of two percent (2%) of the consolidated stockholder's equity as at end of the last fiscal year, except for the total capital expenditures for City of Dreams project in the amount not exceeding ₱4,000.0 million, and those

allocated for the real estate development projects. During the term of the loan, Belle should comply with the following financial covenants: minimum current ratio of 1.3x and maximum net debt to equity ratio of 2.0x. Amounts of ₱500.0 million and ₱500.0 million were drawn on February 23, 2015 and December 29, 2015, respectively. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱416.7 million and ₱750.0 million, respectively.

EastWest Bank (EWB)
On January 30, 2015, Belle obtained an unsecured five-year term loan from EWB in the amount of ₱1,500.0 million for the purpose of financing its capital expenditures. The term loan bears a fixed rate of 5.75% per annum. During the term of the loan, Belle should comply with the following financial covenants: minimum current ratio of 1.0x and maximum debt to equity ratio of 3.0x. On January 30, 2015, ₱1,500.0 million was drawn from the facility. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱1,000.0 million and ₱1,250.0 million, respectively.

Robinsons Bank
On February 28, 2017 and March 27, 2017, Belle availed ₱1,000.0 million and ₱1,000.0 million, respectively, from its ₱2,000.0 million facility. These are unsecured five-year term loan with annual interest fixed rate based on applicable 5-year PDST-R2 plus spread. Belle should comply with the following financial covenants: minimum current ratio of 1.0x and maximum debt to equity ratio of 3.0x. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱2,000.0 million.

BDO Unibank, Inc.
On March 6, 2018, Belle availed ₱3,000.0 million facility for the purpose of refinancing the Company's short term loans with other banks and other general funding requirements. The seven-year term loan shall be availed within six months from the signing of the loan agreement. On September 12, 2018, ₱500.0 million was drawn from the facility. The seven-year term loan is unsecured and bears an interest rate of 4.9515% per annum fixed for 90 days, to be repriced every 30 to 180 days as agreed by parties. During the term of the loan, Belle should comply with the following financial covenants: minimum current ratio of 1.0x and maximum debt to equity ratio of 2.0x. Outstanding balance of the loan as at December 31, 2018 amounted to ₱800.0 million.

Covenants. The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As at December 31, 2018 and 2017, the Parent Company is in compliance with the terms of its loan covenants.

Repayment Schedule
The repayment schedules of long-term debt are as follows:

	2018	2017
	(In Thousands)	
2018	**₱–**	1,056,944
2019	**2,091,319**	2,091,320
2020	**944,444**	944,444
2021	**111,111**	111,111
2022	**2,055,556**	2,055,556
2023	**8,000**	–
2024	**8,000**	–
2025	**784,000**	–
	₱6,002,430	₱6,259,375

Interest expense on the loans from long-term debt amounted to ₱346.7 million, ₱344.7 million and ₱260.4 million in 2018, 2017 and 2016, respectively (see Note 34).

24. **Nontrade Liability**

On May 20, 2013, Belle, PLAI, BGRHI, AB Leisure Global, Inc. (ABLGI) and LRWC (the Parties) entered into a Memorandum of Agreement (MOA), whereby Belle and PLAI have agreed to grant ABLGI the right to a settlement amount ("Settlement") in consideration of the waiver of ABLGI's rights as casino operator, the termination of ABLGI agreements and the grant of advances of ₱4,000.0 million (ABLGI advance) as funding for the construction of the casino integrated resort building.

In December 2014, the implementing agreement has been executed with effectivity of terms and conditions retrospective January 1, 2014. The ₱4,000.0 million ABLGI advance was determined as the fair value of ABLGI's Settlement. In 2015, ABLGI advanced additional ₱780.0 million. Such liability shall be accreted over the term of the liability using the EIR method.

On November 3, 2016, the Parties executed a Termination Agreement, whereby the Parties have agreed to terminate and dissolve the MOA and implementing agreement effective March 31, 2017. Under the Termination Agreement, the Parent Company will pay ABLGI a sum of ₱4,780.0 million to terminate the obligation stated under the MOA. Of the total consideration, ₱1,018.0 million was paid upon execution of the Termination Agreement and the balance to be paid simultaneously upon effectivity of the Termination Agreement. Unless and until full payment of the remaining obligation, LRWC/ABLGI shall continue to be entitled to its rights under the MOA. The new terms of the Termination Agreement warrant derecognition of the old liability and recognition of a new one since there is a substantial modification on the agreement. This termination resulted to a gain amounting to ₱634.8 million in 2016 presented as part of "Other income" in the consolidated statements of comprehensive income (see Note 35). On March 31, 2017, Belle paid the remaining balance of the nontrade liability.

The interest component of the ABLGI advance amounting to ₱455.2 million was recognized as "Accretion of nontrade liability" in the consolidated statements of comprehensive income in 2016. Payment made to ABLGI amounted ₱335.5 million in 2016.

Interest expense on the nontrade liability amounted to nil, ₱38.1 million and ₱27.3 million in 2018, 2017 and 2016, respectively (see Note 34).

25. **Equity**

Preferred Stock

As at December 31, 2018 and 2017, the Company has not issued any preferred stock out of the authorized 6,000,000,000 shares with a ₱1 par value. Under the provisions of the Company's articles of incorporation, the rights and features of the preferred stock shall be determined through a resolution of the BOD prior to issuance.

Common Stock

As at December 31, 2018 and 2017, the authorized common stock of the Company is 14,000,000,000 shares with a ₱1 par value. The movement in outstanding common stock at the beginning and end of year is as follows:

	Number of Shares		
	Issued	Treasury	Outstanding
Balance, as at December 31, 2016	10,560,999,857	(62,320,000)	10,498,679,857
Acquisition during the year	–	–	–
Balance, as at December 31, 2017	10,560,999,857	(62,320,000)	10,498,679,857
Acquisition during the year	–	(735,553,560)	(735,553,560)
Balance, as at December 31, 2018	10,560,999,857	(797,873,560)	9,763,126,297

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
August 20, 1973	6,000,000,000	6,000,000,000	₱0.01
March 19, 1976	2,000,000,000	464,900,000	0.01
December 7, 1990	–	920,000,000	0.01
1990	–	833,500,000	0.01
October 19, 1990	(7,000,000,000)	(8,136,216,000)	1.00
June 18, 1991	–	3,381,840	1.00
1991	–	47,435,860	1.00
1992	–	11,005,500	1.00
December 7, 1993	–	473,550,000	1.00
1993	–	95,573,400	1.00
January 24, 1994	–	100,000,000	1.00
August 3, 1994	–	2,057,948	7.00
August 3, 1994	–	960,375	10.00
June 6, 1995	–	138,257,863	1.00
February 14, 1995	1,000,000,000	–	1.00
March 8, 1995	–	312,068,408	1.00
March 17, 1995	2,000,000,000	–	1.00
March 28, 1995	–	627,068,412	1.00
July 5, 1995	–	78,060,262	1.00
September 1, 1995	–	100,000,000	1.00
March 1, 1995	–	94,857,072	1.00
September 13, 1995	–	103,423,030	1.00
1995	–	123,990,631	1.00
1996	–	386,225,990	1.00
February 21, 1997	10,000,000,000	–	1.00
1997	–	57,493,686	1.00
1998	–	36,325,586	1.00
March 19, 1999	–	16,600,000	1.00
April 26, 1999	–	450,000,000	1.00
April 27, 1999	–	300,000,000	1.00
1999	–	306,109,896	1.00
2000	–	2,266,666	1.00
2001	–	2,402,003,117	1.00
April 14, 2011	–	2,700,000,000	1.95
July 18, 2011	–	119,869,990	3.00
July 18, 2011	–	1,388,613,267	3.00
October 6, 2015	–	1,617,058	1.00
	14,000,000,000	10,560,999,857	

In a special meeting on November 18, 1989, the stockholders approved the increase in par value of capital stock from ₱0.01 to ₱1.00 and the decrease in the number of shares of authorized from 8.0 billion to 1.0 billion common shares. The resulting increase in par and reduction in the number of shares was approved by the Philippine SEC on October 19, 1990.

On February 14, 1995, the SEC approved the increase in authorized capital stock from 1.0 billion shares with a par value of ₱1.00 to 2.0 billion shares with the same par value. Subsequently, on March 17, 1995, the SEC approved another increase in authorized capital stock from 2.0 billion shares to 4.0 billion shares with the same par value.

On February 21, 1997, the SEC approved the increase in the authorized capital stock from 4.0 billion shares at a par value of ₱1.00 per share to 20.0 billion shares divided into 6.0 billion preferred shares and 14 billion common shares, both at ₱1.00 par value.

The Parent Company declared stock dividends in 1991 and 1995.

Additional paid-in capital
This pertains to paid-in subscriptions in excess of par value.

Treasury Shares
In 2018, the Parent Company repurchased a total of 735,553,560 Parent Company common shares at a total cost amounting to ₱2,295.5 million. The total number of treasury shares held total to 797,873,560 shares with a cost amounting to ₱2,476.7 million as at December 31, 2018 and 62,320,000 shares as at December 31, 2017 and 2016 with a cost amounting to ₱181.2 million.

Cost of Parent Company Common Shares Held by Subsidiaries
As at December 31, 2018 and 2017, Parallax, SLW, PLC, POSC collectively hold Parent Company common shares totaling 319,041,183 and 318,941,183, with cost of ₱1,695.4 million and ₱1,585.3 million, respectively. These are presented as “Cost of Parent Company common shares held by subsidiaries” account in the consolidated statements of financial position.

Non-controlling Interests
In 2017, subsidiaries of the Parent Company acquired interest in fellow subsidiaries. This was accounted for as equity transaction with a corresponding adjustment to non-controlling interest.

Acquisition of non-controlling interests related to these transactions amounted to ₱36.6 million in 2017.

Retained Earnings
The consolidated retained earnings as at December 31, 2018 and 2017 includes the earnings of the subsidiaries and associates which are not currently available for dividend declaration unless declared by the subsidiaries and associates of the Parent Company. The Parent Company’s retained earnings available for dividend declaration, computed based on the regulatory requirements of SEC, amounted to ₱3,024.2 million and ₱4,311.0 million as at December 31, 2018 and 2017, respectively.

Dividends
On February 29, 2016, the Parent Company’s BOD approved the declaration of cash dividends of nine-and-a-half centavos (₱0.095) per share, totaling ₱1,003.3 million. The record date to determine the shareholders entitled to receive the cash dividends was set to March 14, 2016 with the payment made on March 29, 2016. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱33.9 million.

On February 28, 2017, the Parent Company's BOD approved the declaration of cash dividends of nine-and-a-half centavos (₱0.095) per share, totaling ₱997.4 million. The record date to determine the shareholders entitled to receive the cash dividends was set to March 14, 2017 with the payment made on March 30, 2017. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱29.7 million.

