LRWC
LEISURE & RESORTS WORLD CORPORATION
STOCK SYMBOL: LR

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Leisure & Resorts World Corporation and Subsidiaries (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018, 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 consolidated financial statements that are free form material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Sycip Gorres Velayo & Co. and R.G. Manabat & Co., the independent auditors appointed by the stockholders for the years ended December 31, 2018 and 2017, respectively, have audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

APR 29 2019

SUBSCRIBED AND SWORN to before me this ___ day of ___ PASIG CITY, affiant exhibiting to me his/her ___ with No.: ___ as strong proof of her/his identity.

REYNALDO P. BANTUG
Chairman of the Board

ENG HUN CHUAH
President

OSCAR C. KHO, JR.
Group Chief Financial Officer

FERDINAND D. AYAHAO
NOTARY PUBLIC
Until December 31, 2019
Appointment No. 106(2018-2019)
For Pasig City, Pateros and San Juan City
Attorney's Roll No. 46377
IBP LRN 02459; O.R. No. 535886; 06-21-2001
MCLE No. V-0019276; 04-13-16
PTR No. 5174565; 01-03-19; Pasig City
4F Goldloop Tower A, Jose Ma. Escriva Drive
Ortigas Center, Pasig City

Signed this APR 29 2019

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Series of 2019

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Unit 2601, 26th Floor West Tower, Philippines Stock Exchange Centre (PSE) Exchange Road, Ortigas, Pasig City 1605 Philippines
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C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0 0 1 - 3 1 7 4

COMPANY NAME

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES

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

26th Floor, West Tower, PSE Center, Exchange Road, Ortigas Center, Pasig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,832	July 29	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Oscar C. Kho Jr.	oscar.kho@lrwc.com.ph	(02) 638-5557	

CONTACT PERSON's ADDRESS

26th Floor, West Tower, PSE Center, Exchange Road, Ortigas Center, Pasig City

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

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

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Leisure & Resorts World Corporation
26th Floor, West Tower, PSE Center
Exchange Road, Ortigas Center
Pasig City

Opinion

We have audited the consolidated financial statements of Leisure & Resorts World Corporation and Subsidiaries (collectively referred to as "the Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and its consolidated financial performance and its consolidated cash flows for the years then ended 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

Under PFRSs, the Group is required to test the recoverability of goodwill annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at December 31, 2018, the Group's goodwill amounted to ₱1,502,067,704, which is considered significant to the consolidated financial statements. In addition, the assessment process involves significant management judgment about future market conditions, and estimation based on assumptions such as group margin, revenue growth rate, operating margin and discount rate.

The Group's disclosures about goodwill are included in Note 10 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's recoverability assessment process. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include group margin, revenue growth rate, operating margin and discount rate. We compared the key assumptions used, such as revenue growth rate against the historical performance of the cash generating unit, industry outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. We also reviewed the Group'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.

Valuation of Investment Properties at Fair Value

The Group accounts for its investment properties using the fair value model. Investment properties consist of land, land improvements and building and represent 40% of the consolidated assets as at December 31, 2018. The determination of the fair values of these properties involves significant management judgment and estimations. The valuation also requires the assistance of external appraisers whose calculations also depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Thus, we considered the valuation of investment properties as a key audit matter.

The disclosures relating to investment properties are included in Note 8 of the consolidated financial statements.

Audit Response

We evaluated the competence, capabilities and qualifications of the external appraiser by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment properties. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listings of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price.

Provisions and Contingencies

The Group's disclosures about provisions and contingencies are included in Note 25 to the consolidated financial statements.

Audit Response

We discussed with management the status of the claims and/or assessments, and obtained correspondences with the relevant authorities and opinions from the external legal/tax counsels. We involved our internal specialist in the evaluation of management's assessment on whether any provision for contingencies should be recognized, and the estimation of such amount. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence.

Accounting for the Investment in Significant Joint Venture (Hotel Enterprises of the Philippines, Inc. (HEPI)

The Group owns 51% of HEPI. As discussed in Note 2 to the consolidated financial statements, the Group's investment in this joint venture is accounted for under the equity method. As at December 31, 2018, the investment in HEPI amounted to ₱1,051,045,397 (representing 5.82% of the Group's consolidated total assets), and the Group's Equity in net earnings of joint ventures for 2018 amounted to ₱114,866,158 (representing 24.70% of the Group's consolidated net income). The accounting for this investment is significant to our audit because of the substantial amount of the Group's investments and equity in net earnings from this joint venture.

Audit response

We obtained an understanding of the Group's process in recognizing its Equity in net earnings of joint venture. We also obtained an understanding of the business transactions, the revenue recognition process, and reviewed material items and other accounts that may have a material effect on the Group's share in the 2018 equity in net earnings of joint venture. We obtained the financial information of the joint venture for the year and recomputed the Group's share in the 2018 earnings of the joint venture and reviewed the related note disclosure on investment in joint venture.

Other Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on May 11, 2018.

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Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17‑A for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon which we obtained prior to the date of the Auditor's Report, and the SEC Form 20 – IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, which 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 Maria Pilar B. Hernandez.

SYCIP GORRES VELAYO & CO.

Maria Pilar B. Hernandez

Maria Pilar B. Hernandez
Partner
CPA Certificate No. 105007
SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022
Tax Identification No. 214-318-972
BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332559, January 3, 2019, Makati City

April 29, 2019

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2018**	2017
ASSETS			
Current Assets			
Cash	*4*	**₱442,130,215**	₱424,583,323
Receivables	*5*	**958,018,829**	842,749,215
Due from related parties	*20*	**155,000,000**	155,000,000
Prepaid expenses and other current assets	*6*	**154,145,907**	265,226,596
Total Current Assets		**1,709,294,951**	1,687,559,134
Noncurrent Assets			
Property and equipment - net	*7, 12*	**1,758,184,141**	2,023,479,032
Investment properties	*8*	**7,306,688,427**	6,037,941,999
Investments and advances	*9*	**4,573,784,614**	4,352,875,600
Financial assets at fair value through other comprehensive income (FVOCI)	*9*	**168,180,654**	–
Available for sale financial assets	*9*	**–**	153,309,029
Deferred tax assets	*21*	**107,415,716**	238,185,533
Goodwill	*10*	**1,502,067,704**	1,502,067,704
Other noncurrent assets - net	*11*	**922,476,209**	767,071,613
Total Noncurrent Assets		**16,338,797,465**	15,074,930,510
		₱18,048,092,416	₱16,762,489,644
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	*13*	**₱1,927,286,036**	₱1,541,803,177
Short-term loans payable	*12*	**2,354,478,420**	2,382,346,330
Current portion of long-term loans payable	*12*	**168,102,479**	293,910,516
Due to a related party	*20*	**–**	9,070,691
Income tax payable		**7,204,795**	46,082,138
Total Current Liabilities		**4,457,071,730**	4,273,212,852
Noncurrent Liabilities			
Long-term loans payable - net of current portion	*12*	**3,529,157,919**	2,960,197,208
Retirement benefits liability	*18*	**225,822,184**	225,279,182
Deposits	*9, 17*	**95,732,478**	109,990,867
Deferred tax liabilities	*21*	**649,925,022**	268,941,157
Total Noncurrent Liabilities		**4,500,637,603**	3,564,408,414
		8,957,709,333	7,837,621,266

(Forward)

		December 31	
	Note	**2018**	2017
Equity			
Equity Attributable to the Parent Company	*14*		
Capital stock		**₱2,849,852,512**	₱2,849,852,512
Additional paid-in capital - common		**1,114,028,555**	1,114,028,555
Treasury shares		**(90,411,278)**	(89,405,347)
Retirement benefits reserve	*18*	**(35,673,952)**	(63,226,874)
Revaluation surplus	*8*	**–**	62,142,500
Fair value reserve		**62,053,063**	47,181,438
Foreign currency translation reserve		**(2,099,981)**	(2,099,981)
Other reserve		**(19,488,495)**	(1,294,351)
Retained earnings		**4,788,629,877**	4,379,108,901
		8,666,890,301	8,296,287,353
Non-controlling Interests	*2*	**423,492,782**	628,581,025
Total Equity		**9,090,383,083**	8,924,868,378
		₱18,048,092,416	₱16,762,489,644

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2018**	2017	2016
REVENUES				
Electronic bingo	*15, 25*	**₱4,754,906,261**	₱4,335,682,089	₱4,511,977,403
Traditional bingo	*15*	**2,106,084,940**	2,203,605,691	2,331,211,277
Service and hosting fees	*9, 16*	**1,054,365,127**	1,088,064,463	1,866,742,326
Income from junket operations	*25*	**895,694,852**	855,588,806	894,388,540
Rent income	*8, 17*	**560,690,470**	463,350,087	397,385,417
Commission income	*25*	**291,607,194**	247,768,115	268,653,683
Rapid bingo	*15, 25*	**230,386,430**	231,344,036	262,811,873
Pull tabs	*15*	**20,111,861**	15,644,756	17,715,410
Share in gaming revenue of a casino project	*24*	**–**	76,400,864	208,533,866
Compensation fee from a casino project	*24*	**–**	65,995,956	128,502,833
		9,913,847,135	9.583,444,863	10,887,922,628
COSTS AND OPERATING EXPENSES				
Franchise fees and taxes	*15, 16*	**4,429,428,116**	3,887,880,592	4,691,725,486
Payouts	*15*	**1,436,599,949**	1,549,117,950	1,602,054,715
Salaries and other benefits		**566,176,916**	712,730,658	545,127,717
Rent	*17*	**645,549,812**	672,978,405	635,803,172
Contracted services		**540,566,692**	507,507,774	499,947,638
Depreciation and amortization	*7, 11*	**471,302,380**	492,645,814	351,476,986
Bandwidth and co-location costs	*9*	**563,002,838**	475,211,023	–
Communications and utilities		**306,818,582**	320,079,032	292,516,294
Advertising and promotion		**280,729,425**	254,844,823	235,925,879
Taxes and licenses		**148,425,347**	177,140,938	98,998,687
Professional and directors' fees		**102,930,312**	111,687,372	89,222,639
Representation and entertainment		**131,710,596**	110,202,337	132,741,844
Transportation and travel		**68,791,116**	98,928,979	71,229,283
Repairs and maintenance		**91,149,334**	86,310,319	62,269,298
Playing cards	*6*	**36,465,447**	79,269,030	84,927,286
Others		**88,458,270**	120,815,592	163,206,042
		9,908,105,132	9,657,350,638	9,557,172,966
OPERATING INCOME (LOSS)		**5,742,003**	(73,905,775)	1,330,749,662

(Forward)

	Note	Years Ended December 31 2018	2017	2016
OTHER INCOME (EXPENSES) – Net				
Unrealized gains on changes in fair values of investment properties - net	*8*	**₱1,329,408,530**	₱256,852,850	₱16,714,150
Finance expense	*19*	**(428,176,343)**	(169,860,776)	(381,992,190)
Impairment loss on:				
Financial assets	*5, 9*	**(181,641,224)**	(44,873,823)	(67,284,572)
Non-financial assets	*6, 7*	**(111,865,997)**	(28,493,486)	–
Equity in net earnings of associates	*9*	**70,421,894**	446,730,491	818,821,941
Equity in net earnings of joint ventures	*11*	**114,866,158**	61,000,669	143,668,761
Foreign exchange gain - net		**(24,259,181)**	2,083,457	21,769,337
Finance income	*19*	**1,396,080**	44,589,655	280,229,331
Other income - net	*19*	**238,333,023**	248,766,689	120,271,476
		1,008,482,940	816,795,726	952,198,234
INCOME BEFORE INCOME TAX		**1,014,224,943**	742,889,951	2,282,947,896
PROVISION FOR INCOME TAX	*21*	**549,142,094**	256,073,201	186,814,418
NET INCOME		**465,082,849**	486,816,750	2,096,133,478
Equity Holders of the Parent Company		**479,645,976**	430,275,524	1,824,673,362
Non-controlling interest		**(14,563,127)**	56,541,226	271,460,116
		465,082,849	486,816,750	2,096,133,478
OTHER COMPREHENSIVE INCOME (LOSS) - Net				
Items that will be reclassified to profit or loss				
Revaluation gain (loss) of FVOCI/available for sale financial asset	*9*	**14,871,625**	(29,087,155)	66,484,940
Foreign currency translation loss		**–**	(1,665,707)	–
Items that will not be reclassified to profit or loss				
Revaluation surplus, net of tax	*7, 8*	**(89,182,693)**	89,182,693	–
Remeasurement loss on retirement benefits, net of tax	*18*	**27,552,922**	(19,899,719)	(2,433,492)
		(46,404,735)	38,530,112	64,051,448
TOTAL COMPREHENSIVE INCOME		**₱418,678,114**	₱525,346,862	₱2,160,184,926
Attributable to				
Equity Holders of the Parent Company		**₱500,943,815**	₱442,550,595	₱1,887,982,433
Non-controlling interest		**(82,265,701)**	82,796,267	272,202,493
		₱418,678,114	₱525,346,862	₱2,160,184,926
Basic Earnings Per Share	*22*	**₱0.3441**	₱0.2444	₱1.4070
Diluted Earnings Per Share		**0.3224**	0.2290	1.3183

See Notes to the Consolidated Financial Statements.

