BELLE CORPORATION

2017 ANNUAL REPORT

Our Vision

Belle Corporation envisions itself
as a world-class provider
of the finer things in life.

Our Values

Sustainability. Accountability. Integrity. Leadership.
Hard Work. Innovation.

Our Mission

To develop quality entertainment and leisure facilities
that promote growth and environmental sustainability.

To enhance shareholder value
for the Company's investors and partners.

To promote a mutually beneficial relationship
with all stakeholders grounded on integrity and respect.

To be the employer of choice offering career growth opportunities.

To enhance the quality of life of the communities we serve.

Contents

CORPORATE STRUCTURE

BELLE CORPORATION

GAMING

REAL ESTATE ASSETS

(Directly owned by Belle)

OTHER MAJOR INVESTMENTS

PREMIUM LEISURE CORP.

24.9 BILLION SHARES
(78.7%)

PremiumLeisure — 100%

Pacific Online — 224.3 MILLION
(50.1% of issued shares)

CITY OF DREAMS MANILA

LAND HELD FOR DEVELOPMENT AND FINISHED REAL ESTATE PRODUCTS

PROPRIETARY CLUB SHARES

TAGAYTAY HIGHLANDS INTERNATIONAL GOLF CLUB

THE COUNTRY CLUB AT TAGAYTAY HIGHLANDS

TAGAYTAY MIDLANDS GOLF CLUB

APC GROUP INC.

3.7 BILLION SHARES
(48.8%)

SM PRIME

61.8 MILLION SHARES
(Less than 1.0%)

MESSAGE TO SHAREHOLDERS

ELIZABETH ANNE C. UYCHACO
Vice Chairperson

JOSE T. SIO
Chairman of the Board

WILLY N. OCIER
Vice Chairperson

Belle Corporation continues to benefit from the strategic initiatives taken over the past few years, delivering a strong performance in 2017. Our investments, particularly in gaming, enabled your Corporation to reap the benefits of an expanding sector and deliver record revenues and earnings.

We welcome government efforts to promote the Philippines as a tourist destination. The increase in the number of tourists and the opening of key infrastructure projects during the year were a boon to our investments in Philippine Amusement and Gaming Corporation's Entertainment City. Together, these factors helped us surpass our targets on the back of impressive lease income and gaming revenue growth, which resulted in higher dividends for our shareholders.

Similarly, our property business continued to flourish. The response to our themed residential community offerings and eco-living focused developments near Tagaytay Midlands has remained strong. This, combined with our continuous enhancement of the various sports and leisure facilities and exclusive communities in Tagaytay Highlands and Tagaytay Midlands, ensures that our premium resort complex remains a destination of choice for luxury vacation homes within a short drive south of Metro Manila.

On February 23, 2018, Belle announced a cash dividend of ₱0.12 per share, or a total of about ₱1,267 million, payable in full on March 23, 2018. This is a 26% increase over the previous regular cash dividend of ₱0.095 per share, or a total of ₱1,003 million, paid on March 30, 2017.

We believe that the beauty and history of the Philippines, and the warmth of our people, will continue to entice more visitors to our shores in the years to come. As a developer of premium leisure destinations, Belle is well positioned to capitalize on the growth of the tourism sector and the growing attraction for integrated resorts. With the help of our key partners and our Management, we expect our momentum to be sustained in 2018 and beyond.

We would like to take a moment to mourn the loss of one of our long-serving and esteemed directors,

> **“As a developer of premium leisure destinations, Belle is well-positioned to capitalize on the growth of the tourism sector and the growing attraction for integrated resorts. With the help of our key partners and our Management, we expect our momentum to be sustained in 2018 and beyond.”**

Mr. Washington Z. SyCip, who passed away in October 2017. Mr. SyCip was a guiding force behind many Filipino businesses, and served on the Corporation’s Board for twenty-one years. Beyond his leadership in business, he was an advocate of poverty alleviation, public education and initiatives that gave back to the community. We will miss his guidance, wisdom and friendship.

We would also like to take this opportunity to welcome two new members to our Board, Mr. Amando M. Tetangco, Jr. and Atty. Arthur L. Amansec. Mr. Tetangco, who has taken Mr. SyCip’s place as an Independent Director of Belle, was the third Governor of the Banko Sentral ng Pilipinas, serving two consecutive terms from 2005 to 2017. Atty. Amansec is a current Commissioner of the Social Security System and replaced his colleague Dr. Gonzalo T. Duque on your Board. Both Mr. Tetangco and Atty. Amansec bring a wealth of experience to your Board and we look forward to working with both of them.

We thank our Board of Directors, Management team and employees for their dedication, and for their untiring commitment to excellent execution of our vision and strategies. Most of all, we thank you, our shareholders, for your loyalty and continued support. Together, we intend to build on our history of achievements and ensure the long term success of Belle Corporation.

JOSE T. SIO
Chairman of the Board

WILLY N. OCIER
Vice Chairperson

ELIZABETH ANNE C. UYCHACO
Vice Chairperson

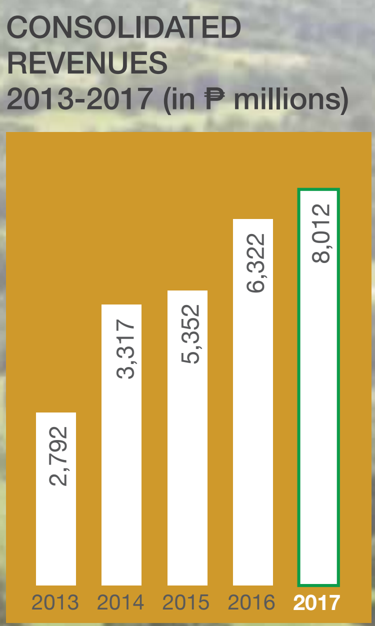
MESSAGE FROM THE PRESIDENT

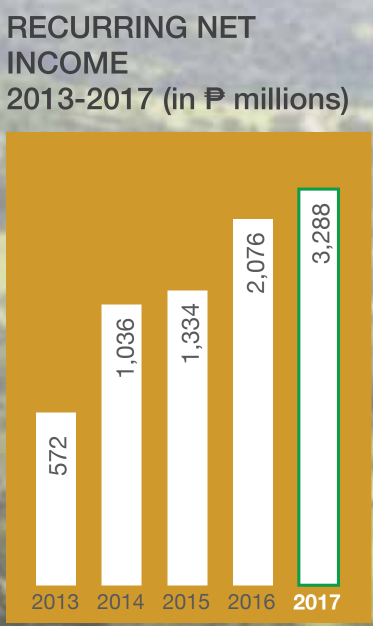
MANUEL A. GANA
President and Chief Executive Officer

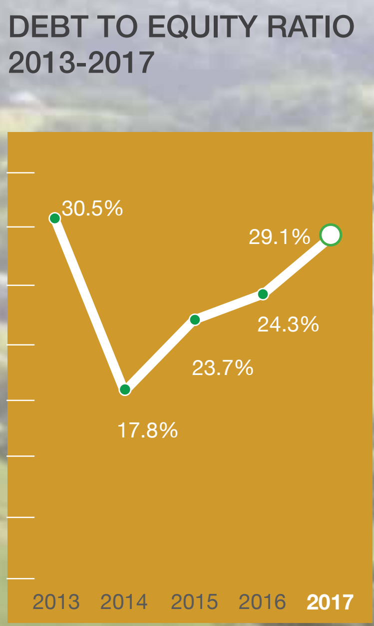
Belle delivered revenues of P8,012 million in 2017, a 27% increase from the previous year and the highest annual revenue level achieved by the Corporation to date. Consolidated net income rose by 13% to P3,511 million while recurring net income hit a record level of P3,288 million, an impressive 58% improvement over 2016.

Belle Corporation delivered excellent results across all businesses in 2017, resulting in all-time highs for both revenues and recurring net income, and we are pleased to have declared a higher dividend for our shareholders. We continue to be loyal to our broad corporate objectives of delivering value to our shareholders, serving as a good corporate citizen for the benefit of our stakeholders and delivering the finer things in life to our customers. This has resulted in our recent success as a diversified conglomerate involved in tourism and leisure industries, and in the solid financial results that you have been used to seeing from your Corporation.

Belle realized revenues of ₱8,012 million in 2017, the highest annual revenue level achieved by the Corporation to date. Recurring net income hit a record of ₱3,288 million, an impressive 58% improvement over 2016. Driving this growth was Belle's unique exposure to the gaming sector: guaranteed rental revenue from its land and building lease to our operating partners, Melco Resorts and Entertainment (Philippines) Corporation







("Melco"), and substantial upside from its share in the growing gaming operations at City of Dreams Manila ("City of Dreams"). Revenue from the lease amounted to ₱2,260 million in 2017, an increase of 3% from lease revenues of ₱2,194 million in 2016. The share in gaming earnings from City of Dreams amounted to ₱2,609 million in 2017, which comprised growth of 59% over ₱1,643 million in 2016.

Over the past few years, the changes in the landscape of Entertainment City in Parañaque have only confirmed the opportunity that we recognized when the group invested in the gaming license. Since the opening of City of Dreams in December 2014, our operating partners have built a strong franchise by leveraging their international experience and assets. City of Dreams has a broad base of local and foreign clientele and a unique position among Philippine integrated resorts. The increase in both local visitors and foreign VIPs, the increased ease of access to Entertainment City through the recently opened NAIA Expressway and the successful adaptation of gaming best practices for the City of Dreams operation, anchored the integrated resort's exciting results for 2017.

Our legacy real estate business also continued to solidly contribute to the Corporation's operating results, with total revenues in 2017 of ₱823 million comprising growth of 38% from ₱596 million in 2016. Continued innovation in themed residential community offerings, and enhancement of sports, recreational and food amenities, has allowed our world-class tourism and leisure estate, comprised of the Tagaytay Highlands and Tagaytay Midlands complexes, to maintain its standing as the premiere mountain resort destination within a short distance of Metro Manila.

FINANCIAL REVIEW

Belle's total revenues for 2017 amounted to ₱8,012 million, an increase of 27% over the 2016 level of ₱6,322 million, and also an all-time record level for revenues. The growth in revenues was largely fueled by the group's

MESSAGE FROM THE PRESIDENT

share in gaming earnings at City of Dreams Manila, through Belle's subsidiary Premium Leisure Corp. (PLC), which increased by 59% to ₱2,609 million in 2017 from ₱1,643 million in 2016. The lease of the land and buildings for City of Dreams to Melco contributed ₱2,260 million in 2017, an increase of 3% from ₱2,194 million in 2016. Revenues from Pacific Online Systems Corporation ("Pacific Online"), which is involved in the pari-mutuel gaming sector by leasing lottery and keno machines to the Philippine Charity Sweepstakes Office, saw a 23% boost in its revenues from ₱1,888 million in 2016 to ₱2,320 million in 2017. Revenues from real estate development and related activities grew by 38% to ₱823 million in 2017, from ₱596 million in 2016.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of Belle's various business units increased by 37%, from ₱3,678 million in 2016 to ₱5,031 million in 2017. Most of this was from the growth in EBITDA from PLC's share of the gaming income at City of Dreams, which increased by 59% from ₱1,187 million in 2016 to ₱1,893 million in 2017. The lease of City of Dreams contributed EBITDA of ₱1,926 million in 2017, which was 31% higher from ₱1,465 million in 2016. Pacific Online contributed ₱879 million in EBITDA in 2017, which was 14% higher than ₱769 million in 2016. The Company's EBITDA from real estate development and related activities of ₱333 million in 2017 was higher by 30% from ₱257 million in 2016.

The Company's growth in EBITDA across all business units fueled its record recurring net income level of ₱3,288 million for 2017, which was about 58% higher than recurring net income of ₱2,076 million in 2016. Consolidated net income, which includes one-time income items, grew by 13% in 2017 to ₱3,511 million, from ₱3,096 million in 2016.

Your Corporation continues to maintain a solid balance sheet, with high liquidity and low leverage, in keeping with our policy of maintaining financial prudence and flexibility. As of December 31, 2017, Belle's liquid assets, comprised of ₱3,711 million in consolidated cash and equivalents, ₱2,280 million in tradable investments and ₱3,786 million

RECENT DIVIDEND HISTORY

Declaration Date	Payment date	Amount		Stock Price on Declaration Date	Dividend Yield (%)
		P millions	P/share		
February 23, 2018 (Regular Dividend)	March 23, 2018	P1,267	P0.12	P3.66	3.28%
February 28, 2017 (Regular Dividend)	March 30, 2017	P1,003	P0.095	P3.42	2.78%
February 29, 2016 (Regular Dividend)	March 29, 2016	P1,003	P0.095	P3.08	3.08%
July 31, 2015 (Regular Dividend)	August 28, 2015	P1,003	P0.095	P3.70	2.57%
January 27, 2015 (Special Dividend)	March 9, 2015	P1,900	P0.180	P4.50	4.00%

in short-term receivables, totaled approximately ₱9,777 million. This covers 173% its current liabilities of ₱5,656 million and 111% of its consolidated total debt of ₱8,834 million. Your Corporation's gross debt-to-equity ratio was a very conservative 29%, with its net debt-to-equity ratio at only 17%.

We remain optimistic about our prospects for the coming year. We are open to opportunities that can potentially build on our investments in this space and where we can bring our experience in developing integrated luxury destinations to bear. Simultaneously, our tourism and leisure estate at Tagaytay Highlands and Midlands has maintained its consumer appeal and continues to provide solid numbers. We will continue to innovate and deliver the distinctive luxury lifestyle experience that has become synonymous with the Company.

The achievements of the past year are a source of pride for us at Belle. However, we recognize that without the guidance of our Board of Directors, and the execution of our Management team and staff, none of this would have been possible. We are deeply grateful for the contribution of all of these dedicated and hard-working individuals.

We believe that Belle Corporation continues to be on a positive trajectory of growth, and we look forward to sustaining our track record of performance in the year ahead.

We thank you, our Shareholders, for your continued support.

Sincerely,

Manuel A. Gana
President and Chief Executive Officer

BOARD OF DIRECTORS

JOSE T. SIO
CHAIRMAN

WILLY N. OCIER
VICE CHAIRPERSON

ELIZABETH ANNE C. UYCHACO
VICE CHAIRPERSON

ARTHUR L. AMANSEC
DIRECTOR
Effective February 28, 2018

EMILIO S. DE QUIROS, JR.
DIRECTOR
Until April 2017 and re-elected on December 4, 2017

MANUEL A. GANA
DIRECTOR
Effective March 15, 2017

GREGORIO U. KILAYKO
INDEPENDENT DIRECTOR

JACINTO C. NG, JR.
DIRECTOR

BOARD COMMITTEES

EXECUTIVE COMMITTEE

Willy N. Ocier	Chairperson
Elizabeth Anne C. Uychaco	Member
Manuel A. Gana	Member
Jacinto C. Ng, Jr.	Member
Virginia A. Yap	Member

RELATED PARTY TRANSACTIONS COMMITTEE

Amando M. Tetangco Jr.	Chairperson (Independent Director)
Cesar E.A. Virata	Member (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)

AUDIT COMMITTEE

Gregorio U. Kilayko	Chairperson (Independent Director)
Cesar E.A. Virata	Member (Independent Director)
Jacinto C. Ng, Jr.	Member

COMPENSATION AND REMUNERATION COMMITTEE

Jose T. Sio	Chairperson
Manuel A. Gana	Member
Elizabeth Anne C. Uychaco	Member

AMANDO M. TETANGCO, JR.
INDEPENDENT DIRECTOR
Effective December 4, 2017

CESAR E.A. VIRATA
INDEPENDENT DIRECTOR

VIRGINIA A. YAP
DIRECTOR

GONZALO T. DUQUE
DIRECTOR
Until February 23, 2018

FREDERIC C. DYBUNCIO
DIRECTOR
Until March 14, 2017

WASHINGTON Z. SYCIP
INDEPENDENT DIRECTOR
Until October 7, 2017

CORPORATE GOVERNANCE COMMITTEE

Amando M. Tetangco Jr.	Chairperson (Independent Director)
Cesar E.A. Virata	Member (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Elizabeth Anne C. Uychaco	Chairperson
Virginia A. Yap	Member
Gonzalo T. Duque	Member (Until February 23, 2018)

RISK OVERSIGHT COMMITTEE

Cesar E.A. Virata	Chairperson (Independent Director)
Gregorio U. Kilayko	Member (Independent Director)
Jacinto C. Ng, Jr.	Member

ENVIRONMENTAL AND SOCIAL COMMITTEE

Elizabeth Anne C. Uychaco	Chairperson
Virginia A. Yap	Member
Gonzalo T. Duque	Member (Until February 23, 2018)

BOARD OF DIRECTORS

JOSE T. SIO

Mr. Jose T. Sio was elected Chairman of the Board of Directors on April 24, 2017. Concurrently, he is the Chairman of the Board of Directors of SM Investments Corporation, the President of SM Foundation, Inc., and GlobalFund Holdings, Inc. He is also a member of the Board of Directors of the following companies listed in the Philippine Stock Exchange (PSE): China Banking Corporation and Atlas Consolidated Mining and Development Corporation; he is also an Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corp. Mr. Sio serves as Director of the following companies not listed in the PSE: OCLP (Ortigas) Holdings, Inc., Carmen Copper Corporation, First Asia Realty Development Corporation, Manila North Tollways Corporation, and CityMall Commecial Centers, Inc.

Mr. Sio was a Senior Partner of Sycip Gorres Velayo & Co. (SGV). He was voted as CFO of the Year in 2009 by the Financial Executives Institute of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by Hong Kong-based business publications such as Alpha Southeast Asia, Corporate Governance Asia, Finance Asia and The Asset. He is a Certified Public Accountant with a Master's degree in Business Administration (MBA) from New York University, USA.

WILLY N OCIER

Mr. Willy Ocier is one of the two Co-Vice Chairpersons of Belle Corporation. His positions with associated companies are as follows: Chairman and President of Pacific Online Systems Corporation; Chairman of APC Group, Inc., Premium Leisure Corp., and PremiumLeisure and Amusement, Inc.; Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge, Inc.; and Vice Chairman of Tagaytay Highlands International Golf Club, Inc.
Mr. Ocier also sits as a Director of the following unaffiliated corporations: AbaCore Capital Holdings, Inc., Leisure and Resorts World Corporation, Vantage Equities, Inc., Philequity Management, Inc., Philequity Funds, Philippine Global Communications, Inc. and Toyota Corporation Batangas. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics.

ELIZABETH ANNE C. UYCHACO

Ms. Uychaco is one of the two Co-Vice Chairpersons of Belle Corporation. She is also Senior Vice President of SM Investments Corporation, and a Board Director of Megawide Construction Corporation, Republic Glass Holdings Corp., and Generali Pilipinas Holding Company, Inc. She was formerly Senior Vice President and Chief Marketing Officer of Philippine American Life and General Insurance Company and Board Director of Philam Call Center. Prior to that, she was Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo Business School in 1992.

ARTHUR L. AMANSEC

Mr. Amansec is currently a Commissioner of the Social Security System. He was appointed as such in October 2016. Prior to his appointment to the Social Security System, he served as Labor Arbiter for the National Labor Relations Commission – National Capital Region (NLRC-NCR). Mr. Amansec previously worked for the Siguion-Reyna, Montecillo and Ongsiako Law Offices and as counsel for the National Mines and Allied Worker's Union. He was also the founder and the first National President of the Christian Labor Organization of the Philippines. He graduated from the University of the Philippines in 1967 with a Bachelor of Arts degree, and obtained his Bachelor of Laws degree at the San Beda College in 1972. He holds a Master of Laws degree from the University of South Wales, NSW, Sydney, Australia.

EMILIO S. DE QUIROS, JR.

Mr. De Quiros previously served as a Director of Belle Corp. from September 2010 up to April 2017 and rejoined the Board on the same capacity on December 4, 2017. He served as the President and Chief Executive Officer of the Social Security System from August 2010 until November 2016. He was also a Director of Union Bank of the Philippines and Philhealth Insurance Corporation. Prior to 2010, he served as Executive Vice President of Bank of the Philippine Islands and President of Ayala Life Insurance, Inc., Ayala Plans, Inc. and BPI Bancassurance, Inc. Mr. De Quiros graduated from Ateneo de Naga in 1969 with a Bachelor of Arts in Economics degree (Cum Laude), and obtained a Master of Arts in Economics degree in 1971 from University of the Philippines.

MANUEL A. GANA

Mr. Gana was promoted to President and Chief Executive Officer and Director on March 15, 2017. He has served as the Executive Vice President and Chief Financial Officer of the Company since August 2007, and was previously appointed as Vice President and Chief Financial Officer in September 2000. He joined Belle in 1997 as Vice President for Corporate Development and Special Projects, during which time he was also assigned as the Vice President-Finance and Chief Financial Officer for MagiNet Corporation, then a subsidiary of Sinophil Corporation (now called Premium Leisure Corp.), a subsidiary of Belle. He is also a Director of Tagaytay Highlands International Golf Club, Inc. Previously, he was Director of Investment Banking at Nesbitt Burns Securities, Inc. in New York. He also previously worked for Bank of Montreal and Merrill Lynch Capital Markets (both in New York), and for Procter & Gamble Philippine Manufacturing Corporation. Mr. Gana holds a Master of Business Administration degree from the Wharton School of the University of Pennsylvania, and degrees in Accounting and Economics from De La Salle University. He is a Certified Public Accountant.

GREGORIO U. KILAYKO

Mr. Kilayko is an Independent Director of the Company. He was founding head of ING Barings' stockbrokerage and investment banking business in the Philippines, and a Philippine Stock Exchange Governor in 1996 and 2000. Mr. Kilayko holds a Master of Business Administration degree from the Wharton School of the University of Pennsylvania. Mr. Kilayko completed accounting courses during his MBA studies, and subsequently derived accounting experience relevant to being a financial analyst for ING Baring's.

JACINTO C. NG, JR

Mr. Ng is a Director of the Company and concurrently a Director of Highlands Prime, Inc. He is the Chairman of Elanvital Enclaves, Inc., and Quantuvis Resources Corporation and also the President of Extraordinary Enclaves, Inc. and Everyhome Enclaves, Inc. He holds a Bachelor of Science degree in Architecture from the University of the Philippines.

AMANDO M. TETANGCO, JR.

Mr. Tetangco joined Belle Corp. as an Independent Director on December 4, 2017. He was the third Governor of the Bangko Sentral ng Pilipinas (BSP), where he served for two consecutive 6-year terms from July 2005 to July 2017. Under his leadership, the BSP initiated regulatory reforms to improve risk management, capitalization and asset quality, among others. A career central banker, he occupied different positions at the BSP, starting as an employee at the BSP's Statistics Department and rising from the ranks. Before joining the BSP in 2005, Mr. Tetangco was connected with the Management Services Division of Sycip Gorres Velayo & Co. Mr. Tetangco graduated from Ateneo de Manila University with an AB Economics degree (Cum Laude) in 1973, where he also took up graduate courses in Business Administration. As a BSP scholar, he obtained his MA in Public Policy and Administration (Development Economics) in 1978 at University of Wisconsin in Madison, USA.

CESAR E.A. VIRATA

Mr. Virata is the Lead Independent Director of the Company. He is the Chairman and President and Principal Consultant of C. Virata & Associates, Inc. Management Consultants. He is currently a Director and Vice Chairman of Rizal Commercial Banking Corporation (RCBC); and Director of RCBC subsidiaries and some affiliates. He is also an Independent Director of Lopez

BOARD OF DIRECTORS

Holdings Corporation, City and Land Developers, Inc. and Business World Publishing Corporation. He is a Trustee of a number of Foundation involved in education and health services. He holds an MBA from the University of Pennsylvania. Mr. Virata was formerly the Minister of Finance and Prime Minister of the Philippines. He completed accounting courses in both undergraduate and graduate studies, and is keeping up-to-date with changes in accounting standards and tax rulings.

VIRGINIA A. YAP

Ms. Yap is a Director of the Company and a member of the Company's Executive Committee. She holds key positions in the SM Group of Companies. Ms. Yap has a Bachelor of Science Degree in Commerce, Major in Accounting from the University of Mindanao.

GONZALO T. DUQUE

Dr. Duque is a Commissioner of Social Security System and was elected as a Director of Belle Corporation on February 28, 2017. He began his professional career as a Hearing Officer in the Securities and Exchange Commission. He also served as Vice Governor of the Province of Pangasinan. After the completion of his term as an elective official, he moved to the Philippine Overseas Employment Administration where he served as Director IV and, later, as its Deputy Administrator. Thereafter, he served as Consultant of the House of Representatives Committee on Education, and of the Commission on Higher Education. He obtained his Bachelor of Arts (Major in Political Science) degree, as well as his Bachelor of Laws degree, from San Beda College-Manila. He also earned his Doctorate in Educational Management (meritissimus) from the University of the Visayas, and was conferred an Honorary Doctor of Humanities degree by the University of Baguio.

FREDERIC C. DYBUNCIO

Mr. DyBuncio is an Adviser to the Board of Directors of Premium Leisure Corp. (PLC), Belle Corporation and APC Group, Inc. Prior to this, he served as President and Chief Executive Officer and Director of PLC and Belle Corporation. He is the President of SM Investments Corporation, the Vice Chairman and a member of the Board of Directors of Atlas Consolidated Mining and Development Corporation; he is also an Adviser to the Board of Directors of Pacific Online Systems Corporation. Before joining SM Investments Corporation and holding several positions in companies under the same, Mr. DyBuncio made a name for himself as a career banker. He spent over 20 years with JP Morgan Chase and its predecessor institutions. During this time, he was assigned in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and obtained his Master's degree in Business Administration program at Asian Institute of Management.

WASHINGTON Z. SYCIP

Mr. SyCip, served as an Independent Director of the Company from May 1996 until he passed in October 07, 2017. He was the founder of SGV & Co., an auditing and management consulting group with operations throughout East Asia. He was the Chairman Emeritus of the Board of Trustees and Board of Governors of the Asian Institute of Management; was a Member of the Board of Overseers of Columbia University Graduate School of Business, New York; was the Honorary Chairman of Euro-Asia Centre, INSEAD, Fontainbleau, France; was a Member of the International Advisory Board, Council on Foreign Relations, New York; and an Honorary Life Trustee of the Asia Society, New York. Mr. Sycip was a Director of a number of major corporations in the Philippines and other parts of the world.

MANAGEMENT TEAM

Jose T. Sio
Chairman of the Board

Willy N. Ocier
Vice Chairperson of the Board
Chairperson of the Executive Committee

Elizabeth Anne C. Uychaco
Vice Chairperson of the Board

Manuel A. Gana
President and Chief Executive Officer

Jackson T. Ongsip
Executive Vice President and Chief Financial Officer

Armin B. Raquel Santos
Business Unit Head, Integrated Resorts

Shirley C. Ong
Business Unit Head, Resort Residences

Mary Eleanor A. Mendoza
Real Estate Group Head

Claire T. Kramer
Clubs and Estate Services Head

A. Bayani K. Tan
Corporate Secretary

Arthur A. Sy
Assistant Corporate Secretary

Jason C. Nalupta
Assistant Corporate Secretary

Belle posted consolidated net income of P3,511 million, up 13% compared to the year before. Revenues grew 27% to P8,012 million in 2017, from P6,322 million in 2016, primarily due to the growth in the share in the gaming operations at City of Dreams Manila of Premium Leisure Corp. ("PLC"), Belle's gaming subsidiary. As a result, the Company's recurring net income jumped 58% to P3,288 million in 2017, from P2,076 million in 2016.

PLC contributed 60% of Belle's recurring net income in 2017, through its share in City of Dreams' gaming income and income from pari-mutuel gaming operations under Pacific Online Systems Corporation, followed by the City of Dreams lease with 27%. Real estate and other activities contributed the remaining 13%.


DREAMS
NILA

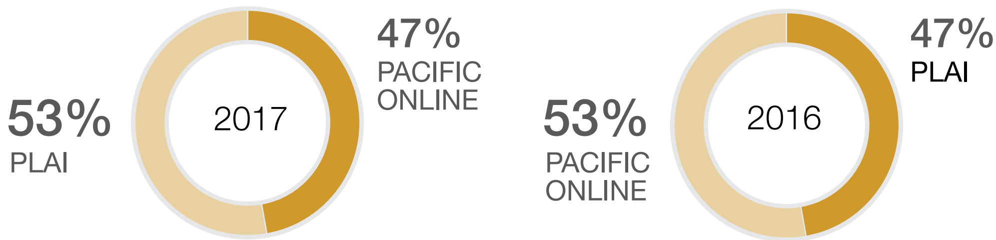
OPERATIONAL HIGHLIGHTS

GAMING

Premium Leisure Corp. (PLC), the gaming arm of Belle Corporation, continues to reap the benefits of a developing Philippine gaming market. PLC holds 100% ownership in PremiumLeisure and Amusement, Inc. (PLAI), which is a co-licensee in the PAGCOR license for City of Dreams Manila, and 50.1% in issued shares of Pacific Online Systems Corporation (Pacific Online), a publicly listed company that leases a lottery system (hardware and software) to the Philippine Charity Sweepstakes Organization (PCSO).

In 2017, the PLC's consolidated net income soared to ₱2,003 million, 73% higher than the net income earned in 2016. Full year operating earnings before interest, income taxes, depreciation and amortization (EBITDA) climbed to ₱2,597 million in 2017, which is 37% more than 2016 EBITDA. The key contributor to this impressive growth is the Company's share in the gaming revenues of City of Dreams Manila, which amounted to ₱2,609 million in 2017. Meanwhile, the controlling interest of PLC in Pacific Online provided additional revenue from equipment leasing, commissions and instant scratch ticket sales, which reached ₱2,320 million.

PLC REVENUE



Since its partnership with Melco Resorts & Entertainment (Melco) in 2015, PLAI has reaped strong, continuous profit from its gaming revenue share from City of Dreams Manila. Melco, as a leading developer and operator of integrated gaming resorts in Macau, has ably created and maintained the luxury entertainment brand of City of Dreams Manila.

PLC's stake in Pacific Online contributed 47% in revenues from equipment leases to PCSO and commission and distribution income. PCSO is the government entity that regulates lottery operations in the country in order to raise funds for its health and charity programs. Pacific Online sources technology from leading global suppliers of integrated gaming systems for its development of the lottery system leased to PCSO. Pacific Online has installed over six thousand lottery terminals as of yearend 2017. The Company has reached more players as it operates over 200 outlets in major shopping centers in the country.

As a result of this strong performance for the year, on February 23, 2018, PLC declared a dividend of ₱0.044 per share (approximately ₱1,388 million), 56% higher than the dividend paid in the previous year and comprising 81% of the Company's unrestricted retained earnings. The Company's steady revenues and minimal fixed charges are seen to propel PLC to increasingly better profitability in the coming years.

With the continued optimism towards tourism in the country, PLC remains confident towards future developments. Keeping an eye on growth opportunities in gaming is top priority for the Company to stay ahead of the game.

REAL ESTATE DEVELOPMENT

Tagaytay Highlands and Midlands, Belle's premier mountain resort complexes, continued to be among the top leisure and resort destinations away from the hustle and bustle of Metro Manila. In 2017, Belle's real estate development and related activities made a strong showing with ₱823 million in revenues, a strong 38% increase from ₱596 million in 2016. This was due in large part to increased sales in Katsura, a Japanese themed residential community, and in Sycamore Heights, a "green" community with homes using naturally regulated indoor temperatures, reduced energy consumption and maintenance costs and extremely low carbon emissions.