On February 23, 2018, the Parent Company's BOD approved the declaration of cash dividends of Twelve Centavos (₱0.012) per share, totaling ₱1,267.3 million. The record date to determine the shareholders entitled to receive the cash dividends was set to March 9, 2018 with the payment made on March 23, 2018.

26. Gaming Revenue Share - net

Gaming revenue share is determined as follows:

	2018	2017	2016
		(In Thousands)	
Gaming revenue share - gross	**₱7,551,166**	₱6,119,061	₱2,171,573
Less PAGCOR license fee paid by Melco	**4,339,309**	3,509,708	528,597
Gaming revenue share - net	**₱3,211,857**	₱2,609,353	₱1,642,976

27. Other Revenue

This account consists of:

	2018	2017	2016
		(In Thousands)	
Amortization of discount on trade receivables (see Note 10)	**₱68,619**	₱56,297	₱48,204
Dividend income (see Notes 9 and 14)	**26,998**	22,794	28,371
Gain on sale of model unit	**8,093**	–	–
Income from playing rights	**7,321**	7,352	4,295
Income from forfeitures	**1,953**	5,419	13,750
Penalty	**805**	2,395	2,624
Gain on sale of club shares	–	11,610	13,533
Others	**8,446**	4,379	8,353
	₱122,235	₱110,246	₱119,130

Income from forfeitures represents deposits, and to a certain extent, installment payments from customers forfeited in the event of default and/or cancellations of real estate sales.

Penalty pertains to income from surcharges for buyers' default and late payments. Income is recognized when penalty is actually collected.

Others pertain to revenues from sale of scrap supplies and various administrative fees, such as utilities charges and payroll processing fees, during the year.

28. **Cost of Lottery Services**

This account consists of:

	2018	2017	2016
		(In Thousands)	
Online lottery system expenses	**₱237,205**	₱193,378	₱122,173
Depreciation and amortization (see Note 16)	**199,847**	194,986	138,892
Software and license fees (see Note 40)	**195,747**	191,656	186,644
Rental and utilities	**159,012**	62,976	23,800
Operating supplies	**150,146**	205,297	183,151
Personnel costs	**139,907**	127,100	48,684
Communication fees	**112,114**	113,335	95,692
Consultancy fees (see Note 40)	**74,978**	135,425	122,801
Others	**1,204**	14,289	9,426
	₱1,270,160	₱1,238,442	₱931,263

29. **Cost of Gaming Operations**

This account consists of:

	2018	2017	2016
		(In Thousands)	
Amortization of intangible asset (Note 17)	**₱115,834**	₱115,834	₱157,634
Consultancy fees (Note 40)	**35,102**	78,764	221,814
Payroll-related expenses	**11,117**	11,536	11,073
Marketing expenses (Note 39)	**8,400**	20,702	20,160
Transportation and travel	**4,138**	4,780	2,796
Representation and entertainment	**3,673**	3,014	3,030
	₱178,264	₱234,630	₱416,507

30. **Cost of Real Estate Sold**

The cost of real estate sold amounted to ₱363.6 million, ₱256.5 million and ₱120.5 million in 2018, 2017 and 2016, respectively.

31. Cost of Lease Income

This account consists of:

	2018	2017	2016
		(In Thousands)	
Taxes	**₱137,555**	₱135,641	₱136,987
Depreciation and amortization (see Note 15)	**116,481**	–	–
Rental (see Note 37)	**48,873**	42,530	46,403
Insurance	**38,556**	18,660	26,001
Maintenance	**135**	–	–
	₱341,600	₱196,831	₱209,391

32. Cost of Services for Property Management

This account consists of:

	2018	2017	2016
		(In Thousands)	
Power and maintenance	**₱69,199**	₱15,074	₱2,984
Water services	**65,761**	53,833	60,829
	₱134,960	₱68,907	₱63,813

The cost of services for property management includes depreciation and amortization amounting to ₱16.9 million, ₱15.2 million and ₱13.0 million in 2018, 2017 in 2016, respectively (see Note 16).

33. General and Administrative Expenses

This account consists of:

	2018	2017	2016
		(In Thousands)	
Personnel costs (see Note 38)	**₱249,630**	₱224,379	₱198,280
Security, janitorial and service fees (Note 39)	**153,784**	60,914	43,425
Depreciation and amortization (see Notes 16 and 17)	**145,523**	55,217	54,511
Taxes and licenses	**127,930**	88,887	63,476
Transportation and travel	**87,202**	98,895	67,089
Representation and entertainment	**70,026**	76,285	50,970
Rentals and utilities (see Notes 37 and 39)	**46,665**	55,687	54,360
Management and professional fees (Notes 39 and 40)	**41,046**	85,339	93,054

(Forward)

	2018	2017	2016
		(In Thousands)	
Selling expenses	**₱39,224**	₱35,305	₱15,336
Repairs and maintenance	**29,247**	19,407	16,418
Marketing and advertising (see Note 39)	**24,976**	14,285	22,579
Communication	**14,305**	9,110	18,466
Registration fees	**7,178**	6,782	24,529
Insurance	**1,655**	2,037	3,274
ABLGI compensation fee	**–**	69,518	44,881
Others	**629,660**	565,208	186,632
	₱1,668,051	₱1,467,255	₱957,280

Others pertain to office supplies, insurance, seminar fees, association dues incurred during the year and regular provisions of the Company.

34. **Interest Income and Interest Expense**

The sources of the Company's interest income follow:

	2018	2017	2016
		(In Thousands)	
Cash and cash equivalents (see Note 8)	**₱45,695**	₱29,577	₱28,782
Contract assets (see Note 40)	**12,556**	–	–
	₱58,251	₱29,577	₱28,782

The sources of the Company's interest expense follow:

	2018	2017	2016
		(In Thousands)	
Long-term debt (see Note 23)	**₱346,663**	₱344,738	₱260,411
Loans payable (see Note 21)	**96,260**	90,112	51,224
Finance lease obligation (see Note 37)	**6,187**	10,859	12,749
Nontrade liability (see Note 24)	**–**	38,090	27,256
Others	**15,751**	19,866	4,139
	₱464,861	₱503,665	₱355,779

35. **Other Income (Loss)**

This account consists of:

	2018	2017	2016
		(In Thousands)	
Write-off of intangible asset (see Note 17)	**(₱292,512)**	₱–	₱–
Brand and trademark license income (see Note 40)	**203,459**	–	–
Impairment of goodwill (see Note 18)	**(110,934)**	–	–

(Forward)

	2018	2017	2016
		(In Thousands)	
Excess input VAT	**₱32,627**	₱28,754	₱10,084
Gain on sale of:			
Property and equipment	**1,039**	20,102	30
Financial assets at FVPL (Note 9)	**1,548**	–	–
Other current assets (see Note 12)	–	85,678	–
Available-for-sale investments (see Note 14)	–	76,546	351,680
Investment in associates (see Note 13)	–	–	5,603
Bank service charges	**(32,127)**	(33,339)	(27,756)
Write-off of:			
Deposits	**(150,000)**	–	–
Input VAT (see Note 12)	–	(25,000)	–
Provision for:			
Doubtful accounts on receivables (see Note 10)	–	(7,704)	(13,823)
Doubtful accounts on advances to associates	–	–	(29,398)
Gain on termination of ABLGI advances (see Note 24)	–	–	634,800
Reversal of impairment on investment in associates	–	–	45,928
Others – net	**21,731**	21,112	4,480
	(₱325,169)	₱166,149	₱981,628

36. **Income Taxes**

The provision for current income tax consists of the following:

	2018	2017	2016
		(In Thousands)	
RCIT	**₱223,241**	₱277,358	₱253,673
MCIT	**2,174**	38,972	29,788
	₱225,415	₱316,330	₱283,461

The movements in NOLCO of the Parent Company are as follows:

	2018	2017
	(In Thousands)	
NOLCO:		
Balance at beginning of year	**₱–**	₱422,177
Applications	–	(407,476)
Expired	–	(14,701)
Balance at end of year	**₱–**	₱–

The movements in MCIT of the Parent Company are as follows:

	2018	2017
	(In Thousands)	
MCIT:		
Balance at beginning of year	**₱83,017**	₱69,229
Additions	**–**	32,375
Expired	**–**	(18,587)
Application	**(83,017)**	–
Balance at end of year	**₱–**	₱83,017

As at December 31, 2018, the carryforward benefits of NOLCO and MCIT that can be claimed by PLC and its subsidiaries as deductions from regular taxable income and RCIT due, respectively, are as follows:

Year Incurred/Paid	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2016	December 31, 2019	₱40	₱657
2017	December 31, 2020	29	–
2018	December 31, 2021	8,705	2,174
		₱8,774	₱2,831

The movements in NOLCO of PLC and its subsidiaries are as follows:

	2018	2017
	(In Thousands)	
NOLCO:		
Balance at beginning of year	**₱5,050**	₱8,661
Additions	**8,705**	4,903
Applications	**(4,889)**	(8,437)
Expirations	**(92)**	(77)
Balance at end of year	**₱8,774**	₱5,050

The movements in MCIT of PLC and its subsidiaries are as follows:

	2018	2017
	(In Thousands)	
MCIT:		
Balance at beginning of year	**₱1,257**	₱1,257
Additions	**2,174**	–
Expirations	**(600)**	–
Balance at end of year	**₱2,831**	₱1,257

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

The components of net deferred tax assets of the subsidiaries as at December 31, 2018 and 2017, respectively, are as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Unamortized past service costs	**₱7,495**	₱7,726
Allowance for impairment losses on trade and other receivables	**4,046**	4,046
NOLCO	**2,602**	1,467
Unrealized foreign exchange loss	**121**	477
Accrued expenses	**–**	2,789
	14,264	16,505
Deferred tax liabilities:		
Retirement benefits liabilities	**(5,089)**	–
Others	**(311)**	(311)
Pension asset	**–**	(754)
	(5,400)	(1,065)
Net deferred tax assets	**₱8,864**	₱15,440

The components of the net deferred tax liabilities of the Parent Company and POSC are as follows:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Deferred lease income	**₱47,528**	₱34,679
Discount on trade receivables	**29,298**	22,434
Doubtful accounts	**7,140**	7,140
Unamortized past service costs	**4,903**	2,857
Accrued rent expense	**2,835**	2,046
Accrued expenses	**2,417**	–
Accretion of refundable deposits	**860**	889
Accrued selling expenses	**720**	720
Unrealized foreign exchange loss	**145**	-
Construction cost – net	**–**	3,301,789
MCIT	**–**	83,017
Estimated liability on construction costs	**–**	5,594
Pension liability	**–**	1,987
	95,846	3,463,152

(Forward)

	2018	2017
	(In Thousands)	
Deferred tax liabilities:		
Excess of carrying amount of investment property over construction costs	**(₱2,348,424)**	₱–
Deferred income on real estate sales	**(159,857)**	(108,924)
Accrued rent income	**(150,940)**	(110,043)
Unaccreted discount on refundable deposits	**(51,860)**	(38,176)
Contract assets	**(50,405)**	–
Unrealized gain on sale of real estate	**(798)**	(798)
Deferred lease expense	**(686)**	(730)
Retirement	**(346)**	–
Unrealized foreign exchange gain - net	**(111)**	(86)
Finance lease receivable	–	(5,424,954)
	(2,763,427)	(5,683,711)
Net deferred tax liabilities	**(₱2,667,581)**	(₱2,220,559)

The components of the Company's temporary differences as at December 31, 2018 and 2017 for which deferred tax assets were not recognized are follows:

	2018	2017
	(In Thousands)	
Allowances for:		
Impairment of project development costs	**₱2,136,820**	₱2,136,820
Doubtful accounts	**739,191**	739,191
Unrealized mark-to-market loss on club shares held for trading	**631,183**	842,580
Impairment losses	**569,463**	569,463
Probable losses	**33,309**	33,309
Excess MCIT over RCIT	**2,831**	1,257
NOLCO	**99**	176
	₱4,112,896	₱4,322,796

The deferred tax assets of the above temporary differences amounting to ₱1,065.3 million and ₱1,053.3 million as at December 31, 2018 and 2017, respectively, were not recognized since management believes that it is not probable that taxable income will be available against which the deferred tax assets can be utilized.