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

		Attributable to Owners of the Parent Company												
		Capital Stock												
	Note	Common Shares	Preferred Shares	Additional Paid-in Capital - Common	Treasury Shares	Retirement Benefits Reserve	Revaluation Surplus	Fair Value Reserve	Foreign Currency Translation Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2018		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱89,405,347)	(₱63,226,874)	₱62,142,500	₱47,181,438	(₱2,099,981)	(₱1,294,351)	₱4,379,108,901	₱8,296,287,353	₱628,581,025	₱8,924,868,378
Net income for the year		–	–	–	–	–	–	–	–	–	479,645,976	479,645,976	(14,563,127)	465,082,849
Other comprehensive income (loss)		–	–	–	–	27,552,922	(62,142,500)	14,871,625	–	–	–	(19,717,953)	(26,686,782)	(46,404,735)
Total comprehensive income (loss) for the year		–	–	–	–	27,552,922	(62,142,500)	14,871,625	–	–	479,645,976	459,928,023	(41,249,909)	418,678,114
Effect of change in interest in an investment	*9*	–	–	–	–	–	–	–	–	(18,194,144)	–	(18,194,144)	124,205	(18,069,939)
Treasury shares acquired	*14*	–	–	–	(1,005,931)	–	–	–	–	–	–	(1,005,931)	–	(1,005,931)
Cash dividends	*14*	–	–	–	–	–	–	–	–	–	(70,125,000)	(70,125,000)	(163,962,539)	(234,087,539)
Balance at December 31, 2018		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱90,411,278)	(₱35,673,952)	₱–	₱62,053,063	(₱2,099,981)	(₱19,488,495)	₱4,788,629,877	₱8,666,890,301	₱423,492,782	9,090,383,083

		Attributable to Owners of the Parent Company												
		Capital Stock												
	Note	Common Shares	Preferred Shares	Additional Paid-in Capital - Common	Treasury Shares	Retirement Benefits Reserve	Revaluation Surplus	Fair Value Reserve	Foreign Currency Translation Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2017		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱79,864,266)	(₱44,112,307)	₱–	₱76,268,593	(₱434,274)	(₱1,294,351)	₱4,298,999,625	₱8,213,444,087	₱606,194,703	₱8,819,638,790
Net income for the year		–	–	–	–	–	–	–	–	–	430,275,524	430,275,524	56,541,226	486,816,750
Other comprehensive income (loss)		–	–	–	–	(19,114,567)	62,142,500	(29,087,155)	(1,665,707)	–	–	12,275,071	26,255,041	38,530,112
Total comprehensive income (loss) for the year		–	–	–	–	(19,114,567)	62,142,500	(29,087,155)	(1,665,707)	–	430,275,524	442,550,595	82,796,267	525,346,862
Effect of change in interest in an investment	*9*	–	–	–	–	–	–	–	–	–	(29,938,371)	(29,938,371)	39,646,055	9,707,684
Treasury shares acquired	*14*	–	–	–	(9,541,081)	–	–	–	–	–	–	(9,541,081)	–	(9,541,081)
Cash dividends	*14*	–	–	–	–	–	–	–	–	–	(320,227,877)	(320,227,877)	(100,056,000)	(420,283,877)
Balance at December 31, 2017		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱89,405,347)	(₱63,226,874)	₱62,142,500	₱47,181,438	(₱2,099,981)	(₱1,294,351)	₱4,379,108,901	₱8,296,287,353	₱628,581,025	₱8,924,868,378

						Attributable to Owners of the Parent Company							
		Capital Stock		Additional Paid-in									
	Note	Common Shares	Preferred Shares	Capital - Common	Treasury Shares	Retirement Benefits Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2016		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱71,142,419)	(₱40,936,438)	₱9,783,653	(₱434,274)	(₱1,294,351)	₱2,787,799,906	₱6,647,657,144	₱413,888,210	₱7,061,545,354
Net Income		–	–	–	–	–	–	–	–	1,824,673,362	1,824,673,362	271,460,116	2,096,133,478
Other comprehensive income (loss)		–	–	–	–	(3,175,869)	66,484,940	–	–	–	63,309,071	742,377	64,051,448
Total comprehensive income (loss) for the year		–	–	–	–	(3,175,869)	66,484,940	–	–	1,824,673,362	1,887,982,433	272,202,493	2,160,184,926
Incorporation of a subsidiary with non-controlling interest	9	–	–	–	–	–	–	–	–	–	–	5,000,000	5,000,000
Treasury shares acquired	14	–	–	–	(8,721,847)	–	–	–	–	–	(8,721,847)	-	(8,721,847)
Cash dividends	14	–	–	–	–	–	–	–	–	(313,473,643)	(313,473,643)	(84,896,000)	(398,369,643)
Balance at December 31, 2016, as restated		₱1,199,852,512	₱1,650,000,000	₱1,114,028,555	(₱79,864,266)	(₱44,112,307)	₱76,268,593	(₱434,274)	(₱1,294,351)	₱4,298,999,625	₱8,213,444,087	₱606,194,703	₱8,819,638,790

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱1,061,484,213**	₱742,889,951	₱2,282,947,896
Adjustments for:				
Unrealized gain on changes in fair values of investment properties	*8*	**(1,376,667,800)**	(256,852,850)	(16,714,150)
Depreciation and amortization	*7, 11*	**471,302,380**	492,645,814	351,476,986
Finance expense	*19*	**428,176,343**	169,860,776	381,992,190
Loss on impairment of financial assets	*5, 9*	**35,000,826**	44,873,823	67,284,572
Equity in net earnings of joint ventures	*9*	**(114,866,158)**	(61,000,669)	(143,668,761)
Loss on impairment of non-financial assets	*6, 7, 11*	**111,865,997**	28,493,486	23,876,816
Equity in net earnings of associates	*9*	**(70,421,894)**	(446,730,491)	(818,821,941)
Retirement benefits	*18*	**29,299,114**	172,345,591	20,058,574
Unrealized foreign exchange loss (gain) - net		**1,414,145**	(3,811,380)	(21,769,337)
Finance income	*19*	**(1,396,080)**	(44,589,655)	(280,229,331)
Gain on pre-termination of advances to a casino project	*24*	**–**	(199,494,851)	–
Operating income before working capital changes		**575,191,086**	638,629,545	1,846,433,514
Decrease (increase) in:				
Receivables		**(223,707,923)**	(48,114,167)	(22,995,513)
Playing cards		**4,062,409**	2,266,172	2,665,625
Prepaid expenses and other current assets		**(4,847,717)**	29,767,442	(98,426,153)
Increase (decrease) in:				
Trade and other payables		**354,897,588**	425,447,435	(896,430,103)
Due to a related party		**(9,070,691)**	–	–
Deposits		**(14,258,389)**	(4,016,197)	(23,500)
Cash generated from operations		**682,266,363**	1,043,980,230	831,223,870
Income taxes paid		**(65,046,095)**	(170,615,600)	(256,594,004)
Benefits paid	*18*	**(2,172,429)**	(94,213,563)	–
Interest received		**1,396,080**	6,969,655	3,609,331
Net cash provided by operating activities		**616,443,919**	786,120,722	578,239,197
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash given up from acquisition of subsidiaries and sites	*10*	**(18,069,740)**	(74,400,000)	–
Additions to:				
Investments and advances		**(69,048,376)**	146,906,200	337,285,071
Property and equipment	*7*	**(236,249,645)**	(610,719,393)	(696,092,399)
Other noncurrent assets		**(158,497,588)**	(164,956,741)	381,513,901
Investment properties		**(33,804,628)**	(4,888,210,589)	–

(Forward)

	Note	Years Ended December 31 **2018**	2017	2016
Decrease (increase) in due from related parties		**₱–**	(₱106,901,348)	₱17,035,517
Effects of change in control in an investment		**–**	45,582,977	–
Interest received		**–**	37,620,000	276,620,000
Dividends received	*9*	**–**	–	114,000,000
Proceeds from advances to a casino project		**–**	3,961,494,851	1,018,000,000
Proceeds from disposal of property and equipment		**–**	–	–
Net cash provided by (used in) investing activities		**(515,669,977)**	(1,653,584,043)	1,448,362,090
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loans payable	*12*	**1,139,735,145**	5,233,804,606	1,209,602,329
Payments of loans payable	*12*	**(724,067,441)**	(4,161,381,258)	(1,927,670,390)
Dividends paid		**(79,440,258)**	(310,989,652)	(541,946,442)
Interest paid	*12*	**(428,176,343)**	(169,860,776)	(385,373,950)
Proceeds from acquisition by non-controlling interest	*14*	**–**	–	5,000,000
Payments for acquisition of treasury shares	*14*	**8,721,847**	(9,541,081)	(8,721,847)
Payments of obligations under finance lease		**–**	(220,955)	(3,740,533)
Net cash provided by (used in) financing activities		**(83,227,050)**	581,810,884	(1,652,850,833)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		**–**	(2,761,470)	444,233
NET INCREASE (DECREASE) IN CASH		**17,546,892**	(288,413,907)	374,194,687
CASH AT BEGINNING OF YEAR		**424,583,323**	712,997,230	338,802,543
CASH AT END OF YEAR	*4*	**₱442,130,215**	₱424,583,323	₱712,997,230

See Notes to the Consolidated Financial Statements.

LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Leisure & Resorts World Corporation (LRWC or the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 10, 1957. On November 6, 2006, SEC approved the extension of the Parent Company's corporate life until December 31, 2055. The accompanying consolidated financial statements comprise the financial statements of the Group and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities") and the Group's interest in joint ventures and associates.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE).

The Group's primary purpose is to engage in leisure business which includes management and operation of the activities conducted therein pertaining to general amusement and recreation enterprise, hotel and gaming facilities, including but not limited to bingo parlors.

The Parent Company's registered office address is located at 26th Floor, West Tower, PSE Center, Exchange Road, Ortigas Center, Pasig City.

Approval and Authorization for Issuance of the Financial Statements
The accompanying consolidated financial statements as at and for the years ended December 31, 2018 and 2017 reviewed and recommended for approval by the Audit Committee on April 29, 2019. On the same date the Board of Directors (BOD) approved and authorized the issuance of the parent company financial statements.

2. Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

The consolidated financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement bases
Financial assets at fair value through other comprehensive income	Fair value
Investment properties	Fair value
Retirement benefits liability	Present value of the defined benefits obligation

The consolidated financial statements are presented in Philippine peso, the Group's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

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

  The Group applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. The adoption of PFRS 9 did not have a material impact on the Group financial statements.

  a) *Classification and measurement*

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

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

  The following are the changes in the classification of the Group's financial assets:

  - Cash , receivables, due from related parties, rental deposits and cash performance bonds previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortized cost.

  - Quoted equity investment previously classified as available-for-sale (AFS) financial assets are now classified and measured as financial assets at FVOCI. The Group elected to classify irrevocably its investment in equity shares under this category as it intends to hold these investments for the foreseeable future. There was no impairment recognized in profit or loss for this investment in prior periods.

  The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

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

	PAS 39 Measurement Category		PFRS 9 Measurement Category		
	Loans and Receivables	AFS	FVPL	Amortized Cost	FVOCI
Cash	₱442,130,215	₱–	₱–	₱442,130,215	₱–
Receivables	958,018,829	–	–	958,018,829	–
Due from related parties	155,000,000	–	–	155,000,000	–
Rental deposits	436,816,153	–	–	436,816,153	–
Performance cash deposits and betting funds	27,650,000	–	–	27,650,000	–
AFS financial assets	–	168,180,654	–	–	168,180,654
	₱2,019,615,197	₱168,180,654	₱–	₱2,019,615,197	₱168,180,654

b) *Impairment*

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets. The adoption of PFRS 9 ECL approach, however, did not materially impact the recognized impairment on the Group's financial assets such as cash in banks, receivables, due from related parties, rental deposits and cash performance bonds.

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

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

  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. The adoption of PFRS 15 did not have a significant impact on the Group's financial position and performance. The Group applied PFRS 15 to contracts that are not completed as of initial application date.

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

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

  The amendments are not applicable to the Group.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the

overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.
The amendments are not applicable to the Group since there are no activities that are predominantly connected with insurance or issue insurance contracts.

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

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

  The amendments have no impact on the Group's consolidated financial statements.

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

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

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its financial statements upon adoption of this interpretation.

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

Effective beginning on or after January 1, 2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that is passes the SPPI criterion and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

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

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

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

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

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

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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

      An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

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

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

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

  The amendments are not applicable to the Group.

Effective beginning on or after January 1, 2020

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

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

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

  These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

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

  The amendments are not applicable to the Group.

Basis of Consolidation

The consolidated financial statements include the financial statements of LWRC and its subsidiaries as at December 31 each year and for the years then ended. The Group controls an investee if and only if the Group has:

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

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

- the contractual arrangements with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group reassesses 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 Group obtains control over the subsidiary and ceases when the Group loses control over 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 Group gains control until the date when the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Other reserve" account in the equity attributable to the equity holders of the Parent.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the financial statements of the Group and the following subsidiaries as at December 31, 2018 and 2017:

Subsidiaries	Percentage of Ownership	Country of Incorporation
AB Leisure Exponent, Inc. (ABLE)	100	Philippines
AB Leisure Global, Inc. (ABLGI)	100	Philippines
LR Land Developers, Inc. (LRLDI)	100	Philippines
Prime Investment Korea, Inc. (PIKI)	100	Philippines
Total Gamezone Xtreme Incorporated (TGXI)	100	Philippines
Blue Chip Gaming and Leisure Corporation (BCGLC)	100	Philippines
Gold Coast Leisure World Corporation (GCLWC)	100	Philippines
LR Data Center and Solutions Inc. (LRDCSI)*	80	Philippines
First Cagayan Leisure and Resort Corporation (FCLRC)	69.68	Philippines
First Cagayan Converge Data Center, Inc. (FCCDCI)***	57.81	Philippines
Bingo Bonanza (HK) Limited (BBL)**	60	Hong Kong

**Incorporated on May 20, 2016 and started its commercial operations in October 2017.*
***Non-operating subsidiary.*
****Consolidated effective January 1, 2017 through FCLRC and LRDCSI at 60% and 20%, respectively.*

Non-controlling interests
Non-controlling interests represent the portion of profit or loss and net assets or liabilities not held by the Group and are presented separately in the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, and within equity in the consolidated statements of financial position, separately from Group's equity attributable to equity

holders of the Group. Losses applicable to the non-controlling interests in a subsidiary (including components of other comprehensive income) are allocated to the non-controlling interests even if doing so results in a deficit non-controlling interest balance.

The assumptions of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with PFRS 3, *Business Combination*. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of non-controlling interest is recognized as part of "Other Reserve" account in the equity attributable to equity holders of Group.