CITY OF DREAMS MANILA

Since its opening in December 2014, City of Dreams Manila has become one of the premier luxury entertainment destinations in Metro Manila. Designed with a spacious and contemporary casino showcasing an array of gaming formats and amenities, City of Dreams Manila has evolved into an integrated destination offering a unique mix of gaming, entertainment and curated shopping experiences. The integrated resort complex also brings together a collection of contemporary and lifestyle-focused luxury hotel brands in its NÜWA , Nobu and Hyatt hotels, and a unique entertainment facility in DreamPlay, the property's signature DreamWorks-inspired play space.

The success of the City of Dreams Manila has fueled the Company's strong performance in recent years. Through the efforts of our operating partner, Melco, City of Dreams Manila has achieved an enviable position as a luxury entertainment destination, attracting a steady stream of both local and foreign customers. This can be seen in the growing list of accolades it has received in 2017.

Property Awards

With its exceptional facilities and services, the integrated resort was cited in the international online edition of Town and Country magazine as one of the "23 Fanciest Casinos in the World".

The luxury resort also received the "Corporate Commercial Luminary Award" from Meralco in recognition of the resort's contribution to nation-building through creation of jobs and promotion of Philippine tourism; and, from Mega magazine, the "2017 Exemplary World-Class Integrated Resort Award".

Hotel Awards

NÜWA (formerly named Crown Towers Manila) is the integrated resort's 6-star luxury brand containing its VIP suites. It was bestowed with the 2016 International Hotel and Property Award for Best Lobby/Public Area/Lounge in the Global category, and Best Hotel over 200 Rooms in Asia Pacific by Design Et Al, a prestigious international design magazine in Italy.

Hyatt at City of Dreams Manila was recognized by the Readers' Choice Awards as among the Top Five Best Hotels in Manila in 2016 by regional travel magazine DestinAsian.

Nobu Hotel Manila was likewise featured in the Forbes Travel Guide online article on “Five Celebrity-owned Hotels that Make You Feel Like the Star”, which lists Robert de Niro’s various hotels in partnership with Chef Nobu Matsuhisa.

Together, the resort’s three luxury hotel brands were recognized in TripAdvisor’s Travelers Choice Awards for 2017 with a “Certificate of Excellence” and a designation of being among the “Top 25 Luxury Hotels in the Philippines”.

Restaurant Awards

With more than 20 dining outlets in the property, signature restaurants Nobu Manila and Crystal Dragon were singled out as being a few of the culinary gems to be enjoyed in City of Dreams Manila. Both have been recognized as being among the best restaurants in the Philippine Tatler Guide for three consecutive years from 2016 to 2018 and in the 2017 Town and Country Philippines’ 50 Best Restaurants list.

In the international food scene, Nobu Manila was cited by the online edition of Conde Nast Traveler as “One of the 7 Premier Restaurants Putting Manila in the World’s Gastronomic Map” in 2017.

Staff Awards

All these achievements would not be possible without hard working individuals who go the extra mile to cater to the needs of City of Dreams Manila’s many clients. As a testament to high standards of professional excellence and the exceptional service they provide, Director of Housekeeping Judith Matubis and Emergency Response Supervisor Michael Lumbres were named Asia’s Rooms Hotelier of the Year and Asia’s Unsung Hero of the Year, respectively. They were recognized in the prestigious Asian region 2017 BMW Hotelier Awards in Macau.

The honors given to our resort complex, its hotels and restaurants as well as its people are a great source of pride for the company. If anything, these awards serve as impetus to maintain the high standards of service our clients have come to expect and to continue to offer best-in-class hospitality at the City of Dreams Manila.

TAGAYTAY HIGHLANDS

2017 began on a high note for Tagaytay Highlands, with recognition from two industry-acclaimed award giving bodies. The first was the Best Leisure Development in the Philippines for 2017 from Asia Pacific Property Awards (APPA), recognizing Tagaytay Highlands' premier residential leisure living. Tagaytay Highlands was also recognized in the locally-distinguished Philippine Property Awards as the country's Best Resort Residences for 2017.

TAGAYTAY HIGHLANDS

These developments are part of Tagaytay Highlands' efforts to continuously raise the bar in residential leisure living and attendant world-class services, staying true to its vision as the premier mountain resort in the country. It continues to innovate and give value to the investments of its members and residents.

A notable example of this is Plantation Hills, a sought after development within a short drive from the Tagaytay Midlands. Plantation Hills is well-known for its relaxing country environment, through a combined residential and eco-farming concept. Belle is planning to roll-out an expansion of Plantation Hills in 2018.

Ahead of its 25th anniversary in 2019, amenities and facilities at Tagaytay Highlands International Golf Club and at the Tagaytay Midlands Golf Club are being enhanced with a number of renovations and improvements. Since 2016, The Country Club at Tagaytay Highlands has been very active in the refurbishment of its different food and beverage outlets such as Akasaka, Toscana, Bread Shop & Cafe, Genghis Khan and the Trellis Viewing Deck, and in the rehabilitation of its recreational and sports facilities. These improvements are all expected to be completed within 2018.

2017 also saw security improvements within the Tagaytay Highlands and Midlands estates, led by the different Homeowners' Associations of the various residential communities. New equipment and facilities were acquired including the deployment of new patrol vehicles, CCTV cameras in the entrance and exit gates of each community, plus improved firearms and radio communication systems.

The Company continues to prioritize the sustainability of its operations and to be mindful of its impact on its surrounding communities. It started the year by participating in the annual global Earth Hour movement for Nature last March 25, 2017 in partnership with WWF-Philippines. In addition, as part of the Associations' efforts to reduce power consumption, street lights were replaced with LED lights in several residential communities: Pinecrest Village, The Villas, The Woodlands, Belle View, Alta Mira, Lakeview Heights, Plantation Hills, The Parks, The Verandas and Fairfield. This resulted in savings and a smaller carbon footprint in these properties. These efforts reflect its commitment to environmental sustainability as it aims to expand the scope of these activities in the years ahead.

Efforts to maintain, enhance and build upon the various exclusive residential communities and the upgrade of the amenities within the complex continues apace. Tagaytay Highlands will continue to offer its customers what it has been known for more than two decades: panoramic lake and volcano views combined with a relaxed luxury lifestyle to maintain its status as the premier mountain getaway south of Manila.

SAVINGS IN WATTS AND PESOS

152,589 watts = P422,892

CORPORATE SOCIAL RESPONSIBILTY

Belle impacts the lives of many communities surrounding its developments, particularly in Tagaytay. This is why it is imperative we ensure that the value we aim to deliver to our shareholders is sustainable and in collaboration with all our stakeholders. The Company accomplishes this through its Corporate Social Responsibility arm, aptly called “Belle Kaagapay”. Its aim is to empower the communities the Company serves through self-supporting projects and programs focusing on health, education and livelihood development.

Kaagapay sa Kalusugan

General care for the health of residents in surrounding communities is among the issues that Belle Kaagapay seeks to address through its philanthropic activities. To prevent the accumulation of stagnant water that may lead to the spread of water-borne diseases in Barangay Sulpoc in Tanauan, Batangas, Belle Kaagapay assisted in clearing works at their catch basin, outfall creek and canals. At the same time, Belle Kaagapay was able to support the Senior Citizens Group of barangay Calabuso in Tagaytay City, Cavite in upgrading their Senior Citizens' Assistance Center by providing paint and repurposed furniture. Support was also provided to Barangays Sulpoc, Suplang and Montaña in Tanauan, Batangas through the donation of stretchers, sirens and blinkers, oxygen tanks and medical kits. This contribution enabled the emergency response teams of these barangays to be better equipped to address crisis situations should they arise.

Kaagapay sa Edukasyon

The Company recognizes education as the foundation of the future for our young citizens. Belle Kaagapay remained a strong supporter of Brigada Eskwela activities at Suplang Elementary School, Doña Maria Laurel Platon Memorial School and Quiling Elementatry School in Tanauan, Batangas. In an effort to "go beyond", apart from the usual repainting of classrooms and other school facilities, Belle continued its installation of a drainage system for Montaña Elementary School also in Tanauan, Batangas and the LED lighting project for Tambo Elementary School Unit 1 in Tambo, Parañaque City while used computer sets were donated to Quiling Elementary School.

Another program that Belle believes in is the feeding program at Suplang Elementary School and Tambo Elementary School Unit I, which benefits 160 students each year. Belle supports underprivileged families by ensuring that their children receive the proper nutrition needed to be active learning students. This help also extends to 10 college students who receive educational subsidies under Belle Kaagapay's scholarship program.

Kaagapay sa Kabuhayan

Farmer assistance is one of the most impactful ways Belle Kaagapay is able to assist in the livelihood of surrounding communities. In addition to providing land that local farmers can utilize and cultivate, Belle Kaagapay facilitates training sessions on organic farming methods and opportunities and provides logistics support to allow farmers to attend agricultural expos.

On the demand side, Belle provides a ready market for the farmers' organic produce with its dining outlets in Tagaytay Highlands and Tagaytay Midlands as willing buyers. Local products produced by local communities are also supported by showcasing these products during busy holidays.

With this program, Belle Kaagapay tangibly encourages a cycle of self-help and empowerment. Farmers and local residents are equipped with the skills and resources for their livelihood, they produce high value goods and there is a market for their products. Small enterprises prosper and many lives are uplifted. This is sustainable growth at its best.

Beyond its core programs, 2017 saw Belle Kaagapay extend a helping hand to more of our countrymen and women by working with other organizations. In partnership with SM Foundation Inc. ("SMFI"), Belle donated P1 million that was used to fund mosquito nets and personal care packs for 2,200 families staying in 8 municipalities across Lanao del Norte. These care packages were given to evacuees staying in cramped evacuation centers and were part of preventive measures taken to maintain their health and safety. Though sponsorship, Belle Kaagapay worked with NordCham, a foreign business chamber, in supporting the Chosen Children Village, an NGO taking care of physically and mentally disabled children. Belle Kaagapay also supported Down Syndrome Association of the Philippines through sponsoring their National Down Syndrome Consciousness Month activities.

2017 was a busy year for Belle Kaagapay and the intent is to reach out and help even more people in the years ahead. With its growing success, Belle renews its pledge to the programs it supports and resolves to work even closer with other organizations to bring sustainable prosperity to the communities it serves.

Environmental Sustainability

Tagaytay Highlands (the "Club"), Belle Corporation's flagship project, is composed of over 1,300 hectares of rolling terrain and lush green hillside. In line with the Company's mission of developing premium leisure destinations which promote growth and environmental sustainability, the Club has implemented various water and power conservation measures to prioritize environmental protection and sustainable operations.

Power conservation measures

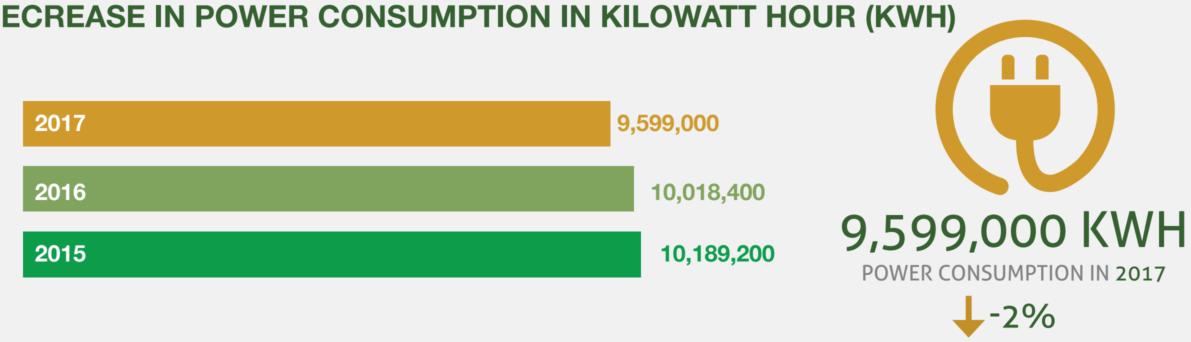
The implementation of energy efficiency measures starts with the regular monitoring of electricity within the complex. Data on power usage throughout the facility is diligently logged on a monthly basis and used as a benchmark for conservation efforts. Facility operation schedules are constantly reviewed for opportunities to lessen the use of air conditioning and lighting. This is augmented by constant reminders to all staff members of company guidelines to maintain office temperature at comfortable and operationally safe levels and to turn off air conditioning and other office equipment after office hours. There is also an established schedule for the regular maintenance of air conditions, generator sets, water pumping stations, office lighting and other electrical facilities as part of continuous efficiency and safety efforts.

The Club also invests in power saving technologies with the use of power quality monitors and automatic-switch generators. One of the Club's projects involved the replacement of fluorescent bulbs with LED bulbs for common road lighting resulting in a 50% decrease in electricity utilization. This initiative was then emulated by the Club's agriculture-residential community, Plantation Hills, likewise resulting in significant decreases in energy consumption. As a result of these positive outcomes, the other residential subdivisions, facilities and offices are expected to follow.

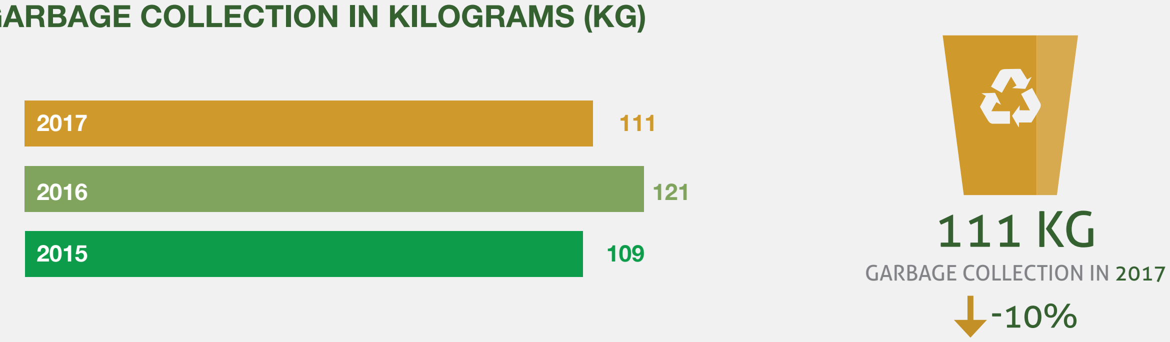
Water conservation measures

Similar to its power initiatives, the Club's water conservation measures begin with consistent monitoring of water consumption throughout the facility. In addition, the Club's system of pumps and pipes are

DECREASE IN POWER CONSUMPTION IN KILOWATT HOUR (KWH)



GARBAGE COLLECTION IN KILOGRAMS (KG)

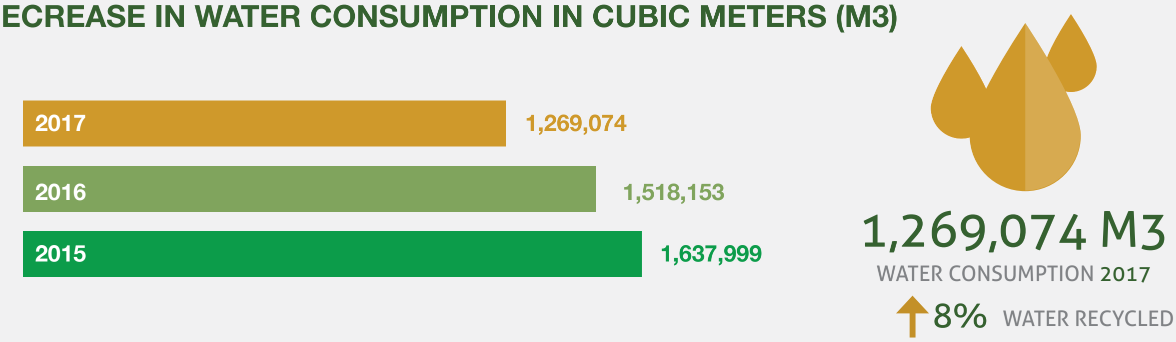


inspected weekly for possible leaks within the water line network. This and regular maintenance of the pumping stations, pipelines and irrigation system facilities enables quick identification of leaks to minimize system losses and to allow immediate rectification.

Due to its location, the Club is a natural basis for rain water from the mountains. Taking advantage of this, the Club is equipped with water storage and recycling facilities providing the entire development access to a sustainable water source. In 2017 alone, this facility recycled 6,480 cubic meters of water. To address the high water demand for its landscapes, golf courses and waterscapes, the Club maximizes the rainy season through its recycling facilities. The Club aims to build on these efforts and enhance its water conservation efforts in the years to come.

To further protect the natural environment, sustainable initiatives such as tree planting activities and conservation efforts are planned and implemented throughout the year. The vision of Mr. Willy N. Ocier, Belle's Vice Chairperson, to have one million trees within the next 50 years inside the Club continues to draw support from the Company's stakeholders. Last July 2017, the One Tree At A Time tree planting activity was held at the Greenlands where 335 saplings endemic to Tagaytay Highlands were planted. Dignitaries from Singapore, Thailand, Myanmar and Lao PDR as well as representatives from the Asean Center for Biodiversity, Belle Corporation, Highlands Prime, Inc., and Sagittarius Mines, Inc. took part in this purposeful occasion.

DECREASE IN WATER CONSUMPTION IN CUBIC METERS (M3)



Sustainable Development Goals

Belle Corporation serves as a catalyst in nation building and the country's economic progress through its pioneering and world-class leisure property developments and integrated resorts. In line with the Company's mission to develop quality entertainment and leisure facilities that promote growth and environmental sustainability, Belle has implemented various initiatives which support the Sustainable Development Goals of the United Nations.

1 NO POVERTY

2 ZERO HUNGER

156,360
hot meals served to

1,303
supplemental feeding program beneficiaries from

7
barangays

102
farmers trained

4 QUALITY EDUCATION

91
classrooms repainted and refurbished

5
completed school repairs

10
college scholars

10
used computers donated

3 GOOD HEALTH AND WELL-BEING

2,284
beneficiaries availing of

2
refurbished health and senior citizens centers

3
barangays received ambulance acccessories

2,026
patients benefited from

4
medical, dental and eye missions

7
barangays received medicine donations

19

water chlorinators covering the entire Tagaytay Highlands Complex' domestic line

150

access ramps installed in Tagaytay Highlands for persons with disabilities

204

street lights changed using LED technology

8,024

participants raised awareness for Down Syndrome

2

houses donated to Yolanda victims thru SM Foundation, Inc.

488,562

trees planted

CORPORATE GOVERNANCE

Belle Corporation (the "Company") upholds the importance of good corporate governance in its affairs and undertakings as it improves shareholder value and sustains growth and progress. The Company remains dedicated to doing business according to its long-held values on sustainability, accountability, integrity, leadership, hard work and innovation. These values establish the foundation of the Company's corporate governance framework, which are rooted in all facets of its operations and dealings with all its stakeholders.

The Company's Manual on Corporate Governance ("MCG") was enhanced to align with the Revised Code of Corporate Governance ("CCG") for Publicly Listed Companies, released by the Securities and Exchange Commission ("SEC"), and effected in January 2017. The CCG aims to increase responsibilities of the board and ensure the competence and commitment of the directors, and provide full disclosure and transparency in both financial and non-financial reporting. The MCG and the Code of Business Conduct and Ethics ("CBCE") adhere to the principles of fairness, accountability and transparency. The Company promotes these principles to everyone in the organization and to all of its stakeholders, keeping stride with global corporate governance best practices with the advice and support of its Board of Directors (the "Board").

The Board's Governance Responsibilities

Compliance with the principles of good governance starts with the Board. It is the Board's responsibility to foster the long-term success of the Corporation and sustain its competitiveness and profitability while being consistent with its corporate objectives and best interests of its stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties and responsibilities.

The eleven (11) members of the Board are elected by the Company's stockholders during the Annual Stockholders' meeting. The directors hold offices for one (1) year and until their successors are elected following the procedures set forth in the Company's By-Laws. There are three (3) non-executive independent directors, one of whom is designated as the lead independent director. Except for their directors' fees and shareholdings, the independent directors are free from any business or other relationship, which could, or reasonably be perceived, to interfere with their exercise of independent judgment in carrying out their responsibilities.

All Board members have been duly screened and deemed eligible and highly qualified by the Corporate Governance Committee, whose responsibilities include the nomination function since it was merged with the Nomination Committee in April 2017. The Board is composed of directors with collective working knowledge, experience and expertise that is relevant to the Company's industry / sector. They have undergone pertinent training and orientation on corporate governance and continuing education programs in compliance with the MCG.

Name of Director	Designation	Directorship	Age	Date first elected	Date last elected[1]	Number of Years as Director (If ID, state the number of years served as ID)[2]
Jose T. Sio[3]	Chairman	Non-Executive	78	12/23/2009	04/24/2017	9
Willy N. Ocier	Vice Chairperson	Executive	61	06/24/1999	04/24/2017	17
Elizabeth Anne C. Uychaco	Vice Chairperson	Non-Executive	62	12/23/2009	04/24/2017	9
Arthur L. Amansec[4]	Director	Non-Executive	71	02/28/2018	02/28/2018	1
Emilio S. De Quiros, Jr.[5]	Director	Non-Executive	69	10/10/2010	12/04/2017	7
Gonzalo T. Duque[6]	Director	Non-Executive	65	02/28/2017	04/24/2017	See Note 6
Frederic C. DyBuncio[7]	Director, President & CEO	Executive	58	04/22/2013	04/25/2016	See Note 7
Manuel A. Gana[8]	Director, President & CEO	Executive	60	03/15/2017	04/24/2017	1
Gregorio U. Kilayko	Independent Director	Non-Executive	62	02/05/2003	04/24/2017	15 from Y2003 & 6 from Y2012[2]
Jacinto C. Ng, Jr.	Director	Non-Executive	48	08/07/2000	04/24/2017	18
Washington Z. Sycip[9]	Independent Director	Non-Executive	Deceased	05/20/1996	04/24/2017	See Note 9
Amando M. Tetangco, Jr.[10]	Independent Director	Non-Executive	65	12/04/2017	12/04/2017	<1
Cesar E.A. Virata	Independent Director	Non-Executive	87	05/20/1996	04/24/2017	22 from Y1996 & 6 from Y2012[2]
Virginia A. Yap	Director	Non-Executive	67	07/30/2010	04/24/2017	7

[1] Annual Stockholders' Meeting
[2] Reckoned from the election immediately following 01/02/2012.
[3] Mr. Sio was elected as Chairman of the Board on 04/24/2017.
[4] Mr. Amansec was elected as Director on 02/23/2018 effective 02/28/2018, replacing Mr. Duque.
[5] Mr. De Quiros, Jr. resigned as Chairman and Director on 04/24/2017; and re-elected as Director on 12/04/2017.
[6] Mr. Duque was elected as a Director on 02/28/2017 and resigned on 02/23/2018.
[7] Mr. DyBuncio resigned as a Director and as President & CEO on 03/15/2017 and is now an Adviser to the Board of Directors.
[8] Mr. Gana was elected as a Director, and appointed as President and CEO, on 03/15/2017, replacing Mr. DyBuncio.
[9] Mr. Sycip served as an Independent Director until he passed away on 10/07/2017.
[10] Mr. Tetangco was elected as an Independent Director on 12/04/2017.

The Chairman and the President

The Chairman of the Board and the President are separate individuals, whose functions and responsibilities are laid out in the MCG. Only two (2) members of the Board are executive directors, namely the Vice Chairperson of the Board and Chairperson of the Executive Committee, Mr. Willy N. Ocier, and the President and Chief Executive Officer, Mr. Manuel A. Gana.

Board Committees (2017)

To address specific tasks and responsibilities and help focus on specific corporate governance responsibilities, the Board created nine (9) committees, namely the Executive Committee, the Audit Committee, the Nomination Committee[1], the Corporate Governance Committee, the Risk Oversight Committee, the Related Party Transactions Committee, the Compensation and Remuneration Committee, the Corporate Social Responsibility Committee and the Environmental and Social Committee. Each Committee has adopted a Charter which outlines its purpose, composition, roles and responsibilities based on the MCG. Furthermore, the Charters include administrative provisions on the conduct of meetings and proceedings and reporting to the Board and Committee Advisors.

[1] Nomination Committee was merged with the Corporate Governance Committee in April 2017.

Executive Committee

The Executive Committee oversees the management of the Company when the Board is not in session, and is responsible for the Company's finances, goals, and policies. Further, it is also tasked to foster the long-term success of the Company and sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders through sound strategic directions, guidelines and programs.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Willy N. Ocier	8	7	88%
Member	Elizabeth Anne C. Uychaco	8	8	100%
Member	Manuel A. Gana	7	7	100%
Member	Jacinto C. Ng, Jr.	8	2	25%
Member	Virginia A. Yap	8	7	88%
Member	Frederic C. DyBuncio	1	1	100%

Note: Mr. DyBuncio resigned on 03/15/2017 and was replaced by Mr. Gana.

Audit Committee

The Audit Committee directly interfaces with the internal and external auditors in the conduct of their duties and responsibilities. Its mandate includes the review of the Company's financial reports and subsequent recommendation to the Board for approval. It likewise assists and advises the Board in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's accounting, financial reporting, auditing practices and internal control system and adherence to over-all corporate governance best practice. The Committee also oversees the Company's process for monitoring compliance with laws, regulations, the CBCE, and performs other duties as the Board may require.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Gregorio U. Kilayko (ID)	5	5	100%
Member	Cesar E.A.Virata (ID)	5	5	100%
Member	Jacinto C. Ng, Jr.	5	4	80%

Corporate Governance Committee

The Corporate Governance Committee is tasked to advise and assist the Board in performing its responsibilities with regard to corporate governance compliance in relation to the MCG, rules on disclosures and corporate governance guidelines of the SEC and the Philippine Stock Exchange ("PSE"). Likewise, it shall also be responsible for monitoring the trends on corporate governance and for making the appropriate recommendations to the Board of Directors. The Nomination Committee, primarily responsible for evaluating all candidates nominated to become a member of the Board, was merged with the Corporate Governance Committee on April 24, 2017. The Committee may source candidates through professional search firms or other similar mechanisms, and recommend candidates to fill vacancies occurring between annual shareholder meetings. It shall provide communications with the Board and, as appropriate, communications with the shareholders and regulators. The Committee ensures that all candidates nominated shall possess the ideals and values that are aligned to the Company's vision and mission statements.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Amando M. Tetangco, Jr. (ID)	N/A	N/A	N/A
Member	Cesar E.A. Virata (ID)	2	2	100%
Member	Gregorio U. Kilayko (ID)	2	2	100%
See Note	Washington Z. Sycip (ID)	1	1	100%

Note: Mr. Sycip served as Chairman of Corporate Governance Committee until he passed away on 10/07/2017.

Risk Oversight Committee

Under its Charter, the Risk Oversight Committee assists and advises the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's business and financial risk profile, risk management system and accomplishment of its objectives. In addition, the Committee ensures that Management sufficiently and swiftly manages risks (i.e. reduction and mitigation across operating units) especially those categorized as having high impact with high probability of occurring.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Cesar E.A. Virata (ID)	4	4	100%
Member	Gregorio U. Kilayko (ID)	4	4	100%
Member	Jacinto C. Ng, Jr.	4	3	75%

Related Party Transactions Committee

The Related Party Transactions (RPT) Committee assesses material agreements with related parties to ensure that these are conducted at market rates and on an arm's length basis. The Committee determines materiality thresholds at which related party transactions, not in the usual course of business, shall be subject for review.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Amando M. Tetangco, Jr. (ID)	N/A	N/A	N/A
Member	Cesar E.A. Virata (ID)	2	2	100%
Member	Gregorio U. Kilayko (ID)	2	2	100%
See Note	Washington Z. Sycip (ID)	1	1	100%

Note: Mr. Sycip served as Chairman of the Related Party Transactions Committee until he passed away on 10/07/2017.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked to decide, determine and approve, by a majority vote, matters relating to compensation, remuneration and benefits of the Company's officers and directors and to provide communications with the Board and, as appropriate, communications with shareholders and regulators.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairman	Jose T. Sio	1	1	100%
Member	Manuel A. Gana	2	2	100%
Member	Elizabeth Anne C. Uychaco	2	2	100%
See Note	Gregorio U. Kilayko (ID)	1	1	100%

Note: Mr. Kilayko was the Chairman of the Compensation and Remuneration Committee until 04/23/2017.

Corporate Social Responsibility Committee

The Corporate Social Responsibilty Committee shall assist and advise the Board on activities relating to corporate social responsibility, strengthening the Company commitment to its mission on promoting a mutually beneficial relationship with all stakeholders grounded on integrity and respect, and on enhancing the quality of life of the communities it serves. It aims to balance the business objectives of the Company with social good.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairperson	Elizabeth Anne C. Uychaco	2	2	100%
Member	Virginia A. Yap	2	2	100%
See Note	Gonzalo T. Duque	2	2	100%

Note: Until February 23, 2018

Environmental and Social Committee

The Environmental and Social Committee assists and advises the Board on environmental and social activities. It provides oversight of the Corporation's efforts to protect and sustain the environment and promote the welfare of the communities it operates in. It determines environmental and social risks and evaluates their impact to Company operations.

Office	Name	No. of Meetings Held in Y2017	No. of Meetings Attended	%
Chairperson	Elizabeth Anne C. Uychaco	2	2	100%
Member	Virginia A. Yap	2	2	100%
See Note	Gonzalo T. Duque	2	2	100%

Note: Until February 23, 2018.

Board Performance and Attendance

Regular meetings of the Board are scheduled at the beginning of the year and are held at least six (6) times annually. Special meetings may also be called by the Chairman, the President or Corporate Secretary. A director's absence or non-participation in more than 50% of all meetings in a year is a ground for temporary disqualification in the succeeding election.

The Board conducts an annual assessment of its performance, including that of the Chairman, individual members of the Board, the Board committees and the CEO. Every three years, the assessment shall be supported by an external facilitator.

During 2017, all of the Company's Directors have complied with all requirements.

Name	Date of Appointment	No. of Mtgs Held	No. of Mtgs Attended	%	2/28	3/15	4/24	4/24*	8/2	11/3	12/4	12/14
Jose T. Sio	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Willy N. Ocier	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Elizabeth Anne C. Uychaco	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Arthur L. Amansec	2/28/2018	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Emilio S. De Quiros, Jr.	4/24/2017	3	3	100%	✓	✓	n/a	n/a	n/a	n/a	n/a	✓
Gonzalo T. Duque	2/28/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Frederic C. DyBuncio	4/25/2016	1	1	100%	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Manuel A. Gana	4/24/2017	7	7	100%	n/a	✓	✓	✓	✓	✓	✓	✓
Gregorio U. Kilayko	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Jacinto C. Ng, Jr.	4/24/2017	8	7	88%	✓	✓	✓	✓	✓	-	✓	✓
Washington Z. Sycip	4/24/2017	5	5	100%	✓	✓	✓	✓	✓	n/a	n/a	n/a
Amando M. Tetangco, Jr.	12/4/2017	1	1	100%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓
Cesar E.A. Virata	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓
Virginia A. Yap	4/24/2017	8	8	100%	✓	✓	✓	✓	✓	✓	✓	✓

*Organizational Meeting held on 04/24/2017.