For income tax purposes, lease of the building structures accounted for as finance lease are treated as operating lease (see Note 37).

The reconciliation between the provision for income tax computed at statutory tax rate and the provision for income tax shown in the consolidated statement of comprehensive income is as follows:

	2018	2017	2016
		(In Thousands)	
Income tax at statutory income tax rate of 30%	**₱1,144,230**	₱1,292,363	₱1,303,210
Income tax effects of:			
Nontaxable income	**(986,632)**	(797,970)	(764,042)

(Forward)

	2018	2017	2016
		(In Thousands)	
Change in unrecognized deferred tax assets	**₱7,648**	(₱6,933)	₱197,131
Nondeductible expenses and others	**422,408**	315,086	182,941
Mark-to-market loss (gain) on securities	**3,571**	(147)	(55,707)
Excess of MCIT over RCIT	**1,503**	18,586	29,131
Income subjected to final tax	**(5,302)**	(24,933)	(8,614)
Income subjected to capital gains tax	**524**	(3,483)	(4,455)
Expired NOLCO	**–**	4,410	41
Others	**960**	–	–
	₱588,910	₱796,979	₱879,636

Philippine Economic Zone Authority (PEZA)
In 2010, the Company's pre-qualification clearance from PEZA in relation with its efforts to secure a Tourism Economic Zone status for a portion of its flagship project, Tagaytay Highlands, has been approved. However, as at February 28, 2019, this approval has not yet been issued with a Presidential Proclamation.

On October 11, 2012, Presidential Proclamation No. 491 has been issued creating and designating eleven parcels of land with an aggregate area of approximately 69,510 square meters located at Aseana Business Park, Paranaque City, as Tourism Economic Zone. Consequently, on November 27, 2012, the Parent Company received its Certificate of Registration from PEZA as the developer of the City of Dreams Manila. The Company shall not be entitled to PEZA incentives.

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

37. Lease Commitments

Company as a Lessor

Finance Lease

Lease Agreement with Melco. On October 25, 2012, the Parent Company, as a lessor, entered into a lease agreement with Melco for the lease of land and building structures to be used in the City of Dreams Manila project ("the Project"). The lease period is co-terminus with the operating agreement between the Company and Melco which is effective on March 13, 2013 until the expiration of the License on July 11, 2033.

The Company made an assessment at inception of the lease and recorded the lease of the building structures under a finance lease and the lease of the land under an operating lease.

The Company recognized a finance lease receivable equivalent to the net investment in the lease. The average implicit interest rate on the finance lease was 15.75% per annum at inception of the lease. The lease payments made by the lessee are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as "Interest income on finance lease" in the consolidated statement of comprehensive income.

In 2018, the Parent Company and Melco agreed to revise the use of a portion of the building. Management assessed that the change in use resulted in substantial modification of the terms of the agreement. Thus, starting October 2018, the Parent Company started to change rental based on new rates. The change in the terms resulted in reclassification of the lease from finance lease to operating lease. Accordingly, the Parent Company derecognized the balance of the outstanding finance lease receivables amounting to ₱18,342.3 million and capitalized the same as the cost of the building (see Note 15).

As at December 31, 2017, the nominal amount of minimum lease payments and the carrying value of finance lease receivable are as follows:

	2017
	(In Thousands)
Within one year	₱1,790,424
In more than one year and not more than five years	9,000,735
In more than five years	33,031,150
	43,822,309
Unearned finance income	(25,739,128)
Net investment (present value of the minimum lease payments)	18,083,181
Current portion of receivables under finance lease	1,689,973
Noncurrent portion of receivables under finance lease	₱16,393,208

Interest income on finance lease amounted to ₱1,663.8 million, ₱2,069.8 million and ₱2,003.8 million in 2018, 2017 and 2016, respectively.

<u>Operating Lease</u>

Lease Agreement with Melco. The Parent Company recognized lease income on the lease of land and building by Melco amounting to ₱724.4 million in 2018 and ₱190.0 million in 2017 and 2016.

As at December 31, 2018 and 2017, the minimum lease payments to be received by the Parent Company on the lease on the land and building are as follows:

	2018	2017
	(In Thousands)	
Within one year	**₱2,132,323**	₱135,593
In more than one year and not more than five years	**13,110,557**	680,301
In more than five years	**24,112,134**	2,395,935
	₱39,355,014	₱3,211,829

The Company carried receivables relating to these leases of ₱559.8 million and ₱353.9 million under the "Receivables" account in the consolidated statements of financial position as at December 31, 2018 and 2017, respectively (see Note 10).

Costs incurred for these leases, which consists of taxes, property insurance and other costs, are presented under "Cost of lease income" account in the consolidated statements of comprehensive income (see Note 31).

Lease Agreements with PCSO. POSC leases to PCSO online lotto equipment and accessories for a period of 1 year until July 31, 2019 as provided in the 2018 Amended Equipment Lease Agreement (ELA). 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 ₱788.6 million, ₱1,036.9 million and ₱931.8 million in 2018, 2017 and 2016, respectively.

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

TGTI leases to PCSO online KENO equipment and accessories for a period of 10 years from the time the ELA will run in commercial operations. Rental payment by PCSO is based on certain percentage of gross amount of Online KENO games from the operation of all PCSO's terminal or a fixed annual rental of ₱40,000 per terminal in commercial operation, whichever is higher. Rental income recognized in the consolidated statement of income amounted to ₱659.7 million, ₱803.6 million and ₱647.9 million in 2018, 2017 and 2016, respectively. Future minimum rental income for the remaining lease terms is as follows:

	2018	2017
	(In Thousands)	
Within one year	**₱98,160**	₱96,400
After one year but not more than five years	**73,620**	141,400
	₱171,780	₱237,800

Company as a Lessee

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 accounted for as finance lease. These related equipment are included as part of "Lottery equipment" under "Property and equipment" account with carrying amount of ₱30.9 million and ₱103.7 million as at December 31, 2018 and 2017, respectively (see Note 16).

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

	2018	2017
	(In Thousands)	
Within one year	**₱22,254**	₱45,341
After one year but not more than five years	**16,690**	38,944
Total future minimum lease payments	**38,944**	84,285
Less amount representing interest	**3,570**	9,422
Present value of lease payments	**35,374**	74,863
Less current portion of obligations under finance lease	**19,379**	39,489
Noncurrent portion of obligations under finance lease	**₱15,995**	₱35,374

The contracts of POSC remain effective until July 31, 2019, the expiration date of the 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 on the system provided by Scientific Games. Payment to Intralot is based on a 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" account under "Cost of lottery services" in the consolidated statements of comprehensive income (see Note 28).

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 games or a fixed amount of US$60 per terminal per month, whichever is higher.

POSC 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.

Operating Lease

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 profit or loss amounted to ₱18.6 million, ₱16.2 million and ₱11.0 million in 2018, 2017 and 2016, respectively.

b. LotoPac, LCC and FRI lease certain properties that are renewed annually at the option of both companies. Rent expense recognized in the profit or loss amounted to ₱97.4 million, ₱62.9 million and ₱29.2 million in 2018, 2017 and 2016, respectively.

c. TGTI entered into lease contracts with the following: (1) Keewswen Development Corp. for the lease of its office space for a period of five years which commenced on February 1, 2011 expired on January 31, 2016 which was renewed for a period of two years which commenced on February 1, 2016 to January 31, 2018, (2) MBH Trading & Manufacturing Corporation for the lease of its warehouse for a period of seven years commencing on August 1, 2010 and expired on July 31, 2017 which was also renewed up to July 2020, and (3) George W.G Angel for a parking space for a period of one year, renewable upon mutual consent of the parties. Rent expense recognized in the consolidated statement of income amounted to ₱10.6 million, ₱8.0 million and ₱6.0 million in 2018, 2017 and 2016, respectively.

   The above operating leases have no restrictions and contingent rentals.

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

	2018	2017
	(In Thousands)	
Within one year	**₱75,365**	₱87,722
After one year but not more than five years	**13,491**	42,104
	₱88,856	₱129,826

Other Operating Lease Agreements
The Parent Company entered into a lease agreement for a parcel of land situated in Aseana Business Park, Parañaque City. The 20,218 square meter land area lease shall be for a period of 10 years commencing on April 23, 2010, inclusive of two years construction period. Rental payments are subject to escalation as stated in the agreement. The contract may be renewed or extended by written agreement of the parties and upon such terms and conditions that are mutually acceptable to them. The Parent Company also paid ₱4.4 million refundable deposit which formed part of "Other noncurrent assets - refundable deposits and construction bond" in the consolidated statements of financial position (see Note 19). On April 15, 2012, the parties agreed to extend the lease term for an additional 15 years ending on April 22, 2035. Total rent expense charged to operations amounted to ₱42.5 million, ₱36.2 million and ₱33.1 million in 2018, 2017 and 2016, respectively (see Note 31).

On May 12, 2012, the Parent Company entered into an operating lease agreement with SM Prime Holdings, Inc. (formerly SM Land, Inc.) covering its office space. The lease term is five years, with option to renew subject to mutually agreed upon terms and conditions. Rent is payable within 30 days upon receipt of the billing. On August 1, 2017, the operating lease agreement was renewed for another five years ending on July 31, 2022. Total rent expense charged to operations amounted to ₱10.2 million, ₱9.7 million and ₱8.1 million in 2018, 2017 and 2016, respectively (see Notes 33 and 39).