The following table summarizes the information relating to the Group entities non-controlling interests (NCI), before any intra-group eliminations:

	December 31, 2018				
	LRDCSI	**FCLRC**	**BBL**	**FCCDCI**	**Grand Total**
Non-controlling interests percentage	**20.00%**	**30.32%**	**40.00%**	**42.19%**	
Current assets	**₱62,929,478**	**₱1,943,054,570**	**₱60,652**	**₱289,184,944**	**2,295,229,644**
Noncurrent assets	**50,241,502**	**547,425,319**	**33,437**	**232,858,278**	**830,558,536**
Current liabilities	**(66,820,215)**	**(1,305,080,378)**	**(87,144,381)**	**(179,824,330)**	**(1,638,869,304)**
Noncurrent liabilities	**(3,517,460)**	**(43,898,781)**	**–**	**(87,703,371)**	**(135,119,612)**
Net assets (liabilities)	**₱42,833,305**	**₱1,141,500,730**	**(₱87,050,292)**	**₱254,515,521**	**1,351,799,264**
Carrying amount of non-controlling interests	**₱8,566,661**	**₱346,087,406**	**(₱34,820,117)**	**₱107,380,098**	**₱427,214,048**
Revenue	**₱82,815,034**	**₱395,499,397**	**₱–**	**₱576,050,696**	**₱1,054,365,127**
Net income for the year	**(₱14,946,463)**	**(₱67,086,311)**	**₱–**	**₱43,065,206**	**(₱38,967,568)**
Other comprehensive income	**–**	**(93,907,157)**	**–**	**–**	**(93,907,157)**
Total comprehensive income	**(₱14,946,463)**	**(₱160,993,468)**	**₱–**	**₱43,065,206**	**(132,874,725)**
Net income (loss) allocated to non-controlling interests	**(₱2,989,293)**	**(₱20,340,570)**	**₱–**	**₱18,169,210**	**₱5,160,653**
Other comprehensive income allocated to non-controlling interests	**–**	**(41,015,793)**	**–**	**–**	**(41,015,793)**
Cash flows from operating activities	**₱483,824**	**(₱48,638,917)**	**₱–**	**₱33,639,485**	**₱(14,515,608)**
Cash flows used in investment activities	**–**	**101,499,504**	**–**	**(40,588,661)**	**60,910,843**
Cash flows used in financing activities	**–**	**(43,699,548)**	**–**	**3,369,101**	**(40,330,447)**
Net increase (decrease) in cash	**₱483,824**	**₱9,161,039**	**₱–**	**(₱3,580,075)**	**6,064,788**

	December 31, 2017				
	LRDCSI	FCLRC	BBL	FCCDCI	Grand Total
Non-controlling interests percentage	20.00%	30.32%	40.00%	42.19%	
Current assets	₱28,831,692	₱1,796,713,369	₱60,652	₱179,049,403	₱2,004,655,116
Noncurrent assets	16,400,000	695,863,923	33,437	378,463,233	1,090,760,593
Current liabilities	(20,103,650)	(573,057,236)	(87,144,381)	(241,633,914)	(921,939,181)
Noncurrent liabilities	–	(82,273,472)	–	(102,057,037)	(184,330,509)
Net assets (liabilities)	₱25,128,042	₱1,837,246,584	(₱87,050,292)	₱213,821,685	1,989,146,019
Carrying amount of non-controlling interests	₱5,025,608	₱557,053,164	(₱34,820,117)	₱90,211,369	₱617,470,024
Revenue	₱4,292,492	₱423,284,360	₱–	₱660,487,611	₱1,088,064,463

	December 31, 2017				
	LRDCSI	FCLRC	BBL	FCCDCI	Grand Total
Net income for the year	₱456,172	₱8,817,121	₱–	₱117,466,739	₱126,740,032
Other comprehensive income	–	86,593,144	–	–	86,593,144
Total comprehensive income	₱456,172	₱95,410,265	₱–	₱117,466,739	₱213,333,176
Net income allocated to non-controlling interests	₱91,234	₱2,673,351	₱–	₱49,559,217	₱52,323,802
Other comprehensive income allocated to non-controlling interests	–	26,255,041	–	–	26,255,041
Cash flows from operating activities	₱20,350,059	₱157,124,808	₱–	₱109,311,150	₱396,097,167
Cash flows used in investment activities	(16,400,000)	(28,237,086)	–	(129,275,411)	(173,912,497)
Cash flows used in financing activities	–	(35,993,012)	–	–	(35,993,012)
Net increase (decrease) in cash	₱3,950,059	₱92,894,710	₱–	(₱19,964,261)	₱186,191,658

ABLE

ABLE, a wholly-owned subsidiary, was registered with the SEC on March 31, 1995. Its primary purpose is to provide amusement and recreation to the public in such forms as, but not limited to, traditional, electronic and rapid bingo games.

The consolidated financial statements also include the following indirect subsidiaries owned through ABLE:

	Percentage of Ownership	
Subsidiaries	**2018**	2017
Alabang Numbers & Gaming Corporation	**100**	100
Allpoint Leisure Corporation	**100**	100
Alpha One Amusement and Recreation Corp.	**100**	100
Big Time Gaming Corporation	**100**	100
Bingo Extravaganza, Inc.	**100**	100
Bingo Gallery, Inc.	**100**	100
Bingo Heaven Inc.*	**100**	100
Bingo Palace Corporation	**100**	100
Cebu Entertainment Gallery, Inc.	**100**	100
Fiesta Gaming and Entertainment Corporation*	**100**	100
First Leisure & Game Co., Inc.	**100**	100
Galleria Bingo Corporation	**100**	100
Gamexperience Entertainment Corp.	**100**	100
Grand Polaris Gaming Co., Inc.	**100**	100
G-One Gaming & Technology, Inc.	**100**	100
Highland Gaming Corporation	**100**	100
Iloilo Bingo Corporation	**100**	100
Metro Gaming Entertainment Gallery, Inc.	**100**	100
Rizal Gaming Corporation	**100**	100
SG Amusement and Recreation Corp.	**100**	100
South Bingo Corporation	**100**	100
South Entertainment Gallery Incorporated	**100**	100
Topmost Gaming Corp.	**100**	100
Topnotch Bingo Trend, Inc. (Topnotch)	**100**	100
One Bingo Pavilion Inc.	**100**	100
Worldwide Links Leisure and Gaming Corporation	**100**	100

Subsidiaries	Percentage of Ownership 2018	2017
Bingo Dinero Corporation (Bingo Dinero)	**100**	95
Bingo Zone, Inc.*	**95**	95
Manila Bingo Corporation	**95**	95
Isarog Gaming Corporation	**90**	90
One Bingo Place, Incorporated	**80**	80
Summit Bingo, Inc.	**60**	60
Negrense Entertainment Gallery, Inc.	**55**	55

**Non-operating subsidiaries.*

ABLGI
ABLGI, a wholly-owned subsidiary, was registered with the SEC on October 20, 2009. Its primary purpose is to acquire, own, use, construct, develop, maintain, subdivide, sell, dispose of, exchange, lease and hold for investment, or otherwise deal with real estate and personal property of all kinds, including the management and operation of the activities conducted therein pertaining to general amusement and recreation enterprises such as but not limited to resorts, golf courses, clubhouses and sports facilities, hotels and gaming facilities, with all the apparatus, equipment and other appurtenances as may be related thereto or in connection therewith. ABLGI started its operations on January 1, 2013.

The consolidated financial statements also include the following indirect subsidiaries owned through ABLGI as of December 31, 2018 and 2017.

Subsidiaries	Percentage of Ownership
AB Leisure Asia Holdings Inc. (ABLAHI)	100
AB Leisure Holdings Philippines Corp. (ABLHPC)	100
G-L Real Estate JV Corporation (GL-JV)	100
G-Boracay Land Holdings Inc. (GBLHI)	100
G-Boracay Alpha Holdings Inc. (GBAHI)	100
G-Boracay Beta Holdings Inc. (GBBHI)	100
G-Boracay Gamma Holdings Inc. (GBGHI)	100

These indirect subsidiaries were incorporated in 2017 for a future project. The land for such project was acquired in 2017 amounting to ₱4,759,548,749 (see Note 8).

LRLDI
On December 10, 2007, the Parent Company incorporated LRLDI as its wholly-owned subsidiary. It is engaged in realty development and tourism. LRLDI started its operations in 2010.

PIKI
PIKI was registered with the SEC on November 9, 2012. Its primary purpose is to engage in the business of gaming, recreation, leisure and lease of property. On July 3, 2013, PIKI obtained a Grant of Authority from Philippine Amusement and Gaming Corporation (PAGCOR) for the privilege and authority to bring in pre-registered non-Philippine junket players (with passports bearing Philippine arrival dates no later than five (5) days prior to the initial entry in the Gaming Rooms) to play the designated junket Gaming Rooms at PAGCOR's Casino Filipino - Midas, with a minimum gaming table mix to be determined by PAGCOR. On March 22, 2013, the Parent Company acquired 100% of PIKI's outstanding capital stock. PIKI started its operations on July 26, 2013.

TGXI

TGXI was registered with the SEC on June 27, 2014 primarily to engage in general amusement, gaming operations and recreation enterprises. PAGCOR granted TGXI the privilege to establish, install, maintain, and operate a PAGCOR eGames Station ("PeGS"). PeGS is a gaming facility that offers virtual casino games. TGXI started commercial operations on July 16, 2014.

BCGLC

BCGLC was registered with the SEC on February 26, 2009. Its primary purpose is to provide investment, management counsel and to act as agent or representative for business enterprises engaged in gaming, recreation and leisure activities. On October 20, 2009, BCGLC (lessor), as the authorized representative of Munich Management Limited (a foreign corporation duly organized and registered in British Virgin Islands), entered into a contract of lease with PAGCOR (lessee), for the use of slot machines and gaming facilities.

On July 24, 2015, BCGLC incorporated Gold Coast Leisure World Corp. (GCLWC) as its wholly-owned subsidiary. Its primary purpose is to purchase, acquire, own, lease (except financial leasing), sell and convey real properties such as lands, buildings, factories, and warehouses and machineries, equipment, and other personal properties as may be necessary or incidental to the conduct of the corporate business, and to pay in cash, share of its capital stock, debentures and other evidences of indebtedness, or other securities as may be deemed expedient, for any business or property acquired by the corporation.

LRDCSI

LRDCSI was registered with SEC on May 20, 2016 and started its operation in October 2017. LRDCSI is a technology company engaged in aggregating data and telecommunication services. LRDCSI's revenue model involves acquiring services from local and foreign technology and telecommunications companies at wholesale rates, bundling said services and then reselling the services at retail rates. The premium for such activity is warranted given the bespoke and higher level of customer engagement provided by the LRDCSI.

LRDCSI's portfolio includes solutions related to data center co-location, internet, private leased lines, mobile and voice platforms, cybersecurity, content delivery networks, e-commerce, and network and website optimization. LRDCSI aims to provide these services to customers and clients in all industry sectors including land based and online gaming operators. The authorized capital stock of LRDCSI is ₱100,000,000, divided into 100,000,000 shares with par value of P1 per share, of which ₱25,000,000 has been subscribed and paid. LRWC owns 80% of the outstanding capital stock of LRDCSI while an individual stockholder owns 20%.

FCLRC

FCLRC was incorporated on April 26, 2000 and is a Cagayan Special Economic Zone and Freeport (CSEZFP) registered enterprise. FCLRC has an existing License Agreement with the Cagayan Economic Zone Authority (CEZA) to develop, operate and conduct internet and gaming enterprises and facilities in the CSEZFP. Pursuant to the License Agreement, CEZA issued the "CEZA Master Licensor Certificate" certifying that FCLRC is duly authorized to regulate and monitor, on behalf of CEZA, all activities pertaining to the licensing and operation of interactive games.

FCCDCI

On March 1, 2007, FCLRC and IP Converge Data Center Corp. (IPCDCC) entered into a Shareholders Agreement (Joint Venture) to engage in the business of information technology such as, but not limited to IP communication, co-location, bandwidth, disaster recovery services, software development, internet merchant payment processing and payment solution to the licensed locators of FCLRC, as well as the CEZA. The Joint Venture shall likewise invest in building, upgrading and maintaining the IP communications infrastructure that connects CEZA to the global internet. This includes fiber optic networks, wireless radio stations, telco-grade internet data center, network operations center, and network hubs/access points. This investment is made by FCLRC in relation to the Master Development Plan for Tourism Area in CSEZFP and the Development of Information Technology (IT) Facilities and Telecommunications (Master Development Plan) (see Note 16).

FCCDCI was incorporated and registered with the SEC on November 14, 2007, and started commercial operations on January 1, 2008. FCLRC owns 60% of FCCDCI and the remaining 40% is owned by IPCDCC. In accordance with the Joint Venture Agreement, the shareholders agreed to allocate $3,000,000 for short-term capital expenditures which shall be financed by a combination of debt and equity. FCLRC shall source its capital for FCCDCI from internally-generated funds and bank or institutional financing.

On May 15, 2012, IPCDCC entered into a Deed of Assignment of Subscription Rights with IP Ventures, Inc. ("IPVI" a third party Group) whereby IPCDCC assigned all the rights, interests and participation to its 9,999,998 shares of stock in FCCDCI with a par and issue value of ₱1 to IPVI.

On January 1, 2017, IPVI entered into a Deed of Absolute Sale of Share of Stock with LRDCSI, whereby IPVI assigned its rights, interest and participation to its 5,000,000 shares of stock or 20% ownership in FCCDCI with a par and issue value of ₱1 for a total consideration of P16,400,000 to LRDCSI.

By virtue of the Deed of Absolute Sale of Share of Stock entered into by IPVI and LRDCSI, LRWC obtained a 57.81% effective interest and control in FCCDCI through its direct subsidiaries FCLRC and LRDCSI at 60% and 20% equity stake in FCCDCI, respectively. Thus, due to the effect of the 20% additional equity interest, FCCDCI is consolidated into the Group effective January 1, 2017.

BBL

On March 15, 2010, the Parent Company incorporated BBL as its 60%-owned subsidiary. Its primary purpose is to engage in the business of gaming, recreation, leisure and lease of property. BBL was incorporated under the Companies Ordinance of Hong Kong. BBL started its operations in March 2012. It is currently non-operational and in the process of liquidation.

Transactions Eliminated on Consolidation

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated. Unrealized gains from transactions with the equity accounted investees are eliminated against the investment to the extent of the Group's interest in investee. Unrealized losses are eliminated in the same way as unrealized gains, to the extent that there is no evidence of impairment.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:

- it is expected to be realized or intended to be sold or consumed in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realized within twelve months after the financial reporting date; or
- it is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the financial reporting date.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the financial reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the financial reporting date.

All other liabilities are classified as noncurrent.