Corporate Governance-related Policies

The Company's good corporate governance culture is embodied in its MCG and CBCE. The Company has adopted and implemented policies and programs relating to corporate governance, which are regularly reviewed and enhanced to keep abreast of best practices. These policies are cascaded to all employees by internally conducting several Corporate Governance orientation sessions commencing in year 2017. Thereafter, this is conducted annually to apprise employees on any developments in governance-related policies.

The Manual on Corporate Governance

The MCG institutionalizes the principles of good corporate governance throughout the organization. It outlines the Company's compliance system and identifies the responsibilities of the Board and Management in relation to good corporate governance. It also states the Company's policies on disclosure and transparency, and mandates the conduct of communication and training programs on corporate governance.

The MCG specifies the rights of all the shareholders and the protection of the interest of the minority stockholders. The Board is committed to respect the following rights of the stockholders:

Right to Nominate

- Shareholders, whether majority or minority, shall have the right to nominate candidates for seats in the Board, who must have the qualifications and none of the disqualifications of Directors as stated in the Company's MCG

Voting Right

- Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code of the Philippines, including decisions concerning corporate changes such as:
    - Amendments to the Company's constitution
    - Authorization of additional shares
    - Transfer of all or substantially all assets, which in effect results in the sale of the Company
- Cumulative voting shall be used in the election of directors.
- The Board shall be transparent and fair in the conduct of the meetings of the shareholders. The shareholders shall be encouraged to personally attend such meetings, and that if they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the right to designate a proxy shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in favor of the shareholder. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Power of Inspection

- The Company shall allow all stockholders to inspect books and records of the Company including minutes of Board meetings and stock registries in accordance with the Corporation Code, and during normal business hours. Annual reports, including financial statements, shall be provided to stockholders, without cost or restrictions.

Right to Information

- The Board shall ensure that all material information about the Company which could adversely affect its viability or the interests of the shareholders are publicly and timely disclosed through established procedures of the SEC and PSE.
- Upon request, the Company shall provide the stockholders with periodic reports and information about directors and officers, and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among directors and key officers and the aggregate compensation of directors and officers.
- The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- The minority shareholders shall have access to all information relating to matters to which the management is accountable for and matters for which the management should include in such information. If not included, the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

Right to Dividends

- Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- The Company, while ensuring financial flexibility, shall endeavor to declare annual regular cash dividends exceeding 30% of the prior year's net income from continuing operations.
- Dividends shall be paid to all shareholders within thirty (30) days from declaration.
- The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except:
    a. When justified by definite corporate expansion projects or programs approved by the Board;
    b. When the Company is prohibited from declaring dividends under any loan agreement with any financial institution or creditor, whether local or foreign, without its consent, and such consent has not been secured;
    c. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

Appraisal Right

The stockholders shall have appraisal right to dissent and demand payment of the fair value of their shares in the manner provided under Section 82 of the Corporation Code, under any of the following circumstances:

a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code.

c. In case of merger or consolidation.

The MCG likewise sets the penalties for non-compliance with the Manual and is regularly reviewed to ensure compliance with regulatory advancements and to keep pace with the constant development of corporate governance best practices.

The Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics ("CBCE") reaffirms the Company's commitment to the highest standards of ethics and good corporate governance in the pursuit of the Company's mission and vision to serve the best interest of its stakeholders.

The CBCE sets guidelines for professional and ethical behavior of the Company's directors, officers, and employees in the performance of their duties and responsibilities in the manner that they deal with investors, creditors, customers, contractors, suppliers, regulators and the public. It stresses the importance of integrity in the relationships and dealings with business partners, the Company's duties regarding employee welfare, the rights of shareholders, protection of Company information assets and promoting corporate social responsibility, among others.

Other Corporate Governance-Related Policies

Conflict of Interest

All business decisions and actions must be based on the best interest of the Company and not motivated by personal considerations or relationships which may interfere with the exercise of independent judgment. All directors, officers and employees are required to promptly disclose any financial or personal interest in any transaction involving the Company to ensure that potential conflicts of interest are brought to the attention of Management.

Conduct of Business and Fair Dealings

All directors, officers and employees shall at all times observe propriety and act with fairness and transparency in dealing with business partners (i.e. contractors, suppliers, creditors and other entities that engage in business with the Company). They must adhere to the Company's principles of healthy competition, equal opportunity and fair treatment of business partners.

Acceptance of Gifts

The Company prohibits the solicitation or acceptance of gifts in any form from a business partner directly or indirectly, by any director, officer or employee of the Company. The guidelines provide exceptions such as corporate give-aways, tokens or promotional items of nominal value. When it is deemed improper to refuse a gift, the issue is elevated to Management for proper disposition.

Insider Trading Policy

Directors, officers and employees who have access to material, confidential and stock price-sensitive information (i.e. information on business transactions that have not yet been disclosed to the public) are prohibited from trading in the Company's shares within five (5) trading days before and two (2) trading days after the disclosure of quarterly and annual financial results and any other material information. All directors and key officers are required to disclose their trading of company shares within three (3) business days.

Disciplinary Action

All directors, officers and employees commit to comply with both the letter and spirit of the CBCE to preserve goodwill and the reputation of the Company.

Disciplinary action or penalties shall be imposed as soon as the offense has been established. Due process of law and the right to a prompt hearing will be accorded to the employee. Disciplinary actions should in no instance be violative of labor laws and practices.

Policy on Accountability, Integrity and Vigilance (Whistle-blowing Policy)

The Company's whistle blower policy was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any stakeholder may submit an incident report on suspected or actual violations of the CBCE, Code of Discipline or any other applicable law or regulation. Upon receipt of an incident report, management is tasked to conduct an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Anyone who, in good faith, reports a violation of the CBCE or policies or law shall not be retaliated upon or suffer harassment or adverse employment consequence.

Related Party Transactions

The Company discloses in detail the nature, extent and all other material information on transactions with related parties in its financial statements and the periodic reports to the SEC and PSE. Management presents any material related party transactions for review of the Related Party Transactions Committee to ensure that the Company conducts all related party transactions on an arm-length's basis and at prevailing market rates. The Directors are required to abstain from participating in any board decision, deliberation and decision-making concerning any issue or transaction where they are conflicted.

Alternative Dispute Resolution System

The Company ensures that it maintains an alternative dispute resolution system to settle conflicts between the Company and its stockholders or other third parties, including regulatory authorities.

The downloadable versions of Belle's Revised Manual on Corporate Governance, the Code of Business Conduct and Ethics, other corporate governance-related policies, disclosures and other company information are available to the public through its website, www.bellecorp.com.

For governance related issues or concerns,
stakeholders may refer to:

Governance and Corporate Affairs Department
5th Floor, Tower A, Two E-com Center
Palm Coast Avenue, Mall of Asia Complex
Pasay City 1300 Philippines
Tel. No.: (632) 662-8888
Email: governance@bellecorp.com

FINANCIAL STATEMENTS

SELECTED FINANCIAL AND OPERATING DATA

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	2017	2016	2015	2014	2013
Total operating revenues	**8,012**	6,322	5,352	3,317	2,792
Cost and expenses	**(3,463)**	(2,699)	(2,321)	(1,290)	(818)
Income from operations	**4,549**	3,623	3,031	2,027	1,974
Financial income and other income (expenses)	**(241)**	353	(590)	1,040	1,930
Tax provision	**(797)**	(880)	(669)	(143)	(1,334)
Minority interest	**638**	396	238	354	(4)
Consolidated income after taxes	**3,511**	3,096	1,772	2,924	2,570
Recurring net income	**3,288**	2,076	1,334	1,036	572

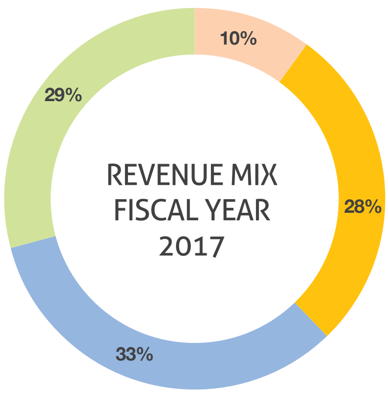
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

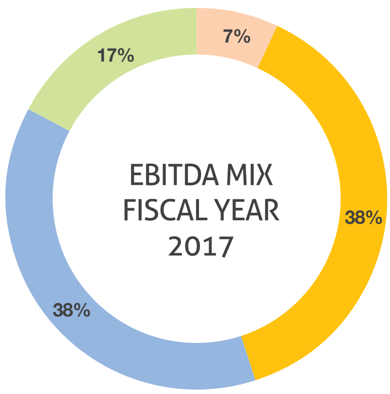
Total assets	**43,734**	41,565	42,738	40,537	30,492
Total debt	**8,834**	6,741	6,103	4,750	5,793
Total liabilities	**13,373**	13,821	17,001	13,800	11,514
Equity	**30,361**	27,744	25,737	26,737	18,978
Debt to equity ratio	**29.1%**	24.3%	23.7%	17.8%	30.5%

BELLE HISTORICAL REVENUES AND EARNINGS

(Amounts in Php millions except percentages)	FY 2017	FY 2016	FY 2015	FY 2014
CONSOLIDATED				
REVENUE	8,012	6,322	5,352	3,317
EBITDA	4,931	3,531	2,810	1,635
EBIT	4,549	3,167	2,379	1,494
Net income	3,511	3,096	1,772	2,557
Recurring net income	3,288	2,076	1,334	1,036
Belle dividend payments:				
Regular	1,003	1,003	1,003	211
Special	-	-	1,900	-
ROE	12.1%	11.7%	6.8%	10.7%
City of Dreams Lease				
Revenue	2,260	2,194	2,108	1,598
EBITDA	1,926	1,465	1,258	1,053
Net Income	945	602	595	485
Premium Leisure Corp. (excl. Pacific Online and intercompany dividends)				
Revenue	2,609	1,643	756	39
EBITDA	1,893	1,187	640	(31)
Net Income	1,599	753	266	1,160
Pacific Online Systems Corporation (excl. intercompany dividends)*				
Revenue	2,320	1,888	1,718	1,731
EBITDA	879	769	623	663
Net Income	493	392	323	346
Property Development and Management (excl. mark to market gains on club shares)				
Revenue	823	596	590	474
EBITDA	333	257	235	260
Net Income	221	149	68	43

**Pacific Online was consolidated into Belle's financials starting June 2014. Prior to June 2014, Pacific Online's net income was equitized in Belle's income statement. For comparability, Pacific Online's revenues and earnings for 2014 are shown herein on a full year basis.*





- City of Dreams Lease
- Premium Leisure Corp. (excl. Pacific Online and intercompany dividends)
- Pacific Online Systems Corporation (excl. intercompany dividends)
- Property Development and Management (excl. mark to market gains on club shares)

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

December 31, 2017 versus December 31, 2016 Results of Operations (in thousands)

	Years Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2017	**2016**	**Increase (Decrease)**		**2017**	**2016**
REVENUE						
Gaming revenue share	₱ **2,609,353**	₱ 1,642,976	966,377	58.8%	**32.6%**	26.0%
Interest income on finance lease accounting	**2,069,841**	2,003,840	66,001	3.3%	**25.8%**	31.7%
Equipment rental and instant scratch ticket sales	**1,840,521**	1,579,661	260,860	16.5%	**23.0%**	25.0%
Sale of real estate	**596,667**	350,253	246,414	70.4%	**7.4%**	5.5%
Distribution and commission income	**479,472**	308,438	171,034	55.5%	**6.0%**	4.9%
Lease income	**190,021**	190,042	(21)	0.0%	**2.4%**	3.0%
Revenue from property management	**115,939**	127,168	(11,229)	-8.8%	**1.4%**	2.0%
Others	**110,246**	119,130	(8,884)	-7.5%	**1.4%**	1.9%
TOTAL REVENUES	**8,012,060**	6,321,508	1,690,552	26.7%	**100.0%**	100.0%
COST OF LOTTERY SERVICES	**(1,238,442)**	(931,263)	307,179	33.0%	**-15.5%**	-14.7%
COST OF REAL ESTATE SOLD	**(256,500)**	(120,517)	135,983	112.8%	**-3.2%**	-1.9%
COST OF GAMING OPERATIONS	**(234,630)**	(416,507)	(181,877)	-43.7%	**-2.9%**	-6.6%
COST OF LEASE INCOME	**(196,831)**	(209,391)	(12,560)	-6.0%	**-2.5%**	-3.3%
COST OF PROPERTY MANAGEMENT SERVICES	**(68,907)**	(63,813)	5,094	8.0%	**-0.9%**	-1.0%
GENERAL AND ADMINISTRATIVE EXPENSES	**(1,467,255)**	(957,280)	509,975	53.3%	**-18.3%**	-15.1%
TOTAL COSTS AND EXPENSES	**(3,462,565)**	(2,698,771)	763,794	28.3%	**-43.2%**	-42.7%
INCOME FROM OPERATIONS	**4,549,495**	3,622,737	926,758	25.6%	**56.8%**	57.3%
INTEREST EXPENSE AND OTHER FINANCE CHARGES	**(503,665)**	(355,779)	147,886	-41.6%	**-6.3%**	-5.6%
INTEREST INCOME	**29,577**	28,782	795	2.8%	**0.4%**	0.5%
UNREALIZED GAIN ON MARKETABLE SECURITIES	**67,705**	148,554	(80,849)	-54.4%	**0.8%**	2.3%
NET FOREIGN EXCHANGE LOSS	**(1,641)**	(10,816)	9,175	-84.8%	**0.0%**	-0.2%
PAYMENTS TO ABLGI/ACCRETION OF NONTRADE LIABILITY	**-**	(455,229)	(455,229)	-100.0%	**0.0%**	-7.2%
GAIN ON FINANCE LEASE	**-**	15,882	(15,882)	100.0%	**0.0%**	0.3%
OTHER INCOME	**166,149**	981,628	(815,479)	-83.1%	**2.1%**	15.5%
INCOME BEFORE INCOME TAX	**4,307,620**	3,975,759	331,861	8.3%	**53.8%**	62.9%
PROVISION FOR INCOME TAXES						
Current	**316,330**	283,461	32,869	11.6%	**3.9%**	4.5%
Deferred	**480,649**	596,175	(115,526)	-19.4%	**6.0%**	9.4%
	796,979	879,636	(82,657)	-9.4%	**9.9%**	13.9%
NET INCOME	₱ **3,510,641**	₱ 3,096,123	414,518	13.4%	**43.8%**	49.0%

Belle Corporation reported consolidated revenues of ₱8,012.1 million for 2017, up 27% compared to ₱6,321.5 million in 2016. Belle's consolidated net income rose 13% to ₱3,510.6 million in 2017, from ₱3,096.1 million the previous year. Excluding capital gains on sales of non-core investments and extraordinary items, Belle's recurring net income of ₱3,287.8 million for 2017 was 58% higher than recurring net income of ₱2,076.2 million for 2016. This record performance was driven primarily by growth in gaming revenues.

Through its subsidiary Premium Leisure Corporation (PLC), Belle reported a 59% increase in its share of gaming earnings from City of Dreams Manila, rising to ₱2,609.4 million from ₱1,643.0 million a year earlier.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Belle's real estate business also contributed to its banner year with ₱3,082.7 million in revenues, up 10% from ₱2,790.4 million in 2016. Of this, ₱2,259.9 million came from Belle's lease to Melco Resorts and Entertainment (Philippines) Corporation ("MRP") of the land and buildings comprising City of Dreams Manila, while ₱822.9 million was from real estate sales and property management activities at its Tagaytay Highlands and Midlands residential and leisure complexes.

The strong 2017 results enabled Belle to declare a regular dividend of ₱0.12 per share on February 23, 2018, for a total dividend payment of approximately ₱1,267.3 million, payable on March 23, 2018 to shareholders of record as of March 9, 2018.

Revenues
Total revenues of ₱8,012.1 million for the year ended December 31, 2017 were higher by ₱1,690.6 million (27%), compared to ₱6,321.5 million for the year ended December 31, 2016, mainly due to a ₱966.4 million (59%) increase in the share of PLC in the gaming revenue of City of Dreams Manila from ₱1,643.0 million for 2016 to ₱2,609.4 million for 2017. In addition, the Company's revenue from the lease of the City of Dreams Manila building (interest income on finance lease accounting) increased by ₱66.0 million (3%), from ₱2,003.8 million in 2016 to ₱2,069.8 million during 2017, Pacific Online's revenues from equipment rental, instant scratch ticket sales, distribution and commissions increased by ₱431.9 million (23%) from ₱1,888.1 million in 2016 to ₱2,320.0 million in 2017 and ₱226.3 million (38%) increase in revenue from sales of real estate and property management activities, from ₱596.6 million in 2016 to ₱822.9 million in the 2017.

Costs of Lottery Services
Costs of lottery services at Pacific Online increased by ₱307.2 million (33%), to ₱1,238.4 million in 2017, from ₱931.3 million in 2016, mainly due to increased online lottery expenses and depreciation expenses for lottery equipment and professional fees.

Costs of Lease Income
Costs of lease income decreased by ₱12.6 million (6%), to ₱196.8 million in 2017 from ₱209.4 million in 2016, mainly due to lower insurance expense during 2017 period.

Costs of Real Estate
Costs of real estate increased by ₱136.0 million (113%), to ₱256.5 million in 2017, from ₱120.5 million in 2016, due to the higher sales revenue therefrom recognized during the period.

Costs of Services of Property Management
Cost of services of property management increased by ₱5.1 million (8%) to ₱68.9 million for 2017, from ₱63.8 million for 2016, due to higher power usage during 2017 period.

Costs of Gaming Operations
Costs of gaming operations increased by ₱181.9 million (44%) to ₱234.6 million for 2017, from ₱416.5 million for 2016, due to lower consultancy fees and other costs at PLC's wholly-owned subsidiary, PremiumLeisure and Amusement Inc. ("PLAI"). PLAI has a direct economic participation in the gaming operations at City of Dreams Manila, by virtue of an operating agreement with MRP that accords it a share of gaming revenue on earnings. MRP is the Philippine affiliate of Melco, a Hong-Kong based corporation which develops, owns and operates gaming and entertainment facilities in Asia, mostly in Macau.

General and Administrative Expenses
General and administrative expenses increased by ₱510.0 million (53%), to ₱1,467.3 million for 2017 from ₱957.3 million for 2016, due to increased expenses relating to salaries, professional fees and other expenses.

Financial Income (Expense)
Interest expense and other finance charges increased by ₱147.9 million (42%) to ₱503.7 million for 2017 period, from ₱355.8 million for the 2016 period. This higher interest expense was due to the Company's increased level of borrowings in 2017, which were incurred mostly to finance the pre-termination of the Memorandum of Agreement ("MOA") with ABLGI. Interest income increased by ₱0.8 million (3%), to ₱29.6 million in the 2017 period, from ₱29.8 million in the 2016 period, due to higher average yields on short-term investments.

Unrealized Gain on Marketable Securities
Unrealized gain on marketable securities pertains to change in market value of club shares held by Belle and other marketable securities held by Pacific Online.

Other Income
This includes gains on the sale of shares in SM Prime Holdings, Inc. ("SMPH") shares held by Belle. Belle sold 5.0 million SMPH shares at a gain of ₱76.5 million in 2017 and 26.5 million SMPH shares at a gain of ₱351.7 million in 2016. Belle also realized a gain on sale of properties in 2017 amounting to ₱105.8 million and a ₱634.8 million gain on pre-termination of ABLGI agreement in 2016.

Provision for Income Taxes
The provision for income taxes decreased by ₱82.7 million (9%) to ₱797.0 million for the year ended December 31, 2017, from ₱879.6 million for the year ended December 31, 2016, due to lower taxable income at Belle's subsidiaries in 2017.

Net Income
As a result of the foregoing, the Company realized consolidated net income of ₱3,510.6 million for the year ended December 31, 2017. This is ₱414.5 million (13%) higher than consolidated net income of ₱3,096.1 million for the year ended December 31, 2016. The Company's consistent profitability allowed the Company to pay a regular cash dividend on March 30, 2017 in the amount of ₱1,003.3 million (₱0.095 per share), and to declare a higher cash dividend on February 23, 2018 (payable on March 23, 2018), in the amount of ₱1,267.3 million (₱0.12 per share).

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

December 31, 2017 vs December 31, 2016 Statement of Financial Position (in thousands)

		Years Ended December 31 (Audited)			Horizontal Analysis		Vertical Analysis	
		2017		2016	Inc (Dec)	%	2017	2016
ASSETS								
Current Assets								
Cash and cash equivalents	₱	**3,711,248**	₱	2,953,262	757,986	25.7%	**8.5%**	7.1%
Investments held for trading		**2,279,666**		2,232,710	46,956	2.1%	**5.2%**	5.4%
Receivables		**2,095,784**		1,881,754	214,030	11.4%	**4.8%**	4.5%
Current portion of finance lease receivable		**1,689,973**		1,541,035	148,938	9.7%	**3.9%**	3.7%
Real estate for sale		**643,265**		802,854	(159,589)	-19.9%	**1.5%**	1.9%
Other current assets		**1,347,963**		1,210,973	136,990	11.3%	**3.1%**	2.9%
		11,767,899		10,622,588	1,145,311	10.8%	**26.9%**	25.6%
Noncurrent Assets								
Finance lease receivable - net of current portion		**16,393,208**		16,104,586	288,622	1.8%	**37.5%**	38.7%
Intangible asset		**5,001,237**		4,812,707	188,530	3.9%	**11.4%**	11.6%
Land held for future development		**3,099,166**		3,092,399	6,767	0.2%	**7.1%**	7.4%
Available-for-sale financial assets		**2,475,287**		2,026,944	448,343	22.1%	**5.7%**	4.9%
Investment properties		**1,869,025**		1,540,961	328,064	21.3%	**4.3%**	3.7%
Goodwill		**1,832,261**		1,828,578	3,683	0.2%	**4.2%**	4.4%
Property and equipment		**648,444**		690,378	(41,934)	-6.1%	**1.5%**	1.7%
Investments in and advances to associates - net		**77,975**		77,903	72	0.1%	**0.2%**	0.2%
Pension asset		**13,414**		10,048	3,366	33.5%	**0.0%**	0.0%
Deferred tax asset		**15,440**		14,576	864	5.9%	**0.0%**	0.0%
Other noncurrent assets		**540,337**		743,290	(202,953)	-27.3%	**1.2%**	1.8%
		31,965,794		30,942,370	1,023,424	3.3%	**73.1%**	74.4%
TOTAL ASSET	₱	**43,733,693**	₱	41,564,958	2,168,735	5.2%	**100.0%**	100.0%
LIABILITIES AND EQUITY								
Current Liabilities								
Trade and other current liabilities	₱	**2,011,183**	₱	1,254,065	757,118	60.4%	**4.6%**	3.0%
Loans payable		**2,500,017**		2,000,017	500,000	25.0%	**5.7%**	4.8%
Estimated liability on construction costs		**18,646**		23,376	(4,730)	-20.2%	**0.0%**	0.1%
Income tax payable		**29,434**		51,900	(22,466)	-43.3%	**0.1%**	0.1%
Current portion of:								
Long-term debt		**1,056,944**		862,500	194,444	22.5%	**2.4%**	2.1%
Obligations under finance lease		**39,489**		47,698	(8,209)	-17.2%	**0.1%**	0.1%
Nontrade liability		**-**		3,762,000	(3,762,000)	-100%	**0.0%**	9.1%
		5,655,713		8,001,556	(2,345,843)	-29.3%	**12.9%**	19.3%
Noncurrent Liabilities								
Noncurrent portion of:								
Long-term debt		**5,202,431**		3,759,375	1,443,056	38.4%	**11.9%**	9.0%
Obligations under finance lease		**35,374**		71,644	(36,270)	-50.6%	**0.1%**	0.2%
Pension liability		**24,102**		12,550	11,552	92.0%	**0.1%**	0.0%
Deferred tax liabilities		**2,220,559**		1,742,187	478,372	27.5%	**5.1%**	4.2%
Other noncurrent liability		**234,340**		233,864	476	0.2%	**0.5%**	0.6%
		7,716,806		5,819,620	1,897,186	32.6%	**17.6%**	14.0%
TOTAL LIABILITIES		**13,372,519**		13,821,176	(448,657)	-3.2%	**30.6%**	33.3%
Equity								
Attributable to equity holders of parent:								
Common stock		**10,561,000**		10,561,000	-	0.0%	**24.1%**	25.4%
Additional paid-in capital		**5,503,731**		5,503,731	-	0.0%	**12.6%**	13.2%
Treasury stock		**(181,185)**		(181,185)	-	0.0%	**-0.4%**	-0.4%
Equity share in cost of Parent Company shares held by associates		**(2,501)**		(2,501)	-	0.0%	**0.0%**	0.0%
Cost of Parent Company common shares held by subsidiaries		**(1,585,336)**		(1,758,264)	172,928	-9.8%	**-3.6%**	-4.2%
Unrealized gain on available-for-sale financial assets - net		**1,365,375**		836,876	528,499	63.2%	**3.1%**	2.0%
Retained Earnings		**8,194,187**		6,289,302	1,904,885	30.3%	**18.7%**	15.1%
Other reserves		**3,045,886**		3,082,825	(36,939)	-1.2%	**7.0%**	7.4%
Excess of net asset value of an investment over cost		**252,040**		252,040	-	0.0%	**0.6%**	0.6%
Total equity attributable to equity holders of the Parent		**27,153,197**		24,583,824	2,569,373	10.5%	**62.1%**	59.1%
Non-controlling interests		**3,207,977**		3,159,958	48,019	1.5%	**7.3%**	7.6%
Total Equity		**30,361,174**		27,743,782	2,617,392	9.4%	**69.4%**	66.7%
TOTAL LIABILITIES AND EQUITY	₱	**43,733,693**	₱	41,564,958	2,168,735	5.2%	**100.0%**	100.0%

ASSET
Total assets of the Company increased by ₱2,168.7 million (5%) to ₱43,733.7 million as of December 31, 2017, from ₱41,565.0 million as of December 31, 2016.

Cash and Cash equivalents
Cash and cash equivalents increased by ₱758.0 million (26%), to ₱3,711.2 million as of December 31, 2017 from ₱2,953.3 million as of December 31, 2016, due to cashflows from operations and additional borrowings from local banks. The increases in cashflows was offset by the dividend payment of ₱1,003.3 million on March 30, 2017 and payments to ABLGI of about ₱4,072.0 million in order to terminate the MOA (refer to "Nontrade Liability" on page 19).

Investments Held for Trading
This account consists of investments of the Parent Company in Tagaytay Highlands International Golf Club, Inc. ("Tagaytay Highlands"), Tagaytay Midlands Golf Cub Inc. ("Midlands"), The Country Club at Tagaytay Highlands, Inc. ("Country Club"), and investments of Pacific Online in listed shares of Leisure and Resorts World Corporation, Vantage Equities, Inc. and Philippine Long Distance Telephone Company.

Finance Lease Receivables
Due to the requirements under Philippine Accounting Standards 17 (PAS 17), management accounts for its lease agreement with MRP for the City of Dreams Manila buildings as a finance lease, even though there is neither a requirement nor any intention to transfer title therefor to MRP. The Company thus recorded a finance lease receivable in March 2013 equivalent to the estimated fair value of the leased property, amounting to ₱9.4 billion for the Phase 1 building structure of City of Dreams Manila. In January 2015, the Company recorded a finance lease receivable, amounting to ₱5.3 billion for the estimated fair value of the Phase 2 building structure of City of Dreams Manila. Fair valuation was determined by discounting minimum lease payments at the inception date of the lease agreement.

Receivables
Receivables increased by ₱214.0 million (11%), to ₱2,095.8 million as of December 31, 2017 from ₱1,881.8 million as of December 31, 2016. The increase was mainly due to the receivable from Real Estate and Pacific Online's receivables on instant scratch ticket sales.

Real Estate for Sale
Real estate for sale decreased by ₱159.6 million (20%), to ₱643.3 million as of December 31, 2017 from ₱802.8 million as of December 31, 2016, due to sales during the period offset by project development in the Tagaytay Midlands and Greenlands areas.

Available-for-sale Investments
Available-for-sale financial assets increased by ₱448.3 million (22%), to ₱2,475.3 million as of December 31, 2017 from ₱2,026.9 million as of December 31, 2016, which was attributable to the increase in market price of the investments. This was partially offset by Belle's sale of 5.0 million shares of SMPH during the first half of 2017. Belle still held 61.8 million shares of SMPH as of December 31, 2017.

Intangible Asset
This pertains to the cost of the PAGCOR License to operate integrated resorts that was granted by PAGCOR to PLAI. Belle and MRP are Co-Licensees under PLAI's PAGCOR License. As part of PLAI's practice of regular and continuous review of existing contracts, PLAI implemented an initiative to change its amortization policy to align the life of the license with the PAGCOR charter, which is renewable for another 25 years upon its expiration in 2033. The extension of the life of the gaming license lowers the amortization expense of PLAI by ₱13.9 million monthly effective April 2016. Amortization of the intangible asset on the License started on December 14, 2014, which is the effectivity date of the Notice to Commence Casino Operations granted by PAGCOR. Amortization expense for the year ended December 31, 2017 amounted to ₱115.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Goodwill

The Company recognized goodwill amounting to ₱1,832.3 million, as a result of consolidating Pacific Online starting June 5, 2014.

Other Assets

Other assets decreased by ₱66.0 million (3%), to ₱1,888.3 million as of December 31, 2017 from ₱1,954.3 million as of December 31, 2016, mainly due to utilization of prepaid expenses, application of input VAT and advances to contractors for capital expenditures related to City of Dreams Manila.

LIABILITIES

Total liabilities decreased by ₱448.7 million (3%), to ₱13,372.5 million as of December 31, 2017 from ₱13,821.2 million as of December 31, 2016, due to the pre-termination of the MOA with ABLGI. The decrease in liabilities amounting to ₱3,762.0 million brought about by the pre-termination of the MOA with ABLGI was offset by additional borrowings from local banks.

Trade and Other Current Liabilities

Trade and other current liabilities increased by ₱757.1 million (60%) to ₱2,011.2 million as of December 31, 2017, from ₱1,254.1 million as of December 31, 2016, due mainly to the increase in trade payables.

Loans Payable and Long-Term Debt

Total debt, amounting to ₱8,834.3 million as of December 31, 2017, consists of ₱8,759.4 million in Peso loans of Belle from various local financial institutions, with an average interest rate of approximately 5.61% per annum, and ₱74.9 million in finance lease obligations of Pacific Online. The outstanding amount of total debt from financial institutions increased by ₱2,137.5 million (32%) from ₱6,621.9 million as of December 31, 2016 due to availment of new loans and long term-debt. Pacific Online's finance lease obligations, pertain to its lottery equipment under finance lease accounting. This decreased by ₱44.5 million (37%), from ₱119.3 million as of December 31, 2016 to ₱74.9 million as of December 31, 2017, due to the amortization of principal therein.