The Parent Company and Belle Bay City, through its Board of Liquidators, entered into a Memorandum of Agreement granting the Parent Company an absolute and exclusive right to build and use "air rights" a bridge way over a particular lot owned by Belle Bay City. The agreement shall be a period of 50 years or upon termination of the Parent Company's business operation on the bridge way whichever comes earlier. The air rights shall be used to connect City of Dreams Manila Phase 1 and Phase 2. Rental payments are subject to escalation as stated in the agreement. Total rent expense charged to operations relating to this transaction amounted to ₱6.4 million in 2018 and 2017 and ₱13.3 million in 2016 (see Note 31). The Parent Company also paid ₱1.1 million refundable deposit which formed part of "Other noncurrent assets - refundable deposits and construction bond" in the consolidated statements of financial position (see Note 19).

The Company also has several operating lease arrangements on parking lots, machineries, office space and transportation equipment. Total rent expense charged to operations relating to these lease agreements amounted to ₱3.8 million in 2018, ₱2.4 million in 2017 and ₱2.4 million in 2016 (see Note 33).

The future minimum rental payments by the Company under the operating lease agreements are as follows:

	2018	2017
	(In Thousands)	
Within one year	**₱50,331**	₱57,087
After one year but not more than five years	**279,477**	305,356
After more than five years	**568,845**	623,715
	₱898,653	₱986,158

38. Pension Costs

The Parent Company and certain of its subsidiaries have funded, noncontributory defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. Costs are determined in accordance with the actuarial study, the latest of which is dated December 31, 2018.

PLC is covered under Republic Act No. 7641 which provides a defined benefit minimum guarantee for its qualified employees.

The following tables summarize the components of pension costs recognized in the consolidated statements of comprehensive income and the pension asset and pension liability recognized in the consolidated statements of financial position.

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

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Change in the Effect of Asset Ceiling	Pension Asset (Liability)
		(In Thousands)		
At January 1, 2018	**(₱185,457)**	**₱174,769**	–	**(₱10,688)**
Net retirement income (costs) in profit or loss:				
Current service cost	**(23,085)**	–	–	**(23,085)**
Net interest	**(10,586)**	–	–	**(10,586)**
Interest income	–	**10,203**		**10,203**
	(33,671)	**10,203**	–	**(23,468)**
Benefits paid	**2,426**	**(2,426)**	–	–
Contributions	–	**10,000**	–	**10,000**
Remeasurement gain (loss) recognized in OCI:				
Actuarial changes due to experience adjustment	**2,324**	–	–	**2,324**
Actuarial changes arising from changes in financial assumptions	**28,133**	–	–	**28,133**
Actual return excluding amount included in net interest cost	–	**(6,308)**	–	**(6,308)**
Actuarial changes due to changes in demographic assumptions	**9,850**	**(7,194)**	–	**2,656**
Effect of asset ceiling	–	**(3,375)**	–	**(3,375)**
	40,307	**(16,877)**	–	**23,430**
At December 31, 2018	**(₱176,395)**	**₱175,669**	–	**(₱726)**

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

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Change in the effect of asset ceiling	Pension Asset (Liability)
		(In Thousands)		
At January 1, 2017	(₱155,377)	₱151,496	₱1,379	(₱2,502)
Additions from acquisition of subsidiaries (see Note 18)	(616)	–	–	(616)
Net retirement income (costs) in profit or loss:				
Current service cost	(22,773)	–	–	(22,773)
Net interest	(8,743)	12,099	(36)	3,320
	(31,516)	12,099	(36)	(19,453)
Benefits paid	622	(510)	–	112
Contributions	–	18,955	–	18,955
Remeasurement gain (loss) recognized in OCI:				
Actuarial changes due to experience adjustment	(2,117)	–	–	(2,017)
Actuarial changes arising from changes in financial assumptions	10,985	–	–	10,985
Actual return excluding amount included in net interest cost	–	(4,896)	–	(4,896)
Actuarial changes due to changes in demographic assumptions	(7,438)	–	–	(7,438)
Effect of asset ceiling	–	–	(3,718)	(3,818)
	1,430	(4,896)	(3,718)	(7,184)
At December 31, 2017	(₱185,457)	₱177,144	(₱2,375)	(₱10,688)

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

	2018	2017
	(In Thousands)	
Pension asset	**₱7,856**	₱13,414
Pension liability	**(8,582)**	(24,102)
Net pension liability	**(₱726)**	(₱10,688)

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

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**₱15,835**	₱41,192
Debt instruments - government bonds	**97,357**	64,580
Debt instruments - other bonds	**2,526**	2,792
Unit investment trust funds	**47,137**	53,965
Mutual fund	**5,413**	6,049
Others	**7,401**	8,566
	₱175,669	₱177,144

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

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

	2018	2017
Discount rates	**7.53%-8.06%**	5.60%-5.77%
Future salary increases	**5.00%-8.00%**	5.00%-10.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018 and 2017 assuming if all other assumptions were held constant:

	2018		2017	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation (In thousands**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)		*(In Thousands)*
Discount rate	**1.00%**	**(₱9,348)**	1.00%	(₱13,891)
	(1.00%)	**11,107**	(1.00%)	16,945
Salary increase rate	**1.00%**	**10,535**	1.00%	14,929
	(1.00%)	**(9,060)**	(1.00%)	(12,533)

The average duration of the Company's defined benefit obligation is 2.9 years to 15.9 years in 2017.

The maturity analysis of the undiscounted benefit payments follows:

	2018	2017
	(In Thousands)	
Less than 1 year	**₱100,483**	₱50,105
More than 1 year to 5 years	**29,566**	24,758
More than 5 years to 10 years	**71,649**	46,763

39. **Related Party Transactions**

Related parties are enterprises and individuals that has the ability to control directly, or indirectly through one or more intermediaries or are controlled by, or under common control with the Company, including holding companies, and subsidiaries, or exercise significant influence over the other party in making financial and operating decisions. 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 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 payable on demand. There have been no guarantees provided or received for any related party receivables or payables. Related party transactions are generally settled in cash.

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

Other Transactions with Associates and Related Companies

The Company has the following significant related party transactions with associates and other related parties:

Related Party	Relationship	Transaction		Transaction Amounts	Outstanding Balance	Terms	Condition
				(In Thousands)			
APC	Associate	Advances to associate (see Note 13)	**2018**	**₱83**	**₱80,047**	Noninterest-bearing, due and demandable	Unsecured, partially provided amounting to ₱79,452 in 2018 and 2017
			2017	189	80,004		
Belle Jai Alai	Associate	Advances to associate (see Note 13)	**2018**	**–**	**29,398**	Noninterest-bearing, due and demandable	Unsecured, fully provided in 2018 and 2017
			2017	–	29,398		
Others	Associate	Advances to associates (see Note 12)	**2018**	**–**	**11,487**	Noninterest-bearing, due and demandable	Unsecured, fully provided in 2018 and 2017
			2017	–	11,487		
Belle Jai-Alai	Associate	Advances from associate	**2018**	**–**	**(60,753)**	Noninterest-bearing, due and demandable	Unsecured
			2017	–	(60,753)		
SM Prime Holdings, Inc.	With common stockholders	Operating lease (see Note 37)	**2018**	**9,201**	**–**	5 years, renewable	Not applicable
			2017	11,361	(1,342)		
			2016	10,797	(1,594)		
		Management and professional fees (see Note 33)	**2018**	**18,439**	**–**	1 year, renewable	Not applicable
			2017	16,459	–		
			2016	14,765	–		
SM Arena Complex Corporation	With common stockholders	Sponsorship agreement (see Note 29)	**2018**	**18,900**	**4,950**	5 years	Not applicable
			2017	20,702	–		
			2016	20,160	–		
Highlands Prime, Inc. (HPI)	With common stockholders	Service fees (see Note 33)	2018	**14,504**	**–**	5 years, renewable	Not applicable
			2017	15,829	–		
			2016	2,734	–		
Directors and officers	Key management personnel	Salaries and wages	**2018**	**107,071**	**–**	Not applicable	Not applicable
			2017	99,531	–		
			2016	98,330	–		
		Short-term employee benefits	**2018**	**12,725**	**–**	Not applicable	Not applicable
			2017	11,946	–		
			2016	8,868	–		
		Long-term employee benefits	**2018**	**7,440**	**–**	Not applicable	Not applicable
			2017	7,019	–		
			2016	6,317	–		
SM Investments Corporation	With common stockholders	Service fees	**2018**	**66,000**	**–**	Non-interest bearing, 30 days	Not applicable
			2017	–	–		
			2016	–	–		

The following table provides the summary of outstanding balances and transactions for the years ended December 31, 2018, 2017, and 2016 in relation with the table above for the transactions that have been entered into with related parties:

Total Related Party Outstanding Balances before any Allowance for Impairment

	2018	2017
Advances to associates (see Note 13)	**₱120,932**	₱120,889
Advances from associates (see Note 20)	**60,753**	60,753
Advances from other related parties (see Note 20)	**4,950**	1,342

Total Related Party Transactions

	2018	2017	2016
Salaries and wages	**₱107,071**	₱99,531	₱98,330
Sponsorship agreement	**18,900**	20,702	20,160
Management fee	**16,459**	16,459	14,765
Rent expense	**9,201**	11,361	10,797
Service fee	**14,504**	15,829	2,734

Allowance provided on advances to associates charged to "Investments in and Advances to Associates" amounted to ₱120.3 million as at December 31, 2018 and 2017 (see Note 13).

Transactions with other related parties are as follows:

- Belle entered into a sponsorship agreement with SM Arena Complex Corporation (SMACC) for 5 years commencing on May 21, 2012. The Company is charged for a sponsorship fee of ₱95.0 million payable in 5 equal installments of ₱19.0 million annually. In return, SMACC shall grant the Company marketing and promotional entitlements in the MOA Arena during the sponsorship period. The fees are payable within 30 days upon the receipt of billing. In 2016, the agreement was pre-terminated with Belle and PLAI assumed the contract with SMACC.

- In 2014, the Parent Company entered into a renewable one-year management and professional service agreement with SM Prime Holdings, Inc. Management and professional fees charged by SM Prime Holdings, Inc. to the Parent Company amounted to ₱18.4 million, ₱16.5 million and ₱14.8 million in 2018, 2017 and 2016, respectively, which are recognized under "General and administrative expenses" in consolidated statements of comprehensive income. The fees are payable within 30 days upon the receipt of billing.

- In 2015, the Parent Company entered into a renewable one-year service agreement with HPI for manpower supervision. Service fees charged by HPI to the Parent Company amounted to ₱14.5 million, ₱15.8 million and ₱2.7 million in 2018, 2017 and 2016, respectively, which are recognized under "General and administrative expenses" in consolidated statements of comprehensive income.