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

<u>Financial Instruments – Initial Recognition and Subsequent Measurement</u>
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a. Financial Assets

   <u>Upon adoption of PFRS 9 effective January 1, 2018</u>

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

   The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

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

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

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

   The Group has cash, receivables, due from related parties, rental deposits and cash performance bonds classified as financial asset at amortized cost. It also has investment in equity securities classified as financial asset at FVOCI. The Group has no financial asset designated as FVPL.

   Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

   - Financial assets at amortized cost (debt instruments)
   - Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
   - Financial assets at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
   - Financial assets at FVPL

Financial Assets at Amortized Cost (Debt Instruments). The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognized (i.e., removed from the Group's balance sheet) when:

- The rights to receive cash flows from the asset have expired; or
- Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

Impairment of financial assets. The Group recognized an allowance from ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

For cash in bank, the Group applies a general approach in calculating ECLs. The Group recognizes a loss allowance based on ether 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk on its cash in bank since initial recognition.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Effect prior to January 1, 2018

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated at FVPL, includes directly attributable transaction costs.

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL financial assets, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired or the financial liabilities are incurred, and whether the instruments are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no HTM investments and FVPL financial assets and liabilities as at December 31, 2017.

Subsequent Measurement. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. After initial measurement, such to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized in profit or loss on an accrual basis. 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.

The Group's cash in banks, receivables, due from related parties, rent deposits and cash performance bonds are classified as loans and receivables as at December 31, 2017.

AFS Financial Assets. AFS financial assets are non-derivative financial asset that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial asset is either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

The Group's investment in equity security included under "AFS financial asset" account is classified under this category (see Note 9).

The Group 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

When the Group has transferred its rights to receive cash flows from an asset and 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 Group's continuing involvement in the asset. 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 Group could be required to repay.

Impairment of Financial Assets. The Group assesses at reporting date whether a financial asset or 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 (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a significant financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group 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 the collective assessment of impairment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower.

For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

b. Financial Liabilities

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

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

The Group's financial liabilities include trade and other payables and due to related party which are classified as loans and borrowings.

The Group has no financial liabilities at FVPL or derivative liabilities designated as hedging instruments.

Subsequent Measurement. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as interest expense in the statement of comprehensive income.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

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

- deliver cash or another financial asset to another entity;
- 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 Group 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.

A financial instrument is an equity instrument only if: (a) the instrument includes no contractual obligation to deliver cash or another financial asset to another entity; and (b) if the instrument will or may be settled in the issuer's own equity instruments, it is either:

- a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the Group statements of financial position.

Determination of Fair Value
The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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

The principal or most advantageous market must be accessible to the Group.

The Group 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 Group financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted prices (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level 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 Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

<u>Prepaid Expenses and Other Current Assets</u>
Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in profit or loss as they are consumed in operations or expire with the passage of time. These typically comprise prepayments for commissions, taxes and licenses and rental.

Prepaid expenses are classified in the consolidated statements of financial position as current assets when the cost of goods or goods related to the prepaid expenses are expected to be incurred within one year. Otherwise, prepaid expenses are classified as noncurrent assets.

Other current assets represent resources that are expected to be used up within one year after the reporting date. These typically comprise advances to contractors and suppliers, input value-added tax (VAT), playing cards, etc.

<u>Investments and Advances</u>
An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. Significant influence is the power to participate in the financial and operating policies of the investee, but is not control or joint control over those policies.

A joint venture is an entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions, and over which the parties have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method in the consolidated financial statements. Under the equity method, investments in associates and joint ventures are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the share of net assets, less any impairment in value. When the Group's share of losses exceeds the cost of the investments in associates and joint ventures, the carrying amount of that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates and the joint ventures. The carrying amount of the investments are adjusted to recognize the changes in the Group's share of net assets of the associates or joint ventures since the acquisition date. Goodwill relating to the associates or joint ventures is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of associates or joint ventures are recognized as "Equity in net earnings of associates" and "Equity in net earnings of joint ventures" accounts, respectively, in the profit or loss. Unrealized gains and losses resulting from transactions between the Group and the associates or joint ventures are eliminated to the extent of the interest in the associates or joint ventures.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in associates or joint ventures are impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of associates or joint ventures. Such impairment loss is recognized as part "Equity in net earnings of associates" and "Equity in net earnings of joint ventures" accounts in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associates or joint control over the joint ventures, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of associates or joint ventures upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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

The Group normally contributes cash or other resources to the associates and joint ventures. These contributions are included in the accounting records of the Group and recognized in its consolidated financial statements as part of its investments in associates and a joint venture.

Investments and advances also include advances to companies in which the Group has positive intention of taking over these companies or having ownership interest in the future.

Property and Equipment
Property and equipment, except land, is carried at cost less accumulated depreciation and impairment losses, if any. Land is stated at cost less any impairment in value.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing it to working condition and location for its intended use. Subsequent expenditures that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standard of performance, will flow to the Group. All other subsequent expenditures are recognized as an expense in the period in which they are incurred.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and equipment and other direct costs. Borrowing costs that are directly attributed to the construction are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation is computed using the straight-line method over the estimated useful life (EUL) of the property and equipment over the following estimated useful lives:

	Number of Years
Leasehold improvements	5
Aircraft and transportation equipment	5 - 15
Gaming equipment	5
Office furniture and fixtures and equipment	5
Network equipment	10
Condominium unit	25
Airstrip improvements	10

There are no changes in estimated useful lives in 2018 and 2017.

Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

The Group estimates the useful life of its airstrip improvement based on the period over which the asset is expected to be available for use. The Group initially assessed that benefit may be derived from this asset over five (5) to fifteen (15) years.

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from those assets.

When it is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in the Group statement of comprehensive income.

Investment Properties
Investment properties consist of land, land improvements, building, or part of a building or both held to earn long-term rental yields or for capital appreciation or both, and is not occupied by the Group or held for sale in the ordinary course of business.

The Group adopted the fair value model for accounting for its investment properties. Under this method, investment properties are initially measured at cost but are subsequently remeasured at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts using cost approach and sales comparison approach. Gains or losses arising from changes in the fair values of investment property are included in profit or loss in the period in which they arise.

Investment properties are derecognized when either those have been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain and loss on derecognition of investment properties is recognized in profit or loss in the year of derecognition.

Transfers are made to investment properties 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. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of the owner occupation or commencement of development with a view to sell.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If owner-occupied properties become investment properties, the Group accounts for such properties in accordance with the policy stated under property and equipment up to the date of change in use. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation is transferred to retained earnings.

Lease Rights

The Group's lease rights pertain to acquired rights and interests in the sublease agreement entered upon by the Group. Lease rights are accounted under Other noncurrent assets - "Others" and stated at cost less accumulated amortization and impairment in value, if any and is. Lease rights are amortized on a straight-line basis over the lease term.

Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date. 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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Costs and operating expenses" account in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statement of comprehensive income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statement of comprehensive income.

Goodwill

Goodwill acquired is initially measured as the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the resulting amount is negative (bargain purchase gain), it is recognized immediately in profit or loss. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Bargain purchase gain, which is the excess of the net fair values of acquired identifiable nonmonetary assets of subsidiaries and associates over the cost of acquisition, recognized directly to profit or loss.

When subsidiaries are sold, the difference between the selling price and the subsidiary's net asset plus goodwill associated with the investment are recognized in consolidated statement of comprehensive income.

Impairment of Nonfinancial Assets

The carrying amounts of the Group's nonfinancial assets such as property and equipment and investments and advances and other noncurrent assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a nonfinancial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction less costs to sell while value in use is the present value of estimated future cash flows expected to be generated from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized. Reversals of impairment are recognized in the Group statement of comprehensive income.

Capital Stock and Additional Paid-in Capital
Common and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of common and preferred shares are recognized as a deduction from relevant additional paid-in capital, and if none or insufficient, to be deducted from retained earnings, net of any tax effects. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital.

Treasury Shares
When share capital is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus on the transaction is transferred to additional paid-in capital, while the resulting deficit is applied against additional paid-in capital and retained earnings, for any excess of deficit over the additional paid-in capital arising from treasury shares transactions.

Revaluation Surplus
Revaluation surplus pertains to accumulated gains and losses to revaluation of LRLDI and FCLRC's land (see Note 8).

Fair Value Reserve
Fair value reserve represents cumulative net change in the fair value of FVOCI (2018) and available-for-sale financial asset (2017), net of tax effect, as at reporting date (see Note 10).

Foreign Currency Translation Reserve
The assets and liabilities of the subsidiary with transactions denominated in currencies other than Philippine peso are translated using the applicable closing exchange rates on the reporting date. The income and expenses of the subsidiary with transactions denominated in currencies other than Philippine peso are translated using the exchange rates at the date of transactions. Foreign currency differences are recognized in other comprehensive income and accumulated in the "Foreign currency translation reserve" account in the consolidated statements of financial position.

Retained Earnings
Retained earnings represents the cumulative balance of periodic profit/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

Dividend distribution to the Group's shareholder is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved and declared by the Group's Board of Directors.

Revenue Recognition

Effective beginning January 1, 2018

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer except for some entities of the Group which act as agent in certain commission revenue arrangements.

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

Electronic Bingo. Revenue from these bingo games are satisfied at a point in time and are recognized upon conclusion of each game cycle. The revenues is net of payments and share of machine vendors.

Traditional Bingo, Rapid Bingo and Pull Tabs. Revenue from these bingo games are satisfied at a point in time and are recognized upon sale of bingo cards.

Service and Hosting Fees. Revenue from bandwidth and co-location services are satisfied over time and are recognized as the services are performed. Service fees are satisfied at a point in time and are recognized upon processing of locators' application for a franchise. Hosting fees are satisfied over time and are recognized upon accrual of the gaming levy to locators based on their reported revenue as defined in the license agreement.

One time set-up charges. The one time set-up charge is recognized over the term of the contract.

Commission Income. Commission income is satisfied over time and is recognized when the related services are rendered based on a percentage of each PeGs' casino winnings.and gross gaming revenue of the junket.

Other income. Other income comprises miscellaneous income from operations and recognized at a point in time.

The following revenue streams are outside the scope of PFRS 15:

Rent Income. Income is recognized based on the percentage of the net wins (gross wins less payouts).

Interest Income. Interest Income is recognized as it accrues in profit or loss using the effective interest rate method.

Effective prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured, regardless of when the payment is made. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Had the Group continued to apply PAS 18 in 2018, the revenue that would have been recognized is equal to the revenue recognized under PFRS 15.

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

Electronic Bingo. Revenue is recognized upon conclusion of the game. The revenue is net of payouts and share of machine owners.

Traditional Bingo. Revenue is recognized upon sale of bingo cards.

Rapid Bingo. Revenue is recognized upon sale of rapid bingo cards. The revenue is net of share of machine owners.

Pull Tabs. Pull tabs receipts are recognized upon the sale of the cards.

Service and Hosting Fees. Service fees are recognized upon processing of locators' application for a franchise. Revenue from bandwidth and co-location services are recognized as the services are performed. Hosting fees are recognized upon accrual of the gaming levy to locators based on their reported revenue as defined in the license agreement.

Share in Gaming Revenue of a Casino Project. Share in gaming revenue is recognized based on a percentage of Premium Leisure and Amusement, Inc.'s (PLAI) earnings before interest, taxes, depreciation and amortization, or a percentage of PLAI's Net Win in a Casino Project, whichever is higher as defined in the operating agreement.

Compensation Fee from a Casino Project. Compensation fee arising from the operating agreement is recognized based on a percentage of Belle Corporation's net lease income from a casino project.

Commission Income. Income is recognized based on a percentage of each PeGs' casino winnings. Commission income is recognized when the related services are rendered and income from junket operations is recognized upon conclusion of the game.

Rent Income. Income from slot machines is recognized based on a percentage of the net win (gross wins less payouts).

Interest Income. Interest Income is recognized as it accrues in profit or loss using the effective interest rate method.

Costs and Expenses Recognition

Costs and expenses are decrease in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in profit or loss when they are incurred and are reported in the financial statements in the periods to which they relate.

Payouts represent payments to winners of traditional bingo games. This is recognized as expense upon conclusion of the game.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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.

Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. There is a change in determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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 recognized as expense in profit or loss on a straight-line basis over the lease term.

Employee Benefits

Short-term Benefits

The Group recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Group to its employees include salaries and wages, social security contributions, and other short-term benefits.

Retirement Benefits Liability

The Group's net obligation in respect of its retirement plan is calculated separately by estimating the amount of future benefits that employees have earned in return for their services in the current and prior periods and the benefits are discounted to determine its present value. The discount rate is the yield at the reporting date of long-term government bonds that have maturity dates approximating the terms of the Group's liabilities. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined benefit obligation or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest), if any, are recognized immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined benefit obligation or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit obligation or asset, taking into account any changes in the net defined benefit obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

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

Income Taxes

Income tax expense comprises of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized directly in equity or other comprehensive income.

Current Tax. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted by the end of reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carry-over (NOLCO) and minimum corporate income tax (MCIT). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations are translated to Philippine peso at exchange rates at the reporting date.

Foreign currency difference is recognized in other comprehensive income, and presented in the foreign currency translation gain (“Foreign currency translation reserve”) in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in other comprehensive income related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item a-re considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in "Foreign currency translation reserve" in equity.

Segment Reporting
For purposes of management reporting, the Group is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. Such business segments are the bases upon which the Group reports its primary segment information.

Financial information on business segments is presented in Note 23 to the consolidated financial statements. The Group has one geographical segment and derives substantially of its revenues from domestic operations.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted EPS is consistent with the computation of the basic earnings per share while giving effect to all dilutive potential common shares that were outstanding during the period. Net income attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Provisions
Provisions are recognized when the Group has a present legal or constructive obligation 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but 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 the 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 Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

Use of Estimates and Judgement
The preparation of the Group's consolidated financial statements in accordance with PFRSs requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements. However, uncertainty about these estimates, judgments and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future. Actual results may differ from these estimates, judgments and assumptions.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the estimates and judgments are revised and in any future periods affected.