Estimated Liability on Construction Costs

The Company recorded estimated construction costs totaling ₱7.5 billion in order to complete the structure and utilities of the City of Dreams Manila buildings, as a result of accounting for its lease agreement with MRP as a finance lease (as required under PAS 17). The City of Dreams Manila buildings have a total gross floor area of approximately 30 hectares. The remaining liability hereunder pertains mostly to final payments still due to some contractors.

Nontrade Liability

In 2013, Belle, PLAI, ABLGI and LRWC entered into the MOA, whereby Belle and PLAI agreed to grant ABLGI the right to the settlement of amounts in consideration of the waiver of ABLGI's rights as casino operator, the termination of ABLGI agreements relating to the integrated resort that is now known as City of Dreams Manila and the grant of the ABLGI Advance, totaling about ₱4.8 billion, to help in the funding for the construction of the integrated resort building.

In December 2014, the implementing agreement for the MOA was executed, with the effectivity of terms and conditions retrospective on January 1, 2014. The ABLGI Advance was determined as the fair value of ABLGI's settlement. Such liability was being accreted over the lease term using the Effective Interest Rate method.

On November 3, 2016, Belle, PLAI, BGRH, ABLGI and LRWC signed an agreement (the "Termination Agreement"), which terminated the MOA of 2013 at the end of March 2017. Under the Termination Agreement, Belle repaid ABLGI its nontrade liability of ₱4,780.0 million and purchased ABLGI's gaming consultancy contract with PLAI for ₱310.0 million, for a total consideration of ₱5,090.0 million. Of the total consideration, ₱1,018.0 million was paid upon signing and the balance was paid simultaneous with the termination of the MOA on March 31, 2017. The MOA was thus deemed fully terminated as of March 31, 2017. The acquired gaming consultancy contract was recorded as an intangible asset as of March 31, 2017.

EQUITY

The Company's shareholders' equity as of December 31, 2017 of ₱30,361.2 million was higher by ₱2,617.4 million (9%), compared to the year-end 2016 of ₱27,743.8 million, due to increase in unrealized gain on available-for-sale financial assets of ₱528.5 million (63%) and consolidated net income of ₱3,510.6 million, partially offset by the ₱1,003.3 million cash dividend declared to its shareholders on March 30, 2017. Excluding the dividend, the Company's shareholders' equity as of December 31, 2017 would have been ₱31,364.5 million, or approximately ₱3,620.7 million (13%) higher than December 31, 2016.

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

Belle Corporation (consolidated)

	Dec 31, 2017	Dec 31, 2016
Asset to equity ratio	**1.44 : 1.00**	1.50 : 1.00
Current or Liquidity ratio	**2.08 : 1.00**	1:33 : 1.00
Debt-to-equity ratio	**0.29 : 1.00**	0.24 : 1.00
Net debt-to-equity ratio	**0.17 : 1.00**	0.14 : 1.00
Interest rate coverage ratio	**9.49 :1.00**	12.09 :1.00
Return on assets	**8.2%**	7.3%
Return on equity	**12.1%**	11.6%

Premium Leisure Corp. (consolidated)

	Dec 31, 2017	Dec 31, 2016
Asset to equity ratio	**1.09 : 1.00**	1.04 : 1.00
Current or Liquidity ratio	**3.93 : 1.00**	7.48 : 1.00
Debt-to-equity ratio	**0.004 : 1:00**	0.01 : 1:00
Net debt-to-equity ratio	**(0.17) : 1.00**	(0.10) : 1.00
Interest rate coverage ratio	**239.2 : 1:00**	114.0 : 1:00
Return on assets	**11.27%**	6.97%
Return on equity	**12.04%**	7.22%

Pacific Online Systems Corporation (consolidated)

	Dec 31, 2017	Dec 31, 2016
Asset to equity ratio	**1.30 : 1.00**	1.18 : 1.00
Current or Liquidity ratio	**2.16 : 1.00**	3.37 : 1.00
Debt-to-equity ratio	**0.30 : 1.00**	0.06 : 1.00
Net debt-to-equity ratio	**(0.18) : 1.00**	(0.07) : 1.00
Interest rate coverage ratio	**67.46 : 1.00**	46.77 : 1.00
Return on assets	**18.71%**	17.73%
Return on equity	**24.40%**	21.53%

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

The above performance indicators are calculated as follows:

Current Ratio	Current Assets Current Liabilities
Debt to Equity Ratio	Interest-bearing debt Total Equity
Asset-to-equity Ratio	Total Assets Total Equity
Return on Equity	Net Income Average equity during the period
Return on Assets	Net Income Average assets during the period
Interest Coverage Ratio	Income Before Interest & Tax Interest Expense
Net debt-to-equity ratio	Interest-bearing debt less cash and cash equivalents Total Equity

The Company does not foresee any cash flow or liquidity problems over the next twelve months. As of December 31, 2017, consolidated total debt of the Company of ₱8,834.3 million comprised of borrowings from renewable short-term bank loans of ₱2,500.0 million, amortizing term loans from banks of ₱6,259.4 million and obligations under finance lease of ₱74.9 million. Belle has a number of projects, rental income and expected dividends from subsidiaries from which it expects to generate cash flow sufficient for its foreseeable requirements. Meanwhile, the Company continues to be in compliance with the terms of all of its debt obligations.

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

(i) Any Known Trends, Events or Uncertainties (Material Impact on Liquidity) Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;

(ii) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

(iv) Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures:

Under the License granted to PLAI by PAGCOR, the parties designated as Co-Licensees in the Consortium (PLAI, Belle and MRP) are committed to collectively invest a minimum of US$1.0 billion ("Investment Commitment") in the Project. Under the PAGCOR Guidelines, of the US$1.0 billion, US$650.0 million shall be invested upon the opening of the integrated resort and the US$350.0 million balance shall be invested within a period of three (3) years from the commencement of the integrated resort operations. The Investment Commitment shall be composed of the value of the land (up to a maximum of US$150 million) and the development costs of the infrastructures and facilities for the Project. The Consortium already exceeded the $1.0 billion Investment Commitment upon the soft opening of City of Dreams Manila on December 14, 2014.

(v) Any Known Trends, Events or Uncertainties (Material Impact on Sales)

(vi) Any Significant Elements of Income or Loss (from continuing operations)

December 31, 2016 versus December 31, 2015 Results of Operations (in thousands)

	Year Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2016	2015 (as restated)	**Increase (Decrease)**		**2016**	2015
REVENUE						
Interest income on finance lease	₱ 2,003,840	₱ 1,917,354	**86,486**	4.5%	**31.7%**	35.8%
Gaming revenue share	1,642,976	756,238	**886,738**	117.3%	**26.0%**	14.1%
Equipment rental and instant scratch ticket sales	1,579,661	1,459,237	**120,424**	8.3%	**25.0%**	27.3%
Sales of real estate	350,253	354,774	**(4,521)**	-1.3%	**5.5%**	6.6%
Commission and distribution income	308,438	259,081	**49,357**	19.1%	**4.9%**	4.8%
Lease income	190,042	190,906	**(864)**	-0.5%	**3.0%**	3.6%
Revenue from property management	127,168	112,682	**14,486**	12.9%	**2.0%**	2.1%
Others	119,130	301,405	**(182,275)**	-60.5%	**1.9%**	5.6%
TOTAL REVENUES	6,321,508	5,351,677	**969,831**	18.1%	**100.0%**	100.0%
COST OF LOTTERY SERVICES	(931,263)	(827,032)	**104,231**	12.6%	**14.7%**	15.5%
COST OF GAMING OPERATIONS	(416,507)	(382,023)	**34,484**	9.0%	**6.6%**	7.1%
COST OF LEASE INCOME	(209,391)	(152,584)	**56,807**	37.2%	**3.3%**	2.9%
COST OF REAL ESTATE	(120,517)	(160,976)	**(40,459)**	-25.1%	**1.9%**	3.0%
COST OF SERVICES OF PROPERTY MANAGEMENT	(63,813)	(80,208)	**(16,395)**	-20.4%	**1.0%**	1.5%
GENERAL AND ADMINISTRATIVE EXPENSES	(957,280)	(718,524)	**238,756**	33.2%	**15.1%**	13.4%
TOTAL COSTS AND EXPENSES	(2,698,771)	(2,321,347)	**377,424**	16.3%	**-42.7%**	-43.4%
INCOME FROM OPERATIONS	3,622,737	3,030,330	**592,407**	19.5%	**57.3%**	56.6%
ACCRETION OF NONTRADE LIABILITY	(455,229)	(651,684)	**(196,455)**	-30.1%	**-7.2%**	-12.2%
INTEREST EXPENSE	(355,779)	(273,977)	**81,802**	29.9%	**-5.6%**	-5.1%
UNREALIZED GAIN ON MARKETABLE SECURITIES	148,554	150,646	**(2,092)**	-1.4%	**2.3%**	2.8%
INTEREST INCOME	28,782	34,470	**(5,688)**	-16.5%	**0.5%**	0.6%
GAIN ON FINANCE LEASE	15,882	-	**15,882**	n/a	**0.3%**	0.0%
NET FOREIGN EXCHANGE GAIN (LOSS)	(10,816)	36,135	**(46,951)**	-129.9%	**-0.2%**	0.7%
EQUITY IN NET EARNINGS OF ASSOCIATES	-	27,340	**(27,340)**	n/a	**0.0%**	0.5%
OTHER INCOME - net	981,628	87,855	**893,773**	1017.3%	**15.5%**	1.6%
INCOME BEFORE INCOME TAX	3,975,759	2,441,115	**1,534,644**	62.9%	**62.9%**	45.6%
PROVISION FOR INCOME TAXES						
Current	283,461	306,296	**(22,835)**	-7.5%	**4.5%**	5.7%
Deferred	596,175	363,038	**233,137**	64.2%	**9.4%**	6.8%
	879,636	669,334	**210,302**	31.4%	**13.9%**	12.5%
NET INCOME	₱ 3,096,123	₱ 1,771,781	**1,324,342**	74.7%	**49.0%**	33.1%

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Belle Corporation realized consolidated net income of ₱3,096.1 million for 2016, which is ₱1,324.3 million (75%) higher than net income of ₱1,771.8 million for 2015. Excluding extraordinary items, principally a capital gain of ₱352 million on the sale of 26 million shares of SM Prime Holdings, Inc. in July 2016, Belle's recurring net income of ₱2,076.2 million for 2016 was higher by ₱737 million (55%) over recurring net income for 2015 of ₱1,334.2 million. This performance continues Belle's record of underlying earnings growth. Due to the Company's strong profitability, it declared a cash dividend of nine-and-a half centavos (₱0.095) per share to its common shareholders on February 28, 2017. This equates to a total dividend payment of ₱1,000.0 million, payable on March 30, 2017 to shareholders of record as of March 14, 2017.

The Company's operating growth in 2016 was fueled primarily by growth in its revenues from City of Dreams Manila. Its share in the gaming income of City of Dreams Manila, through its 78.7%-owned subsidiary, Premium Leisure Corporation (PLC), more than doubled to ₱1,643.0 million in 2016 from ₱756.0 million in 2015. This was attributable to the ramp-up in gaming operations at City of Dreams Manila, which held its grand opening in February 2015. PLC has an operating agreement with Melco Crown Entertainment Limited (MCE) that accords it a share of gaming revenues or earnings at City of Dreams Manila.

Belle also realized higher revenues from its real estate businesses. Total real estate-related revenues increased by ₱90 million (3%), from ₱2.69 billion in 2015 to ₱2.78 billion in 2016. Of its 2016 revenues ₱2.19 billion were derived from its lease of the land and buildings comprising City of Dreams Manila to MCE, with the balance of ₱586 million coming from sales of real estate products and property management activities at its Tagaytay Highlands and Midlands residential and leisure complexes south of Metro Manila.

Revenues

Total revenues of ₱6,321.5 million for the year ended December 31, 2016 were higher by ₱969.8 million (18%), compared to ₱5,351.7 million for the year ended December 31, 2015, mainly due to a ₱886.7 million (117%) increase in the share of PLC in the gaming revenue of City of Dreams Manila from ₱756.2 million for 2015 to ₱1,643.0 million for 2016. In addition, the Company's revenue from the lease of the City of Dreams Manila building (interest income on finance lease accounting) increased by ₱86.5 million (5%), from ₱1,917.4 million in 2015 to ₱2,003.8 million during 2016, and Pacific Online's revenues from equipment rental, distribution and commissions increased by ₱169.8 million (10%) from ₱1,718.3 million in 2015 to ₱1,888.1 million in 2016. These revenue increases were offset by a ₱187.0 million (28%) decrease in revenue from sales of real estate and club shares, as this declined from ₱656.4 million in 2015 to ₱469.4 million in the 2016.

Costs of Lottery Services

Costs of lottery services at Pacific Online increased by ₱104.2 million (13%), to ₱931.3 million in 2016, from ₱827.0 million in 2015, mainly due to increased depreciation expenses for lottery equipment and professional fees.

Costs of Lease Income

Costs of lease income increased by ₱56.8 million (37%), to ₱209.4 million in 2016 from ₱152.6 million in 2015, mainly due to higher real estate taxes on the City of Dreams Manila building.

Costs of Real Estate

Costs of real estate decreased by ₱40.5 million (25%), to ₱120.5 million in 2016, from ₱161.0 million in 2015, due to the lower sales revenue therefrom recognized during the period.

Costs of Services of Property Management

Cost of services of property management decreased by ₱16.4 million (20%) to ₱63.8 million for 2016, from ₱80.2 million for 2015, due to lower power usage by customers during the 2016 period.

Costs of Gaming Operations

Cost of gaming operations increased by ₱34.5 million (9%) to ₱416.5 million for 2016, from ₱382.0 million for 2015, due to higher consultancy fees and other costs at PremiumLeisure and Amusement Inc. ("PLAI"), given the ramp-up of gaming operations at City of Dreams Manila since the first half of 2015.

General and Administrative Expenses

General and administrative expenses increased by ₱238.8 million (33%), to ₱957.3 million for 2016 from ₱718.5 million for 2015, due to increased expenses relating to salaries, professional fees and regular provisions.

Financial Income (Expense)

Interest expense increased by ₱81.8 million (30%) to ₱355.8 million for 2016, from ₱274.0 million for 2015. The increase in interest expense was due to the Company's higher level of borrowings in 2016, which were incurred mostly to finance payments of construction contracts in respect of the City of Dreams Manila building. Interest income decreased by ₱5.7 million (17%), to ₱28.8 million in 2016, from ₱34.5 million in 2015, due to decreases in average invested cash levels.

Unrealized Gain on Marketable Securities

During 2016, Belle reclassified its club shares from inventory to investments held from trading within its current assets in compliance with Philippine Interpretations Committee (PIC) Q&A No. 2016-02 on Philippine Accounting Standards (PAS) 32 and 38 - *Accounting Treatment of Club Shares Held by an Entity*. This resulted in the recognition of unrealized mark-to-market gains on such club shares of ₱185.7 million in 2016, ₱194.1 million in 2015 and ₱231.8 million in 2014. Belle's financial statements for the years 2015 and 2014 were thus restated for consistent application of PAS 32 and 38, and for comparability. The unrealized gains on club shares were offset by unrealized losses on marketable securities held by Pacific Online, amounting to ₱37.1 million in 2016 and ₱43.5 million in 2015.

Other Income

This includes (1) gain on the sale of SM Prime shares held by Belle, total number of SM Prime shares sold is 26.0 million at an average selling price of ₱29.98 per share in 2016 and 16.5 million shares sold at an average selling price of ₱29.98 per share in 2015, (2) gain on pre-termination of ABLGI agreement**.** On November 3, 2016, Belle, PLAI, BGRH, ABLGI and LRWC signed an agreement to terminate the MOA of 2013 by the end of March 2017. Under the agreement, Belle will pay, and ABLGI will receive, a total consideration of ₱5.09 billion. Of the total consideration, ₱1,018.0 million was paid upon signing and the balance will be paid simultaneous with the termination of the MOA on March 31, 2017. The gain pertains to the difference between the recorded nontrade liability to ABLGI as of November 31, 2016 of ₱5,414.8 million and the final settlement amount of ₱4,780.0 million.

Equity in Net Earnings of Associates

Equity in net earnings of associates of ₱27.3 million in 2015 refers to Belle's 47% share in the net income of Woodland Development Corporation ("WDC"). The Company sold its entire 47% interest in WDC in May 2016.

Provision for Income Taxes

The provision for income taxes increased by ₱210.3 million (31%) to ₱879.6 million for the year ended December 31, 2016, from ₱669.3 million for the year ended December 31, 2015, due to higher taxable income in 2016 as a result of higher revenue.

Net Income

As a result of the foregoing, the Company realized consolidated net income of ₱3,096.1 million for the year ended December 31, 2016. This is ₱1,324.3 million (75%) higher than consolidated net income of ₱1,771.8 million for the year ended December 31, 2015. The Company's consistent profitability allowed the Company to pay a regular cash dividend on March 29, 2016 in the amount of ₱1,003.3 million (₱0.095 per share), and to declare a regular cash dividend on February 28, 2017 (payable on March 30, 2017), in the amount of ₱1,000.0 million (₱0.095 per share).

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

December 31, 2016 vs December 31, 2015 Statement of Financial Position (in thousands)

	Years Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2016	**2015 (as restated)**	**Inc (Dec)**	**%**	**2016**	**2015**
ASSETS						
Current Assets						
Cash and cash equivalents	₱ **2,953,262**	₱ 3,570,065	₱ **(616,803)**	-17.3%	**7.1%**	8.4%
Investments held for trading	**2,232,710**	2,124,947	**107,763**	5.1%	**5.4%**	5.0%
Receivables	**1,881,754**	1,624,433	**257,321**	15.8%	**4.5%**	3.8%
Current portion of finance lease receivable	**1,541,035**	1,419,651	**121,384**	8.6%	**3.7%**	3.3%
Real estate for sale	**802,854**	843,074	**(40,220)**	-4.8%	**1.9%**	2.0%
Other current assets	**1,210,973**	2,323,619	**(1,112,646)**	-47.9%	**2.9%**	5.4%
	10,622,588	11,905,789	**(1,283,201)**	-10.8%	**25.6%**	27.9%
Noncurrent Assets						
Land held for future development	**3,092,399**	3,018,515	**73,884**	2.4%	**7.4%**	7.1%
Finance lease receivable - net of current portion	**16,104,586**	15,725,603	**378,983**	2.4%	**38.7%**	36.8%
Investments in and advances to associates - net	**77,903**	65,364	**12,539**	19.2%	**0.2%**	0.2%
Available-for-sale financial assets	**2,026,944**	2,148,003	**(121,059)**	-5.6%	**4.9%**	5.0%
Investment properties	**1,540,961**	1,540,961	**-**	0.0%	**3.7%**	3.6%
Property and equipment	**690,378**	770,716	**(80,338)**	-10.4%	**1.7%**	1.8%
Intangible asset	**4,812,707**	4,970,341	**(157,634)**	-3.2%	**11.6%**	11.6%
Goodwill	**1,828,578**	1,828,578	**-**	0.0%	**4.4%**	4.3%
Pension asset	**10,048**	10,732	**(684)**	n/a	**0.0%**	0.0%
Deferred tax asset	**14,576**	42,261	**(27,685)**	-65.5%	**0.0%**	0.1%
Other noncurrent assets	**743,290**	710,167	**33,123**	4.7%	**1.8%**	1.7%
	30,942,370	30,831,241	**111,129**	0.4%	**74.4%**	72.1%
TOTAL ASSET	₱ **41,564,958**	₱ 42,737,030	**(1,172,072)**	-2.7%	**100.0%**	100.0%
LIABILITIES AND EQUITY						
Current Liabilities						
Trade and other current liabilities	₱ **1,254,065**	₱ 1,529,691	**(275,626)**	-18.0%	**3.0%**	3.6%
Loans payable	**2,000,017**	1,000,017	**1,000,000**	100.0%	**4.8%**	2.3%
Current portion of:						
Estimated liability on construction costs	**23,376**	2,556,836	**(2,533,460)**	-99.1%	**0.1%**	6.0%
Nontrade liability	**3,762,000**	455,886	**3,306,114**	725.2%	**9.1%**	1.1%
Obligations under finance lease	**47,698**	25,028	**22,670**	90.6%	**0.1%**	0.1%
Long-term debt	**862,500**	362,500	**500,000**	137.9%	**2.1%**	0.8%
Income tax payable	**51,900**	49,600	**2,300**	4.6%	**0.1%**	0.1%
Installment payable	**-**	173	**(173)**	-100.0%	**0.0%**	0.0%
	8,001,556	5,979,731	**2,021,825**	33.8%	**19.3%**	14.0%
Noncurrent Liabilities						
Noncurrent portion of:						
Long-term debt	**3,759,375**	4,621,875	**(862,500)**	-18.7%	**9.0%**	10.8%
Obligations under finance lease	**71,644**	93,527	**(21,883)**	-23.4%	**0.2%**	0.2%
Nontrade liability	**-**	4,839,172	**(4,839,172)**	-100.0%	**0.0%**	11.3%
Deferred tax liabilities	**1,742,187**	1,175,431	**566,756**	48.2%	**4.2%**	2.8%
Pension liability	**12,550**	23,078	**(10,528)**	-45.6%	**0.0%**	0.1%
Other non current liability	**233,864**	267,714	**(33,850)**	-12.6%	**0.6%**	0.6%
	5,819,620	11,020,797	**(5,201,177)**	-47.2%	**14.0%**	25.8%
TOTAL LIABILITIES	**13,821,176**	17,000,528	**(3,179,352)**	-18.7%	**33.3%**	39.8%

	Years Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2016	2015 (as restated)	Inc (Dec)	%	2016	2015
Equity						
Attributable to equity holders of parent:						
Common stock	**10,561,000**	10,561,000	**-**	0.0%	**25.4%**	24.7%
Additional paid-in capital	**5,503,731**	5,503,731	**-**	0.0%	**13.2%**	12.9%
Treasury stock	**(181,185)**	(134,442)	**(46,743)**	34.8%	**-0.4%**	-0.3%
Equity share in cost of Parent Company shares held by associates	**(2,501)**	(2,501)	**-**	0.0%	**0.0%**	0.0%
Cost of Parent Company common and preferred shares held by subsidiaries	**(1,758,264)**	(1,749,628)	**(8,636)**	0.5%	**-4.2%**	-4.1%
Unrealized gain on available-for-sale financial assets - net	**836,876**	535,237	**301,639**	56.4%	**2.0%**	1.3%
Other reserves	**3,082,825**	3,085,896	**(3,071)**	-0.1%	**7.4%**	7.2%
Excess of net asset value of an investment over cost	**252,040**	252,040	**-**	0.0%	**0.6%**	0.6%
Retained Earnings	**6,289,302**	4,552,639	**1,736,663**	38.1%	**15.1%**	10.7%
Total equity attributable to equity holders of the Parent	**24,583,824**	22,603,972	**1,979,852**	8.8%	**59.1%**	52.9%
Non-controlling interests	**3,159,958**	3,132,530	**27,428**	0.9%	**7.6%**	7.3%
Total Equity	**27,743,782**	25,736,502	**2,007,280**	7.8%	**66.7%**	60.2%
TOTAL LIABILITIES AND EQUITY	**₱ 41,564,958**	₱ 42,737,030	**(1,172,072)**	-2.7%	**100.0%**	100.0%

ASSET

Total assets of the Company decreased by ₱1,172.1 million (3%) to ₱41,565.0 million as of December 31, 2016, from ₱42,737.0 million as of December 31, 2015.

Cash and Cash equivalents

Cash and cash equivalents decreased by ₱616.8 million (17%), to ₱2,953.3 million as of December 31, 2016 from ₱3,570.1 million as of December 31, 2015, due mainly to capital expenditures for City of Dreams Manila and real estate development projects.

Investments Held for Trading

This pertains to the club shares of Tagaytay Highlands International Golf Club, Tagaytay Midlands International Golf Club, The Country Club at Tagaytay Highlands held by Belle, as well as marketable securities held by Pacific Online in companies that are not subsidiaries or associates of Belle, comprised of listed shares of stock in DFNN, Inc., ISM Communications Corp., Leisure and Resorts World Corporation, Philippine Long Distance Telephone Company, Inc. and Vantage Equities, Inc.

Finance Lease Receivables

Due to the requirements under Philippine Accounting Standards 17 (PAS 17), management accounts for its lease agreement with MCE for the City of Dreams Manila buildings as a finance lease, even though there is neither a requirement nor any intention to transfer title therefor to MCE. The Company thus recorded a finance lease receivable in March 2013 equivalent to the estimated fair value of the leased property, amounting to ₱9.4 billion for the Phase 1 building structure of City of Dreams Manila. In January 2015, the Company recorded a finance lease receivable, amounting to ₱5.3 billion for the estimated fair value of the Phase 2 building structure of City of Dreams Manila. Fair valuation was determined by discounting minimum lease payments at the inception date of the lease agreement.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Receivables

Receivables increased by ₱257.3 million (16%), to ₱1,881.8 million as of December 31, 2016 from ₱1,624.4 million as of December 31, 2015. The increase was mainly due to the receivable of PLC from MCE for the gaming revenue share from City of Dreams Manila and Pacific Online's receivables on instant scratch ticket sales.

Real Estate for Sale

Real estate for sale decreased by ₱40.2 million (5%), to ₱802.9 million as of December 31, 2016 from ₱843.1 million as of December 31, 2015, due to sales during the period ₱120.5 million offset by project development of ₱80.3 million in the Tagaytay Midlands and Greenlands areas.

Available-for-sale Investments

Available-for-sale investments decreased by ₱121.1 million (6%), to ₱2,026.9 million as of December 31, 2016 from ₱2,148.0 million as of December 31, 2015, which was attributable to the sale of 26 million SM Prime Holdings Inc. share in July 2016.

Intangible Asset

This pertains to the cost of the PAGCOR License to operate integrated resorts that was granted by PAGCOR to Premium Leisure and Amusement Inc ("PLAI"), a wholly-owned subsidiary of PLC. Belle and MCE are Co-Licensees under PLAI's PAGCOR License. As part of PLAI's practice of regular and continuous review of existing contracts, PLAI implemented an initiative to change its amortization policy to align the life of the license with the PAGCOR charter, which is renewable for another 25 years upon its expiration in 2033. The extension of the life of the gaming license lowers the amortization expense of PLAI by ₱13.9 million monthly effective April 2016. The decrease from last year's balance by ₱157.6 million (3%), from ₱4,970.3 million as of December 31, 2015 to ₱4,812.7 million as of December 31, 2016, resulted from the amortization of the intangible asset on the License starting on December 14, 2014, which is the effectivity date of the Notice to Commence Casino Operations granted by PAGCOR.

Goodwill

The Company recognized goodwill amounting to ₱1,828.6 million, as a result of consolidating Pacific Online starting June 5, 2014.

Other Assets

Other assets decreased by ₱1,079.5 million (36%), to ₱1,954.3 million as of December 31, 2016 from ₱3,033.8 million as of December 31, 2015, mainly due to utilization of prepaid expenses and advances to contractors for capital expenditures related to City of Dreams Manila (see "Estimated Liability on Construction Costs" below).

LIABILITIES

Total liabilities decreased by ₱3,179.4 million (19%), to ₱13,821.2 million as of December 31, 2016 from ₱17,000.5 million as of December 31, 2015, due to the ₱2,533.5 million (99%) decrease in estimated liability on construction costs for City of Dreams Manila and pre-termination of ABLGI contract which led to the decrease of nontrade liability by ₱1,533.1 million from ₱5,295.1 million as of December 31, 2015 to ₱3,762.0 million as of December 31, 2016.

Trade and Other Current Liabilities

Trade and other current liabilities decreased by ₱275.6 million (18%) to ₱1,254.1 million as of December 31, 2016, from ₱1,529.7 million as of December 31, 2015, due mainly to the final payments to contractors of City of Dreams Manila.

Loans Payable and Long-Term Debt

Loans payable and long-term debt owed to financial institutions, amounting to ₱6,621.9 million as of December 31, 2016, pertain to peso loans from various local banks, with an average interest rate of approximately 5.5% per annum. The outstanding amount of these borrowings decreased by ₱637.5 million (11%) from ₱5,984.4 million as of December 31, 2015 due to scheduled principal repayments on term loans.

Estimated Liability on Construction Costs
The Company recorded estimated construction costs totaling ₱7.5 billion in order to complete the structure and utilities of the City of Dreams Manila buildings, as a result of accounting for its lease agreement with MCE as a finance lease (as required under PAS 17). The City of Dreams Manila buildings have a total gross floor area of approximately 30 hectares. This decreased by ₱2,533.5 million (99%), from ₱2,556.8 million as of December 31, 2015 to ₱23.4 million as of December 31, 2016 as the project has been essentially completed, and the remaining liability hereunder pertains mostly to final payments still due to some contractors.

Obligations under Finance Lease
This pertains to Pacific Online's lottery equipment under finance lease accounting.

Nontrade Liability
In 2013, Belle, PLAI, Belle Grande Resource Holdings Corp. ("BGRHC"), AB Leisure Global, Inc. ("ABLGI") and Leisure and Resorts World Corp. ("LRWC") entered into a Memorandum of Agreement (the "MOA"), whereby Belle and PLAI agreed to grant ABLGI the right to the settlement of amounts in consideration of the waiver of ABLGI's rights as casino operator, the termination of ABLGI agreements and the grant of advances of ₱4.0 billion ("ABLGI Advance") as funding for the construction of the casino integrated resort building.

In December 2014, the implementing agreement in the MOA was executed, with the effectivity of terms and conditions retrospective on January 1, 2014. The ₱4.0 billion ABLGI Advance was determined as the fair value of ABLGI's settlement. In 2015, ABLGI advanced an additional ₱780.0 million. Such liability is being accreted over the lease term using the Effective Interest Rate method.

On November 3, 2016, Belle, PLAI, BGRH, ABLGI and LRWC signed an agreement to terminate the MOA of 2013 by the end of March 2017. Under the agreement, Belle will pay, and ABLGI will receive, a total consideration of ₱5,090 million. Of the total consideration, ₱1,018 million was paid upon signing and the balance will be paid simultaneous with the termination of the MOA on or about March 31, 2017.

EQUITY
The Company's shareholders' equity as of December 31, 2016 of ₱27,743.8 million was higher by ₱2,007.3 million (8%), compared to the year-end 2015 of ₱25,736.5 million, due to increase in unrealized gain on available-for-sale financial assets of ₱301.6 million (56%) and consolidated net income of ₱3,096.1 million, partially offset by the ₱1,003.3 million cash dividend declared to its shareholders on March 29, 2016. Excluding the dividend, the Company's shareholders' equity as of December 31, 2016 would have been ₱28,755.4 million, or approximately ₱3,018.9 million (9%) higher than December 31, 2015.