- In 2018, the Parent Company entered into a renewable one-year professional service agreement with SM Investments Corporation. Service fees charged by SMIC to the Parent Company amounted to 66.0 million in 2018, which are recognized under "General and administrative expenses" in consolidated statements of comprehensive income. The fees are payable within 30 days upon the receipt of billing.

40. 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 where the funds to be used exclusively for the Project are expected to flow through but with a maintaining balance of US$50.0 million and is separately shown as the "Escrow Fund" account in the 2012 consolidated statement of financial position; (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 by PAGCOR.

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

Cooperation Agreement with Melco
On October 25, 2012, the Company together with PLAI ("Philippine Parties"), formally entered into a Cooperation Agreement with Melco which governs their cooperation in the development and operation of the City of Dreams Manila. The Cooperation Agreement places the Company as a co-licensee and the owner of the site's land and buildings, while Melco will be a co-licensee and operator of all the facilities within the resort complex.

In March 2013, Melco paid the Company the amount of ₱949.6 million which represents various costs Melco agreed to absorb as one of the conditions of the Philippine Parties in including the Melco Parties as co-licensees under the Project.

Operating Agreement with Melco
On March 13, 2013, the Parent Company, together with PLAI, entered into an Operating Agreement with MPHIL Holdings No. 2 Corporation, MPHIL Holdings No.1 Corporation and Melco. Under the terms of the Operating Agreement, Melco was appointed as the sole and exclusive operator and manager of the casino development Project.

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

Pursuant to this agreement, PLAI shares from the performance of the casino gaming operations. Gaming revenue share in 2018, 2017 and 2016 amounted to ₱1,643.0 million, ₱2,609.4 million and ₱1,643.0 million, respectively (see Note 26).

Advisory Services by ABLGI
ABLGI agreed to act in an advisory capacity to the Parent Company 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 BGRHI (see Note 17).

Consultancy fees to ABLGI amounting to ₱72.9 million and ₱216 million in 2017 and 2016 was presented as part of "Cost of gaming operations" in the 2017 and 2016 consolidated statements of comprehensive income (see Note 29).

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 the Parent Company, 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 PLC's capital stock and additional paid-in capital, and share in cumulative translation adjustments of an associate amounted to ₱1,870.0 million, ₱1,046.9 million and ₱109.1 million, respectively.

In 2007, the 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. 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 PLC's 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.

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 PLC's capital stock. Petition was elevated to the Supreme Court (SC) after the CA sustained the SEC ruling. 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 of ₱1,559.8 million 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.

In June 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.

Equipment Lease Agreement (ELA) between POSC and PCSO
ELA. POSC has an ELA with the PCSO for the lease of not less than 800 lotto terminals, which includes central computer, communications equipment and the right to use the application software and manuals for the central computer system and draw equipment of PCSO for its Visayas-Mindanao (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, the 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 POSC to 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. On July 15, 2015, the POSC and PCSO further amended some provisions of the ELA which extended it from August 1, 2015 to July 31, 2018. The amendment also required the 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" account in the consolidated statements of financial position.

2018 Amended ELA. On September 12, 2018, the ELA was amended to extend the term from August 1, 2018 to July 31, 2019. The amendment required POSC to post an additional deposit of ₱7.0 million cash bond. The total cash bond of ₱12.0 million is included under "Other noncurrent assets" in the consolidated statements of financial position.

The rental fee, presented as "Equipment rentals" in the consolidated statements of comprehensive income, is based on a percentage of gross sales of lotto terminals 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 system and communications equipment including the accessories and right to use the application software and manuals for the central computer system and terminals and draw equipment, as well as the supply of betting slips and ticket paper rolls, and maintenance and repair services. The number of installed lotto terminals totaled 4,029 and 4,205 as at December 31, 2018 and 2017, respectively.

Instant Scratch Tickets. On March 25, 2009, POSC entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO, for a period of seven years, effective December 1, 2009 to undertake the printing, distribution and sale of scratch tickets. 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 (see Note 19).

On March 31, 2015, the 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 "Revenue" in the consolidated statements of comprehensive income.

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

The MOA with POSC expired on November 30, 2016 and the OMOA with PMLC also expired accordingly. All tickets distributed to the retailers and agents, shall be allowed to be marketed continuously until fully sold and the corresponding winnings thereof shall be honored and paid even after the period of the MOA with PCSO.

Brand and Trademark Agreement with PMLC
In 2018, POSC received a certification from the PCSO stating the fulfillment of POSC's obligation under the MOA and thereby clearing POSC of any accountability thereunder. PCSO certified that POSC is entitled to the release of the ₱10.0 million cashbond. The cash bond is expected to be collected in the next financial period. Thus, in 2018, the Company reclassified the cash bond amounting to ₱10.0 million from noncurrent asset to "Other current assets" account (see Note 12).

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 of 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 to PMLC on January 1, 2018 and there are no other performance obligation to be provided to PMLC. Thus, POSC recognized revenue on the right to use the brand and trademark amounting to ₱203.5 million (see Note 35). Interest income earned in 2018 amounted to ₱12.5 million (see Note 34).

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

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

On July 15, 2008, TGTI and PCSO agreed on some amendments to the ELA. Under the terms of the Amended ELA, TGTI shall provide the services of telecommunications integrator and procurement of supplies for the Online KENO operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all Online KENO terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly. As at December 31, 2018 and 2017, there are 2,454 and 2,400 Online KENO terminals in operation, respectively.

POSC's Consultancy Agreements, Contracts with Scientific Games and 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 the revenue generated by the terminals from PCSO's conduct of online lottery operation using the computer hardware and operating system provided by Scientific Games. The contract shall continue as long as the POSC's ELA with PCSO is in effect.

On October 2, 2012, POSC and Scientific Games amended the contract to extend the period from April 1, 2013 until August 31, 2015, and for the supply of additional terminals for the 2012 Amended ELA.

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

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

c. Intralot

i) On March 13, 2006, POSC entered into a contract with Intralot, a company incorporated under the laws of Greece, for the supply of online lottery system necessary for the operation of a new online lottery system effective December 8, 2006. Under the terms of the CVMOLS, Intralot provided POSC the hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations 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 the latter to supply additional reconditioned or refurbished lotto terminals to the former 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 thru July 31, 2019.

ii) On April 1, 2004, TGTI entered into a contract with Intralot for the supply of online lottery system necessary for the operation of a new online lottery system effective until September 30, 2020. In consideration, the TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation. On July 2008, the contract was amended such that instead of receiving monthly remuneration calculated as a percentage of the gross receipts of TGTI from its ELA with PCSO, Intralot will 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 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 (see Note 19).

d. Management Agreement

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

Software and license fee recognized as part of "Cost of lottery services" arising from Scientific Games contract and Intralot contracts above amounted to ₱195.7 million, ₱191.7 million and ₱186.6 million in 2018, 2017 and 2016, respectively (see Note 28).

Consultancy and management fees recognized under “Consultancy fees” as part of “Cost of lottery services” amounted to ₱75.0 million, ₱135.5 million and ₱122.8 million in 2018, 2017 and 2016, respectively (see Note 28). Consultancy fees recognized under “Management and professional fees” as part of “General and Administrative Expenses” amounted to ₱25.9 million, nil, and ₱20.5 million in 2018, 2017 and 2016, respectively (see Note 33).

41. **Contingencies**

a. In the normal course of business, there are certain tax cases and legal cases related to labor disputes and land ownership issues filed against the Company.

b. PLC is a party to a civil case filed by Metroplex before the CA to review the February 26, 2009 Order of the SEC denying the Metroplex petition to nullify the approval of the reduction of PLC’s capital stock (see Note 40). On July 17, 2013, the CA sustained the ruling of the SEC, thus Metroplex filed a petition for review with the SC on September 4, 2014. As at February 28, 2019, the Supreme Court has yet to resolve this petition.

   However, as discussed in Note 40, the cancellation of the Swap Agreement was implemented following PLC’s filing to the SEC of a Notice of Withdrawal of the Memorandum of Appeal filed on June 20, 2013.

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

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

   On July 17, 2013, the Supreme Court decided on the case brought forth by POSC that it be consolidated with the case between PGMC and PCSO, thus making POSC a party to the case which is now pending before the CA. Meanwhile, PGMC and PCSO have entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the POSC terminals already installed in Luzon are concerned. POSC’s Request for Arbitration was denied by the International Court of Arbitration on July 17, 2014, due to PCSO’s opposition. An Urgent Motion to Resolve was filed by POSC with the CA to compel the court to issue an order to PGMC and PCSO to include the POSC in the negotiations.

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

On September 13, 2016, POSC filed a Memorandum with the Court of Appeals. The case is now submitted for the resolution. As at February 28, 2019, the case is still pending with the Court of Appeals.

42. Basic/Diluted EPS

	2018	2017	2016
	(In Thousands, Except EPS)		
Earnings attributable to Equity holders of the Parent (a)	**₱2,647,757**	₱2,872,412	₱2,700,117
Number of issued common shares at beginning of year	**10,561,000**	10,561,000	10,561,000
Number of common treasury shares at beginning of year	**(62,320)**	(62,320)	(42,146)
Number of parent company common shares held by subsidiaries at beginning of year	**(318,941)**	(357,108)	(353,271)
Sale of entities holding parent commons shares	–	38,542	–
Acquisition of entities holding parent common shares	**(45)**	(3,441)	(3,837)
Weighted average number of treasury shares acquired during the year	**(267,292)**	–	(20,112)
Weighted average number of issued common shares - basic, at end of year (b)	**9,912,402**	10,176,673	10,141,634
Basic/diluted EPS (a/b)	**₱0.267**	₱0.282	₱0.266

There are no common stock equivalents that would have a dilutive effect on the basic EPS.

43. Financial Assets and Financial Liabilities

Financial Risk Management Objectives and Policies

The Company's principal financial liabilities are composed of trade and other current liabilities, loans payables, nontrade liability, long-term debt, refundable deposits, installment payable and obligations under finance lease. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include cash and cash equivalents, receivables and finance lease receivables. The Company also holds investments in equity instruments.

The main risks arising from the Company's financial assets and financial liabilities are interest rate risk, foreign currency risk, equity price risk, credit risk and liquidity risk. The Company's BOD and management review and agree on the policies for managing each of these risks and these are summarized below.

Interest Rate Risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial assets and financial liabilities. The Company's exposure to interest rate risk relates primarily to the Company's long-term debt which are subject to cash flow interest rate risk.

The Company's policy is to manage its interest cost by limiting its borrowings and entering only into borrowings at fixed and variable interest rates.

Foreign Currency Risk. Foreign currency risk is the risk that the fair value or future cash flows of financial asset or financial liability will fluctuate due to changes in foreign exchange rates.