Information about critical judgments and estimates in applying accounting policies that have the most significant effects on the amounts recognized in the Group financial statements is as follows:

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination and Classification of Joint Arrangement. The Group determines a joint arrangement in accordance with its control over the entity or joint operations rather than its legal form. The Group's investments in joint venture is structured in a separate incorporated entity. The joint venture agreement requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements. The Group has determined its involvement in joint arrangement and determined that its investment is classified as joint venture.

a. Hotel Enterprises of the Philippines, Inc. (HEPI)

   Although the Group has 51% ownership in HEPI, the shareholders' agreement provides for equal representation in the board of directors which is similar to a joint venture arrangement.

b. FCCDCI

   In prior years, the management of the Group believes that it has control over FCCDCI through voting rights, contract, funding agreements, or other means. The Group receives and transfers management fees and other fees in respect of its asset management businesses.

Fair Value Measurement. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Financial Officer (CFO) has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The CFO regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the CFO assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

Fair Value of Investment Properties
The Group carries its investment properties at fair value, with changes in fair value being recognized in profit or loss. The Group engages independent valuation specialists to determine the fair value. For the investment properties, the appraisers used a valuation technique based on comparable market data available for such property.

The fair values of the investment properties were arrived at using the Sales comparison approach for land and Cost Approach for buildings and land improvements.

The key assumptions used to determine the fair value of these properties and sensitivity analyses are provided in Note 8.

Investment properties amounted to ₱7,306,688,427 and ₱6,037,941,999 as at December 31, 2018 and 2017, respectively. Unrealized gains on changes in fair values of investment properties recognized in profit or loss amounted to ₱1,376,667,800 in 2018, ₱256,852,850 in 2017, and ₱16,714,150 in 2016 (see Note 8).

Distinction Between Investment Property and Property and Equipment. The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Property and equipment generate cash flows that are attributable not only to property but also to the other assets used for administrative purposes and rendition of services.

If the portion cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment. The Group has determined that the land, land improvements and building are investment properties.

The Group as Lessee. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the 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. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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 recognized as expense in the Group statement of comprehensive income on a straight-line basis over the lease term. Rent expense recognized amounted to ₱645,549,812 in 2018, ₱672,978,405 in 2017 and ₱635,803,172 in 2016, while rent income recognized amounted to ₱560,720,589 in 2018, ₱463,350,087 in 2017 and ₱397,385,417 in 2016 (see Note 17).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

As at December 31, 2018 and 2017, the carrying amounts of goodwill arising from business combinations amounted to ₱1,502,067,704 (see Note 10).

Estimates

Definition of Default and Credit-Impaired Financial Assets
Upon adoption of PFRS 9, the Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

- *Quantitative Criteria*. The borrower is more than 90 days past due on its contractual payments, which is consistent with the Group's definition of default.

- *Qualitative Criteria*. The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where: a. The borrower is experiencing financial difficulty or is insolvent; b. The borrower is in breach of financial covenant(s); c. Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty; or d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout the Group's ECL calculation.

Simplified Approach for Trade Receivables and Due from Related Parties
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various patron segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates thae matrix to adjust the historical credit loss experience with forward-looking information. At every financial reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Grouping of instruments for losses measured on collective basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. The characteristics and any supplementary data used to determine groupings are outlined below.

Trade receivables and Due from Related Parties - Groupings for collective measurement

a) Currency
b) Type of patron

Macro-economic Forecasts and Forward-looking Information
Macro-economic forecasts is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group takes into consideration using different macro-economic variables to ensure linear relationship between internal rates and outside factors. Regression analysis was used to objectively determine which variables to use.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

As at December 31, 2018 and 2017, the aggregate carrying amounts of receivables and due from related parties of the Group amounted to ₱1,113,018,829 and ₱997,749,215, respectively. As at December 31, 2018 and 2017, the related allowance for impairment losses on receivables and due from related parties amounted to ₱242,249,123 and ₱133,810,814, respectively (see Note 5).

Estimating Useful Lives of Property and Equipment and Airstrip Improvements. The Group annually reviews the estimated useful lives of property and equipment and airstrip improvements based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment and airstrip improvements is based on collective assessment of industry practice, internal technical evaluation and experience with similar asset. It is possible however, that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property and equipment and airstrip improvements would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

Impairment Losses of Nonfinancial Assets Other than Goodwill
The Group assesses impairment on nonfinancial assets such as property and equipment, investments and advances, airstrip improvements and lease rights when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment losses could have a material adverse impact on the results of operations.

There are no indicators of impairment on the Group's property and equipment, non-financial investments and advances, airstrip improvements and lease rights for the years ended December 31, 2018, 2017 and 2016.

As at December 31, 2018 and 2017, the following are the carrying amounts of the Group's nonfinancial assets other than goodwill:

	Note	**2018**	2017
Property and equipment - net	*8*	**₱1,758,184,141**	₱2,023,479,032
Investments and advances - net	*10, 28*	**4,573,784,614**	4,352,875,600
Airstrip improvements - net	*11*	**34,093,504**	37,186,496
Lease rights - net	*11*	**19,000,000**	24,000,000
Input VAT		**3,599,048**	19,168,703

As at December 31, 2018 and 2017, the related allowance for impairment loss on investments amounted to ₱21,200,000 (see Note 9). As of December 31, 2018, the Company recognized related allowance for input VAT amounted to ₱111,865,997.

Impairment of Goodwill. Goodwill is tested for impairment annually. Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment losses could have a material adverse impact on the results of operations.

The impairment testing of goodwill utilized significant unobservable inputs (Level 3) to determine the value in use.

The Group performs impairment testing of goodwill annually. The recoverable amount of the cash generating units containing the goodwill is based on the value-in use which is determined on discounting the future cash flows to be generated from the continuing use of the cash generating units.

The following are the key assumptions used by the management in the estimation of the recoverable amount:

- *Gross Revenues*. Gross revenues of the Group over the next five (5) years are projected to grow in line with the economy or with the nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective territories will be flat on the assumption that it will also grow at par with the economy.

The revenue growth rates used for the gross revenues are as follow:

	2018	2017
TGXI	**5%**	6.7%
BCGLC	**10%**	6.0%
ABLE and other units	**5%**	4.0% - 6.0%
FCLRC	**5%**	10.8%

- *Operating Expenses*. Operating expenses are projected to increase at a single-digit growth rate and at a slower pace than revenue.

- *Discount Rate*. Discount rates are derived from the Group's Weighted Average Cost of Capital (WACC) which is used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to various market information, including, but not limited to, five-year government bond yield, bank lending rates and market risk premium. The pre-tax discount rates used are as follow:

	2018	2017
TGXI	**10.10%**	8.2%
BGCLC	**10.10%**	6.6%
ABLE and other units	**10.10%**	6.2%
FCLRC	**10.10%**	11.4%

- *Terminal Growth Rate*. The long-term rate used to extrapolate the cash flow projections of the acquired investments beyond the period covered by the recent budget excludes expansions and possible acquisitions in the future. Management also recognizes the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management however, believes that new entrants will not have a significant adverse impact on the forecast included in the cash flow projections. The terminal growth rates used in the cash flow projections for all cash generating units are 4.5% in 2018 and 3.2% in 2017.

As at December 31, 2018 and 2017, the carrying amounts of goodwill amounted to ₱1,520,261,848. (see Note 10).

Estimating Retirement Benefits Liability. The cost of defined benefit pension plans and other post-employment benefits as well as the 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, mortality rates and future pension increases. 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 financial reporting date.

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.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

As at December 31, 2018 and 2017, retirement benefits liability amounted to ₱225,822,184 and ₱225,279,182, respectively (see Note 18).

Estimating Realizability of Deferred Tax Assets. The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces deferred tax assets 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. The Group also reviews the expected timing and tax rates upon reversal of the temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As at December 31, 2018 and 2017, the Group recognized deferred tax assets amounted to ₱107,415,716 and ₱238,185,533, respectively and the Group's unrecognized deferred tax assets amounted to ₱1,465,340,246 and ₱385,838,182, respectively (see Note 21).

Estimating Provisions and Contingencies. The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Group has several tax cases at the Supreme Court and Court of Tax Appeals. The Group's estimates of the probable costs for the resolution of these cases have been developed in consultation with outside legal counsel handling the prosecution and defense of these matters and are based on an analysis of potential results. The Group currently does not believe that the cases will have a material adverse effect on its consolidated financial statements. It is possible, however, that the future consolidated financial statements could be materially affected by changes in the estimates or in the effectiveness of strategies relating to its proceeding. As such, the Group has not recognized any provision as at December 31, 2018 and 2017 (see Note 25).

Estimating Allowance for Creditable Withholding Taxes (CWT). The Group assesses its CWT for impairment at each reporting date. The Group considers the CWT as impaired whenever there are indicators that it would not be recoverable from the tax authority or it may not be creditable against future income tax dues.

4. Cash

	Note	**2018**	2017
Cash on hand and payout fund		**₱88,151,817**	₱83,202,600
Cash in banks	*12, 13*	**353,978,398**	341,380,723
		₱442,130,215	₱424,583,323

Cash in banks earn interest at the respective bank deposit rates. Interest income recognized amounted to ₱1,396,080 in 2018, ₱6,969,655 in 2017, and ₱3,609,331 in 2016 (see Note 19).

Payout fund pertains to the cash held by the cashier which is intended to pay for the prizes of the winners of each traditional bingo game. This is replenished on a daily basis.

5. Receivables

	Note	**2018**	2017
Trade receivables		**₱755,183,221**	₱573,555,132
Advances to third parties		**169,351,047**	212,795,109
Management fee and commission		**89,113,657**	89,268,657
Receivables from concessionaires		**12,237,394**	18,492,730
Marketing support fund		**44,980,435**	15,540,482
Advances to stockholders		**53,232,344**	18,076,367
Advances to officers and employees	*20*	**40,696,316**	19,018,702
Others		**35,473,538**	29,812,850
		1,200,267,952	976,560,029
Less allowance for credit loss		**242,249,123**	133,810,814
		₱958,018,829	₱842,749,215

The movements in allowance for credit loss in 2018 and 2017 are as follows:

	Note	**2018**	2017
Balance at beginning of year		**₱133,810,814**	₱81,213,223
Effect of consolidation of FCCDCI	*9*	**–**	33,859,817
Provisions during the year		**106,641,224**	18,737,774
Effect of translation adjustment		**1,797,085**	–
Balance at end of year		**₱242,249,123**	₱133,810,814

As at December 31, 2018 and 2017, the Group has recognized the following allowance for ECL/doubtful accounts:

	2018	2017
Trade receivables	**97,645,676**	92,356,141
Advances to third parties	**121,886,548**	18,737,774
Advances to officers and suppliers	**1,375,257**	1,375,257
Other receivables	**21,341,642**	21,341,642
	₱242,249,123	₱133,810,814

Trade receivables are unsecured, noninterest-bearing and collectible within 30 days.

Advances to Third Parties
Advances to third parties consist mainly of funds provided to a future project reimbursable from the project partner. These advances are noninterest-bearing, unsecured and collectible on demand.

Management Fee and Commission
Management fee pertains to monthly recurring fees paid by Techzone Philippines Inc. (TPI) to LRLDI for the management services rendered for the construction and development of Techzone Building Project (the "Techzone Project"). There is no management fee charged in 2018.

The commission pertains to LRLDI's commission on the sale of the condominium units from the Project.

Marketing Support Fund
Marketing support fund pertains to the reimbursable advances made by the Group for the promotional activities relating to e-bingo machine and e-games platform provider.

Advances to Officers and Employees
The Group grants noninterest-bearing advances to its officers and employees. These advances are collectible in cash upon demand.

Other Receivables
Other receivables represent cash advances made to companies which are engaged in similar gaming and amusement activities as the Group. Receivables from these companies represent noninterest-bearing and unsecured advances for working capital purposes that are due within one year.

6. Prepaid Expenses and Other Current Assets

	2018	2017
Input value-added tax (VAT)	**₱115,465,045**	₱19,168,703
Prepaid expenses	**68,204,203**	155,903,905
Playing cards	**28,715,463**	32,777,872
Advances to contractors and suppliers	**27,526,530**	25,997,309
Creditable withholding tax	**16,875,433**	27,548,336
Others	**9,225,230**	3,830,471
	266,011,904	265,226,596
Allowance for non-recoverable input VAT	**(111,865,997)**	–
	₱154,145,907	₱265,226,596

Prepaid expenses consist of prepaid rent, prepaid insurance on property and equipment, health care benefits of employees and advances for consultancy and professional services.

Advances to contractors and suppliers are down payment to vendors that will be applied against future deliveries of goods and performance of services.

7. Property and Equipment

	Land	Leasehold Improvements	Aircraft and Transportation Equipment (Notes 12 and 13)	Gaming Equipment	Office Furniture, Fixtures and Equipment	Network Equipment	Condominium Unit	Construction in Progress	Total
Cost									
December 31, 2016	₱185,546,674	₱1,158,991,379	₱488,367,064	₱569,487,891	₱513,816,260	₱–	₱7,146,816	₱–	₱2,923,356,084
Assets acquired through business combination	–	–	–	–	750,086	–	–	–	750,086
Assets from the consolidation of FCCDCI	814,000	18,213,177	3,273,214	–	6,595,053	223,943,352	–	–	252,838,796
Additions	–	121,855,954	18,941,975	337,826,000	150,131,137	108,018,721	–	3,052,032	739,825,819
Retirement/ reclassification	(186,078,447)	(19,539,942)	–	(187,093)	(9,328,638)	–	–	–	(215,134,120)
December 31, 2017	282,227	1,279,520,568	510,582,253	907,126,798	661,963,898	331,962,073	7,146,816	3,052,032	3,701,636,665
Additions	531,773	89,756,875	17,371,373	91,405,131	20,399,595	16,784,898	–	–	236,249,645
Retirement/reclassification	–	3,052,032	–	–	–	–	–	(3,052,032)	–
December 31, 2018	**814,000**	**1,372,329,475**	**527,953,626**	**998,531,929**	**682,363,493**	**348,746,971**	**7,146,816**	–	**3,937,886,310**
Accumulated Depreciation and Amortization									
December 31, 2016	–	536,995,850	124,007,236	114,953,413	282,774,526	–	5,254,706	–	1,063,985,731
Assets from the consolidation of FCCDCI	–	18,094,895	2,475,250	–	5,699,689	117,776,427	–	–	144,046,261
Depreciation and amortization	–	205,734,718	37,624,541	97,766,571	121,503,709	20,683,697	239,586	–	483,552,822
Retirement/reclassification	–	(8,459,965)	–	(54,663)	(4,912,553)	–	–	–	(13,427,181)
December 31, 2017	–	752,365,498	164,107,027	212,665,321	405,065,371	138,460,124	5,494,292	–	1,678,157,633
Depreciation and amortization	–	190,925,128	42,832,177	92,263,599	144,748,918	30,572,987	201,727	–	501,544,536
December 31, 2018	–	**943,290,626**	**206,939,204**	**304,928,920**	**549,814,289**	**169,033,111**	**5,696,019**	–	**2,179,702,169**
Net Book Value									
December 31, 2017	₱282,227	₱527,155,070	₱346,475,226	₱694,461,477	₱256,898,527	₱193,501,949	₱1,652,524	₱3,052,032	₱2,023,479,032
	₱814,000	**₱429,038,849**	**₱321,014,422**	**₱693,603,009**	**₱132,549,204**	**₱179,713,860**	**₱1,450,797**	**₱–**	**₱1,758,184,141**

In 2017, the Group reclassified its land rights amounting to ₱186,078,447 to investment properties due to change in use of the asset. Revaluation surplus resulting from the reclassification amounted to ₱106,752,553 in 2017 (see Note 8).