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

Belle Corporation (consolidated)

	Dec 31, 2016	Dec 31, 2015
Asset to equity ratio	**1.50 : 1.00**	1.66 : 1.00
Current or Liquidity ratio	**1:33 : 1.00**	1.99 : 1.00
Debt-to-equity ratio	**0.24 : 1.00**	0.24 : 1.00
Net debt-to-equity ratio	**0.14 : 1.00**	0.10 : 1.00
Interest rate coverage ratio	**12.09 :1.00**	9.78 :1.00
Return on assets	**7.3%**	3.4%
Return on equity	**11.6%**	6.8%

Premium Leisure Corp. (consolidated)

	Dec 31, 2016	Dec 31, 2015
Asset to equity ratio	**1.04 : 1.00**	1.03 : 1.00
Current or Liquidity ratio	**7.48 : 1.00**	7.14 : 1.00
Debt-to-equity ratio	**0.01 : 1:00**	0.01 : 1:00
Net debt-to-equity ratio	**(0.10) : 1.00**	(0.07) : 1:00
Interest rate coverage ratio	**114.0 : 1:00**	83.0 : 1:00
Return on assets	**6.97%**	1.38%
Return on equity	**7.22%**	1.41%

Pacific Online Systems Corporation (consolidated)

	Dec 31, 2016	Dec 31, 2015
Asset to equity ratio	**1.18 : 1.00**	1.26 : 1.00
Current or Liquidity ratio	**3.37 : 1.00**	2.74 : 1.00
Debt-to-equity ratio	**0.06 : 1.00**	0.26 : 1.00
Net debt-to-equity ratio	**(0.07) : 1.00**	(0.08) : 1.00
Interest rate coverage ratio	**46.77 : 1.00**	47.81 : 1.00
Return on assets	**17.73%**	15.65%
Return on equity	**21.53%**	19.67%

The above performance indicators are calculated as follows:

Current Ratio	Current Assets Current Liabilities
Debt to Equity Ratio	Interest-bearing debt Total Equity
Asset-to-equity Ratio	Total Assets Total Equity
Return on Equity	Net Income Average equity during the period
Return on Assets	Net Income Average assets during the period
Interest Coverage Ratio	Income Before Interest & Tax Interest Expense
Net debt-to-equity ratio	Interest-bearing debt less cash and cash equivalents Total Equity

The Company does not foresee any cash flow or liquidity problems over the next twelve months. As of December 31, 2016, consolidated total debt of the Company of ₱6,741.2 million was comprised of borrowings from renewable short-term bank loans of ₱2,000.0 million, amortizing term loans from banks of ₱4,621.9 million and obligations under finance lease of ₱119.3 million. Belle has a number of projects, rental income and expected dividends from subsidiaries from which it expects to generate cash flow sufficient for its foreseeable requirements. Meanwhile, the Company continues to be in compliance with the terms of all of its debt obligations.

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

- Any Known Trends, Events or Uncertainties (Material Impact on Liquidity) Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;

- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

- All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

- Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures:

Under the License granted to PLAI by PAGCOR, the parties designated as Co-Licensees in the Consortium (PLAI, Belle and MCE) are committed to collectively invest a minimum of US$1.0 billion ("Investment Commitment") in the Project. Under the PAGCOR Guidelines, of the US$1.0 billion, US$650.0 million shall be invested upon the opening of the integrated resort and the US$350.0 million balance shall be invested within a period of three (3) years from the commencement of the integrated resort operations. The Investment Commitment shall be composed of the value of the land (up to a maximum of US$150 million) and the development costs of the infrastructures and facilities for the Project. The Consortium already exceeded the $1.0 billion Investment Commitment upon the soft opening of City of Dreams Manila on December 14, 2014.

- Any Known Trends, Events or Uncertainties (Material Impact on Sales)

- Any Significant Elements of Income or Loss (from continuing operations)

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

December 31, 2015 versus December 31, 2014 Results of Operations (in thousands)

	Year Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2015 (as restated)	2014 (as restated)	**Increase (Decrease)**		**2015**	2014
REVENUE						
Interest income on finance lease	₱ **1,917,354**	₱ 1,409,173	**508,181**	36.1%	**35.8%**	42.5%
Equipment rental and instant scratch ticket sales	**1,459,237**	828,740	**630,497**	76.1%	**27.3%**	25.0%
Gaming revenue share	**756,238**	38,809	**717,429**	1848.6%	**14.1%**	1.2%
Sales of real estate	**354,774**	299,248	**55,526**	18.6%	**6.6%**	9.0%
Commission and distribution income	**259,081**	202,559	**56,522**	27.9%	**4.8%**	6.1%
Lease income	**190,906**	188,757	**2,149**	1.1%	**3.6%**	5.7%
Revenue from property management	**112,682**	115,356	**(2,674)**	-2.3%	**2.1%**	3.5%
Others	**301,405**	234,443	**66,962**	28.6%	**5.6%**	7.1%
TOTAL REVENUES	**5,351,677**	3,317,085	**2,034,592**	61.3%	**100.0%**	100.0%
COST OF LOTTERY SERVICES	**(827,032)**	(492,988)	**334,044**	67.8%	**15.5%**	14.9%
COST OF GAMING OPERATIONS	**(382,023)**	(18,709)	**363,314**	1941.9%	**7.1%**	0.6%
COST OF REAL ESTATE	**(160,976)**	(133,877)	**27,099**	20.2%	**3.0%**	4.0%
COST OF LEASE INCOME	**(152,584)**	(11,368)	**141,216**	1242.2%	**2.9%**	0.3%
COST OF SERVICES OF PROPERTY MANAGEMENT	**(80,208)**	(88,052)	**(7,844)**	-8.9%	**1.5%**	2.7%
GENERAL AND ADMINISTRATIVE EXPENSES	**(718,524)**	(544,541)	**173,983**	32.0%	**13.4%**	16.4%
TOTAL COSTS AND EXPENSES	**(2,321,347)**	(1,289,535)	**1,031,812**	80.0%	**-43.4%**	-38.9%
INCOME FROM OPERATIONS	**3,030,330**	2,027,550	**1,002,780**	49.5%	**56.6%**	61.1%
ACCRETION OF NONTRADE LIABILITY	**(651,684)**	(533,348)	**118,336**	22.2%	**-12.2%**	-16.1%
INTEREST EXPENSE	**(273,977)**	(98,723)	**175,254**	177.5%	**-5.1%**	-3.0%
UNREALIZED GAIN ON MARKETABLE SECURITIES	**150,646**	266,037	**(115,391)**	-43.4%	**2.8%**	8.0%
INTEREST INCOME	**34,470**	29,979	**4,491**	15.0%	**0.6%**	0.9%
NET FOREIGN EXCHANGE GAIN (LOSS)	**36,135**	(7,619)	**43,754**	-574.3%	**0.7%**	-0.2%
EQUITY IN NET EARNINGS OF ASSOCIATES	**27,340**	117,190	**(89,850)**	-76.7%	**0.5%**	3.5%
LOSS ON FINANCE LEASE	**-**	(812,842)	**812,842**	n/a	**0.0%**	-24.5%
OTHER INCOME - net	**87,855**	2,079,022	**(1,991,167)**	-95.8%	**1.6%**	62.7%
INCOME BEFORE INCOME TAX	**2,441,115**	3,067,246	**(626,131)**	-20.4%	**45.6%**	92.5%
PROVISION FOR INCOME TAXES						
Current	**306,296**	179,943	**126,353**	70.2%	**5.7%**	5.4%
Deferred	**363,038**	(37,147)	**400,185**	-1077.3%	**6.8%**	-1.1%
	669,334	142,796	**526,538**	368.7%	**12.5%**	4.3%
NET INCOME	₱ **1,771,781**	₱ 2,924,450	**(1,152,669)**	-39.4%	**33.1%**	88.2%

Belle Corporation realized total revenues of ₱5,351.7 million and recurring net income of ₱1,334.2 million in 2015. Due to its strong operating and financial performance, the Company paid a total of ₱2,903.8 million in cash dividends to its shareholders during 2015, comprised of a special dividend of ₱1,900.7 million and a regular dividend of ₱1,003.1 million. Belle's operating revenues of ₱5,351.7 million for 2015 were higher by ₱2,034.6 million (61%) over its operating revenues of ₱3,317.1 million for 2014. Its recurring net income of ₱1,334.2 million was ₱297.8 million (29%) higher than its 2014 recurring net income of ₱1,036.4 million. Its total consolidated net income of ₱1,771.8 in 2015 was lower by ₱1,152.7 million (39%) compared to total consolidated net income of ₱2,924.5 million in 2014 due to extraordinary non-recurring income in 2014, principally a ₱1,219.1 million reversal of provisions for probable losses by its Premium Leisure Corporation ("PLC") subsidiary. The Company considers its growth in recurring net income and its dividend payout during 2015 as the more relevant indicators for its future operating trends and prospects. The Company's operating growth in 2015 was attributable to higher revenue from its lease of the City of Dreams Manila property to Philippine entities controlled by Melco Crown Entertainment Limited (collectively, "MCE") and increased income contributed by its listed subsidiaries - PLC and Pacific Online Systems Corporation ("Pacific Online"). PLC has an operating agreement with MCE that accords it a share of gaming revenue or earnings at City of Dreams Manila.

Revenues

Total operating revenues of ₱5,351.7 million in 2015 were higher by ₱2,034.6 million (61%), compared to ₱3,317.1 million in 2014, mainly due to the following: increased revenues from Pacific Online by ₱587.9 million (62%) on account of the full year consolidation of Pacific Online in 2015 against approximately 7 months in 2014, with revenues comprised of equipment lease rentals and commission and distribution income; higher interest income on finance lease accounting in 2015, by ₱508.2 million (36%); and an increase in the gaming income share of PLC from City of Dreams Manila, from ₱38.8 million in 2014 to ₱756.2 million in 2015.

Cost of Lottery Services

Cost of lottery services pertains to direct costs of Pacific Online amounting to ₱827.0 million for the year ended December 31, 2015. Cost of lottery services increased by ₱334.0 million (68%), due mainly to full year consolidation of Pacific Online in 2015.

Cost of Real Estate

Costs of real estate and clubs shares sold increased by ₱27.1 million (20%) to ₱161.0 million for the year ended December 31, 2015, from ₱133.9 million for the year ended December 31, 2014, due mainly to higher unit sales of real estate during the 2015 period.

Cost of Lease Income

Cost of lease income pertains to property taxes, property insurance and other related costs directly attributable to the lease of the City of Dreams Manila property to MCE. This increased from ₱11.4 million in 2014 to ₱152.6 million in 2015 due to the substantial completion and opening of City of Dreams Manila in December 2014, which thereby increased the real property taxes, building insurance and lease expenses for 2015.

Cost of Services of Property Management

Cost of services of property management decreased by ₱7.8 million (9%) to ₱80.2 million for the year ended December 31, 2015, from ₱88.1 million for the year ended December 31, 2014, due to lower power usage by customers in 2015.

Cost of Gaming Operations

Cost of gaming operations refers to the service fee paid to consultants by PLC, in respect of its gaming operations, amortization of gaming license and other direct fees. The increase from ₱18.7 million in 2014 to ₱382.0 million (1,942%) in 2015 was due to the substantial completion and opening of City of Dreams Manila in December 2014, which thereby increased the amortization of PLAI's gaming License (amounting to ₱279.2 million), consultancy fees, marketing expenses and salaries and wages.

General and Administrative Expenses

General and administrative expenses increased by ₱174.0 million (32%), from ₱554.5 million for 2014, to ₱718.5 million in 2015. The increase in general and administrative expenses was due to consolidation in 2015 of ₱609.0 million in general and administrative expenses at Pacific Online.

Equity in Net Earnings of Associates

The Company's equity in net earnings of associates decreased by ₱89.9 million (77%) to ₱27.3 million for 2015, compared to ₱117.2 million for 2014, due to the consolidation of Pacific Online starting June 5, 2014. The Company's investment in Pacific Online was previously accounted for using the equity method before June 5, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Unrealized Gain on Marketable Securities

During 2016, Belle reclassified its club shares from inventory to investments held from trading within its current assets in compliance with Philippine Interpretations Committee (PIC) Q&A No. 2016-02 on Philippine Accounting Standards (PAS) 32 and 38 - Accounting Treatment of Club Shares Held by an Entity. This resulted in the restatement of Belle's financial statement for the years 2015 and 2014 for consistent application of PAS 32 and 38, for comparability. The restatement resulted a recognition of unrealized mark-to-market gains on such club shares ₱194.1 million in 2015 and ₱231.8 million in 2014. The unrealized gains on club shares were offset by unrealized losses on marketable securities held by Pacific Online.

Financial Income (Expense)

Interest expense increased by ₱175.3 million to ₱274.0 million for 2015, from ₱98.7 million for 2014. The increase in interest expense in 2015 was due to the Company's ceasing to capitalize costs of borrowings directly used to fund construction of City of Dreams Manila, which was substantially completed as of the end of 2014. Interest income increased by ₱4.5 million (15%), to ₱34.5 million for 2015, from ₱30.0 million for 2014, due to increases in average invested cash levels during 2015.

Net Foreign Exchange Loss

The net foreign exchange translation gain of ₱44.4 million for 2015 was recorded on a US$15.0 million US$-denominated portion of an advances to contractors totalling ₱1.1 billion or US$25.0 million equivalent (the "Escrow Deposit") being maintained by the Company in respect of City of Dreams Manila (based on a foreign exchange rate of ₱47.06:US$1.00 as of December 31, 2015 vs. the average exchange rate of approximately ₱44.61:US$1.00 for the relevant conversion transactions in various dates). The Company's net foreign exchange translation loss of ₱7.6 million in 2014 was caused by a loss of ₱10.6 million on the Company's US$22.0 million Floating Rate Notes ("FRNs"), which were fully repaid in May 2014, offset by ₱3.0 million in foreign exchange gains on US$-denominated deposits. The foreign exchange translation loss on the FRNs was based on an exchange rate of ₱44.88:US$1.00 when the FRNs were repaid vs. ₱44.40:US$1.00 as of December 31, 2013.

Provision for Income Tax

Provision for income tax increased by ₱526.5 million (369%), to ₱669.3 million for 2015 from ₱142.8 million for 2014, due to higher taxable income in 2015, as well as the tax deduction in 2014 for the realized foreign exchange loss upon repayment of the FRNs in May 2014.

Net Income

As a result of the foregoing, the Company realized total consolidated net income of ₱1,771.8 million for 2015. This is ₱1,152.6 million (39%) lower than consolidated net income of ₱2,924.5 million for 2014, due to higher extraordinary non-recurring income in 2014. Non-recurring income in 2014 amounted to approximately ₱1,520.2 million (net of related tax provisions) and were comprised of: a ₱31.4 million (pre-tax) gain on redemption of SMIC retail bonds in April 2014; a ₱1,219.1 million reversal of investment loss reserves by PLC (before ₱243.9 million deferred tax benefit); a ₱812.8 million Loss on Finance Lease; a ₱879.3 million gain on re-measurement of investment, net of non-recurring business acquisition costs at Pacific Online. Net non-recurring income in 2015 of ₱90.3 million pertains to the gain on sale of 16.4 million shares of SM Prime Holdings, Inc.

Excluding non-recurring items, Belle's recurring net income for 2015 was ₱1,334.2 million, which was ₱297.7 million (29%) higher compared to recurring net income for 2014 of about ₱1,036.5 million. The Company's consistent profitability helped allow it to pay cash dividends to its shareholders totaling ₱2,903.8 million (₱0.275 per share) during 2015, comprised of a special dividend of ₱1,900.7 million (₱0.18 per share) in March 2015 and a regular dividend of ₱1,003.1 million (₱0.095 per share) in August 2015.

December 31, 2015 versus December 31, 2014 Statement of Financial Position (in thousands)

	Years Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2015 (as restated)	2014 (as restated)	Inc (Dec)	%	2016	2015
ASSETS						
Current Assets						
Cash and cash equivalents	₱ 3,570,065	₱ 6,326,509	(2,756,444)	-43.6%	8.4%	15.6%
Investments held for trading	2,124,947	2,012,885	112,062	5.6%	5.0%	5.0%
Receivables	1,624,433	1,474,911	149,522	10.1%	3.8%	3.6%
Current portion of finance lease receivable	1,419,651	722,745	696,906	96.4%	3.3%	1.8%
Real estate for sale	843,074	935,530	(92,456)	-9.9%	2.0%	2.3%
Other current assets	2,323,619	2,193,830	129,789	5.9%	5.4%	5.4%
	11,905,789	13,666,410	(1,760,621)	-12.9%	27.9%	33.7%
Noncurrent Assets						
Land held for future development	3,018,515	3,018,515	-	0.0%	7.1%	7.4%
Finance lease receivable - net of current portion	15,725,603	8,866,747	6,858,856	77.4%	36.8%	21.9%
Investments in and advances to associates - net	65,364	93,909	(28,545)	-30.4%	0.2%	0.2%
Available-for-sale financial assets	2,148,003	1,984,379	163,624	8.2%	5.0%	4.9%
Investment properties	1,540,961	4,432,277	(2,891,316)	-65.2%	3.6%	10.9%
Property and equipment	770,716	576,817	193,899	33.6%	1.8%	1.4%
Intangible asset	4,970,341	5,249,552	(279,211)	-5.3%	11.6%	12.9%
Goodwill	1,828,578	1,828,578	-	0.0%	4.3%	4.5%
Pension asset	10,732	1,103	9,629	873.0%	0.0%	0.0%
Deferred tax asset	42,261	41,234	1,027	2.5%	0.1%	0.1%
Other noncurrent assets	710,167	778,084	(67,917)	-8.7%	1.7%	1.9%
	30,831,241	26,871,195	3,960,046	14.7%	72.1%	66.3%
TOTAL ASSET	₱ 42,737,030	₱ 40,537,605	2,199,425	5.4%	100.0%	100.0%
LIABILITIES AND EQUITY						
Current Liabilities						
Trade and other current liabilities	₱ 1,529,691	₱ 2,584,575	(1,054,884)	-40.8%	3.6%	6.4%
Loans payable	1,000,017	3,000,017	(2,000,000)	-66.7%	2.3%	7.4%
Assignment of receivables with recourse	-	28,026	(28,026)	-100%	0.0%	0.1%
Current portion of:						
Estimated liability on construction costs	2,556,836	1,035,028	1,521,808	147.0%	6.0%	2.6%
Nontrade liability	455,886	274,562	181,324	66.0%	1.1%	0.7%
Obligations under finance lease	25,028	16,356	8,672	53.0%	0.1%	0.0%
Long-term debt	362,500	12,500	350,000	2800.0%	0.8%	0.0%
Installment payable	173	928	(755)	-81.4%	0.0%	0.0%
Income tax payable	49,600	56,546	(6,946)	-12.3%	0.1%	0.1%
	5,979,731	7,008,538	(1,028,807)	-14.7%	14.0%	17.3%
Noncurrent Liabilities						
Noncurrent portion of:						
Nontrade liability	4,839,172	3,966,694	872,478	22.0%	11.3%	9.8%
Obligations under finance lease	93,527	76,494	17,033	22.3%	0.2%	0.2%
Long-term debt	4,621,875	1,737,500	2,884,375	166.0%	10.8%	4.3%
Installment payable	-	198	(198)	-100%	0.0%	0.0%
Deferred tax liabilities	1,175,431	815,556	359,875	44.1%	2.8%	2.0%
Pension liability	23,078	18,787	4,291	22.8%	0.1%	0.0%
Other non current liability	267,714	176,552	91,162	51.6%	0.6%	0.4%
	11,020,797	6,791,781	4,229,016	62.3%	25.8%	16.8%
TOTAL LIABILITIES	17,000,528	13,800,319	3,200,209	23.2%	39.8%	34.0%

(Forward)

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

	Years Ended December 31 (Audited)		Horizontal Analysis		Vertical Analysis	
	2015 (as restated)	**2014 (as restated)**	**Inc (Dec)**	**%**	**2016**	**2015**
Equity						
Attributable to equity holders of parent:						
Common stock	**10,561,000**	10,559,383	**1,617**	0.0%	**24.7%**	26.0%
Additional paid-in capital	**5,503,731**	5,503,731	**(0.45)**	-0.0%	**12.9%**	13.6%
Treasury stock	**(134,442)**	-	**(134,442)**	n/a	**-0.3%**	0.0%
Equity share in cost of Parent Company shares held by associates	**(2,501)**	(2,501)	**-**	0.0%	**-0.0%**	-0.0%
Cost of Parent Company common and preferred shares held by subsidiaries	**(1,749,628)**	(1,604,824)	**(144,804)**	9.0%	**-4.1%**	-4.0%
Unrealized gain on available-for-sale financial assets - net	**535,237**	91,965	**443,272**	482.0%	**1.3%**	0.2%
Other reserves	**3,085,896**	3,272,665	**(186,769)**	-5.7%	**7.2%**	8.1%
Excess of net asset value of an investment over cost	**252,040**	252,040	**-**	0.0%	**0.6%**	0.6%
Retained Earnings	**4,552,639**	5,831,564	**(1,278,925)**	-21.9%	**10.7%**	14.4%
Total equity attributable to equity holders of the Parent	**22,603,972**	23,904,023	**(1,300,051)**	-5.4%	**52.9%**	59.0%
Non-controlling interests	**3,132,530**	2,833,263	**299,267**	10.6%	**7.3%**	7.0%
Total Equity	**25,736,502**	26,737,286	**(1,000,784)**	-3.7%	**60.2%**	66.0%
TOTAL LIABILITIES AND EQUITY	**₱ 42,737,030**	₱ 40,537,605	**2,199,425**	5.4%	**100.0%**	100.0%

ASSETS

Total assets of the Company increased by ₱2,199.4 million (5%) to ₱42,737.0 million as of December 31, 2015, from ₱40,537.6 million as of December 31, 2014.

Cash and Cash equivalents

Cash and cash equivalents decreased by ₱2,756.4 million (44%), to ₱3,570.1 million as of December 31, 2015, from ₱6,326.5 million in December 31, 2014, due mainly to Belle's payment of cash dividends totalling ₱2,903.8 million during 2015 and payments in respect of construction contracts for the City of Dreams Manila. These were offset by: (i) rental receipts from MCE of ₱1,346.1 million; (ii) proceeds from sale of real estate and club shares and revenue from property management services totaling ₱735.0 million; and (iii) proceeds from the sale of about 16 million shares of SM Prime Holdings., Inc., totaling ₱308.5 million.

Investments Held for Trading

This pertains to the club shares of Tagaytay Highlands International Golf Club, Tagaytay Midlands International Golf Club, The Country Club at Tagaytay Highlands held by Belle, as well marketable securities held by Pacific Online in companies that are not subsidiaries of Belle, comprised of listed shares of stock in DFNN, Inc., ISM Communications Corp., Leisure and Resorts World Corporation, Philippine Long Distance Telephone Company, Inc. and Vantage Equities, Inc.

Finance Lease Receivable

Due to the requirements under Philippine Accounting Standards 17 (PAS 17, Leases), management accounts for its lease agreement with MCE for the City of Dreams Manila buildings as a finance lease, even though there is neither a requirement nor any intention to transfer title therefor to MCE. The Company thus recorded a finance lease receivable in March 2013 equivalent to the estimated fair value of the leased property, amounting to ₱9,375.0 million for the Phase 1 building structure of City of Dreams Manila. In January 2015, the Company recorded a finance lease receivable, amounting to ₱6,260.0 million for the estimated fair value of the Phase 2 building structure of City of Dreams Manila. Fair valuation was determined by discounting minimum lease payments at the inception date of the lease agreement.

Receivables

Receivables increased by ₱149.5 million (10%), to ₱1,624.4 million as of December 31, 2015, from ₱1,474.9 million as of December 31, 2014. The increase in receivables was due mainly from the increased real estate sales, equipment rentals and net gaming revenue share.

Real Estate for Sale

Real estate for sale decreased by ₱92.5 million (10%), to ₱843.1 million as of December 31, 2015, from ₱935.5 million as of December 31, 2014 due to sales during the year.

Available-for-sale Financial Assets

Available-for-sale financial assets increased by ₱163.6 million (8%) to ₱2,148.0 million as of December 31, 2015 from ₱1,984.4 million as of December 31, 2014, due to increases in the fair value of such investments, net of the value of 16.5 million SM Prime Holdings, Inc. shares sold during 2015.

Investments in and Advances to Associates – Net

Investments and advances to associates decreased by ₱28.5 (30%) million, to ₱65.4 million as of December 31, 2015 from ₱93.9 million as of December 31, 2014, due to payments received from Woodland Development Corporation during 2015.

Investment Properties

Investment properties decreased by ₱2,891.3 million (65%), from ₱4,432.3 million as of December 31, 2014 to ₱1,541.0 million as of December 31, 2015, due to the finance lease accounting treatment of the Phase 2 building of City of Dreams Manila.

Intangible Asset

This pertains to the cost of the PAGCOR License to operate integrated resorts that was granted by PAGCOR to PremiumLeisure and Amusement, Inc. (PLAI), a wholly-owned subsidiary of PLC. Belle and MCE are Co-Licensees under PLAI's PAGCOR License. The decrease from last year's balance by ₱279.2 million (5%), from ₱5,249.6 million as of December 31, 2014 to ₱4,970.3 million as of December 31, 2015, resulted from the amortization by PLC of the intangible asset on the License starting on December 14, 2014, which is the date of effectivity of the Notice to Commence Casino Operations granted by PAGCOR.

Goodwill

The Company recognized goodwill amounting to ₱1,828.6 million, as a result of consolidating Pacific Online starting in June 2014, and the acquisition of Falcon Resources Inc. by Total Gaming Technologies Inc., a subsidiary of Pacific Online, on December 11, 2014.

Other Assets

Other assets was virtually unchanged, increasing by less than (2%), to ₱3,033.8 million as of December 31, 2015 from ₱2,971.9 million as of December 31, 2014.

LIABILITIES

Total liabilities increased by ₱3,200.2 million (23%), to ₱17,000.5 million as of December 31, 2015, from ₱13,800.3 million as of December 31, 2014, due to the increase in long-term debt and estimated liability on construction costs, mainly regarding City of Dreams Manila.

Loans Payable and Long-Term Debt

Loans payable and long-term debt from financial institutions, amounting to ₱5,984.4 million as of December 31, 2015, pertains to Peso loans from various local banks, with an average interest rate of 5.7% per annum during 2015.

Estimated Liability for Construction

The Company recorded estimated liability on construction costs amounting to ₱2,556.8 million for the City of Dreams Manila buildings, as a result of accounting for its lease agreement with MCE as a finance lease (as required under PAS 17). The City of Dreams Manila buildings have a total gross floor area of approximately 31 hectares.

Obligations under Finance Lease

This pertains to Pacific Online's lottery equipment under finance lease accounting.

Nontrade Liability

On May 20, 2013, Belle, PLAI, Belle Grande Resource Holdings Corp. (BGRHC), AB Leisure Global, Inc. (ABLGI) and Leisure and Resorts World Corp. (LRWC) entered into a Memorandum of Agreement (the "MOA"), whereby Belle and PLAI have agreed to grant ABLGI the right to the settlement of amounts equivalent to 30% of the net lease income of the City of Dreams Manila located at Aseana Business Park in Paranaque City (the "Project") in consideration, among other terms, of the waiver of ABLGI's rights as casino operator, the termination ABLGI agreements and the grant of advances of ₱4,000.0 million (ABLGI Advance) as partial funding for the construction of the casino integrated resort building. Belle formed BGRHC as a subsidiary in 2013 for the purpose of this MOA. The carrying value of the nontrade liability amounted to ₱4,000.0 million as at December 31, 2013.

In December 2014, the implementing agreement in the MOA was executed, with the effectivity of terms and conditions retrospective on January 1, 2014. The ABLGI Advance was determined as the fair value of ABLGI's 30% share in the net lease income of the Project. In 2015, additional advances received from ABLGI amounted to ₱780.0 million. The nontrade liability is carried at amortized cost.

Trade and Other Current Liabilities

Trade and other current liabilities decreased by ₱1,054.8 million (41%) to ₱1,529.7 million as of December 31, 2015, from ₱2,584.6 million as of December 31, 2014, due mainly to the decrease in trade payables. Comprising this account are principally trade payables of ₱754.1million, non-trade payables of ₱288.6 million, accrued expenses of ₱367.7 million, and advances and customers' deposits totaling ₱123.4 million.

Installment Payable

This refers to liabilities of Pacific Online arising from its purchase of transportation vehicles and other equipment under finance lease arrangements.

EQUITY

The Company's consolidated shareholders' equity as of December 31, 2015 of ₱25,736.5 million was lower by ₱1,000.8 million (4%), compared to the level as of December 31, 2014 of ₱26,737.3 million, due mainly to the ₱2,902.5 million in total cash dividends declared to its shareholders in 2015.

Treasury Shares

In January 2015, the Board of Directors of Belle has approved a Share Buyback Program authorizing management the discretion to purchase the Company's common shares up to an aggregate cost of ₱1.0 billion. As of December 31, 2015, 42.1 million Belle shares have been purchased and held as treasury shares at a total acquisition cost of ₱134.8 million.

Retained Earnings

The Company's consolidated retained earnings of ₱4,552.6 million as of December 31, 2015 was ₱1,278.9 million (22%) lower than its consolidated retained earnings of ₱5,831.5 million as of December 31, 2014, due to the Company's payment of a total of ₱2,903.8 million in cash dividends during 2015, comprised of a ₱1,900.7 million (₱0.18 per share) special dividend on March 9, 2015 and a ₱1,001.8 million (₱0.095 per share) regular dividend on August 28, 2015.

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

Belle Corporation (consolidated)

	Dec 31, 2015	Dec 31, 2014
Asset to equity ratio	**1.68 : 1.00**	1.51: 1.00
Current or Liquidity ratio	**1.88 : 1.00**	1.99: 1.00
Debt-to-equity ratio	**0.23 : 1.00**	0.17: 1.00
Net debt-to-equity ratio	**0.10 : 1.00**	(0.06): 1.00
Interest rate coverage ratio	**9.80:1.00**	10.7:1.00
Return on assets	**3.4%**	7.0%
Return on equity	**5.3%**	10.7%

Below are the comparative key performance indicators of the material partly-owned subsidiaries of Belle:

Premium Leisure Corp. (consolidated)

	Dec 31, 2015	Dec 31, 2014
Asset to equity ratio	**1.03 : 1.00**	1.01 : 1.00
Current or Liquidity ratio	**7.14 : 1.00**	36.16 : 1.00
Debt-to-equity ratio	**0.01 : 1.00**	Not Applicable
Net debt-to-equity ratio	**(0.67) : 1.00**	Not Applicable
Interest rate coverage ratio	**Not Applicable**	Not Applicable
Return on assets	**1.38%**	14.93%
Return on equity	**1.41%**	15.20%

Pacific Online Systems Corp. (consolidated)

	Dec 31, 2015	Dec 31, 2014
Asset to equity ratio	**1.26 : 1.00**	1.31 : 1.00
Current or Liquidity ratio	**2.74 : 1.00**	3.86 : 1.00
Debt-to-equity ratio	**0.67 : 1.00**	0.52 : 1.00
Net debt-to-equity ratio	**(0.82) : 1.00**	(0.21) : 1.00
Interest rate coverage ratio	**47.81 : 1.00**	57.60 : 1.00
Return on assets	**15.65%**	20.69%
Return on equity	**19.67%**	20.38%

The above performance indicators are calculated as follows:

Current Ratio	Current Assets / Current Liabilities
Debt to Equity Ratio	Interest-bearing debt / Total Equity
Asset-to-equity Ratio	Total Assets / Total Equity
Return on Equity	Net Income / Average equity during the period
Return on Assets	Net Income / Average assets during the period
Interest Coverage Ratio	Income Before Interest & Tax / Interest Expense
Net debt-to-equity ratio	Interest-bearing debt less cash and cash equivalents / Total Equity

The Company does not foresee any cash flow or liquidity problems over the next twelve months. As of December 31, 2015, total debt of the Company of ₱6,234.1 million was comprised of short-term bank borrowings of ₱1,000.0 million, long-term bank debt of ₱5,115.5 million and obligations under finance lease of ₱118.6 million. Belle expects income from real estate projects, cash rental receipts from MCE and dividends from subsidiaries to generate cash flow sufficient for its needs. Meanwhile, the Company continues to be in compliance with the terms of all of its debt obligations.