As at December 31, 2018 and 2017, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**$427**	$720
Consultancy and software license fee payable*	**(716)**	(1,001)
Foreign currency-denominated financial assets (liabilities)	**($289)**	($281)

**Presented under "Trade and other current liabilities" account in the consolidated statements of financial position.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱52.72 to US$1.0 and ₱49.93 to US$1.0, as at December 31, 2018 and 2017, respectively.

It is the Company's policy to ensure that capabilities exist for active but conservative management of its foreign currency risk. The Company seeks to mitigate its transactional currency exposure by maintaining its costs at consistently low levels, regardless of any upward or downward movement in the foreign currency exchange rate.

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rates, with all other variables held constant, of the Company's consolidated income before tax as at December 31, 2018 and 2017. There is no other impact on the Company's equity other than those already affecting the profit or loss in the consolidated statements of comprehensive income.

	2018		2017	
	Increase in US$ Rate	**Decrease in US$ Rate**	Increase in US$ Rate	Decrease in US$ Rate
	(In Thousands, Except Change in US$ Rate)			
Change in US$ rate*	**1.67**	**(1.67)**	1.78	(1.78)
Effect on income before income tax	**(₱398)**	**₱398**	(₱499)	₱499

**Average movement of U.S. dollar against Philippine peso for the past five years.*

The increase in US$ rate means stronger US dollar against peso while the decrease in US$ means stronger peso against the US dollar.

Equity Price Risk. Equity price risk is the risk that the fair value of quoted investments held for trading and AFS financial assets in listed equities decreases as a result of changes in the value of individual stock. The Company's exposure to equity price risk relates primarily to the Company's investments held for trading. 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 2018 and 2017 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	**2018**	2017
	(In Thousands)	
Impact in profit or loss		
5%	**₱7,785**	₱113,983
(5%)	**(7,785)**	(113,983)
Impact in other comprehensive income		
5%	**₱238,539**	₱123,764
(5%)	**(238,539)**	(123,764)

Credit Risk. Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company does not offer credit terms without the specific approval of the management. There is no significant concentration of credit risk.

In the Company's real estate business, title to the property is transferred only upon full payment of the purchase price. There are also provisions in the sales contract which allow forfeiture of installments/deposits made by the customer in favor of the Company and retain ownership of the property. The Company has the right to sell, assign or transfer to third party and any interest under sales contract, including its related receivables from the customers. The Company's primary target customers are high-income individuals and top corporations, in the Philippines and overseas. These measures minimize the credit risk exposure or any margin loss from possible default in the payments of installments.

Trade receivables from sale of real estate units are secured with pre-completed property units. The legal title and ownership of these units will only be transferred to the customers upon full payment of the contract price. Receivables from sale of club shares are secured by the shares held by the Company. For other receivables, since the Company trades only with recognized third parties, there is no requirement for collateral.

With respect to credit risk arising from the financial assets of the Company, which comprise of cash and cash equivalents, investments held for trading, receivables, finance lease receivables, advances to associates, AFS financial assets, deposits, refundable deposits and construction bonds, and guarantee bonds, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these financial assets.

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

	2018						
	Neither Past Due nor Impaired	**Past Due but not Impaired**					
		Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Impaired**	**Total**
				(In Thousands)			
Cash and cash equivalents*	**₱2,647,184**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,647,184**
Financial assets at fair value through profit or loss	**155,705**	**–**	**–**	**–**	**–**	**–**	**155,705**
Receivables:							
Trade	**1,848,272**	**14,476**	**11,431**	**14,765**	**195,116**	**102,637**	**2,186,697**
Others	**282,855**	**–**	**–**	**–**	**–**	**161,877**	**444,732**

(Forward)

	2018						
	Neither	Past Due but not Impaired					
	Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
				(In Thousands)			
Advances to associates**	**₱594**	**₱–**	**₱–**	**₱–**	**₱–**	**₱120,336**	**₱120,930**
Financial assets at fair value through other comprehensive income	**4,770,772**	**–**	**–**	**–**	**–**	**–**	**4,770,772**
Deposits***	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
Refundable deposit	**22,315**	**–**	**–**	**–**	**–**	**–**	**22,315**
Guarantee bonds****	**42,000**	**–**	**–**	**–**	**–**	**–**	**42,000**
	₱9,779,697	**₱14,476**	**₱11,431**	**₱14,765**	**₱195,116**	**₱384,850**	**₱10,400,335**

**Excluding cash on hand.*
***Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.*
****Presented under "Other current assets" account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

	2017						
	Neither	Past Due but not Impaired					
	Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
				(In Thousands)			
Cash and cash equivalents*	₱3,705,134	₱–	₱–	₱–	₱–	₱–	₱3,705,134
Investments held for trading	2,279,666	–	–	–	–	–	2,279,666
Receivables:							
Trade	1,902,101	7,783	9,934	4,805	63,160	103,383	2,091,166
Others	108,001	–	–	–	–	172,684	280,685
Finance lease receivable	18,083,181	–	–	–	–	–	18,083,181
Advances to associates**	552	–	–	–	–	120,337	120,889
AFS financial assets	2,475,287	–	–	–	–	–	2,475,287
Deposits***	27,955	–	–	–	–	–	27,955
Refundable deposit	23,074	–	–	–	–	–	23,074
Guarantee bonds****	35,000	–	–	–	–	–	35,000
	₱28,639,951	₱7,783	₱9,934	₱4,805	₱63,160	₱396,404	₱29,122,037

**Excluding cash on hand.*
***Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.*
****Presented under "Other current assets" account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

Financial assets are considered past due when collections are not received on due date.

Past due accounts which pertain to trade receivables from sale of real estate units and club shares are recoverable since the legal title and ownership of the real estate units and club shares will only be transferred to the customers upon full payment of the contract price.

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

	2018			
	High Grade	Medium Grade	Unrated	Total
		(In Thousands)		
Cash and cash equivalents*	**₱2,647,184**	**₱–**	**₱–**	**₱2,647,184**
Financial assets at fair value through profit or loss	**155,705**	**–**	**–**	**155,705**
Receivables:				
Trade	**1,848,272**	**–**	**–**	**1,848,272**
Others	**282,855**	**–**	**–**	**282,855**
Finance lease receivable	**–**	**–**	**–**	**–**
Advances to associates**	**594**	**–**	**–**	**₱594**
Financial assets at fair value through other comprehensive income	**2,257,121**	**851**	**2,512,800**	**4,770,772**
Deposits***	**–**	**10,000**	**–**	**10,000**
Refundable deposit and construction bonds****	**22,315**	**–**	**–**	**22,315**
Guarantee bonds****	**42,000**	**–**	**–**	**42,000**
	₱7,256,046	**₱10,851**	**₱2,512,800**	**₱9,779,697**

**Excluding cash on hand.*
***Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.*
****Presented under "Other current assets" account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

	2017			
	High Grade	Medium Grade	Unrated	Total
		(In Thousands)		
Cash and cash equivalents*	₱3,705,134	₱–	₱–	₱3,705,134
Investments held for trading	178,483	–	2,101,183	2,279,666
Receivables:				
Trade	1,902,101	–	–	1,902,101
Others	108,001	–	–	108,001
Finance lease receivable	18,083,181	–	–	18,083,181
Advances to associates**	552	–	–	552
AFS financial assets	2,365,716	851	108,720	2,475,287
Deposits***	–	27,955	–	27,955
Refundable deposit and construction bonds****	23,074	–	–	23,074
Guarantee bonds****	35,000	–	–	35,000
	₱26,401,242	₱28,806	₱2,209,903	₱28,639,951

**Excluding cash on hand.*
***Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.*
****Presented under "Other current asset" account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

High grade financial assets pertain to receivables from clients or customers who have no history of delayed payment while medium grade includes receivables from clients or customers who have history of delayed payment but is currently updated.

Cash in banks, cash equivalents and short-term investments are deposited with the top ten banks in the Philippines; hence, considered high grade.

Unquoted investments held for trading and AFS financial assets are unrated while quoted AFS financial assets are assessed as high grade based on financial status of the counterparty and its current stock price performance in the market.

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 another financial asset. The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Company considers obtaining borrowings as the need arises.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2018 and 2017 based on contractual undiscounted cash flows. The table also analyzes the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments and liquidity.

	2018					
	On Demand	**< 6 Months**	**6 Months to 1 Year**	**1–3 Years**	**> 3 Years**	**Total**
			(In Thousands)			
Financial Assets						
Cash and cash equivalents	**₱2,653,717**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,653,717**
Financial assets at fair value through profit or loss	**155,705**					**155,705**
Receivables	**428,038**	**1,145,658**	**–**	**–**	**–**	**1,573,696**
Contract asset	**–**	**196,619**	**220,545**	**352,849**	**287,720**	**1,057,733**
Advances to associates*	**120,932**	**–**	**–**	**–**	**–**	**120,932**
Financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**4,770,772**	**4,770,772**
Deposits**	**–**	**–**	**10,000**	**–**	**–**	**10,000**
Refundable deposit and construction bonds	**–**	**–**	**–**	**–**	**22,315**	**22,315**
Guarantee bonds***	**–**	**–**	**–**	**42,000**	**–**	**42,000**
	₱3,358,392	**₱1,342,277**	**₱230,545**	**₱394,849**	**₱5,080,807**	**₱10,406,870**

			2018			
	On Demand	< 6 Months	6 Months to 1 Year	1–3 Years	> 3 Years	Total
			(In Thousands)			
Financial Liabilities						
Loans payable****	₱–	₱1,507,392	₱–	₱–	₱–	₱1,507,392
Trade and other current liabilities*****	775,619	1,230,190	–	–	–	2,005,809
Refundable deposit	–	–	–	–	153,422	153,422
Long-term debt****	–	751,554	1,619,842	1,400,856	2,992,295	6,764,547
Obligations under finance lease****	–	4,636	9,690	21,048	–	35,374
	₱775,619	₱3,493,772	₱1,629,532	₱1,421,904	₱3,145,717	₱10,466,544

*Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.
**Presented under "Other current assets" account and "Other noncurrent assets" account in the consolidated statement of financial position.
***Presented under "Other noncurrent assets" account in the consolidated statement of financial position.
****Including future interest payments.
*****Excluding contract liabilities, statutory payables, installment payable and other liabilities to the government.