Certain assets are mortgaged to loans as disclosed in Note 12.

8. Investment Properties

This account consists of:

	Note	Land	Land Improvements	Building	Total
December 31, 2016		₱471,893,400	₱14,279,000	₱242,537,000	₱728,709,400
Additions (see Note 2)		4,759,548,749	–	–	4,759,548,749
Transfer from property and equipment, at cost	7	186,078,447	–	–	186,078,447
Revaluation surplus		106,752,553	–	–	106,752,553
Unrealized gains on changes in fair values of investment properties		249,054,850	121,000	7,677,000	256,852,850
December 31, 2017		5,773,327,999	14,400,000	250,214,000	6,037,941,999
Additions		28,167,937	4,494,469	1,142,222	33,804,628
Impairment		(141,726,000)	–	–	(141,726,000)
Unrealized gains on changes in fair values of investment properties		1,391,726,269	(2,549,469)	(12,509,000)	1,376,667,800
December 31, 2018		**₱7,051,496,205**	**₱16,345,000**	**₱238,847,222**	**₱7,306,688,427**

In November 2017, the Group acquired parcels of land in Boracay, Aklan for future project use. As at December 31, 2018, the estimated fair value of land in Boracay amounted to ₱6,110,953,254. Unrealized gains on changes in fair values of investment properties recognized in 2018 amounted to ₱1,329,246,481.

The land transferred from property and equipment to investment property represents land rights in CSEZFP. In 2017, the management reassessed the use of the assets and plans to use the land for capital appreciation.

In 2010 and 2012, the Group purchased these from land owners who were granted free patent by the government in accordance with Republic Act (RA) 10023, also known as the Free Patent Act. Legal ownership is yet to be transferred after the prohibition period of five (5) years in accordance with the said RA. While the legal ownership is not yet transferred, the rights of ownership is already with the Group at the time of the execution of the transaction.

Right to transfer ownership for land rights acquired in 2010 and 2012 amounting to ₱140,967,803 is exercisable as at 2013. In 2017, the legal ownership of the parcel of land in Brgy. Rapuli, Sta. Ana, Cagayan and Brgy. San Vicente were transferred to the Group.

The estimated fair value of the parcels of land in CSEZFP amounted to ₱193,378,400 and ₱292,831,000 as at December 31, 2018 and 2017, respectively.

The following table provides the fair value hierarchy of the Group's investment properties as at December 31, 2018 and 2017:

	Fair value Hierarchy	**2018**	2017
Land	Level 3	**₱7,051,496,205**	₱5,969,894,699
Building	Level 3	**238,847,222**	250,214,000
Land Improvements	Level 3	**16,345,000**	14,400,000
		₱7,306,688,427	₱6,234,508,699

The Group's investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent appraiser.

Valuation Techniques and Significant Unobservable Inputs. The fair values of the investment properties were arrived at using the Sales comparison approach for land and Cost Approach for buildings and land improvements.

Sales comparison approach is an approach that considers available market evidences. The aforesaid approach is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property. The unobservable inputs to determine the market value of the property are the following: location characteristics, size, improvements and developments, and time element.

Cost approach is an approach that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is an equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. The appraiser particularly used the Reproduction Cost (New) less depreciation. In the context of the valuation, the depreciation refers to the adjustments made to the cost of reproducing or replacing the asset to reflect physical deterioration and functional, and economic obsolescence in order to estimate the value of the asset in a hypothetical exchange in the market when there is no direct sales evidence available.

Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of the investments properties to exceed the recoverable amount.

Rental income from investment properties which are included under "Rent income" account in profit or loss amounted to ₱25,416,844 in 2018, ₱17,984,919 in 2017 and ₱15,984,293 in 2016 (see Note 17). Direct costs attributable to rental income on investment properties arising from amortization, repairs and maintenance, real property tax and rent expense amounted to ₱24,889,917 in 2018, ₱18,481,665 in 2017 and ₱16,303,077 in 2016.

<u>Noncash Investing Activity</u>
The Company has unpaid acquisitions of investment properties amounting to ₱105,106,426 and ₱129,106,426 as at December 31, 2018 and 2017, respectively, which are included under "Trade and other payables" account in the consolidated statement of financial position.

9. Investments and Advances, and FVOCI/Available for Sale Financial Asset

Investments and Advances

	Percentage of Ownership	**2018**	Percentage of Ownership	2017
Investments				
Associates:				
Binondo Leisure Resources, Inc. (BLRI)				
Preferred shares		**₱20,000,000**		₱20,000,000
Common shares	**30%**	**1,200,000**	30%	1,200,000
Techzone Philippines, Inc. (Techzone)				
Common shares	**50%**	**250,000,000**	50%	250,000,000
Insular Gaming Corp. (Insular)				
Common shares	**40%**	**199,800**	40%	199,800
		271,399,800		271,399,800
Accumulated equity in net earnings:				
Balance at beginning of year		**1,888,554,532**		1,442,224,041
Share in net income from Techzone		**70,453,190**		445,350,693
Insular		**(31,296)**		1,379,798
		1,958,976,426		1,888,954,532
Dividends received from insular		**–**		(400,000)
		1,958,976,426		1,888,554,532
Balance at end of year		**2,230,376,226**		2,159,954,332
Joint Ventures				
First Cagayan Converge Data Center, Inc. (FCCDCI)	**60%**	**15,000,000**	60%	15,000,000
HEPI	**51%**	**750,938,000**	51%	750,938,000
Effect of change in interest in FCCDCI		**(15,000,000)**		(15,000,000)
		750,938,000		750,938,000
Accumulated equity in net income:				
Balance at beginning of year		**185,241,238**		175,525,284
Effect of consolidation of FCCDCI		**–**		(52,858,127)
Share in net income from HEPI		**114,866,158**		61,000,669
		300,107,396		183,667,826
Balance at end of year		**1,051,045,396**		934,605,826
Advances				
Cagayan Premium Ventures Development Corporation (CPVDC) and Cagayan Land Property Development Corporation (CLPDC)		**₱1,010,831,006**		₱966,578,042
BLRI		**134,333,058**		138,978,241
Pacific Visionary		**₱94,139,697**		–
Land Owners		**35,570,338**		14,539,781
AB Fiber Corp.		**31,696,665**		31,696,665
Eco Leisure		**26,136,049**		26,136,049
HEPI		**–**		142,420,099
Others		**81,436,354**		24,745,914
		1,414,143,167		1,345,094,791
Allowance for impairment losses		**(122,336,875)**		(87,336,049)
		1,291,806,292		1,257,758,742
		4,573,227,914		4,352,318,900
Other investments - at cost		**556,700**		556,700
		₱4,573,784,614		₱4,352,875,600

BLRI
BLRI is a 30%-owned associate of LRWC. BLRI was incorporated in the Philippines and is engaged in the hotel and recreation business. It started commercial operations in August 2003.

On January 31, 2008, a provisional Grant of Authority was received by BLRI from PAGCOR to operate a Bingo Boutique to cover traditional, electronic and new rapid bingo operations and distribution/selling of pull tabs or break-open cards at the Binondo Suites Manila. On October 24, 2008, BLRI's bingo boutique started its commercial operations. In 2010, BLRI ceased its bingo boutique operations and entered into an operating lease agreement with PAGCOR as a lessor for the use of its gaming facilities and to Dragon Enterprises, Inc. for its store space. In 2014, BLRI ceased its hotel operations and entered into an additional operating lease agreement as a lessor with Chinatown Lai Lai Hotel, Inc.

LRWC recognized its share in net loss of BLRI up to the extent of investment cost. Unrecognized accumulated equity in net loss of BLRI amounted to ₱27,965,303 and ₱29,250,164 as at December 31, 2018 and 2017, respectively.

On March 30, 2012, the Group and BLRI entered into a restructuring agreement for the payment of the latter's advances. The agreement provides for, among others, the commitment of BLRI to pay the carrying amount in five annual installments. The agreement also provides for the assignment of future rent income of BLRI from PAGCOR to the Group. Collections amounting to ₱25,183,883 were made in 2013 pertaining to the currently payable balance pursuant to the restructuring agreement.

In February 2015, the Group and BLRI entered into a new restructuring agreement for the remaining advances. BLRI committed to pay the amount of ₱15,000,000 per year thereafter until all advances are fully settled. The Group received payment of ₱11,015,846 in 2018 and P7,305,138 2017.

The investment and advances to BLRI was provided with a valuation allowance amounting to ₱61,200,000 as at December 31, 2017. In 2018, valuation allowance amounting to ₱40,000,000 was reversed.

The summarized financial information of BLRI and the reconciliation of the presented summary of information to the carrying amounts of its interest in an associate are as follows:

	2018	2017
Current assets	**₱20,696,705**	₱11,047,820
Noncurrent assets	**26,862,466**	39,703,229
Current liabilities	**176,582,852**	184,057,600
Noncurrent liabilities	**10,860,663**	10,860,663
Total net liabilities	**(139,884,344)**	(144,167,214)
Investment in preferred shares	**20,000,000**	20,000,000
Equity attributable to common shares	**(159,884,344)**	(164,167,214)
Group's share in net assets	**(47,965,303)**	(49,250,164)
Accumulated recognized share in net losses as at end of year for preferred shares	**20,000,000**	20,000,000
Accumulated unrecognized share in net losses as at end of year	**27,965,303**	29,250,164
Carrying amount of interest in an associate	**₱–**	₱–
Revenues	**₱30,610,261**	₱28,749,494
Net income/total comprehensive income	**4,282,870**	3,065,154
Group's unrecognized share of total comprehensive income	**₱1,284,861**	₱919,546

Techzone
Techzone is a 50%-owned associate of LRLDI. Techzone was incorporated in the Philippines on April 16, 2012 and started its commercial operation on the same date. Techzone is engaged in the acquisition, lease, donation, etc. of real estate of all kinds.

The summarized financial information of Techzone and the reconciliation of the presented summary of information to the carrying amounts of its interest in an associate are as follows:

	2018	2017
Current assets	**₱420,663,113**	₱341,975,649
Noncurrent assets	**4,802,995,801**	4,852,292,907
Current liabilities	**260,954,168**	271,850,714
Noncurrent liabilities	**545,048,897**	647,268,374
Total net assets	**4,417,655,849**	4,275,149,468
	50%	50%
Carrying amount of interest in an associate	**₱2,208,827,924**	₱2,137,574,734
Revenues	**₱329,912,849**	₱280,781,415
Net income/total comprehensive income	**140,906,380**	890,701,386
	50%	50%
Group's share of total comprehensive income	**₱70,453,190**	₱445,350,693

Insular
Insular is a 40%-owned associate of ABLE Parent. Insular was incorporated in the Philippines and is engaged in providing amusement and recreation to the public in such forms as, but not limited to, traditional, electronic and rapid bingo games.

The summarized financial information of Insular and the reconciliation of the presented summary of information to the carrying amounts of its interest in an associate are as follows:

	2018	2017
Current assets	**₱1,654,988**	₱2,196,568
Noncurrent assets	**1,804,735**	1,863,317
Current liabilities	**2,588,467**	1,110,390
Total net assets	**871,256**	2,949,495
Group's share in net assets	**348,502**	1,179,798
Difference from cost on acquisition	**(200)**	(200)
Carrying amount of interest in an associate	**₱348,302**	₱1,179,598
Revenues	**₱48,904,580**	₱50,090,416
Net income/total comprehensive income	**78,240**	3,449,495
Group's share of total comprehensive income	**₱31,296**	₱1,379,798

HEPI
HEPI is a 51%-owned joint venture between LRWC and Eco Leisure. HEPI is engaged in the hotel and recreation business. The management, supervision and control of the operations, property and affairs of HEPI are vested in its BOD which consists of three (3) directors each from LRWC and Eco

Leisure, and one (1) independent director nominated by both parties. Any decision is subject for approval of LRWC and Eco Leisure, and each party cannot direct decision on their own.

On March 10, 2016, the Amended Articles of Incorporation of HEPI amending Article II Primary Purpose, Article IV extending the term of the corporate existence of HEPI to another fifty (50) years from July 30, 2012.

The summarized financial information of HEPI and the reconciliation of the presented summary of information to the carrying amounts of its interest in a joint venture are as follows:

	2018	2017
Current assets*	**₱774,712,300**	₱696,518,658
Noncurrent assets	**2,890,819,062**	2,479,508,896
Current liabilities**	**1,187,472,221**	887,887,503
Noncurrent liabilities***	**883,016,606**	1,298,550,534
Total net assets	**1,595,042,535**	989,589,517
Other comprehensive income	**(1,152,718,136)**	(771,931,525)
Total net assets after adjustment	**442,324,399**	217,657,992
Share in net assets	**225,585,443**	111,005,576
Premium on acquisition	**825,459,954**	825,173,662
Carrying amount of interest in a joint venture	**₱1,051,045,397**	₱936,179,238

	2018	2017
Revenues	**₱726,815,182**	₱557,845,067
Net income/total comprehensive income	**225,092,064**	67,552,993
Parent Company's share of total comprehensive income	**₱114,866,158**	₱61,000,669

**Including cash of ₱120,456,974 in 2018 and ₱144,911,207 in 2017*
***Including current financial liabilities excluding trade and other payables of ₱623,642,059 in 2018 and ₱660,566,314 in 2017*
****Including noncurrent financial liabilities of ₱722,041,352 in 2018 and ₱962,572,562 in 2017*

Advances to HEPI
These are cash advances provided in relation to the joint venture agreement between HEPI and LRWC. The advances are unsecured and noninterest-bearing and due upon demand but not expected to be settled with one year.