As of December 31, 2015, except for what has been noted in the preceding, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Any Known Trends, Events or Uncertainties (Material Impact on Liquidity) Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;

- Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

- All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

- Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures:

Under the License granted to PLAI by PAGCOR, the parties designated as Co-Licensees in the Consortium (PLAI, Belle and MRP) were committed to collectively invest a minimum of US$1.0 billion (“Investment Commitment”) in the Project. Under the PAGCOR Guidelines, of the US$1.0 billion, US$650.0 million shall be invested upon the opening of the integrated resort and the US$350.0 million balance shall be invested within a period of three (3) years from the commencement of the integrated resort operations. The Investment Commitment shall be composed of the value of the land (up to a maximum of US$150 million) and the development costs of the infrastructure and facilities for the Project. The Consortium already exceeded the US$1.0 billion Investment Commitment upon the soft opening of City of Dreams Manila on December 14, 2014. Consequently, City of Dreams Manila became the first integrated resort in Entertainment City to be awarded a Regular License by PAGCOR, in May 2015.

- Any Known Trends, Events or Uncertainties (Material Impact on Sales)

- Any Significant Elements of Income or Loss (from continuing operations)

2018 Plan of Operations

Belle shifted its principal activity from mining and oil exploration to property development when it developed Tagaytay Highlands in 1989. Residential projects in Tagaytay City include Pinecrest Village, The Villas, The Belle View and The Woodlands. Residential projects in Batangas comprise the Midlands and Greenlands development areas. Among the Midlands residential projects are Alta Mira, Lakeview Heights and Lakeside Fairways. Greenlands residential projects are Plantation Hills and four subdivisions of Saratoga Hills.

Development shifted to the Midlands starting with Alta Mira and Lakeview which were situated near the Tagaytay Midlands Golf Club. Midlands’ themed residential subdivisions adjacent to the Tagaytay Midlands Golf Course were thereafter developed in the Lakeside Fairways in 2007. Kew Gardens, Terrazas de Alava, Lakeside Enclave, Tivoli Place, Cotswold and Katsura are fully completed. Yume fairway lots are the last phase of its development. The first three phases of Sycamore Heights has been fully developed including its clubhouse and swimming pool. The latest phase in Sycamore Heights was launched and substantially sold in 2017. As of December 31, 2017, it is 98% complete.

Greenlands known for its American-themed homes in Saratoga Hills consists of The Parks, The Verandas, Fairfield, Nob Hill and the only farming subdivision in Tagaytay Highlands known as Plantation Hills. Subdivisions in Greenlands have been fully developed and is a thriving community of homeowners.

For the gaming side, construction of the Company’s integrated resort at the entrance of PAGCOR’s Entertainment City was completed during 2015. The site of the integrated resort is on 6.2 hectares of prime land at the corner of Roxas Boulevard and Aseana Avenue in Parañaque City, and it is about one kilometer away from the Mall of Asia complex. On October 25, 2012, Belle and PLAI signed a Cooperation Agreement with Melco Resorts & Entertainment Limited and its Philippine affiliate (collectively, “Melco”) for the development and operation of the integrated resort. The Cooperation Agreement places Belle as the licensee and owner of the resort’s land and buildings, while Melco’s Philippine affiliate, Melco Resorts & Entertainment (Philippines) limited (“MRP”) will be the developer and operator of all facilities within the resort complex. Melco is the developer and owner of integrated resort facilities historically focused on the Macau market. Its highly successful “City of Dreams” integrated resort complex on Macau’s Cotai Strip houses a gaming facility, several international luxury hotels, and an upscale retail operation, along with a mix of bars and restaurants that draw large crowds from Hong Kong and China. On October 9, 2013, MRP announced the use of the name of Melco’s flagship Macau resort to brand the integrated resort as “City of Dreams Manila”, and later announced Crown Towers (to be changed to Nuwa), Hyatt and Nobu as the hotel brands to be used for the resort’s more than 900 hotel rooms. City of Dreams Manila has approximately 30 hectares of gross floor area, which houses more than two hectares of gaming space, more than two hectares of retail and restaurant facilities, more than 900 high-quality hotel rooms and various entertainment facilities. It is currently allowed to operate a maximum of approximately 380 gaming tables, 1,680 slot machines and 1,680 electronic table games.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

Belle and MRP estimate combined investment costs, including the estimated value of land used for the project, at approximately US$1.3 billion as of December 31, 2017. The soft opening of City of Dreams Manila took place on December 14, 2014 and the Grand Launch took place on February 2, 2015. Belle and MRP already satisfied the US$1 billion minimum required level of investment and all other PAGCOR Guidelines by the time of its Grand Launch, resulting in City of Dreams Manila being the first property in Entertainment City to be issued a Regular License, on May 5, 2015.

Existing investments will continue to be managed at Belle's listed gaming subsidiary, PLC. PLC, which is 78.7%-owned by Belle as of December 31, 2017, owns 100% of the capital stock of PLAI and 50.1 % of all issued shares of Pacific Online. PLAI is a co-licensee with Belle and MRP under the PAGCOR license for City of Dreams Manila, and is entitled to a share of gaming earnings therefrom through an Operating Agreement with MRP. Pacific Online is a listed company that leases online equipment to the Philippine Charity Sweepstakes Office for its lottery and keno operations.

On March 1, 2018, Belle Infrastructure Holdings, Inc. (a wholly owned subsidiary of Belle Corporation) subscribed to a 50% equity stake in All-Asia Resources and Reclamation Corporation in the amount of ₱250.0 million.

ANNEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) SECTION

Events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of obligation

None. The Company does not foresee any events that may trigger material financial obligation to the Company, including default or acceleration of an obligation.

All material off-balance sheet transactions, arrangement, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period

None. There were no material off-balance sheet transactions, arrangement, obligations, and other relationships of the Company with unconsolidated entities or other persons that the Company is aware of during the reporting period.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong City, Metro Manila

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, 2017 and 2016, 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.

JOSE T. SIO
Chairman of the Board

MANUEL A. GANA
President and Chief Executive Officer

JACKSON T. ONGSIP
Executive Vice President
and Chief Financial Officer

Signed this 23rd day of February, 2018

SUBSCRIBED AND SWORN to before me this __th day of ______ 2018 affiants exhibiting to me their Passports/TIN, as follows:

NAME	PASSPORT/ TIN No.	DATE OF ISSUE	PLACE OF ISSUE
Jose T. Sio	Passport # PO932366A TIN#103-433-285-000	November 17, 2016	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

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill in Pacific Online Systems Corporation

Under PFRS, the Company is required to annually test the amount of goodwill for impairment. As of December 31, 2017, goodwill arising from the acquisition of Pacific Online Systems Corporation (POSC) amounted to ₱1,717.6 million out of a total goodwill balance of ₱1,832.3 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 judgement 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.

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 17A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17A and Annual Report for the year ended December 31, 2017 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. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 6621231, January 9, 2018, Makati City

February 23, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 43)	**₱3,711,248**	₱2,953,262
Investments held for trading (Notes 9 and 43)	**2,279,666**	2,232,710
Receivables (Notes 10 and 43)	**2,095,784**	1,881,754
Current portion of finance lease receivable (Notes 37 and 43)	**1,689,973**	1,541,035
Real estate for sale - at cost (Note 11)	**643,265**	802,854
Other current assets (Notes 12 and 43)	**1,347,963**	1,210,973
Total Current Assets	**11,767,899**	10,622,588
Noncurrent Assets		
Finance lease receivable - net of current portion (Notes 37 and 43)	**16,393,208**	16,104,586
Intangible asset (Note 17)	**5,001,237**	4,812,707
Land held for future development (Note 11)	**3,099,166**	3,092,399
Available-for-sale financial assets (Notes 14 and 43)	**2,475,287**	2,026,944
Investment properties (Notes 15 and 37)	**1,869,025**	1,540,961
Goodwill (Note 18)	**1,832,261**	1,828,578
Property and equipment (Note 16)	**648,444**	690,378
Investments in and advances to associates - net (Notes 13, 39 and 43)	**77,975**	77,903
Pension asset (Note 38)	**13,414**	10,048
Deferred tax assets (Note 36)	**15,440**	14,576
Other noncurrent assets (Notes 19 and 43)	**540,337**	743,290
Total Noncurrent Assets	**31,965,794**	30,942,370
TOTAL ASSETS	**₱43,733,693**	₱41,564,958
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities (Notes 20, 39 and 43)	**₱2,011,183**	₱1,254,065
Loans payable (Notes 21 and 43)	**2,500,017**	2,000,017
Estimated liability on construction costs (Note 15)	**18,646**	23,376
Income tax payable	**29,434**	51,900
Current portion of:		
Long-term debt (Notes 23 and 43)	**1,056,944**	862,500
Obligations under finance lease (Notes 37 and 43)	**39,489**	47,698
Nontrade liability (Notes 24 and 43)	**–**	3,762,000
Total Current Liabilities	**5,655,713**	8,001,556

(Forward)

	December 31	
	2017	2016
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 23 and 43)	**₱5,202,431**	₱3,759,375
Obligations under finance lease (Notes 37 and 43)	**35,374**	71,644
Pension liability (Note 38)	**24,102**	12,550
Deferred tax liabilities - net (Note 36)	**2,220,559**	1,742,187
Other noncurrent liabilities (Note 22)	**234,340**	233,864
Total Noncurrent Liabilities	**7,716,806**	5,819,620
TOTAL LIABILITIES	**13,372,519**	13,821,176
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)	**(181,185)**	(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)	**(1,585,336)**	(1,758,264)
Unrealized gain on available-for-sale financial assets - net (Note 14)	**1,365,375**	836,876
Retained earnings (Note 25)	**8,194,187**	6,289,302
Other reserves (Notes 2 and 38)	**3,045,886**	3,082,825
Excess of acquisition cost over net assets of acquired subsidiaries	**252,040**	252,040
Total Equity Attributable to Equity Holders of the Parent	**27,153,197**	24,583,824
Non-controlling interests	**3,207,977**	3,159,958
Total Equity	**30,361,174**	27,743,782
TOTAL LIABILITIES AND EQUITY	**₱43,733,693**	₱41,564,958

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Per Share Amounts)

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Gaming revenue share - net (Notes 26 and 40)	**₱2,609,353**	₱1,642,976	₱756,238
Interest income on finance lease (Note 37)	**2,069,841**	2,003,840	1,917,354
Equipment rental (Notes 37 and 40)	**1,840,521**	1,579,661	1,459,237
Sale of real estate	**596,667**	350,253	354,774
Commission and distribution income	**479,472**	308,438	259,081
Lease income (Note 37)	**190,021**	190,042	190,906
Revenue from property management	**115,939**	127,168	112,682
Others (Note 27)	**110,246**	119,130	301,405
	8,012,060	6,321,508	5,351,677
COSTS AND EXPENSES			
Cost of lottery services (Note 28)	**(1,238,442)**	(931,263)	(827,032)
Cost of gaming operations (Note 29)	**(234,630)**	(416,507)	(382,023)
Cost of lease income (Note 31)	**(196,831)**	(209,391)	(152,584)
Cost of real estate sold (Notes 11 and 30)	**(256,500)**	(120,517)	(160,976)
Cost of services for property management (Note 32)	**(68,907)**	(63,813)	(80,208)
General and administrative expenses (Note 33)	**(1,467,255)**	(957,280)	(718,524)
	(3,462,565)	(2,698,771)	(2,321,347)
OTHER INCOME (EXPENSES)			
Accretion of nontrade liability (Note 24)	**–**	(455,229)	(651,684)
Interest expense (Note 34)	**(503,665)**	(355,779)	(273,977)
Unrealized mark-to-market gain on investments held for trading (Note 9)	**67,705**	148,554	150,646
Interest income (Note 34)	**29,577**	28,782	34,470
Net foreign exchange gain (loss)	**(1,641)**	(10,816)	36,135
Gain on finance lease	**–**	15,882	–
Equity in net earnings of associates (Note 13)	**–**	–	27,340
Other income (Note 35)	**166,149**	981,628	87,855
	(241,875)	353,022	(589,215)
INCOME BEFORE INCOME TAX	**4,307,620**	3,975,759	2,441,115
PROVISION FOR INCOME TAX (Note 36)			
Current	**316,330**	283,461	306,296
Deferred	**480,649**	596,175	363,038
	796,979	879,636	669,334
NET INCOME	**3,510,641**	3,096,123	1,771,781

(Forward)

	Years Ended December 31		
	2017	2016	2015
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	₱533,614
Realized gain on available-for-sale financial assets transferred to profit or loss (Notes 14 and 35)	**(76,546)**	(351,680)	(90,342)
	528,520	301,701	443,272
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) of pension asset/liability - net (Note 38)	**(7,184)**	(5,972)	9,046
Income tax effect	**2,155**	2,797	(2,714)
	(5,029)	(3,175)	6,332
TOTAL OTHER COMPREHENSIVE INCOME	**523,491**	298,526	449,604
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱4,034,132**	₱3,394,649	₱2,221,385
Net income attributable to:			
Equity holders of the parent (Note 42)	**₱2,872,412**	₱2,700,117	₱1,533,731
Non-controlling interests	**638,229**	396,006	238,050
	₱3,510,641	₱3,096,123	₱1,771,781
Total comprehensive income attributable to:			
Equity holders of the parent	**₱3,395,620**	₱2,998,685	₱1,980,388
Non-controlling interests	**638,512**	395,964	240,997
	₱4,034,132	₱3,394,649	₱2,221,385
Basic/Diluted Earnings Per Share (Note 42)	**₱0.282**	₱0.266	₱0.150

See accompanying Notes to Consolidated Financial Statements.

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017, 2016 and 2015
(Amounts in Thousands)

	Attributable to Equity				
	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)
Balance at January 1, 2017	**₱10,561,000**	**₱5,503,731**	**(₱181,185)**	**(₱2,501)**	**(₱1,758,264)**
Purchase of treasury shares by POSC	–	–	–	–	–
Acquisition of non-controlling interest in subsidiaries (Note 25)	–	–	–	–	–
Sale of Parent Company shares by POSC	–	–	–	–	**204,582**
Acquisition of additional Parent Company shares by POSC	–	–	–	–	**(31,654)**
Cash dividends (Notes 2 and 25)	–	–	–	–	–
Net income	–	–	–	–	–
Remeasurement loss of pension asset (liability) – net	–	–	–	–	–
Unrealized gain on available-for-sale financial assets - net (Note 14)	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	–
Balance at December 31, 2017	**₱10,561,000**	**₱5,503,731**	**(₱181,185)**	**(₱2,501)**	**(₱1,585,336)**
Balance at January 1, 2016	₱10,561,000	₱5,503,731	(₱134,442)	(₱2,501)	(₱1,749,628)
Purchase of treasury shares (Note 25)	–	–	(46,743)	–	–
Purchase of treasury shares by POSC	–	–	–	–	–
Acquisition of additional Parent Company shares by POSC	–	–	–	–	(8,636)
Cash dividends (Notes 2 and 25)	–	–	–	–	–
Net income	–	–	–	–	–
Remeasurement loss of pension - asset (liability) – net	–	–	–	–	–
Unrealized gain on available-for-sale financial assets - net (Note 14)	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	–
Balance at December 31, 2016	₱10,561,000	₱5,503,731	(₱181,185)	(₱2,501)	(₱1,758,264)

Holders of the Parent								
	Other Reserves							
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)	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
₱836,876	**₱14,061**	**(₱7,012)**	**₱3,075,776**	**₱252,040**	**₱6,289,302**	**₱24,583,824**	**₱3,159,958**	**₱27,743,782**
–	–	–	–	–	–	–	**(211,841)**	**(211,841)**
–	–	–	–	–	–	–	**(36,549)**	**(36,549)**
–	–	–	**(31,648)**	–	–	**172,934**	–	**172,934**
–	–	–	–	–	–	**(31,654)**	–	**(31,654)**
–	–	–	–	–	**(967,527)**	**(967,527)**	**(342,103)**	**(1,309,630)**
–	–	–	–	–	**2,872,412**	**2,872,412**	**638,229**	**3,510,641**
–	–	**(5,291)**	–	–	–	**(5,291)**	**262**	**(5,029)**
528,499	–	–	–	–	–	**528,499**	**21**	**528,520**
528,499	–	**(5,291)**	–	–	**2,872,412**	**3,395,620**	**638,512**	**4,034,132**
₱1,365,375	**₱14,061**	**(₱12,303)**	**₱3,044,128**	**₱252,040**	**₱8,194,187**	**₱27,153,197**	**₱3,207,977**	**₱30,361,174**
₱535,237	₱14,061	(₱3,941)	₱3,075,776	₱252,040	₱4,552,639	₱22,603,972	₱3,132,530	₱25,736,502
–	–	–	–	–	–	(46,743)	–	(46,743)
–	–	–	–	–	–	–	(56,819)	(56,819)
–	–		–	–	–	(8,636)	–	(8,636)
–	–	–	–	–	(963,454)	(963,454)	(311,717)	(1,275,171)
–	–	–	–	–	2,700,117	2,700,117	396,006	3,096,123
–	–	(3,071)	–	–	–	(3,071)	(104)	(3,175)
301,639	–	–	–	–	–	301,639	62	301,701
301,639	–	(3,071)	–	–	2,700,117	2,998,685	395,964	3,394,649
₱836,876	₱14,061	(₱7,012)	₱3,075,776	₱252,040	₱6,289,302	₱24,583,824	₱3,159,958	₱27,743,782

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Attributable to Equity				
	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)
Balance at January 1, 2015	₱10,559,383	₱5,503,731	₱–	(₱2,501)	(₱1,604,824)
Issuance of common stock	1,617	–	–	–	(1,617)
Purchase of treasury shares	–	–	(134,442)	–	–
Acquisition of non-controlling interest in subsidiaries (Note 25)	–	–	–	–	–
Acquisition of additional Parent Company shares by POSC	–	–	–	–	(143,187)
Disposal of Parent Company interest in POSC and transaction costs (Note 2)	–	–	–	–	–
Collections of subscriptions from non-controlling shareholders	–	–	–	–	–
Cash dividends (Notes 2 and 25)	–	–	–	–	–
Net income	–	–	–	–	–
Remeasurement gain of pension asset (liability) – net	–	–	–	–	–
Unrealized gain on available-for-sale financial assets - net (Note 14)	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–
Balance at December 31, 2015	₱10,561,000	₱5,503,731	(₱134,442)	(₱2,501)	(₱1,749,628)

Holders of the Parent								
	Other Reserves							
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)	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	Total Equity
₱91,965	₱14,061	(₱7,326)	₱3,265,930	₱252,040	₱5,831,564	₱23,904,023	₱2,833,263	₱26,737,286
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(134,442)	–	(134,442)
–	–	–	–	–	–	–	(74,909)	(74,909)
–	–		–	–	–	(143,187)	–	(143,187)
–	–	–	(190,154)	–	–	(190,154)	179,205	(10,949)
–	–	–	–	–	–	–	185,481	185,481
–	–	–	–	–	(2,812,656)	(2,812,656)	(231,507)	(3,044,163)
–	–	–	–	–	1,533,731	1,533,731	238,050	1,771,781
–	–	3,385	–	–	–	3,385	2,947	6,332
443,272	–	–	–	–	–	443,272	–	443,272
443,272	–	3,385	–	–	1,533,731	1,980,388	240,997	2,221,385
₱535,237	₱14,061	(₱3,941)	₱3,075,776	₱252,040	₱4,552,639	₱22,603,972	₱3,132,530	₱25,736,502

BELLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,307,620**	₱3,975,759	₱2,441,115
Adjustments for:			
Interest income on finance lease (Note 37)	**(2,069,841)**	(2,003,840)	(1,917,354)
Interest expense (Note 34)	**503,665**	355,779	273,977
Depreciation and amortization (Notes 16, 17, 28, 29, 32 and 33)	**381,222**	363,990	431,135
Gain on pre-termination of ABLGI advances (Note 24)	**–**	(634,800)	–
Accretion of nontrade liability (Note 24)	**–**	455,229	651,684
Loss (gain) on sale of:			
Other assets (Notes 12 and 35)	**(85,678)**	–	(1,850)
Available-for-sale investments (Notes 14 and 35)	**(76,546)**	(351,680)	(90,342)
Property and equipment (Notes 16 and 35)	**(20,102)**	(30)	397
Investment in associate (Notes 13 and 35)	**–**	(5,603)	–
Investments held for trading (Notes 9, 27 and 35)	**(11,610)**	(13,533)	(156,636)
Unrealized mark-to-market gain on investments held for trading (Note 9)	**(67,705)**	(148,554)	(150,646)
Amortization of discount on trade receivables (Notes 10 and 27)	**(56,297)**	(48,204)	(56,768)
Interest income (Note 34)	**(29,577)**	(28,782)	(34,470)
Write-off of input VAT	**25,000**	–	–
Dividend income (Note 27)	**(22,794)**	(28,371)	(23,209)
Unrealized foreign exchange loss (gain)– net	**1,593**	13,021	(36,135)
Provision for (reversal of):			
Impairment loss on investment in associates (Note 35)	**–**	(45,928)	(255)
Impairment loss on advances to associates (Note 35)	**–**	29,398	–
Probable loss on other assets – net			34,951
Gain in finance lease	**–**	(15,882)	–
Equity in net earnings of associates	**–**	–	(27,340)
Working capital adjustments:			
Decrease (increase) in:			
Receivables	**1,397,144**	1,295,385	903,555
Real estate for sale and land held for future development	**152,822**	(33,664)	92,456
Increase (decrease) in trade and other current liabilities	**683,821**	(309,649)	(991,699)
Net cash generated from operations	**5,012,737**	2,820,041	1,342,566
Income taxes paid	**(242,992)**	(193,417)	(272,151)
Other assets	**76,062**	992,840	(136,064)
Interest received	**29,482**	28,782	34,470
Pension asset/liability	**2,541**	(15,814)	5,241
Net cash provided by operating activities	**4,877,830**	3,632,432	974,062
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures on investment properties (Note 15)	**(328,064)**	(2,517,578)	(2,171,854)
Acquisitions of:			
Property and equipment (Notes 16 and 44)	**(183,632)**	(134,661)	(366,257)
Investments held for trading (Note 9)	**(17,034)**	(19,712)	(88,579)
Intangible asset (Note 17)	**(310,000)**	–	–

(Forward)

	Years Ended December 31		
	2017	2016	2015
Proceeds from disposal of:			
Available-for-sale financial assets (Note 14)	**₱156,723**	₱774,440	₱308,515
Investments held for trading (Note 9)	**49,393**	74,036	283,799
Property and equipment (Notes 16 and 35)	**21,019**	8,673	20,037
Cash received from acquisition of subsidiaries (Note 18)	**66,445**	–	–
Dividends received (Note 27)	**22,794**	27,342	23,209
Decrease (increase) in investments in and advances to associates and related parties	**(72)**	9,550	56,140
Net cash used in investing activities	**(522,428)**	(1,777,910)	(1,934,990)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debt and loans payable (Notes 21 and 23)	**(2,362,500)**	(662,500)	(3,015,625)
Interest (see Note 34)	**(492,806)**	(355,779)	(273,977)
Transaction costs of acquisition and disposal of non-controlling interest	**–**	–	(10,949)
Proceeds from:			
Availment of loans and long-term debt (Notes 21 and 23)	**4,500,000**	1,300,000	4,250,000
Collection of subscriptions receivable from non-controlling interest	**–**	–	185,481
Disposal of interest in POSC without loss of control	**–**	–	2,744
ABLGI advance (Note 24)	**–**	–	780,000
Disposal of Parent Company shares held by a subsidiary	**172,934**	–	–
Dividends paid	**(1,309,630)**	(1,275,171)	(3,039,387)
Acquisition of:			
Treasury shares by Parent Company (Note 25)	**–**	(46,743)	(134,442)
Treasury shares by POSC	**(211,841)**	(56,819)	–
Non-controlling interest (Note 25)	**–**	–	(74,909)
Acquisition of PLC shares by a subsidiary	**(36,549)**	–	–
Acquisition of Belle shares by a subsidiary (Note 25)	**(31,654)**	(8,636)	(145,931)
Increase (decrease) in:			
Nontrade liability	**(3,762,000)**	(1,353,487)	(377,883)
Obligations under finance lease	**(61,777)**	787	25,706
Advances from related parties	**–**	44	(2,479)
Net cash used in financing activities	**(3,595,823)**	(2,458,304)	(1,831,651)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,593)**	(13,021)	36,135
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**757,986**	(616,803)	(2,756,444)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,953,262**	3,570,065	6,326,509
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱3,711,248**	₱2,953,262	₱3,570,065

See accompanying Notes to Consolidated Financial Statements.

1. **General Information**

Corporate Information
Belle Corporation ("Belle" or "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 23, 2018.

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 investments held for trading and available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, 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 (PFRS).

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, 2017 and 2016. 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. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

A change in the ownership interest of a subsidiary, without 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:

		2017			2016		
		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**	90.0	–	90.0
Premium Leisure Corp. (PLC) and Subsidiaries:	Gaming	**78.7**	**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	**–**	**52.9**	**52.9**	–	50.7	50.7
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**	–	–	–
Avery Integrated Hub, Inc. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Circle 8 Gaming Ventures, Inc. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Luckydeal Leisure, Inc. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Luckyfortune Business Ventures, Inc. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Luckypick Leisure Club Corp. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Luckyventures Leisure Corp. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Lucky Games Entertainment Ventures Inc. **	Gaming	**–**	**100.0**	**100.0**	–	–	–
Orbis Valley Corporation **	Gaming	**–**	**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 2017, 2016 and 2015. Non-controlling interests hold 21.0% as at December 31, 2017 and 2016.

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, 2017, 2016 and 2015:

	2017	2016	2015
		(In Thousands)	
Total current assets	**₱5,938,868**	₱3,965,118	₱3,147,209
Total noncurrent assets	**12,695,155**	12,942,675	13,294,789
Total current liabilities	**1,512,363**	635,297	440,574
Total noncurrent liabilities	**55,617**	84,194	112,166
Total equity	**₱17,066,043**	₱16,188,302	₱15,889,258
Attributable to:			
Equity holders of the Parent	**16,315,083**	15,357,860	15,042,176
Non-controlling interests	**750,960**	830,442	847,082
Total	**₱17,066,043**	₱16,188,302	₱15,889,258

Summarized consolidated statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
		(In Thousands)	
Revenue	**₱4,929,346**	₱3,531,076	₱1,475,565
Costs and expenses	**(2,796,194)**	(2,125,154)	(1,209,625)
Other income - net	**104,992**	34,779	141,978
Income before income tax	**2,238,144**	1,440,701	407,918
Provision for income tax	**(235,478)**	(282,601)	(184,763)
Net income	**2,002,666**	1,158,100	223,155
Other comprehensive income (loss)	**165,397**	61,701	(286,137)
Total comprehensive income (loss)	**₱2,168,063**	₱1,219,801	(₱62,982)
Attributable to:			
Equity holders of the Parent	**₱1,873,301**	₱1,005,381	(₱105,673)
Non-controlling interests	**294,762**	214,420	42,691
Total	**₱2,168,063**	₱1,219,801	(₱62,982)

Summarized consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
		(In Thousands)	
Operating	**₱3,234,915**	₱1,609,347	₱975,177
Investing	**(731,685)**	(52,508)	(1,805,244)
Financing	**(1,352,098)**	(932,891)	(674,498)
Net increase (decrease) in cash and cash equivalents	**₱1,151,132**	₱623,948	(₱1,504,565)

Dividends paid in 2017, 2016 and 2015 to non-controlling interests amounted to ₱342.1 million, ₱311.7 million and ₱231.5 million, respectively.

POSC

On August 5, 2015, the remaining direct interest of the Parent Company in POSC was sold to PLC. As a result of the transaction, the Company recognized additional non-controlling interests amounting to 190.2 million and a credit to "Other reserves - transactions with non-controlling interest" amounting to ₱190.2 million in the equity section of the 2015 consolidated statement of financial position, gross of transactions costs amounting to ₱10.9 million. Accordingly, the non-controlling interests attributable to POSC are already included in the non-controlling interests attributable to PLC as at December 31, 2015.

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, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

  Adoption of these amendments did not have any impact on the Company's consolidated financial statements.

- Amendments to Philippine Accounting Standards (PAS) 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 44 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. The amendments has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

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, 2018

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

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

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

- 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. 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 is still assessing the potential impact of adopting PFRS 9 in 2018.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Company is still assessing the potential impact of adopting PFRS 15 in 2018.

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

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

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation 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 a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is 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.

  Early application is permitted, but not before an entity applies PFRS 15. 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 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 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.

Deferred effectivity

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

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

On January 13, 2016, the Financial Reporting Standards Council 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.

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

Financial Assets

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

Initial Recognition of Financial Assets. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss (FVPL), transaction costs that are 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 and 2016, 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 fair value through profit or loss.

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

  The Company’s 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 effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are not integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

  This category includes the Company’s cash and cash equivalents, receivables, 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.

<u>Financial Liabilities</u>

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 and 2016, 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 and 2016, 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.

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

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

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

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

Impairment of Financial Assets

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 effective interest rate. The carrying amount of the financial asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss 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 effective interest rate 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.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged 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 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 are stated at cost less accumulated impairment, if any.

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.

Property and Equipment

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 net realizable value. Cost, which includes all costs attributable to acquisition, is determined using the first-in, first-out method. Net realizable value of spare parts and supplies is its current replacement cost.

Impairment of Nonfinancial Assets (excluding Goodwill)

The Company assesses at each reporting date whether there is an indication that 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.

Non-controlling Interest (NCI)
NCI represents the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated 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
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:

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.

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.

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 percentage of completion 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.

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

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.

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.

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.

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.

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 ventures, 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 ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets 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 except:

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

The 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.

<u>Judgments</u>
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. 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 ₱596.7 million and ₱256.5 million, respectively, in 2017, ₱350.3 million and ₱120.5 million, respectively, in 2016, and ₱354.8 million and ₱161.0 million, respectively, in 2015 (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 non-controlling interests 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 non-controlling interests as those with assets, non-controlling interests, revenues and net income greater than 5% of consolidated assets, non-controlling interests, revenues and net income. 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 non-controlling interests in 2017 and 2016 (see Note 2). The Company has no material associates in 2017 and 2016 (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 City of Dreams Manila 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 2017, 2016 and 2015 amounted to ₱2,069.8 million, ₱2,003.8 million and ₱1,917.4 million, respectively. The outstanding balance of finance lease receivables as at December 31, 2017 and 2016 amounted to ₱18,083.2 million and ₱17,645.6 million, respectively (see Note 37).