			2017			
	On Demand	< 6 Months	6 Months to 1 Year	1–3 Years	> 3 Years	Total
			(In Thousands)			
Financial Assets						
Cash and cash equivalents	₱3,711,248	₱–	₱–	₱–	₱–	₱3,711,248
Investments held for trading	2,279,666	–	–	–	–	2,279,666
Receivables	361,749	1,347,827	193,153	362,957	106,165	2,371,851
Finance lease receivable****	–	888,037	856,231	3,679,424	22,206,991	27,630,683
Advances to associates*	120,889	–	–	–	–	120,889
AFS financial assets	–	–	–	–	2,475,287	2,475,287
Deposits**	–	–	27,995	–	–	27,955
Refundable deposit and construction bonds	–	–	–	–	23,074	23,074
Guarantee bonds***	–	–	–	35,000	–	35,000
	₱6,473,552	₱2,235,864	₱1,077,379	₱4,077,381	₱24,811,517	₱38,675,653
Financial Liabilities						
Loans payable****	₱–	₱2,520,448	₱–	₱–	₱–	₱2,520,448
Trade and other current liabilities*****	1,756,625	–	–	–	–	1,756,625
Installment payable	–	1,340	1,341	2,763		5,444
Refundable deposit	–	–	–	–	115,979	115,979
Long-term debt****	–	844,292	513,576	3,375,927	2,305,763	7,039,558
Obligations under finance lease****	–	23,501	21,480	38,944	–	83,925
	₱1,756,625	₱3,389,581	₱536,397	₱3,417,634	₱2,421,742	₱11,521,979

*Presented under "Investments in and advances to associates" account in the consolidated statement of financial position.
**Presented under "Other current assets" account and "Other noncurrent assets" account in the consolidated statement of financial position.
***Presented under "Other noncurrent assets" account in the consolidated statement of financial position.
****Including future interest payments.
*****Excluding customers' deposits, statutory payables, installment payable and other liabilities to the government.

The Company expects to settle its maturing obligations on long-term debt from its gaming revenues from casino operations, rental income on land and casino building (see Note 39) and expected profits from real estate development operations.

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 for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes made in the objectives, policies or processes in 2018 and 2017.

The Company considers the following as its capital:

	2018	2017
	(In Thousands)	
Common stock	**₱10,561,000**	₱10,561,000
Additional paid-in capital	**5,503,731**	5,503,731
Treasury shares	**(2,476,700)**	(181,185)
Equity share in cost of Parent Company shares held by associates	**(2,501)**	(2,501)
Cost of Parent Company common shares held by subsidiaries	**(1,695,369)**	(1,585,336)
Retained earnings	**10,221,830**	8,194,187
	₱22,111,991	₱22,489,896

Fair Value of Financial Assets and Financial Liabilities

Set out below is a comparison by category and by class of carrying values and fair values of all the Company's financial assets and financial liabilities:

	2018					
	Valuation Date	**Carrying Value**	**Fair Value**	**Quoted (Unadjusted) Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In Thousands)			
Assets						
Assets measured at fair value:						
Through profit or loss	**December 31, 2018**	**₱155,705**	**₱155,705**	**₱155,705**	**₱–**	**₱–**
Through other comprehensive income (quoted)	**December 31, 2018**	**4,769,920**	**4,769,920**	**2,257,120**	**2,512,800**	**–**
Assets for which fair value is disclosed:						
Loans and receivables:						
Receivables -						
Finance lease receivable	**December 31, 2018**	**–**	**–**	**–**	**–**	**–**
Nonfinancial assets*	**December 31, 2018**	**20,094,843**	**49,969,737**	**–**	**49,969,737**	**–**
Liabilities						
Liabilities for which fair value is disclosed:						
Refundable deposit	**December 31, 2018**					
Long-term debt	**December 31, 2018**	**6,002,431**	**5,868,184**	**–**	**–**	**5,868,184**
Obligations under finance lease	**December 31, 2018**	**35,374**	**35,374**	**–**	**–**	**35,374**

**Consist of investment properties*

	Valuation Date	Carrying Value	Fair Value	2017 Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)			
Assets						
Assets measured at fair value:						
Investments held for trading	December 31, 2017	₱2,279,666	₱2,279,666	₱178,483	₱2,101,183	₱–
AFS financial assets (quoted)	December 31, 2017	2,474,448	2,474,448	2,365,728	108,720	–
Assets for which fair value is disclosed:						
Loans and receivables:						
Receivables -						
Finance lease receivable	December 31, 2017	18,083,181	27,630,682	–	–	27,630,682
Nonfinancial assets*	December 31, 2017	1,869,025	14,876,432	–	–	14,876,432
Liabilities						
Liabilities for which fair value is disclosed:						
Refundable deposit	December 31, 2017	115,979	99,276	–	–	99,276
Long-term debt	December 31, 2017	6,259,375	6,469,243	–	–	6,469,243
Obligations under finance lease	December 31, 2017	74,863	84,285	–	–	84,285

**Consist of investment properties*

The Company has no financial liabilities measured at fair value as at December 31, 2018 and 2017. There were no transfers between fair value measurements in 2018 and 2017.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and financial liabilities:

Cash and Cash Equivalents, Advances to Associates, Receivables (except receivables from real estate), Loans Payable, Trade and Other Current Liabilities and Installment Payable. The carrying values of these financial instruments approximate their fair values due to the relatively short-term maturities of these financial assets and financial liabilities.

Receivable from Real Estate Sales. The fair value of trade receivables from real estate sales is determined by discounting the estimated cash flows using prevailing interest rates as at reporting dates. The discount rates used ranged from 3.29% to 19.75% and 6.4 % to 8.9% in 2018 and 2017, respectively.

Finance Lease Receivables. The fair value of finance lease receivable is determined by discounting the estimated cash flows using prevailing discount rates in 2018 and 2017.

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

Long-term Debt. The fair value long-term loans payable is determined by discounting the obligations' expected future cash flows using the discount rate of 6.53% to 7.06% in 2018 and 3.7% to 5.1% in 2017.

Obligations under Finance Lease. The estimated fair value of obligations under finance lease was calculated using the discounted cash flow methodology, using Bloomberg Valuation service (BVAL) rates ranging from 6.7% to 6.9% in 2018 and PDST 2 rates ranging from 2.4% to 4.3% in 2017, respectively.

44. Supplemental Disclosure of Cash Flow Information

Changes in Liabilities Arising from Financing Activities

	2018					
	January 1, 2018	**Additions**	**Cash flows**	**Interest expense**	**Reclassification from short term to long-term**	**December 31, 2018**
			(In Thousands)			
Dividends payable	**₱–**	**₱1,618,343**	**(₱1,618,343)**	**₱–**	**₱–**	**₱–**
Obligations under finance lease	**74,863**	**–**	**(45,676)**	**6,187**	**–**	**35,374**
Loans payable	**2,500,017**	**–**	**(1,000,000)**	**–**	**–**	**1,500,017**
Long-term debt	**6,259,375**	**–**	**(256,945)**	**–**	**–**	**6,002,430**
Total liabilities arising from financing activities	**₱8,834,255**	**₱1,618,343**	**(₱2,920,964)**	**₱6,187**	**₱–**	**₱7,537,821**

	2017					
	January 1, 2017	Additions	Cash flows	Interest expense	Reclassification from short term to long-term	December 31, 2017
			(In Thousands)			
Dividends payable	₱–	₱1,309,630	(₱1,309,630)	₱	₱–	₱–
Obligations under finance lease	119,342	6,439	(61,777)	10,859	–	74,863
Loans payable	2,000,017		1,500,000	–	(1,000,000)	2,500,017
Long-term debt	4,621,875		637,500	–	1,000,000	6,259,375
Nontrade liability	3,762,000		(3,762,000)	–	–	-
Total liabilities arising from financing activities	₱10,503,234	₱1,316,069	(₱2,995,907)	₱10,859	₱–	₱8,834,255

Interest expense for 2018 and 2017 pertains to accretion of obligations under finance lease.

Noncash Activities

The following are the noncash activities in 2018 and 2017:

a. Additions to property and equipment amounting to nil and ₱6.4 million from lease of lottery equipment accounted for as finance lease in 2018 and 2017, respectively.
b. Net assets from the acquisition of LCC subsidiaries in 2017 (see Note 18).

45. Events After Reporting Period

On February 28, 2019, the Parent Company’s BOD approved the declaration of cash dividends of Twelve Centavos (₱0.12) per share, totaling ₱1,267.3 million. The record date to determine the shareholders entitled to receive the cash dividends was set to March 14, 2019 with the payment set on March 28, 2019.

SyCip Gorres Velayo & Co.
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Philippines

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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 Board of Directors and Stockholders
Belle Corporation
5th Floor, Tower A
Two E-Com Center, Palm Coast Avenue
Mall of Asia Complex, CBP-1A, Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Belle Corporation and subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated February 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-2 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332528, January 3, 2019, Makati City

February 28, 2019

BELLE CORPORATION AND SUBSIDIARIES
Index to the Consolidated Financial Statements and Supplementary Schedules
December 31, 2018

BELLE CORPORATION AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs	✓		
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
	Amendment to PFRS 3: Previously Held Interest in a Joint Arrangements*	Not Early Adopted		
	Amendments to PFRS 3, Definition of a Business*	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases*	Not Early Adopted		
PFRS 17	Insurance Contracts*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1, Presentation of Financial Statements*	Not Early Adopted		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiatives	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*	Not Early Adopted		
PAS 10	Events after the Reporting Period	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*	Not Early Adopted		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of servicing equipment	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement*	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*	Not Early Adopted		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
(Amended)	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax effect of distribution to holders of equity instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information ‘Elsewhere in the Interim Financial Report’	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property			
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓

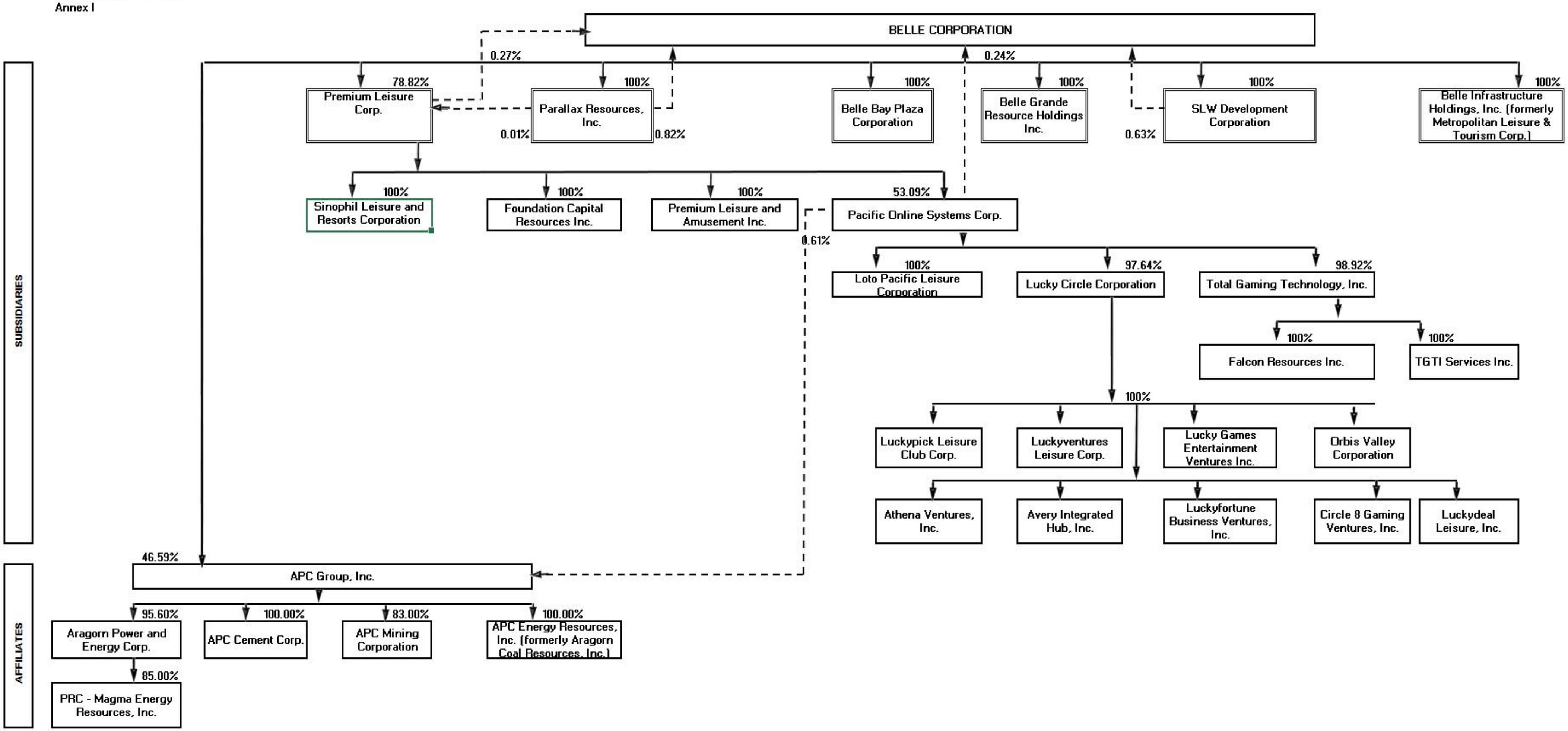
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatment*	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Standards and interpretations which will become effective subsequent to December 31, 2018.*

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

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



BELLE CORPORATION AND SUBSIDIARIES

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)
December 31, 2018

Schedule A. Financial Assets

Name of issuing entity and association 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
		(In Thousands)		
Loans and receivables				
Cash and cash equivalents	₱2,653,717	₱2,653,717	N/A	₱45,695
Trade receivables	1,200,346	1,200,346	N/A	–
Accrued interest	2,406	2,406	N/A	–
Advances to third parties and others	198,166	198,166	N/A	–
Advances to associates	594	594	N/A	–
Refundable deposits, guarantee bonds and construction bonds	74,315	74,315	N/A	–
Finance lease receivable	–	–	N/A	–
	4,129,544	4,129,544		₱45,695
Financial assets at fair value through profit or loss				
APC Group, Inc.	48,821,000	18,557	18,557	–
Leisure & Resorts World Corporation	10,724,792	34,963	34,963	–
Vantage Equities, Inc.	43,376,750	51,185	51,185	–
LRWC Preferred Shares	50,000,000	51,000	51,000	
		155,705	155,705	–
Financial assets at fair value through other comprehensive income				
SM Prime Holdings, Inc.	61,795,413	2,212,276	2,212,276	–
Spa and Lodge at Tagaytay Highlands, Inc.	193	106,150	106,150	–
SM Investments Corporation	48,878	44,845	44,845	–
Tagaytay Highlands International Golf Club, Inc.	1,316	918,400	918,400	–
The Country Club at Tagaytay Highlands, Inc.	2,278	337,811	337,811	–
Tagaytay Midlands International Golf Club, Inc.	1,763	1,150,439	1,150,439	–
Asian Petroleum	1	11	11	–
Costa De Hamilo	1	757	N/A	–
PLDT	1,605	83	N/A	–
		4,770,772	4,769,932	
		₱28,731,747	₱4,754,114	₱29,577

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
				(In Thousands)			
Principal stockholder	₱2	₱–	(₱2)	₱–	₱–	₱–	₱–
Employees	3,701	18,170	(19,922)	–	1,949	–	1,949
Officers	221	1	(218)	–	4	–	4
	₱3,924	₱18,171	(₱20,142)	₱–	₱1,953	₱–	₱1,953

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts collected	Allowance for Doubtful Accounts	Current	Not Current	Balance at end of period
				(In Thousands)			
Belle Bay Plaza Corporation	₱1,624,584	₱11	₱–	(₱1,624,558)	₱37	₱–	₱37
Metropolitan Leisure and Tourism Corp.	14	251,544	–	–	251,558	–	251,558
Belle Grande Resource Holdings, Inc.	459,350	–	(348,355)	–	110,995	–	110,995
Premium Leisure Corporation	6,553	14,331	(2,453)	–	18,431	–	18,431
SLW Development Corp.	23,143	1,281	–	–	24,424	–	24,424
Parallax Resources, Inc.	643	2	–	–	645	–	645
Belle Corporation	2,093,268	2,100,000	(55,343)	–	4,137,925	–	4,137,925
	₱4,207,555	₱2,367,169	₱(406,151)	₱(1,624,558)	₱4,544,015	₱–	₱4,544,015

Schedule D. Intangible assets - other assets

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other Charges additions (deductions)	Ending balance
			(In Thousands)			
License	₱4,696,873	₱–	(₱115,834)	₱–	₱–	₱ 4,581,039
Advisory Services	304,464	–	(304,464)	–	–	–
Goodwill	1,832,261	–	(110,934)	–	–	1,721,327
	6,833,598	₱–	(₱531,232)	₱–	₱–	₱6,302,366

Schedule E. Long-term debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"	Amount and Numbers of Periodic Payments		Maturity Date
				Amount	Periodic Payments	
	(In Thousands)					
Maybank	₱1,500,000	₱307,986	₱277,778	₱93,403	18 quarterly installments	June 23, 2022
Rizal Commercial Banking Corporation	1,500,000	1,200,000	–	100,000	3 annual installments and the remaining amount on due date	July 09, 2019
United Coconut Planters Bank	1,000,000	333,333	83,333	83,333	12 quarterly installments	February 21, 2020
Eastwest Bank	1,500,000	250,000	750,000	250,000	3 annual installments and the remaining amount on the due date	January 30, 2020
Robinsons	2,000,000	–	2,000,000	2,000,000	Balloon payment on maturity date	March 27, 2022
BDO Unibank Inc.	800,000	–	800,000	8,000	1% end of 5th year 1% end of 6th year 8% end of 7th year	September 12, 2025
	₱8,300,000	**₱2,091,319**	**₱3,911,111**			

Schedule F. Indebtedness to Related Parties

Name of Related Parties	Balance of Beginning of Period	Additions	Amounts Paid	Current	Not Current	Balance at end of period
None	–	–	–	–	–	–

Schedule G. Guarantees of Securities of Other Issuers

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

Schedule H. Capital Stock

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under statement of financial position	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	14,000,000,000	9,763,126,297	–	5,084,456,184	206,827,046	4,471,843,067
Percentage held	–	–	–	52.08%	2.12%	45.80%
Preferred stock	6,000,000,000	–	–	–	–	–
Percentage held	–	–	–	–	–	–

Schedule I. Reconciliation of Retained Earnings Available for Dividend Declaration

		(In Thousands)
Unappropriated Retained Earnings, as at December 31, 2017		₱10,989,424
Add (less): Accretion of finance lease receivable – net of tax		
Difference of finance lease receivables and cost of building, net of tax	(₱4,901,249)	
Gain on share swap	(946,628)	
Accretion of security deposit	(8,123)	
Deferred tax adjustment, beginning	(160,061)	
Accrued rental (PAS 17 adjustments), net of tax	(220,571)	(6,236,632)
Unappropriated retained earnings, as adjusted to available for dividend distribution as at January 1, 2018		4,752,792
Reclassification of marked-to-market loss from retained earnings to other reserves		547,998
Reclassification of impairment loss from retained earnings to other reserves		7,731
Unappropriated retained earnings available for dividend distribution as at January 1, 2018, as restated		5,308,521
Net income during the period closed to retained earnings	2,074,092	
Less: Accretion of finance lease receivable	(568,537)	
Difference in depreciation on MLP and cost of building	40,035	
Accrued rental (PAS 17 adjustments), net of tax	(136,097)	
Accretion of security deposit	(1,949)	
Movement in deferred tax assets	14,774	1,422,318
		6,730,839
Dividend declaration during the period		(1,259,842)
Treasury shares		(2,476,700)
Realized gain on club shares transferred to retained earnings		29,901
Unappropriated retained earnings as adjusted to available for dividend declaration, at end of year		₱3,024,198

Schedule J. Key Financial Ratios

Ratios	Formula	**2018**	2017
Asset-to-Equity Ratio	Total assets / Total stockholders' equity	**1.42 : 1.00**	1.44 : 1.00
Current Ratio	Current assets / Current liabilities	**1.71 : 1.00**	2.56 : 1.00
Debt-to-Equity Ratio	Total interest-bearing debt / Total stockholders' equity	**0.25 : 1.00**	0.29 : 1.00
Net Debt-to-Equity Ratio	Total interest-bearing debt less cash and cash equivalents / Total stockholders' equity	**0.16 : 1.00**	0.17 : 1.00
Interest Rate Coverage Ratio	Earnings before interest and taxes / Interest expense	**9.08 : 1.00**	9.49 : 1.00
Return on Asset	Net income / Average total assets	**7.5%**	8.2%
Return on Equity	Net income / Average total stockholders' equity	**10.7%**	12.1%

BELLE
CORPORATION

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

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

The management of Belle Corporation and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 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.

EMILIO S. DE QUIROS JR.
Chairman of the Board

MANUEL A. GANA
President and Chief Executive Officer

JACKSON T. ONGSIP
Executive Vice President
and Chief Financial Officer

Signed February 28, 2019

SUBSCRIBED AND SWORN to before me this __th day of FEB 28 2019 affiants exhibiting to me their Passports/TIN, as follows:

NAME	PASSPORT/ TIN No.	DATE OF ISSUE	PLACE OF ISSUE
Emilio S. De Quiros Jr.	Passport # P3713114A TIN#115-321-434-000	July 17, 2017	DFA NCR East
Manuel A. Gana	Passport # EC8496069 TIN# 906-105-409-000	August 9, 2016	DFA Manila
Jackson T. Ongsip	Passport # EC4804332 TIN#178-486-617-000	July 30, 2015	DFA Manila

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BOOK NO. XX;
SERIES OF 2019;

ATTY. ARTHUR A. SY
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
PTR NO. 7347749 / 01.11.19 / MAKATI CITY
IBP NO. 548832 / 01.07.02 / PPLM
TIN 174-674-196 ROLL NO. 40024
MCLE NO. V 0011465 / 11.02.15