Advances to Eco Leisure
The advances is in relation to the joint venture agreement between Eco Leisure and LRWC. The advances are unsecured, noninterest-bearing and due upon demand but not expected to be settled with one year.

The advances to Eco Leisure was fully provided with a valuation allowance amounting to ₱26,136,049 as at December 31, 2018 and 2017.

FCCDCI
FCCDI is a joint venture corporation was formed to engage in the business of information technology such as IP communication, co-location, bandwidth, disaster recovery services, software development, internet merchant payment processing and payment solution, premium dial up access, voice over internet protocol, IP-wide area network services and other value-added services. Presently, FCCDCI provides a range of services to Internet Gaming Operators at the CSEZFP for a fee.

FCCDCI commenced its commercial operations on January 1, 2008, thus, since then, FCLRC's statement of income includes 60% equity in net earnings from FCCDCI.
On January 1, 2017, IPVI entered into a Deed of Absolute Sale of Share of Stock with LRDCSI, whereby IPVI assigned its rights, interest and participation to its 5,000,000 shares of stock or 20% ownership in FCCDCI with a par and issue value of P1 for a total consideration of P16,400,000 to LRDCSI.

In prior years, the management of the Group believes that it has control over FCCDCI, however, the Group's interests in unconsolidated investment in FCCDCI is determined to be immaterial in the consolidated financial statements. The Group consolidated FCCDCI effective January 1, 2017 following the acquisition of LRDSCI of 20% ownership in FCCDCI. As a result, the Group's ownership interest in FCCDCI increased to P57.81% and total investments in joint ventures amounting to ₱67,858,127 were derecognized. The consolidation of FCCDCI in the Group resulted in recognition of non-controlling interest amounting to ₱39,656,055.

FCCDCI and LRDCSI provide advanced information technology infrastructure services for businesses such as co-location, internet services, connectivity, business continuity and disaster recovery, and managed professional services. Service agreements with the customers are renewable annually, and require a security deposit equivalent to one to two months of current service or recurring fees. The security deposit is forfeited in favor of FCCDCI and LRDCSI in the event the customer pre-terminates the agreement without cause or when FCCDCI and LRDCSI exercise its right to terminate the agreement.

The Group recognized service fees from FCCDCI and LRDCSI amounting to ₱658,865,730 in 2018, ₱664,780,103 in 2017 and nil in 2016, which is included under "Service and hosting fee" account in the consolidated statement of income. As at December 31, 2018 and 2017, customers' deposits from FCCDCI and LRDCSI included under "Deposits" account in the consolidated statements of financial position amounted to ₱834,239 and ₱105,569,067, respectively.

FCCDCI and LRDSCI have a service agreement for bandwidth and co-location, including hosting and internet connection with IPCDCC. The Group recognized the amount of bandwidth and co-location in profit or loss amounted to ₱89,394,867 in 2018, ₱475,211,023 in 2017 and nil in 2016.

<u>Advances to CPVDC and CLPDC</u>
This account pertains to the noninterest-bearing, demandable advances made by LRLDI to CPVDC and CLPDC to finance the construction and development of the Cagayan Special Economic Zone and Freeport (CSEZFP) Airport in Cagayan. CPVDC is a joint venture formed by CLPDC and Cagayan Economic Zone Authority (CEZA). CPVDC and CLPDC are incorporated in the Philippines.

The agreement among LRLDI, CPVDC and CLPDC provides for the following terms and conditions:

a. LRLDI agrees to invest funds or make advances into the Lal-lo Airport Project of CPVDC through a convertible loan in favor of CLPDC of a maximum amount of ₱700,000,000. CPVDC shall only use the advances to finance its capital expenditures and working capital requirements related to the construction, development of the airport;

b. LRLDI shall have the right to convert, in whole or in part, the outstanding amount of the advances at the time of the conversion, into new, unissued common shares of CLPDC subject to mutually agreed conversion price per conversion share;

c. CLPDC acknowledges and agrees that the advances will be directly received by CPVDC; and

d. CLPDC shall execute a separate agreement with LRLDI which provides for the specific procedures and details of borrowing, execution of the conversion and or repayment.

The construction of the airport is in line with the Master Development Plan with CEZA within the CSEZFP. LRLDI and FCLRC have significant operations within the CSEZFP which will benefit from the construction of the airport.

The construction of the airport was completed in 2014 and was upgraded in 2017. Upon submission of all the requirements needed by the Civil Aviation Authority of the Philippines, the airport received its first commercial flight in March 2018.

As at December 31, 2018, CLPDC and LRLDI have not executed the separate agreement mentioned above. The Group intends to convert the advances into shares of stocks upon consolidation and issuance of land titles.

The advances to CLPDC and CPVDC, including the land transferred to investment properties account and the land committed where the airport was built, is part of the investments committed in the Master Development Plan under the license agreement (see Note 16). The recent regulatory developments indicate potential impairment indicators which triggered an impairment testing using fair value less cost sell. There is no impairment loss for the years ended December 31, 2018, 2017 and 2016.

As at December 31, 2018, the recoverable amount of advances to CLPDC and CPVDC was based on the Group's share in fair value less costs of disposal of the investments. The management determined the recoverable amount of the significant assets based on the valuations performed by an accredited independent appraiser and categorized as Level 3 fair value based on the inputs. The fair values of the investments were arrived using the Market Data Approach for land and Cost Approach for buildings and improvements. The valuation techniques and significant unobservable inputs of the two methods are discussed in Note 8.

Management believes that any reasonable possible change in any of the key assumptions would not cause the carrying amount of the investment in FCLRC would exceed the recoverable amount.

Advances to AB Fiber Corp.
On December 8, 2011, the Group entered into an agreement with AB Fiber Corp. for the subscription of 90,000 shares. In relation to this, deposits for future stock subscriptions were made by FCLRC amounting to ₱9,000,000 as at December 31, 2018 and 2017.

Advances to Pacific Visionary
These are cash advances provided to Pacific for the purpose of securing leased premises for the operation of a VIP Club by PAGCOR. The advances are unsecured and non-interest bearing and will be due on or before December 31, 2019 subject to renewal or extension of up to six (6) months upon mutual agreement of both parties.

Fair Value through Other Comprehensive Income (FVOCI)/AFS

	2018	2017
Balance at beginning of year	**₱153,309,029**	₱182,396,184
Unrealized gain (loss) during the year	**14,871,625**	(29,087,155)
Balance at end of year	**₱168,180,654**	₱153,309,029

The market prices of DFNN common shares as at December 31, 2018 and 2017 is ₱7.69 and ₱7.01, respectively.

On August 13, 2015, the LRWC's advances to DFNN of P86,000,000 have been converted into 18,105,263 common shares of DFNN while the accumulated interest earned of ₱12,690,971, from date of Conversion Notice to the date of conversion, have been converted into 2,671,783 common shares of DFNN on October 30, 2015. The fair value of ₱18,105,263 and ₱2,671,783 common shares as at the date of conversion were P5.15 and P6.04 per share, respectively.

The conversion resulted to 8.76% equity ownership of LRWC over DFNN. As management does not intend to hold the investment for trading, the total converted amount of ₱98,690,971 has been classified as "FVTOCI" account in the consolidated statements of financial position as at December 31, 2018 and 2017.

10. **Business Combination and Goodwill**

	2018	2017
Cost		
Balance at beginning of year	**₱1,502,067,704**	₱1,485,422,930
Additions	**–**	48,723,226
Balance at end of year	**1,502,067,704**	1,534,146,156
Accumulated Impairment Losses	**–**	32,078,452
Carrying Amount	**₱1,502,067,704**	₱1,502,067,704

The carrying amount of goodwill is allocated to the CGUs are as follows:

	2018	2017
TGXI	**₱598,273,933**	₱598,273,933
ABLE and other bingo units:		
ABLE Parent	**415,723,887**	415,723,887
Topnotch	**163,835,800**	163,835,800
Others*	**145,701,876**	145,701,876
BCGLC	**149,858,702**	149,858,702
FCLRC	**28,673,506**	28,673,506
	₱1,502,067,704	₱1,502,067,704

**Various bingo entities which the goodwill is individually insignificant.*

Acquisitions through ABLE

In 2017, the Group acquired six (6) bingo sites for a total consideration of ₱58,000,000. The sites purchased qualified as businesses in accordance with PFRS 3 which resulted to a goodwill of ₱48,723,226. The goodwill represents fair value of expected synergies. Below are the provisional amounts of identifiable assets acquired:

Total Consideration	₱58,000,000
Cash performance bonds	7,000,000
Refundable deposits	1,526,688
Fixed assets	750,086
Total Identifiable Net Assets at Fair Value	9,276,774
Goodwill	₱48,723,226

The acquisition is in line with the Group's goal to expand its bingo operations.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group's consolidated revenue would have increased by P37,414,724 and its income before tax would have increased by P434,898, for the year ended December 31, 2017 had this acquisition taken place on January 1, 2017. Total revenue and income before tax of acquired sites included in the 2017 consolidated statement of profit or loss and other comprehensive income amounted to P84,844,742 and P1,102,885, respectively. Income before income tax effects are computed using reasonable allocation of cost and expenses.

11. **Other Noncurrent Assets**

	Note	**2018**	2017
Rental deposits	*17*	**₱436,816,153**	₱362,093,223
Cash performance bonds	*15*	**287,705,000**	237,805,000
Cash in bank – restricted	*12*	**69,727,993**	88,768,075
Airstrip improvements - net	*16*	**34,093,504**	37,186,496
Performance cash deposits and betting credit funds		**27,650,000**	7,600,000
Others		**66,483,559**	33,618,819
		₱922,476,209	₱767,071,613

Airstrip Improvements
The movements in this account are as follows:

Cost	**₱103,099,734**
Accumulated Depreciation	
January 1, 2017	62,820,246
Depreciation	3,092,992
December 31, 2017	65,913,238
Depreciation	3,092,992
December 31, 2018	**69,006,230**
Carrying Amount	
December 31, 2017	₱37,186,496
December 31, 2018	**₱34,093,504**

Cash Performance Bonds
Cash performance bonds pertain to surety bonds deposited with PAGCOR which are refundable at the end of the period covered by the License (see Note 16).

Performance Cash Deposits and Betting Credit Funds
PAGCOR granted TGXI the privilege to establish, install, maintain, and operate PeGS. For each PeGS, TGXI has a performance cash deposits with PAGCOR amounting to ₱100,000 and maintains betting credit funds amounting to ₱100,000. Performance cash deposits and betting credit funds are posted through Philweb Corporation (Philweb).

As of December 31, 2018 and 2017, performance cash deposits and betting credit funds amounting to ₱35,350,000 and ₱7,600,000 are reimbursable to Inter-active Entertainment Solutions Technology (IEST), one of TGXI's existing service provider.

Others
Others consist of land held for contribution, lease rights, Input VAT and Creditable Withholding Tax. Land held for contribution pertains to parcels of land named to the Group where the CZEZFP Airport in Cagayan will be built. The Group intends to convert its advances to CLPDC which it will eventually contribute the parcels of land to CPVDC.

Lease rights pertain to costs incurred in acquiring the properties under a sublease arrangement located at Subic Bay Freeport Zone. Lease rights are amortized over the lease term.

The movements in lease rights are as follows:

Cost	**₱35,000,000**
Accumulated Amortization	
January 1, 2017	5,000,000
Amortization	6,000,000
December 31, 2017	11,000,000
Amortization	5,000,000
December 31, 2018	**16,000,000**
Carrying Amount	
December 31, 2017	₱24,000,000
December 31, 2018	**₱19,000,000**

12. **Loans Payable**

Entity	Note	Lender	Year	Short Term Loan	Long Term Loan: Current Portion	Long Term Loan: Noncurrent Portion	Interest	Maturity
AB Leisure Global, Inc. (ABLGI)	a	**BDO**	**2018**	**₱–**	**₱–**	**₱2,456,398,656**	**5.75%**	**May 2013 – February 2020**
			2017	–	–	–		
	b	**Classic Finance**	**2018**	**–**	**–**	**546,299,444**	**7% - 12%**	**November 2018 – May 2020**
			2017	–	–	–		
	b	**Fortunegate**	**2018**	**516,344,000**	**–**	**–**	**7% - 12%**	**November 2018 – April 2019**
			2017	999,580,000	–	–	7% - 12%	November 2017 -April 30, 2018
First Cagayan Leisure and Resort Corporation (FCLRC)	**f**	**BDO**	**2018**	**–**	**39,128,991**	**35,086,315**	**6%**	**September 2015 – November 2020**
			2017	111,067,436	36,862,283	74,205,153	6%	September 2015 – November 2020
Leisure and Resorts World Corporation (LRWC)	**e**	**FHPI**	**2018**	**500,000,000**	**–**	**–**	**12%**	**November 2018 – February 2019**
			2017	–				
	c, d	**AUB**	**2018**	**143,500,000**	**72,503,637**	**179,663,030**	**6.18%**	**June 2015 – May 2020**
			2017	314,166,667	130,000,000	184,166,667	6.18%	June 2015 – May 2020
AB Leisure Exponent, Inc. (ABLE)	**h**	**UBP**	**2018**	**–**	**3,441,000**	**480,418**	**8.11%**	**September 2018 – December 2019**
			2017	10,775,113	5,510,123	5,264,990	8.11% - 8.49%	September 2018 – April 2020
	h	**BDO**	**2018**	**397,004,980**	**1,446,400**	**636,899**	**8.60% - 9.23%**	**September 2019 – May 2020**
			2017	4,629,123	1,678,601	2,950,522	8.60% - 9.23%	September 2019 – November 2020
	h	**AUB**	**2018**	**–**	**1,495,553**	**3,715,949**	**8.75%**	**January 2018 – August 2021**
			2017	–	–	–		
	i	**UCPB**	**2018**	**645,000,000**	**–**	**–**	**7.5%**	**October 2018 – March 2019**
			2017	647,000,000	–	–	4.75%	August 2017 – May 2018