Operating Lease - as a Lessor. The Parent Company, as a lessor, has accounted for the lease agreements for its land 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; and
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.

Lease income earned from lease of land amounted to ₱190.0 million in 2017 and 2016 and ₱190.9 million in 2015, respectively (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 ₱1,840.5 million in 2016, ₱1,579.7 million in 2016, and ₱1,459.2 million in 2015 (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 ₱103.7 million and ₱139.4 million as at December 31, 2017 and 2016, respectively (see Note 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 ₱116.9 million, ₱80.8 million, ₱30.9 million in 2017, 2016 and 2015, 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 Fair Value of Financial Assets Not Quoted in an Active Market. The Company classified financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly accruing market transaction in an arm's length basis.

The fair values of the Company's investments in unquoted shares cannot be reasonably determined as these shares are not quoted in an active market. There were no recent transactions involving these shares, therefore these investments are carried at cost less impairment, if any. The Company does not intend to dispose these investments in unquoted shares.

The carrying value of AFS financial assets in unquoted shares amounted to ₱0.8 million as at December 31, 2017 and 2016 (see Note 14).

Determination of Impairment of Receivables and Advances to Associates. 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, ₱13.8 million and ₱32.4 million in 2017, 2016 and 2015, respectively (see Notes 10 and 35). Receivables, net of allowance for doubtful accounts, amounted to ₱2,095.8 million and ₱1,881.8 million as at December 31, 2017 and 2016, respectively. Allowance for doubtful accounts amounted to ₱276.1 million and ₱280.1 million as at December 31, 2017 and 2016, respectively (see Note 10).

Provision for doubtful accounts on advances to associates amounted to nil in 2017 and 2015 and ₱29.4 million in 2016 (see Notes 13, 35 and 39). Advances to associates, net of allowance for doubtful accounts, amounted to ₱0.5 million as at December 31, 2017 and 2016, respectively. Allowance for impairment amounted to ₱120.3 million as at December 31, 2017 and 2016, respectively (see Notes 13 and 39).

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 were no provision for write-down of inventories in 2017 and 2016. The carrying values of inventories carried at lower of cost and NRV are as follows:

	2017	2016
	(In Thousands)	
Real estate for sale and land held for future development (see Note 11)	**₱3,742,431**	₱3,895,253
Supplies inventory*(see Note 12)	**65,729**	64,789
Instant scratch tickets*(see Note 12)	**–**	67

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

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

No provision for impairment loss was recognized in 2017, 2016 and 2015. The carrying values of AFS financial assets amounted to ₱2,475.3 million and ₱2,026.9 million as at December 31, 2017 and 2016, respectively (see Note 14).

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

The Company initially estimated the useful life of the gaming license up to 2033 and has started the amortization of the intangible asset on December 14, 2014, the effectivity of the Notice to Commence Casino Operations granted by PAGCOR. As part of the Company's annual review process, the Company, starting on April 1, 2016, changed the estimated useful life of the gaming license to consider the renewal period of another twenty-five (25) years of the PAGCOR's congressional franchise upon expiration in 2033 and to consider other industry developments. The extension of the life of the gaming license decreased the amortization expense by ₱125.8 million in 2016 and decreased the annual amortization expense by ₱167.7 million in 2017 and onwards.

The carrying value of the Company's gaming license and advisory service contract amounted to ₱5,001.2 million and ₱4,812.7 million as at December 31, 2017 and 2016, respectively (see Note 17).

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 discou2017nt rate to calculate the present value of those cash flows.

There is no impairment loss on goodwill in 2017 and 2016. The carrying amount of goodwill amounted to ₱1,832.3 million and ₱1,828.6 million as at December 31, 2017 and 2016 (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.

The carrying values of nonfinancial assets subjected to impairment review as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Investments in associates - net (see Note 13)	**₱123,351**	₱123,351
Investment properties (see Note 15)	**1,869,025**	1,540,961
Property and equipment (see Note 16)	**648,444**	690,378
Intangible asset (see Note 17)	**5,001,237**	4,812,707

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 ₱3,479.7 million and ₱3,802.7 million as at December 31, 2017 and 2016, respectively. Unrecognized deferred tax assets amounted to ₱1,053.3 million and ₱1,060.3 million as at December 31, 2017 and 2016, 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 ₱13.4 million and ₱10.0 million as at December 31, 2017 and 2016, respectively. Pension liability amounted to ₱24.1 million and ₱12.6 million as at December 31, 2017 and 2016, respectively (see Note 38). Pension cost recognized in profit or loss amounted to ₱19.5 million, ₱15.7 million and ₱20.2 million in 2017, 2016 and 2015, respectively. The remeasurement gain (loss) recognized in other comprehensive income amounted to (₱7.2 million), (₱6.0 million) and ₱9.0 million in 2017, 2016 and 2015, 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 PFRS.

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

	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**
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**
Segment assets	**27,313,307**	**17,879,310**	**522,554**	**(6,814,407)**	**38,900,764**
Segment liabilities	**737,213**	**1,576,127**	**419**	**–**	**2,313,759**
Total consolidated assets	**41,950,422**	**19,306,481**	**522,554**	**(18,045,764)**	**43,733,693**
Total consolidated liabilities	**15,864,760**	**1,653,711**	**459,768**	**(4,605,720)**	**13,372,519**
Capital expenditures	**364,946**	**156,789**	**310,000**	**(36,000)**	**795,735**
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
Provision for income tax	(597,035)	(282,601)	–	–	(879,636)
Net income for the year	2,306,192	1,166,999	(8,075)	(368,993)	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
Segment assets	26,947,341	16,145,278	232,778	(6,097,996)	37,227,401
Segment liabilities	1,059,957	719,491	62	(170,136)	1,609,374
Total consolidated assets	40,927,293	17,481,494	3,995,540	(20,839,369)	41,564,958
Total consolidated 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)

	2015				
	Real Estate Development and Property Management	Gaming and Gaming Related Activities	Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Earnings Information					
Revenue	₱3,513,385	₱2,566,986	₱–	(₱728,694)	₱5,351,677
Costs and expenses	(711,840)	(1,911,451)	(119)	302,063	(2,321,347)
Equity in net earnings of associates	27,340	–	–	–	27,340
Interest expense	(291,870)	(10,884)	–	28,777	(273,977)
Interest income	20,401	42,843	45	(28,819)	34,470
Provision for income tax	(375,632)	(293,702)	–	–	(669,334)
Net income for the year	3,013,881	480,922	(87)	(1,722,935)	1,771,781
Net income attributable to equity holders of the parent	3,013,794	242,868	(80)	(1,722,851)	1,533,731
Other Information					
Investments in and advances to associates	9,799,835	–	4,780,763	(14,515,234)	65,364
Investments held for trading	1,898,200	226,747	–	–	2,124,947
Available-for-sale financial assets	2,130,080	1,040,720	–	(1,022,797)	2,148,003
Advances to related parties	21,274	–	–	(7,072)	14,202
Segment assets	28,957,268	15,558,020	113,842	(6,244,616)	38,384,514
Segment liabilities	1,966,775	542,123	26,012	(618,888)	1,916,022
Total consolidated assets	42,806,657	16,825,487	4,894,605	(21,789,719)	42,737,030
Total consolidated liabilities	19,552,431	699,324	4,906,341	(8,157,568)	17,000,528
Capital expenditures	3,422,230	312,703	–	–	3,734,933
Depreciation and amortization	(34,240)	(680,961)	–	284,066	(431,135)

Revenues from a certain customer in the Company's real estate development business and gaming revenue share - net amounting to ₱4,869.2 million, ₱3,836.9 million and ₱2,864.5 million for the years ended December 31, 2017, 2016 and 2015, respectively, are solely collectible from Melco while revenues from the Company's gaming and other gaming-related activities amounting to ₱1,840.5 million, ₱1,579.7 million and ₱1,459.2 million for the year ended December 31, 2017, 2016 and 2015 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:

	2017	2016	2015
		(In Thousands)	
Revenues			
Total revenue for reportable segments	**₱8,984,296**	₱6,991,317	₱6,080,371
Elimination for intercompany revenue	**(972,236)**	(669,809)	(728,694)
Total consolidated revenues	**₱8,012,060**	₱6,321,508	₱5,351,677
Net Profit for the Year			
Total profit for reportable segments	**₱4,089,331**	₱3,465,116	₱3,494,716
Elimination for intercompany profits	**(578,690)**	(368,993)	(1,722,935)
Consolidated net profit	**₱3,510,641**	₱3,096,123	₱1,771,781
Assets			
Total assets for reportable segments	**₱38,900,765**	₱37,227,401	₱38,384,514
Investments in and advances to associates	**77,975**	77,903	65,364
AFS financial assets	**2,475,287**	2,026,944	2,148,003
Investments held for trading	**2,279,666**	2,232,710	2,124,947
Advances to related parties	–	–	14,202
Total consolidated assets	**₱43,733,693**	₱41,564,958	₱42,737,030
Liabilities			
Total liabilities for reportable segments	**₱2,311,826**	₱1,609,374	₱1,916,022
Loans payable	**2,500,017**	2,000,017	1,000,017
Long-term debt	**6,259,375**	4,621,875	4,984,375
Deferred tax liabilities - net	**2,220,559**	1,742,187	1,175,431
Advances from related parties*	**62,096**	62,347	72,789
Estimated liability on construction costs	**18,646**	23,376	2,556,836
Nontrade liability	–	3,762,000	5,295,058
Total consolidated liabilities	**₱13,372,519**	₱13,821,176	₱17,000,528

**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.

8. Cash and Cash Equivalents

This account consists of:

	2017	2016
	(In Thousands)	
Cash on hand and in banks	**₱2,088,403**	₱1,686,133
Cash equivalents	**1,622,845**	1,267,129
	₱3,711,248	₱2,953,262

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 ₱29.6 million, ₱28.8 million and ₱33.2 million in 2017, 2016 and 2015, respectively (see Note 34).

9. Investments Held for Trading

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.

The movements in investments held for trading in 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱2,232,710**	₱2,124,947
Additions	**17,034**	19,712
Disposals	**(37,783)**	(60,503)
Unrealized marked-to-market gain	**67,705**	148,554
Balance at end of year	**₱2,279,666**	₱2,232,710

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.

Dividend income realized from investments held for trading amounted to ₱5.7 million, ₱5.2 million and ₱4.5 million in 2017, 2016 and 2015, respectively (see Note 27).

10. **Receivables**

This account consists of:

	2017	2016
	(In Thousands)	
Trade receivables:		
Real estate sales	**₱935,249**	₱784,866
Equipment rental and instant scratch ticket sales	**492,662**	446,523
Leases (see Note 37)	**353,877**	307,931
Gaming revenue share receivable	**183,875**	235,868
Property management	**125,503**	156,285
Accrued interest	**750**	2,292
Advances to third parties and others	**279,935**	228,113
	2,371,851	2,161,878
Less allowance for doubtful accounts	**276,067**	280,124
	₱2,095,784	₱1,881,754

- 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.
- Advances to third parties and other receivables are noninterest-bearing and generally have 90 days term.

As at December 31, 2017 and 2016, trade receivables from real estate with nominal amount of ₱1,010.8 million and ₱841.4 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 3.85% to 13.95% and 1.52 % to 10.64% in 2017 and 2016, respectively. The unamortized discount amounted to ₱75.5 million and ₱56.6 million as at December 31, 2017 and 2016, respectively. Amortization of discount on trade receivables from real estate, shown under "Other revenue" account in the consolidated statements of comprehensive income, amounted to ₱56.3 million, ₱48.2 million and ₱56.8 million in 2017, 2016 and 2015, respectively (see Note 27).

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

	2017	2016
	(In Thousands)	
Trade receivables at nominal amount	**₱1,010,751**	₱841,440
Less discount on trade receivables:		
Balance at beginning of year	**56,574**	55,359
Discount recognized during the year	**75,225**	49,419
Amortization during the year (see Note 27)	**(56,297)**	(48,204)
	75,502	56,574
Balance at end of year	**₱935,249**	₱784,866

Movement in allowance for doubtful accounts is as follows:

	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**

	2016		
	Trade	Others	Total
		(In Thousands)	
Balance at beginning of year	₱38,973	₱117,706	₱156,679
Provision (see Note 35)	13,179	644	13,823
Reclassification (see Notes 12 and 13)	57,194	54,334	111,528
Write-off	(1,906)	–	(1,906)
Balance at end of year	₱107,440	₱172,684	₱280,124

In 2016, the Company reclassified advances to associates and other receivables amounting to ₱54.3 million (see Note 13) and ₱57.2 million, respectively, from "Investments in and advances to associates" account and "Other current assets" account to "Receivables" account. These advances were fully provided with allowance for doubtful accounts.

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

This account consists of:

	2017	2016
	(In Thousands)	
Land held for future development	**₱3,099,166**	₱3,092,399
Residential lots	**643,265**	799,551
Condominium units	**–**	3,303
	3,742,431	3,895,253
Real estate for sale – current	**(643,265)**	(802,854)
Land held for future development	**₱3,099,166**	₱3,092,399

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 ₱931.2 million and ₱1,001.7 million as at December 31, 2017 and 2016, 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 ₱177.3 million and ₱191.4 million as at December 31, 2017 and 2016, respectively (see Note 20).

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱802,854**	₱843,074
Repossession	**49,366**	19,334
Construction/development costs incurred	**53,072**	60,963
Cost of real estate sold (see Note 30)	**(256,500)**	(120,517)
Reclassifications	**(5,527)**	–
Balance at end of year	**₱643,265**	₱802,854

A summary of the movement in land held for development in 2017 and 2016 is set out below:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱3,092,399**	₱3,018,515
Land acquired/additional costs during the year	**1,240**	80,053
Reclassifications/other adjustments	**5,527**	(6,169)
Balance at end of year	**₱3,099,166**	₱3,092,399

12. **Other Current Assets**

This account consists of:

	2017	2016
	(In Thousands)	
Creditable withholding tax - net of allowance for probable loss of ₱4.3 million in 2017 and 2016	**₱659,793**	₱492,816
Input VAT - net of allowance for probable loss of ₱0.1 million in 2017 and 2016	**361,593**	363,836
Prepaid expenses and others	**177,451**	264,015
Spare parts and supplies - net of allowance for decline in value of ₱3.8 million in 2017 and 2016	**65,729**	64,789
Advances to contractors and suppliers - net of allowance for doubtful accounts of ₱20.3 million in 2017 and 2016	**54,740**	18,226
Deposits	**27,955**	7,224
Advances to officers and employees - net of allowance for doubtful accounts of ₱3.5 million in 2017 and 2016	**702**	–
Instant scratch tickets - at cost	**–**	67
	₱1,347,963	₱1,210,973

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 and 2015, the Company sold other current assets resulting to gain amounting to ₱85.7 million and ₱1.9 million, respectively (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:

	2017	2016
	(In Thousands)	
Investments in associates - net of impairment in value of ₱354.0 million in 2017 and 2016	**₱123,351**	₱123,351
Advances to associates - net of allowance for doubtful accounts of ₱120.3 million in 2017 and 2016 (see Note 39)	**552**	480
Subscription payable - Lucky Star Gaming Corporation (Lucky Star)	**(45,928)**	(45,928)
	₱77,975	₱77,903

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
Investments in the following significant associates are accounted for under the equity method:

		2017			2016		
		Percentage of Ownership			Percentage of Ownership		
Associates	Industry	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
Belle Jai Alai Corporation (Belle Jai Alai)*	Gaming	**50.00**	**–**	**50.00**	50.00	–	50.00
Lucky Star*	Gaming	**49.00**	**–**	**49.00**	49.00	–	49.00
APC Group, Inc. (APC)	Mining	**46.59**	**2.21**	**48.80**	46.59	2.21	48.80

***Non-operating*

The associates were all incorporated in the Philippines.

Movements of investments in associates consist of:

	2017	2016
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱5,716,536**	₱5,721,236
Disposal	**–**	(4,700)
Balance at end of year	**5,716,536**	5,716,536
Accumulated equity in net losses:		
Balance at beginning of year	**(5,250,726)**	(5,247,347)
Disposal	**–**	(3,379)
Balance at end of year	**(5,250,726)**	(5,250,726)
Accumulated share in unrealized gain on AFS financial assets of associates -		
Balance at beginning and end of year	**14,061**	14,061
Total	**479,871**	479,871
Allowance for impairment in value:		
Balance at beginning of year	**(354,019)**	(403,993)
Disposal	**–**	4,046
Reversal of impairment in value (see Note 35)	**–**	45,928
Balance at end of year	**(354,019)**	(354,019)
Equity in cost of Parent Company common shares held by associates	**(2,501)**	(2,501)
	₱123,351	₱123,351

The details of carrying values of the investments accounted for under the equity method, advances and subscriptions payable are as follows:

	2017		
	Carrying Values	**Advances**	**Subscription Payable**
		(In Thousands)	
Publicly listed -			
APC	**₱77,423**	**₱552**	**₱–**
Closely held -			
Others	**45,928**	**–**	**(45,928)**
	₱123,351	**₱552**	**(₱45,928)**

	2016		
	Carrying Values	Advances	Subscription Payable
		(In Thousands)	
Publicly listed -			
APC	₱77,423	₱364	₱–
Closely held -			
Others	45,928	116	(45,928)
	₱123,351	₱480	(₱45,928)

Summarized financial information of the Company's associates, which are considered immaterial are as follows:

	2017	2016
	(In Thousands)	
Net loss	**(₱39,599)**	(₱40,670)
Other comprehensive income	**1,145**	3,370
Total comprehensive loss	**(38,545)**	(37,300)

Investment in APC
In February 2015, the advances of Belle to APC amounting to ₱3.7 million was applied against Belle's subscription payable to APC. Fair values of investment in APC, which is publicly listed in the Philippine stock exchange, amounted to ₱1,680.0 million and ₱1,732.5 million as at December 31, 2017 and 2016, 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

Movement in allowance for doubtful accounts determined using specific identification method is as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱120,337**	₱145,273
Reclassification to receivables (see Note 10)	**–**	(54,334)
Provision during the year (see Note 35)	**–**	29,398
Balance at end of year	**₱120,337**	₱120,337

14. Available-for-sale Financial Assets

This account consists of:

	2017	2016
Shares of stock:		
Quoted	**₱2,365,728**	₱1,923,725
Unquoted	**839**	839
Club shares	**108,720**	102,380
	₱2,475,287	₱2,026,944

The Company intends to hold these investments indefinitely in response to liquidity requirements or changes in market conditions.

Movement in AFS financial assets consists of:

	2017	2016
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱1,213,361**	₱1,636,121
Disposal	**(80,177)**	(422,760)
Balance at end of year	**1,133,184**	1,213,361
Unrealized gain on AFS financial assets:		
Balance at beginning of year	**836,938**	535,237
Disposal	**(76,546)**	(351,680)
Increase in fair value during the year	**605,066**	653,381
Balance at end of year	**1,365,458**	836,938
Allowance for impairment in value –		
Balance at beginning and end of year	**23,355**	23,355
	₱2,475,287	₱2,026,944

Dividend income realized from AFS investments amounted to ₱17.1 million, ₱23.2 million and ₱18.7 million in 2017, 2016 and 2015, respectively (see Note 27).

Gain from sale of AFS investments in 2017, 2016 and 2015 amounted to ₱76.5 million and ₱351.7 million and ₱90.3 million, respectively (see Note 35).

15. Investment Properties

As of December 31, 2017 and 2016, investment properties consist of land, a portion of which is the subject of the operating lease agreement (see Note 37).

Movements in investment properties are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱1,540,961**	₱1,540,961
Additions	**328,064**	–
Balance at end of year	**₱1,869,025**	₱1,540,961

Related estimated liability on construction costs amounted to ₱18.6 million and ₱23.4 million as at December 31, 2017 and 2016, respectively.

The fair value of investment properties as at January 18, 2018 is 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 sales comparison approach. 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, 2017.

Rent income generated from investment properties amounted to ₱191.0 million in 2015 and ₱190.0 million in 2017 and 2016. Direct cost related to the investment properties amounted to ₱196.8 million, ₱209.4 million and ₱152.6 million in 2017, 2016 and 2015, respectively (see Note 31).

16. **Property and Equipment**

The rollforward analysis of this account follows:

	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)	**–**	**10,776**	**–**	**–**	**–**	**66,842**	**–**	**77,618**
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**	**302,491**	**279,743**	**248,167**	**62,878**	**225,411**	**92,443**	**2,416,066**
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**
Additions from acquisition of subsidiaries (see Note 18)		**6,418**				**42,535**		**48,953**
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**	**291,396**	**213,268**	**208,633**	**18,954**	**154,649**	**–**	**1,767,622**
Net Book Value	**₱324,211**	**₱11,095**	**₱66,475**	**₱39,534**	**₱43,924**	**₱70,762**	**₱92,443**	**₱648,444**

	2016							
	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	₱1,334,509	₱282,423	₱244,903	₱244,537	₱52,903	₱161,597	₱89,525	₱2,410,397
Additions	58,428	5,824	9,490	3,552	28,836	28,531	–	134,661
Disposal	(254,606)	–	–	–	(12,169)	(21,117)	(2,246)	(290,138)
Balance at end of year	1,138,331	288,247	254,393	248,089	69,570	169,011	87,279	2,254,920
Accumulated Depreciation, Amortization and Impairment Loss								
Balance at beginning of year	873,397	259,871	185,523	186,043	24,966	109,882	–	1,639,682
Depreciation and amortization for the year (see Notes 28, 32 and 33)	132,143	11,810	13,149	11,306	12,928	25,020	–	206,356
Disposal	(249,665)	–	–	–	(10,715)	(21,116)	–	(281,496)
Balance at end of year	755,875	271,681	198,672	197,349	27,179	113,786	–	1,564,542
Net Book Value	₱382,456	₱16,566	₱55,721	₱50,740	₱42,391	₱55,225	₱87,279	₱690,378

Allowance for impairment loss on property and equipment amounted to ₱186.3 million as at December 31, 2017 and 2016.

The cost of fully depreciated property and equipment which are still being used amounted to ₱1,184.9 million and ₱845.9 million as at December 31, 2017 and 2016, respectively. The Company has no idle assets as at December 31, 2017 and 2016.

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 (see Note 40).

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:

	2017	2016
	(In Thousands)	
Cost		
Balance at beginning of year	**₱5,261,186**	₱5,261,186
Additions	**310,000**	–
Balance at end of year	**5,571,186**	5,261,186
Accumulated Amortization		
Balance at beginning of year	**448,479**	290,845
Amortization (see Notes 29 and 33)	**121,470**	157,634
Balance at end of year	**569,949**	448,479
	₱5,001,237	₱4,812,707

The unamortized life of the license as at December 31, 2017 is 40.5 years.

18. Goodwill and Business Combination

Goodwill acquired from business combinations as at December 31, 2017 and 2016 consist of:

	2017	2016
	(In Thousands)	
Acquisition of:		
POSC	**₱1,717,644**	₱1,717,644
FRI	**110,934**	110,934
LCC Subsidiaries	**3,683**	–
	₱1,832,261	₱1,828,578

Movements in this account are as follow:

	2017	2016
Balance at beginning of year	**₱1,828,578**	₱1,828,578
Additions	**3,683**	–
Balance at end of year	**₱1,832,261**	₱1,828,578

The goodwill from the acquisition of POSC and FRI have been subjected to the annual impairment review in 2017. The Company did not identify any impairment indicators relating to POSC's and FRI's goodwill as at December 31, 2017 and 2016 as it expects to realize the synergies from the business combinations.

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

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill in 2017 and 2016 to materiality exceed its recoverable amount.

Key Assumptions Used in Value in Use Calculations

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

POSC

Discount Rate. Discount rate reflects management's estimate of the risks specific to the cashgenerating unit. The pre-tax discount rate of 10.61% and 7.78% was used in 2017 and 2016, 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 2% to 6% and 7% to 10% per annum until 2022 were applied in the 5-year cash flow projections in 2017 and 2016, 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% and 5% in 2017 and 2016, 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.

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 weighted average cost of capital (WACC). The pre-tax discount rate applied to cash flow projections is 8.7% and 11.5% in 2017 and 2016, respectively. The terminal growth rate is 6.6% and 5.2% in 2017 and 2016, respectively.

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.

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	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
Provisional 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

The provisional goodwill of ₱3.7 million represents the value of expected synergies arising from the business combination.

The initial accounting for the acquisition of these entities has only been provisionally determined pending the finalization of necessary market valuations and determined based on management's best estimate of the likely values. As allowed under the relevant standard, the Company will recognize any adjustment to those provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date.

The goodwill represents the fair 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, 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. If the combination had taken place at the beginning of the year, revenue from continuing operations would have increased by ₱276.2 million and net income from continuing operations for the Company would have increased by ₱27.4 million.

19. **Other Noncurrent Assets**

This account consists of:

	2017	2016
	(In Thousands)	
Deferred input VAT	**₱434,439**	₱673,461
Guarantee bonds (see Notes 40 and 43)	**35,000**	35,000
Refundable deposits and construction bond (see Notes 37 and 43)	**23,074**	19,755
Others	**47,824**	15,074
	₱540,337	₱743,290

20. **Trade and Other Current Liabilities**

This account consists of:

	2017	2016
	(In Thousands)	
Trade	**₱478,079**	₱204,128
Accrued expenses:		
Project cost accrual	**70,304**	63,296
Rent	**37,943**	28,250
Interest	**29,038**	9,091
Selling	**6,941**	6,120
Land transfer fees	**5,279**	5,217
Salaries	**3,331**	–
Professional and management fees	**1,200**	895
Others	**433,489**	315,912
Unearned income	**268,864**	–
Payables pertaining to land acquisitions (see Note 11)	**177,291**	191,440
Customers' deposits	**129,654**	62,220
Withholding and output tax payable	**124,904**	133,766
Consultancy, software and license and management fees payable	**85,722**	119,537
Advances from related parties (see Note 39)	**62,095**	62,347
Refundable deposit and others	**97,049**	51,846
	₱2,011,183	₱1,254,065

- 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, provisions and other expenses which are normally settled with an average term of 30 to 90 days. 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% in 2017 and 4.2% to 4.3% in 2016. Loans payable have historically been renewed or rolled-over.

The carrying amount of outstanding loans payable amounted to ₱2,500.0 million and ₱2,000.0 million as at December 31, 2017 and 2016, respectively.

Interest expense on loans payable charged to operations amounted to ₱90.1 million, ₱51.2 million and ₱39.5 million in 2017, 2016 and 2015 respectively (see Note 34).

22. **Other Noncurrent Liabilities**

This account consists of the following:

	2017	2016
	(In Thousands)	
Deferred lease income	**₱115,598**	₱123,051
Refundable deposits	**115,979**	110,813
Installment payable	**2,763**	–
	₱234,340	₱233,864

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:

	2017	2016
	(In Thousands)	
Loans	**₱6,259,375**	₱4,621,875
Current portion of long-term debt	**(1,056,944)**	(862,500)
Noncurrent long-term debt	**₱5,202,431**	₱3,759,375

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: current ratio of 1.0x and debt to equity ratio of 2.0x. Amount of ₱750.0 million was drawn from the facility on December 11, 2015. 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, 2017 and 2016 amounted to ₱459.4 million and ₱721.9 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: current ratio of 1.0x and 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, 2017 amounted to ₱500.0 million.

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, 2017 and 2016 amounted to ₱1,300.0 million and ₱1,400.0 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, 2017 and 2016 amounted to ₱750.0 million and ₱1,000.0 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, 2017 and 2016 amounted to ₱1,250.0 million and ₱1,500.0 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: current ratio of 1.0x and debt to equity ratio of 3.0x. Outstanding balance of the loan as at December 31, 2017 amounted to ₱2,000.0 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, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
2017	**₱–**	₱862,500
2018	**1,056,944**	945,833
2019	**2,091,320**	1,980,208
2020	**944,444**	833,334
2021	**111,111**	–
2022	**2,055,556**	–
	₱6,259,375	₱4,621,875

Interest expense on the loans from long-term debt amounted to ₱344.7 million, ₱260.4 million and ₱218.5 million in 2017, 2016 and 2015, respectively (see Note 34).

24. Nontrade Liability

On May 20, 2013, Belle, PLAI, BGRHI, 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 will 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 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 nil, ₱455.2 million and ₱651.7 million were recognized as "Accretion of nontrade liability" in the consolidated statements of comprehensive income in 2017, 2016 and 2015, respectively. Payments made to ABLGI amounted to ₱335.5 million and ₱377.9 million in 2016 and 2015, respectively.

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

25. Equity

Preferred Stock
As at December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2015	10,560,999,857	(42,146,000)	10,518,853,857
Issuance (acquisition)	–	(20,174,000)	(20,174,000)
Balance, as at December 31, 2016 and 2017	10,560,999,857	(62,320,000)	10,498,679,857

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 Securities and Exchange Commission (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
During 2016 and 2015, the Parent Company has repurchased a total of 20,174,000 and 42,146,000 Parent Company common shares at a total cost amounting to ₱46.8 million and ₱134.4 million, respectively. No treasury shares were purchased in 2017. The total number of treasury shares held total to 62,320,000 shares as at December 31, 2017 and 2016 with cost amounting to ₱181.2 million and 42,146,000 shares as at December 31, 2015 with cost amounting to ₱134.4 million.

Cost of Parent Company Shares Held by Subsidiaries
As at December 31, 2017 and 2016, Parallax, SLW, PLC, POSC collectively hold Parent Company common shares totaling 318,941,183 and 357,108,183, respectively, with cost of ₱1,585.3 million and ₱1,758.3 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 and 2015, 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 and ₱74.9 million in 2017 and 2015, respectively.

Retained Earnings
The consolidated retained earnings as at December 31, 2017 and 2016 includes the earnings of the subsidiaries and associates which are not available for dividend declaration. The Parent Company's retained earnings available for dividend declaration computed based on the regulatory requirements of SEC amounted to ₱4,311.0 million and ₱4,242.0 million as at December 31, 2017 and 2016, respectively.

Dividends
On January 27, 2015, the Parent Company's BOD approved the declaration of a special dividend of eighteen centavos (₱0.18) per share, totaling ₱1,900.7 million, payable on March 9, 2015 to stockholders of record as of February 10, 2015. On July 31, 2015, the Parent Company's BOD approved the declaration of dividend of ₱0.095 per share, totaling ₱1,001.8 million, payable on August 28, 2015 to stockholders of record as of August 14, 2015. Total dividends above are inclusive of dividends paid to related party shareholders amounting to ₱89.8 million.

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.

26. Gaming Revenue Share - net

Gaming revenue share is determined as follows:

	2017	2016	2015
		(In Thousands)	
Gaming revenue share - gross	**₱6,119,061**	₱2,171,573	₱1,008,317
Less PAGCOR license fee paid by Melco	**(3,509,708)**	(528,597)	(252,079)
Gaming revenue share - net	**₱2,609,353**	₱1,642,976	₱756,238

27. Other Revenue

This account consists of:

	2017	2016	2015
		(In Thousands)	
Amortization of discount on trade receivables (see Note 10)	**₱56,297**	₱48,204	₱56,768
Dividend income (see Notes 9 and 14)	**22,794**	28,371	23,209
Gain on sale of club shares	**11,610**	13,533	149,197
Income from playing rights	**7,352**	4,295	6,620
Income from forfeitures	**5,419**	13,750	60,712
Penalty	**2,395**	2,624	2,593
Others	**4,379**	8,353	2,306
	₱110,246	₱119,130	₱301,405

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 during the year.

28. Cost of Lottery Services

This account consists of:

	2017	2016	2015
		(In Thousands)	
Operating supplies	**₱205,297**	₱183,151	₱159,728
Depreciation and amortization (see Note 16)	**194,986**	138,892	94,641
Online lottery system expenses	**193,378**	122,173	117,466
Software and license fees (see Note 40)	**191,656**	186,644	172,672
Consultancy fees (see Note 40)	**135,425**	122,801	124,533
Personnel costs	**127,100**	48,684	44,322
Communication fees	**113,335**	95,692	87,195
Rental and utilities	**62,976**	23,800	21,860
Others	**14,289**	9,427	4,615
	₱1,238,442	₱931,263	₱827,032

29. Cost of Gaming Operations

This account consists of:

	2017	2016	2015
		(In Thousands)	
Amortization of intangible asset (Note 17)	**₱115,834**	₱157,634	₱279,211
Consultancy fees (Note 40)	**78,764**	221,814	76,003
Marketing expenses (Note 39)	**20,702**	20,160	11,760
Payroll-related expenses	**11,536**	11,073	9,811
Transportation and travel	**4,780**	2,796	2,610
Representation and entertainment	**3,014**	3,030	2,628
	₱234,630	₱416,507	₱382,023

30. Cost of Real Estate Sold

The cost of real estate sold amounted to ₱256.5 million, ₱120.5 million and ₱161.0 million in 2017, 2016 and 2015, respectively.

31. Cost of Lease Income

This account consists of:

	2017	2016	2015
		(In Thousands)	
Taxes	**₱135,641**	₱136,987	₱74,771
Rental (see Note 37)	**42,530**	46,403	30,968
Insurance	**18,660**	26,001	46,845
	₱196,831	₱209,391	₱152,584

32. **Cost of Services for Property Management**

This account consists of:

	2017	2016	2015
		(In Thousands)	
Water services	**₱53,833**	₱60,829	₱51,224
Power and maintenance	**15,074**	2,984	28,984
	₱68,907	₱63,813	₱80,208

The cost of services for property management includes depreciation and amortization amounting to ₱15.2 million, ₱13.0 million and ₱11.7 million in 2017, 2016 and 2015, respectively (see Note 16).

33. **General and Administrative Expenses**

This account consists of:

	2017	2016	2015
		(In Thousands)	
Personnel costs (see Note 38)	**₱224,379**	₱198,280	₱196,151
Transportation and travel	**98,895**	67,089	78,610
Taxes and licenses	**88,887**	63,476	67,530
Management and professional fees (Notes 39 and 40)	**85,339**	93,054	46,575
Representation and entertainment	**76,285**	50,970	49,837
ABLGI compensation fee	**69,518**	44,881	–
Security, janitorial and service fees (Note 39)	**60,914**	43,425	27,320
Rentals and utilities (see Notes 37 and 39)	**55,687**	54,360	61,575
Depreciation and amortization (see Notes 16 and 17)	**55,217**	54,511	45,589
Selling expenses	**35,305**	15,336	20,042
Repairs and maintenance	**19,407**	16,418	18,017
Marketing and advertising (see Note 39)	**14,285**	22,579	38,179
Communication	**9,110**	18,466	20,936
Registration fees	**6,782**	24,529	9,615
Insurance	**2,037**	3,274	4,585
Others	**565,208**	186,632	33,963
	₱1,467,225	₱957,280	₱718,524

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:

	2017	2016	2015
		(In Thousands)	
Cash and cash equivalents (see Note 8)	**₱29,577**	₱28,782	₱33,210
Others	**–**	–	1,260
	₱29,577	₱28,782	₱34,470

The sources of the Company's interest expense follow:

	2017	2016	2015
		(In Thousands)	
Long-term debt (see Note 23)	**₱344,738**	₱260,411	₱218,493
Loans payable (see Note 21)	**90,112**	51,224	39,549
Nontrade liability (see Note 24)	**38,090**	27,256	–
Finance lease obligation (see Note 37)	**10,859**	12,749	10,883
Assignment of receivables	**–**	–	774
Others	**19,866**	4,139	4,278
	₱503,665	₱355,779	₱273,977

35. **Other Income – net**

This account consists of:

	2017	2016	2015
		(In Thousands)	
Gain on sale of			
Other current assets (see Note 12)	**₱85,678**	₱–	₱1,850
Available-for-sale investments (see Note 14)	**76,546**	351,680	90,342
Property and equipment (see Note 16)	**20,102**	30	(397)
Investment in associates (see Note 13)	**–**	5,603	–
Investments held for trading (Note 9)	**–**	–	7,439
Bank service charges	**(33,339)**	(27,756)	(42,388)
Excess input VAT	**28,754**	10,084	23,631
Write-off of input VAT (see Note 12)	**(25,000)**	–	–
Reversal of (provision for):			
Doubtful accounts on receivables (see Note 10)	**(7,704)**	(13,823)	(32,437)
Doubtful accounts on advances to associates (see Note 13)	**–**	(29,398)	–
Probable loss on other assets - net (see Note 12)	**–**	–	34,951
Gain on termination of ABLGI advances (see Note 24)	**–**	634,800	–
Reversal of impairment on investment in associates (see Note 13)	**–**	45,928	255
Others – net	**21,112**	4,480	4,609
	₱166,149	₱981,628	₱87,855

36. **Income Taxes**

The provision for current income tax consists of the following:

	2017	2016	2015
		(In Thousands)	
RCIT	**₱277,358**	₱253,673	₱284,785
MCIT	**38,972**	29,788	21,511
	₱316,330	₱283,461	₱306,296

As at December 31, 2017, the Parent Company can claim the carryforward benefits of excess MCIT over RCIT amounting to ₱32.4 million, ₱29.1 million and ₱21.5 incurred in 2017, 2016, and 2015 respectively, as deduction against future taxable income until 2020, 2019 and 2018, respectively. The carryforward benefit of NOLCO incurred in 2014 amounting to ₱407.5 million was claimed by the Parent Company as tax credit against regular income tax in 2017. Unutilized NOLCO amounting to ₱14.7 million expired in 2017.

As at December 31, 2017, PLC and its subsidiaries can claim the carryforward benefits of NOLCO amounting to ₱4.9 million in 2017, ₱0.1 million in 2016 and ₱1.0 million in 2015, as deduction against future taxable income until 2020, 2019 and 2018, respectively. As at December 31, 2017, PLC can claim the carryforward benefit of excess MCIT over RCIT amounting to ₱0.7 million and ₱0.6 million incurred in 2016 and 2015, respectively, against future taxable income until 2019 and 2018, respectively.

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 are as follows:

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Unamortized past service costs	**₱7,726**	₱6,380
Allowance for impairment losses on trade and other receivables	**4,046**	3,242
Accrued expenses	**2,789**	2,915
NOLCO	**1,467**	–
Unrealized foreign exchange loss	**477**	1,139
Pension liability	**–**	900
	16,505	14,576
Deferred tax liabilities:		
Pension asset	**754**	–
Others	**311**	–
	1,065	–
Net deferred tax assets	**₱15,440**	₱14,576

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

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Construction cost – net	**₱3,301,789**	₱3,510,228
MCIT	**83,017**	69,229
Deferred lease income	**34,679**	36,915
Discount on trade receivables	**22,434**	16,756
Doubtful accounts	**7,140**	7,140
Estimated liability on construction costs	**5,594**	7,013
Unamortized past service costs	**2,857**	3,298
Accrued rent expense	**2,046**	249
Pension liability	**1,987**	4,375
Accretion of refundable deposits	**889**	939
Accrued selling expenses	**720**	1,836
NOLCO	**–**	130,151
	3,463,152	3,788,129
Deferred tax liabilities:		
Finance lease receivable	**(5,424,954)**	(5,293,686)
Unrealized gain on sale of real estate	**(108,924)**	(102,997)
Accrued rent income	**(110,043)**	(92,252)
Unaccreted discount on refundable deposits	**(38,176)**	(39,726)
Deferred income on real estate sales	**(798)**	(798)
Deferred lease expense	**(730)**	(793)
Unrealized foreign exchange gain - net	**(86)**	(64)
	(5,683,711)	(5,530,316)
Net deferred tax liabilities	**(₱2,220,559)**	(₱1,742,187)

The components of the Company's temporary differences as at December 31, 2017 and 2016 for which deferred tax assets were not recognized follows:

	2017	2016
	(In Thousands)	
Allowances for:		
Impairment of project development costs	**₱2,136,820**	₱2,136,820
Unrealized mark-to-market loss on club shares held for trading	**842,580**	886,451
Doubtful accounts	**739,191**	739,191
Impairment losses	**569,463**	569,463
Probable losses	**33,309**	33,309
Excess MCIT over RCIT	**1,257**	1,257
NOLCO	**176**	8,661
	₱4,322,796	₱4,375,152

The deferred tax assets of the above temporary differences amounting to ₱1,053.3 million and ₱1,060.3 million as at December 31, 2017 and 2016, 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:

	2017	2016	2015
		(In Thousands)	
Income tax at statutory income tax rate of 30%	**₱1,292,363**	₱1,303,210	₱628,153
Income tax effects of:			
Nontaxable income	**(797,970)**	(764,042)	(21,990)
Change in unrecognized deferred tax assets	**(6,933)**	197,131	(8,543)
Nondeductible expenses and others	**315,086**	182,941	49,319
Mark-to-market loss (gain) on securities	**(147)**	(55,707)	13,039
MCIT	**18,586**	29,131	21,511
Income subjected to final tax	**(24,933)**	(8,614)	(12,155)
Income subjected to capital gains tax	**(3,483)**	(4,455)	–
Expired NOLCO	**4,410**	41	–
	₱796,979	₱879,636	₱669,334

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 23, 2018, 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.

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.

As at December 31, 2017 and 2016, the nominal amount of minimum lease payments and the carrying value of finance lease receivable are as follows:

	2017	2016
	(In Thousands)	
Within one year	**₱1,790,424**	₱1,632,282
In more than one year and not more than five years	**9,000,735**	8,292,016
In more than five years	**33,031,150**	35,530,357
	43,822,309	45,454,655
Unearned finance income	**(25,739,128)**	(27,809,034)
Net investment (present value of the minimum lease payments)	**18,083,181**	17,645,621
Current portion of receivables under finance lease	**1,689,973**	1,541,035
Noncurrent portion of receivables under finance lease	**₱16,393,208**	₱16,104,586

Interest income on finance lease amounted to ₱2,069.8 million, ₱2,003.8 million and ₱1,917.4 million in 2017, 2016 and 2015, respectively.

Operating Lease

Lease Agreement with Melco. The Parent Company recognized lease income on the lease of land by Melco amounting to ₱190.0 million in 2017 and 2016, and ₱190.9 million in 2015.

As at December 31, 2017 and 2016, the minimum lease payments to be received by the Parent Company on the lease on the land are as follows:

	2017	2016
	(In Thousands)	
Within one year	**₱135,593**	₱123,267
In more than one year and not more than five years	**680,301**	629,286
In more than five years	**2,395,935**	2,582,544
	₱3,211,829	₱3,335,097

The Company carried receivables relating to these leases of ₱353.9 million and ₱307.9 million under the "Receivables" account in the consolidated statements of financial position as at December 31, 2017 and 2016, 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 2 years and 7 months until July 31, 2018 as provided in the 2015 Amended Equipment Lease Agreement (ELA). Rental payments is based on a percentage of gross amount of lotto ticket sales from the operation of all PCSO's lotto terminals or a fixed annual rental of ₱35,000 per terminal in commercial operation, whichever is higher. Rental income recognized in the consolidated statement of income amounted to ₱1,036.9 million and ₱931.8 million in 2017 and 2016, respectively. Future minimum rental income as at December 31 for the remaining lease term is as follows:

	2017	2016
Within one year	**₱85,852**	₱145,495
After one year but not more than five years	**–**	84,872
	₱85,852	₱230,367

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 ₱803.6 million and ₱647.9 million in 2017 and 2016, respectively. Future minimum rental income for the remaining lease terms is as follows:

	2017	2016
Within one year	**₱96,400**	₱80,800
After one year but not more than five years	**141,400**	222,200
	₱237,800	₱303,000

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 ₱103.7 million and ₱139.4 million as at December 31, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Within one year	**₱45,341**	₱58,313
After one year but not more than five years	**38,944**	80,958
Total future minimum lease payments	**84,285**	139,271
Less amount representing interest	**9,422**	19,929
Present value of lease payments	**74,863**	119,342
Less current portion of obligations under finance lease	**39,489**	47,698
Noncurrent portion of obligations under finance lease	**₱35,374**	₱71,644

The contracts of POSC remain effective until July 31, 2018, 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.

<u>Operating Lease</u>

a. POSC leases certain office spaces for periods of one to three years up to 2019. The lease agreements provide for minimum rental commitments with annual rental escalation rate of 5% to 10%. Rent expense recognized in the consolidated statement of income amounted to ₱16.2 million, ₱11.0 million and ₱6.2 million in 2017, 2016 and 2015, respectively.

b. LotoPac, LCC and FRI lease certain properties that are renewed annually at the option of both companies. Rent expense recognized in the consolidated statement of income amounted to ₱62.9 million, ₱29.2 million and ₱11.4 million in 2017, 2016 and 2015, respectively.

c. TGTI entered into lease contracts with the following: (1) Keewswen Development Corp. for the lease of its office space for a period of five years 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 ₱8.0 million, ₱6.0 million and ₱1.6 million in 2017, 2016 and 2015, respectively.

   The above operating leases have no restrictions and contingent rentals.

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

	2017	2016
Within one year	**₱87,722**	₱14,264
After one year but not more than five years	**42,104**	10,751
	₱129,826	₱25,015

<u>Other Operating Lease Agreements</u>

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.

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 ₱11.4 million, ₱10.8 million and ₱10.5 million in 2017, 2016 and 2015, 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, ₱13.3 million and nil in 2017, 2016 and 2015, respectively (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 ₱12.0 million in 2017, ₱10.5 million in 2016 and ₱1.2 million in 2015 (see Note 33).

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

	2017	2016
	(In Thousands)	
Within one year	**₱57,087**	₱41,738
After one year but not more than five years	**305,356**	157,705
After more than five years	**623,715**	814,891
	₱986,158	₱1,014,334

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, 2017.

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 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)**

Changes in the retirement benefits of the Company in 2016 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, 2016	(₱136,581)	₱122,663	₱–	(₱13,918)
Net retirement income (costs) in profit or loss:				
Current service cost	(15,733)	–	–	(15,733)
Net interest	(7,405)	7,395	–	(10)
	(23,138)	7,395	–	(15,743)
Benefits paid	2,538	(2,538)	–	–
Contributions	–	31,557	–	31,557
Remeasurement gain (loss) recognized in OCI:				
Actuarial changes due to experience adjustment	(4,031)	–	–	(4,031)
Actuarial changes arising from changes in financial assumptions	3,825	–	–	3,825
Actual return excluding amount included in net interest cost	–	(4,658)	–	(4,658)
Actuarial changes due to changes in demographic assumptions	(2,487)	–	–	(2,487)
Effect of asset ceiling	–	–	1,379	1,379
	(2,693)	(4,658)	1,379	(5,972)
Other adjustments	4,497	(2,923)	–	1,574
At December 31, 2016	(₱155,377)	₱151,496	₱1,379	(₱2,502)

The retirement benefits are presented in the consolidated statement of financial position as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Pension asset	**₱13,414**	₱10,048
Pension liability	**(24,102)**	(12,550)
Net pension liability	**(₱10,688)**	(₱2,502)

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

	2017	2016
	(In Thousands)	
Cash and cash equivalents	**₱41,192**	₱47,195
Debt instruments - government bonds	**64,580**	56,609
Debt instruments - other bonds	**2,792**	1,771
Unit investment trust funds	**53,965**	39,108
Mutual fund	**6,049**	4,914
Others	**8,566**	1,899
	₱177,144	₱151,496

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:

	2017	2016
Discount rates	**5.60%-5.77%**	4.83%-5.86%
Future salary increases	**5.00%-10.00%**	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, 2017 and 2016 assuming if all other assumptions were held constant:

	2017		2016	
	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%**	**(₱13,891)**	1.00%	(₱11,734)
	(1.00%)	**16,945**	(1.00%)	14,487
Salary increase rate	**1.00%**	**14,929**	1.00%	13,034
	(1.00%)	**(12,533)**	(1.00%)	(10,860)

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:

	2017	2016
	(In thousands)	
Less than 1 year	**₱50,105**	₱36,061
More than 1 year to 5 years	**24,758**	47,932
More than 5 years to 10 years	**46,763**	33,225

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	**2017**	**₱189**	**₱80,004**	Noninterest-bearing, due and demandable	Unsecured, partially provided amounting to ₱79,452 in 2017 and 2016
			2016	103	79,932		
Belle Jai Alai	Associate	Advances to associate	**2017**	**–**	**29,398**	Noninterest-bearing, due and demandable	Unsecured, fully provided in 2017 and 2016
			2016	–	29,398		
Others	Associate	Advances to associates	**2017**	**–**	**11,487**	Noninterest-bearing, due and demandable	Unsecured, fully provided in 2017 and 2016
			2016	115	11,487		
Belle Jai-Alai	Associate	Advances from associate	**2017**	**–**	**(60,753)**	Noninterest-bearing, due and demandable	Unsecured
			2016	–	(60,753)		
SM Prime Holdings, Inc.	With common stockholders	Operating lease (see Note 37)	**2017**	**11,361**	**(1,342)**	5 years, renewable	Not applicable
			2016	10,797	(1,594)		
			2015	10,481	(1,919)		
		Management and professional fees (see Note 33)	**2017**	**16,459**	**–**	1 year, renewable	Not applicable
			2016	14,765	–		
			2015	12,500	–		
SM Arena Complex Corporation	With common stockholders	Sponsorship agreement (see Note 29)	**2017**	**20,702**	–	5 years	Not applicable
			2016	20,160	–		
			2015	7,044	–		
Highlands Prime, Inc. (HPI)	With common stockholders	Service fees (see Note 33)	**2017**	**15,829**	–	5 years, renewable	Not applicable
			2016	2,734	–		
			2015	2,734	–		
Directors and officers	Key management personnel	Salaries and wages	**2017**	**99,531**	–	Not applicable	Not applicable
			2016	98,330	–		
			2015	72,256	–		

The following table provides the summary of outstanding balances and transactions for the years ended December 31, 2017, 2016, and 2015 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

	2017	2016
Advances to associates (see Note 13)	**₱120,889**	₱120,817
Advances from associates (see Note 20)	**60,753**	60,753
Advances from other related parties (see Note 20)	**1,342**	1,594

Total Related Party Transactions

	2017	2016	2015
Salaries and wages	**₱99,531**	₱98,330	₱72,256
Sponsorship agreement	**20,702**	20,160	7,044
Management fee	**16,459**	14,765	12,500
Rent expense	**11,361**	10,797	10,481
Service fee	**15,829**	2,734	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, 2017 and 2016 (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 ₱16.5 million, ₱14.8 million and ₱12.5 million in 2017, 2016 and 2015, 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 ₱15.8 million in 2017 and ₱2.7 million in 2016 and 2015, respectively, which are recognized under "General and administrative expenses" in consolidated statements of comprehensive income.

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 2017, 2016 and 2015 amounted to ₱2,609.4 million, ₱1,643.0 million and ₱756.2 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, ₱216.1 million and ₱76.0 million in 2017, 2016 and 2015 was presented as part of "Cost of gaming operations" in the 2017, 2016 and 2015 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.

<u>Equipment Lease Agreement (ELA) between POSC and PCSO</u>
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.

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 4,205 and 4,157 as at December 31, 2017 and 2016, 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 OMOA with PGEC for the authorization of PGEC as the exclusive marketing, distribution, selling and collecting agent of POSC throughout the Philippines. The agreement took effect on April 1, 2015 and shall remain effective as long as the MOA with PCSO or any extension thereof shall be effective.

PGEC agreed to assume POSC's commitment to PCSO to solely shoulder the project cost for the Instant Scratch Ticket program, which consists of the costs of production, distribution, warehousing, printing, handling, software and hardware maintenance, advertising, marketing, selling and other related expenses necessary to totally dispose of all instant tickets. PGEC is entitled to all the revenues, sums and proceeds from the Instant Scratch Tickets beginning April 1, 2015, and shall be obligated to shoulder the pay-outs for all winnings from said tickets sold beginning April 1, 2015. In consideration for the OMOA, PGEC agreed to pay 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, PGEC agreed to guarantee payment of the share of PCSO to POSC beginning April 2015. An existing consultancy agreement between POSC and PGEC 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 PGEC 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.

<u>TGTI Equipment Rental</u>
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, 2017 and 2016, there are 2,400 and 2,020 Online KENO terminals in operation, respectively.

<u>POSC's Consultancy Agreements, Contracts with Scientific Games and Intralot, Management Agreement</u>

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.

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 will pay 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.

d. TGTI has a contract with Intralot effective until September 30, 2020 for the supply of online lottery system (lottery equipment) accounted for as a finance lease. TGTI is being charged a certain percentage of equipment rental from the revenue from PCSO. On July 15, 2008, the Lease Contract between TGTI and Intralot was modified such that instead of receiving monthly remuneration calculated on a percentage basis of the gross receipts of TGTI from its ELA, Intralot now receive monthly remuneration calculated on a percentage basis of the gross receipts of PCSO from its "Online KENO" games. On March 22, 2011, the Lease Contract between or US$60 per terminal per month, whichever is higher and Intralot was further modified to reduce the percentage charged by Intralot to TGTI and that TGTI undertakes a letter of guarantee amounting to ₱20.0 million not later than March 28, 2011 in order for TGTI to secure the payment of Intralot's remuneration. The said guarantee bond is recognized under "Other noncurrent assets" account in the consolidated statements of financial position (see Note 19).

e. 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 ₱191.7 million, ₱186.6 million and ₱90.4 million in 2017, 2016 and 2015, respectively (see Note 28).

Consultancy and management fees recognized under "Consultancy fees" as part of "Cost of lottery services" amounted to ₱135.4 million, ₱122.8 million and ₱24.6 million in 2017, 2016 and 2015, respectively (see Note 28). Consultancy fees recognized under "Management and professional fees" as part of "General and Administrative Expenses" amounted to nil, ₱20.5 million, and nil in 2017, 2016 and 2015, 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 23, 2018, 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 23, 2018, the case is still pending with the Court of Appeals.

42. **Basic/Diluted EPS**

	2017	2016	2015
	(In Thousands, Except EPS)		
Earnings attributable to Equity holders of the Parent (a)	**₱2,872,412**	₱2,700,117	₱1,533,731
Weighted average number of issued common shares at beginning of year	**10,561,000**	10,561,000	10,559,383
Weighted average number of common treasury shares at beginning of year	**(62,320)**	(42,146)	–
Number of parent company common shares held by subsidiaries at beginning of year	**(357,108)**	(353,271)	(314,416)
Sale of entities holding parent commons shares	**38,542**	–	–
Acquisition of entities holding parent common shares	**(3,441)**	(3,837)	(22,462)
Issued during the year	**–**	–	389
Treasury shares during the year	**–**	(20,112)	(15,673)
Weighted average number of issued common shares - basic, at end of year (b)	**10,176,673**	10,141,634	10,207,221
Basic/diluted EPS (a/b)	**₱0.282**	₱0.266	₱0.150

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 assets and financial liabilities are composed of cash and cash equivalents, receivables, investments held for trading, AFS financial assets, trade and other current liabilities, loans payables, long-term debt, nontrade liability, installment payable and obligations under finance lease. The main purpose of these financial assets and financial liabilities is to raise finances for the Company's operations. The Company has various other financial assets and financial liabilities such as receivables, advances to associates and other related parties and trade and other liabilities, which arise directly from its real estate operations.

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 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, 2017 and 2016, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2017	2016
	(In Thousands)	
Cash and cash equivalents	**$720**	$850
Consultancy and software license fee payable*	**(1,001)**	(986)
Foreign currency-denominated financial assets (liabilities)	**($281)**	($136)

**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 ₱49.93 to US$1.0 and ₱49.72 to US$1.0, as at December 31, 2017 and 2016, 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, 2017 and 2016. 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.

	2017		2016	
	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*	**1.78**	**(1.78)**	1.18	(1.18)
Effect on income before income tax	**(₱499)**	**₱499**	(₱160)	₱160

**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 2017 and 2016 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	2017	2016
	(In Thousands)	
Impact in profit or loss		
5%	**₱113,983**	₱111,628
(5%)	**(113,983)**	(111,628)
Impact in other comprehensive income		
5%	**₱123,764**	₱115,320
(5%)	**(123,764)**	(115,320)

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.

	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**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,705,104**
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 account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

	2016						
	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*	₱2,945,822	₱–	₱–	₱–	₱–	₱–	₱2,945,822
Investments held for trading	2,232,710	–	–	–	–	–	2,232,710
Receivables:							
Trade	1,801,473	8,928	7,590	4,500	1,542	107,440	1,931,473
Others	57,634	3	–	–	84	172,684	230,405
Finance lease receivable	17,645,621	–	–	–	–	–	17,645,621
Advances to associates**	480	–	–	–	–	120,337	120,817
AFS financial assets	2,026,944	–	–	–	–	–	2,026,944
Deposits***	20,959	–	–	–	–	–	20,959
Guarantee bonds****	35,000	–	–	–	–	–	35,000
	₱26,766,643	₱8,931	₱7,590	₱4,500	₱1,626	₱400,461	₱27,189,751

**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 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.*

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.

	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 assets" account account in the consolidated statement of financial position.*
*****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

	2016			
	High Grade	Medium Grade	Unrated	Total
		(In Thousands)		
Cash and cash equivalents*	₱2,945,822	₱–	₱–	₱2,945,822
Investments held for trading	165,990	–	2,066,720	2,232,710
Receivables:				
Trade	1,801,473	–	–	1,801,473
Others	57,634	–	–	57,634
Finance lease receivable	17,645,621	–	–	17,645,621
Advances to associates**	480	–	–	480
AFS financial assets	1,921,444	2,281	103,219	2,026,944
Deposits***	–	20,959	–	20,959
Guarantee bonds****	35,000	–	–	35,000
	₱24,573,464	₱23,240	₱2,169,939	₱26,766,643

**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 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.*

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, 2017 and 2016 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.

			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*	**120,489**	**–**	**–**	**–**	**–**	**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**	**₱1,049,384**	**₱4,077,381**	**₱24,904,422**	**₱38,675,653**
Financial Liabilities						
Loans payable****	**₱–**	**₱2,520,448**	**₱–**	**₱–**	**₱–**	**₱2,520,448**
Trade and other current liabilities*****	**1,756,625**	**–**	**–**	**–**	**–**	**1,753,944**
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**	**–**	**84,285**
	₱1,756,625	**₱3,389,581**	**₱536,757**	**₱3,417,634**	**₱2,421,742**	**₱11,519,658**

**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.*

			2016			
	On Demand	< 6 Months	6 Months to 1 Year	1–3 Years	> 3 Years	Total
			(In Thousands)			
Financial Assets						
Cash and cash equivalents	₱2,953,262	₱–	₱–	₱–	₱–	₱2,953,262
Investments held for trading	2,232,710	–	–	–	–	2,232,710
Receivables	302,771	1,443,985	133,062	219,758	62,302	2,161,878
Finance lease receivable****	–	819,428	812,854	5,911,370	37,911,003	45,454,655
Advances to associates*	120,336	480	–	–	–	120,816
AFS financial assets	–	–	–	–	2,026,944	2,026,944
Deposits**	–	–	–	20,959	–	20,959
Guarantee bonds***	–	–	–	35,000	–	35,000
	₱5,609,079	₱2,263,893	₱945,916	₱6,187,087	₱40,000,249	₱55,006,224
Financial Liabilities						
Loans payable****	₱–	₱44,401	₱2,158,884	₱–	₱–	₱2,203,285
Trade and other current liabilities*****	1,058,493	–	–	3,562	–	1,062,055
Long-term debt****	–	324,746	817,033	2,276,713	2,928,976	6,347,468
Nontrade liability****	–	3,762,000	–	–	–	3,762,000
Obligations under finance lease****	–	29,343	33,720	76,208	–	139,271
	₱1,058,493	₱4,160,490	₱3,009,637	₱2,356,483	₱2,928,976	₱13,514,079

**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 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 2017 and 2016.

The Company considers the following as its capital:

	2017	2016
	(In Thousands)	
Common stock	**₱10,561,000**	₱10,561,000
Additional paid-in capital	**5,503,731**	5,503,731
Treasury shares	**(181,185)**	(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	**(1,585,336)**	(1,758,264)
Retained earnings	**8,194,187**	6,289,302
	₱22,489,896	₱20,412,083

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:

			2017			
	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:						
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*

			2016			
	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:						
Investments held for trading	December 31, 2016	₱2,232,710	₱2,232,710	₱165,990	₱–	₱2,066,720
AFS financial assets (quoted)	December 31, 2016	1,923,725	1,923,725	1,923,725	–	–
Assets for which fair value is disclosed:						
Loans and receivables:						
Receivables -						
Trade	December 31, 2016	784,866	723,156	–	723,156	–
Finance lease receivable	December 31, 2016	17,645,621	20,192,019	–	–	20,192,019
Liabilities						
Liabilities for which fair value is disclosed:						
Long-term debt	December 31, 2016	4,621,875	4,307,683	–	–	4,307,683
Obligations under finance lease	December 31, 2016	119,342	132,578	–	–	132,578

The Company has no financial liabilities measured at fair value as at December 31, 2017 and 2016. There were no transfers between fair value measurements in 2017 and 2016.

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 6.39% to 8.93% and 3.5 % to 5.7% in 2017 and 2016, respectively.

Finance Lease Receivables. The fair value of finance lease receivable is determined by discounting the estimated cash flows using prevailing discount rates in 2017 and 2016.

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.

Nontrade Liability. The fair value on nontrade liability as at December 31, 2016 approximates its fair value due to relatively short-term maturity of this instrument.

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 3.7% to 5.1% in 2017 and 3.6% to 3.7% in 2016.

Obligations under Finance Lease. The estimated fair value of obligations under finance lease was calculated using the discounted cash flow methodology, using PDST-R2 rates ranging from 2.4% to 4.3% and 1.8% to 3.9% in 2017 and 2016, respectively.

44. Supplemental Disclosure of Cash Flow Information

Changes in Liabilities Arising from Financing Activities

	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 pertains to accretion of obligations under finance lease.

Noncash Activities
The following are the noncash activities in 2017:
a. Additions to property and equipment amounting to ₱6.4 million from lease of lottery equipment accounted for as finance lease.
b. Net assets from the acquisition of LCC subsidiaries (see Note 18).

In February 2015, the advances of Belle to APC amounting to ₱3.7 million was applied against Belle's subscription payable to APC.

There were no significant noncash activities in 2016.

45. Events After Reporting Period

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 set on March 23, 2018.

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