(Forward)

Entity	Note	Lender	Year	Short Term Loan	Long Term Loan: Current Portion	Long Term Loan: Noncurrent Portion	Interest	Maturity
	i	**PBB**	**2018**	**85,000,000**	**₱–**	**₱–**	**9.00%**	**October 2018 – January 2019**
			2017	100,000,000	–	–	9.00%	October 2017 – January 2018
	i	**PBCOM**	**2018**	**67,629,440**	**–**	**–**	**8.5%**	**December 2018 – April 2019**
			2017	86,816,330	–	–	5.5%	May 2017 – April 2018
Blue Chip Gaming Leisure Corporation (BCGLC)	j	**AUB**	**2018**	**–**	**46,341,374**	**303,658,626**	**6.22%**	**December 2017 - 2020**
			2017	350,000,000	116,666,667	233,333,333	6.22%	December 2017 - 2020
	k	**UBP**	**2018**	**–**	**1,168,568**	**840,873**	**8.11%**	**August 2017 – July 2020**
			2017	3,087,275	1,105,096	1,982,179	8.11%	January – December 2018
	k	**BDO**	**2018**	**–**	**1,033,819**	**551,744**	**8.6%**	**July 2017 – 2020**
			2017	2,534,480	948,917	1,585,563	8.6%	January – December 2018
First Cagayan Converge Data Center (FCCDCI)		**AUB**	**2018**	**–**	**1,543,137**	**1,825,965**	**8.50%**	**February 2018 – January 2021**
			2017	–	–	–		
TOTAL			**2018**	**₱2,354,478,420**	**₱168,102,479**	**₱3,529,157,919**		
			2017	2,382,346,330	293,910,516	2,960,197,208		

a. In May 2013, ABLGI entered into a financing agreement with BDO Unibank, Inc. (BDO) for the purpose of funding ABLGI's contribution pursuant to the Operating Agreement with Belle Corporation (see Note 24). The loan amounted to ₱4,000,000,000 which is payable in 20 equal consecutive quarterly installments on its respective repayment dates up to February 20, 2019. Annual interest rate approximates 5.75% which is subject to change depending on the prevailing Bangko Sentral ng Pilipinas (BSP) thirty (30) day Reversed Repurchase Agreement Rate plus applicable spread of 225 basis points.

   On December 1, 2015, the maturity date of the financing agreement with BDO was extended from February 20, 2019 to May 21, 2021. BDO also extended an additional loan facility to ABLGI amounting to ₱1,100,000,000 for the purpose of financing the additional capital call of Belle Corporation and repayment of advances made by the stockholders of ABLGI. This loan shall be payable in 22 consecutive equal quarterly installments beginning February 20, 2016 until May 21, 2021. Annual interest rate approximates 6.25% which is subject to change depending on the prevailing BSP-30 day Reversed Repurchase Agreement Rate plus applicable spread of 225 basis points.

   Among the provisions of the loan contract, ABLGI is mandated to establish two bank accounts, a Debt Service Revenue Account (DSRA) and a Borrower Revenue Account (BRA). The DSRA is to be maintained at a certain level of funding to facilitate ABLGI's loan and interest payments to BDO. The BRA is established to accommodate the receipt of Belle payments, wherein BDO is authorized to directly debit the BRA to maintain the level of funding required by the DSRA.

   In consideration of the commitment of BDO to fund ABLGI's contribution, ABLGI has assigned to BDO all of its respective rights, titles and interests to all monies standing in the DSRA and BRA as well as ABLGI's Belle payments (collectively, the "Assigned Collaterals"), which includes the proceeds, products and fruits of the aforementioned Assigned Collaterals. In 2016, the Group has classified its cash included under the DSRA and BRA in "Cash" account in the consolidated statements of financial position. Cash in the DSRA and BRA totaled ₱258,165,817 as at December 31, 2016.

   On November 4, 2016, ABLGI entered into a termination agreement with Belle Corporation in relation to the MOA and its implementing agreements for the casino project effective March 31, 2017 (see Note 24).

   On March 31, 2017, the Group fully paid the remaining loan balance out of the proceeds from Belle's payment of the Group's interest in the Project.

   On November 29, 2017, ABLGI executed an Omnibus Loan and Security Agreement (OLSA) with BDO to partially finance the equity investment which GL-JV has undertaken to use for the purpose of acquiring land in Boracay. The loan amounted to ₱2,500,000,000, which is payable in full on the final repayment date in November 2022. Interest rate approximates 5.66% per annum and is subject to change depending on the higher of (a) three (3) month Philippine Dealing System Treasury Reference Rate (PDST-R2) plus applicable spread of 2.5% divided by 0.95 or (b) 28-day Time Deposit Facility Rate plus applicable spread of 1% divided by 0.95. Interest is payable on a quarterly basis.

   Among the provisions of the agreement, ABLGI is mandated to establish two bank accounts, a DSRA and a Debt Service Payment Account (DSPA). Both accounts are to be maintained at a certain level of funding to facilitate ABLGI's loan and interest payments to BDO. In the event that funding in the DSPA is insufficient to cover payments of interest, BDO is authorized to directly debit the DSRA to maintain the required funding level. ABLGI is required to pay a front-end fee equivalent to zero point seventy-five percent (0.75%) of the total amount of loan. Transaction costs that are directly attributable on the issuance of loan amounted to ₱44,024,948 which were amortized over the life of the loan. Outstanding balance of the loan as at December 31, 2018 and 2017 amounted to ₱2,456,398,656 and ₱2,456,708,801.

In consideration of the commitment of BDO to fund the ABLGI's equity investment, ABLGI, GL-JV, ABLAHI and ABLHPC has assigned to BDO its respective rights, titles and interest to all monies standing in the DSRA and DSPA, and other bank accounts created for this particular purpose, project receivables (collectively termed as “Assigned Collaterals”), as well as the proceeds, products, fruits of the aforementioned Assigned Collaterals. The Group has classified its cash included under the DSRA and DSPA as “Cash in bank - restricted” account under other noncurrent assets in the consolidated statements of financial position amounting to ₱53,020,330 and ₱72,060,412 in 2018 and 2017, respectively (see Note 11).

As a part of the loan agreement with BDO, the Group is required to comply with affirmative financial ratios such as debt-to-equity which the Group complied with as at December 31, 2018 and 2017.

In addition, the loan is guaranteed by the following entities, (1) GL-JV, (2) ABLAHI, (3) ABLHPC, (4) LRWC, (5) ABLE, (6) TGXI, (7) PIKI, (8) BCGLC and (9) FCLRC.

The loan is likewise secured by project agreements, chattels and real assets owned by either one of the parties to the agreement. Mortgaged properties and mortgaged shares are as follows:

Mortgaged Properties	*Note*	**Carrying Amount**
Land	*8*	**₱4,759,548,749**
Investment property	*8*	**171,300,000**
		₱4,930,848,749

Mortgaged Shares	**Shareholder**	**No of Shares**	**Carrying Amount**
GL-JV	ABLHPC	**5,000,000**	**₱500,000,000**
ABLHPC	ABLAHI.	**3,750,000**	**375,000,000**
GBLHI	ABLGI	**3,000,000**	**300,000,000**
TGXI	LRWC	**930,000**	**93,000,000**
			₱1,268,000,000

b. In November 2017, ABLGI entered into short-term loan agreements with local finance companies, namely, Classic Finance Inc. (CFI) and Fortune Gate Holiday Philippines Inc. (FHPI), to partially finance the acquisition of land in Boracay by GL-JV. The loans amounting to ₱999,580,000 shall be payable in one year. Annual interest rate ranges from 7%-12% subject to change depending on the prevailing financial and monetary conditions. In consideration of the loan from FHPI, ABLGI pledged 47,801 shares of stock of HEPI, which is owned by LRWC, for a total amount of ₱47,801,000.

   In 2018, FHPI extended the maturity of its loan until April 30, 2019.

   In November 2018, CFI extended the maturity of its loan until May 8, 2020. In addition, the unpaid interest and penalties were added to the principal amount of the loan. As at December 31, 2018, the outstanding balance of the loan to CFI amounted to ₱546,299,444.

c. In July 2014, LRWC entered into a short-term loan facility with Asia United Bank (AUB) to facilitate the financing of the acquisition of TGXI. The maximum loanable amount is ₱ 650,000,000 which can be availed in a single or multiple release upon request and submission of a promissory note to the bank.

   In 2015, LRWC converted this into a term-loan amounting to ₱650,000,000. The loan is payable in 60 equal consecutive monthly installments on its respective repayment dates beginning June 12, 2015 until May 12, 2020. Annual interest rate is approximately 6.18%.

   As a part of the loan agreement with AUB, the Group is required to comply with affirmative financial ratios such as debt-to-equity and debt service coverage ratio which the Group complied with as at December 31, 2017. This is payable up to 180 days from the date of release of proceeds and secured by a chattel mortgage over LRWC's shares of stocks held by ABLE and stockholders amounting to ₱149,449,926. The fair value of the mortgaged shares of stocks amounted to ₱487,206,759 and ₱594,810,705 as at December 31, 2018 and 2017, respectively.

d. In May 2015, LRWC entered into various credit line facilities with AUB which are intended for general working capital requirements and financing future expansions. The credit line amounted to ₱350,000,000 which can be availed in multiple releases.

e. In November 2018, LRWC entered into a short-term loan agreement with FHPI amounting to ₱500,000,000 intended for general working capital requirements.

f. In 2015, FCLRC entered into two loan agreements with BDO for the purchase of two (2) aircrafts. The loans were secured by the aircrafts as chattel mortgage.

   The first financing agreement amounted to ₱133,163,975 payable in 60 monthly installments beginning December 6, 2015 to November 6, 2020. Annual interest rates approximate 6% which are subject to change depending on the prevailing cost of money or effective value of the purchasing power of the Philippine peso.

   The second financing agreement amounted to ₱50,132,320 payable in 60 monthly installments beginning September 25, 2015 to August 25, 2020. Annual interest rate is approximately 6%, which is subject to change depending on the prevailing cost of money or effective value of the purchasing power of the Philippine peso. The carrying amounts of the aircraft amounted to ₱225,014,196 and ₱241,800,257 as at December 31, 2018 and 2017, respectively.

g. In 2016, FCLRC entered into auto loan agreement with chattel mortgage with United Coconut Planters Bank (UCPB) for the purchase of a vehicle. The loan amounted to ₱2,613,600 payable in 24 monthly installments beginning November 25, 2016 to October 25, 2018. The carrying amount of the vehicle amounted to ₱1,914,500 and ₱2,570,900 as at December 31, 2018 and 2017, respectively.

h. In 2016, ABLE entered into long-term loan agreements with Unionbank of the Philippines (Unionbank) and BDO for the purchase of transportation equipment amounting to ₱18,987,600. The loans are secured by the transportation equipment as chattel mortgage.

   In 2018, ABLE entered into long-term agreements with AUB for the purchase of transportation equipment amounting to ₱6,671,200. The carrying amounts of transportation equipment amounted to ₱13,119,050 and ₱17,717,937 as at December 31, 2018 and 2017, respectively.

i. Short-term loans of ABLE have maturity dates of up to May 28, 2018. The short-term loans are from the credit facility with BDO, Philippine Bank of Communications (PBCOM), UCPB and Philippine Business Bank (PBB). The loan from BDO are secured by LRWC's shares of stock and real property owned by an individual stockholder of LRWC. The loan from PBCOM and UCPB are unsecured. The interest rates of short-term loans are 7% and 5% for BDO, 7.5% and 4.75% for UCPB, 8.5% and 5.5% for PBCOM and 9% for PBB as at December 31, 2018 and 2017, respectively.

   The covenant requires ABLE and its sureties to provide BDO with the required documents within the period prescribed by BDO, particularly copies of their income tax return or audited financial statements within 120 days from the end of their fiscal year.

   As at December 31, 2018 and 2017, the carrying amount of LRWC's shares of stock held by ABLE used as collateral for the loan from BDO amounted to ₱67,458,323. The fair value of the collateral amounted to ₱268,484,126 and ₱267,134,959 as at December 31, 2018 and 2017, respectively.

j. In December 2017, BCGLC obtained a long-term loan facility from AUB to partially finance its capital expenditures and to pay advances from related parties used for expansion projects. The maximum loanable amount is ₱500,000,000 available in lump sum or staggered releases. The loan is payable in thirty-six (36) equal monthly payments based on initial drawdown. Annual interest rate is the higher of (a) the sum of one-year PDST-R2 plus a spread of 3.0% or (b) 5.875% floor rate, subject to annual repricing. Interest is payable monthly based on the carrying amount of the loan. The loan is secured by (a) Comprehensive Surety Agreement by the Parent Company, (b) 60% ownership in BCGLC's shares of stocks, (c) Assignment of accounts wherein BCGLC is mandated to establish two bank accounts, Revenues, Proceeds, and Disbursement Account (RPDA) and DSRA. The RPDA is established to accommodate the revenues, proceeds and disbursement related to the loan availed. The DSRA is to be maintained at a certain level of funding equivalent to one (1) month of amortization. BCGLC has no financial covenants to maintain.

   Initial drawdown was made in December 2017 amounting to ₱350,000,000. Additional drawdown with the remaining loanable amounting to ₱150,000,000 was made in April 2018.

   Cash in the DSRA is classified as "Cash in bank - restricted" account under other noncurrent assets in the consolidated statements of financial position amounted to ₱16,707,663 as at December 31, 2018 and 2017 (see Note 11).

k. In 2017, BCGLC entered into auto loan agreements with chattel mortgage with Unionbank and BDO Unibank, Inc. for the purchase of service vehicles. The loans amounted to ₱6,421,600 payable in 36 monthly installments beginning July 2017 until 2020. The carrying amount of the vehicles amounted to ₱5,699,151 and ₱7,154,600 as at December 31, 2018 and 2017, respectively.

   Interest expense on loans payable recognized in profit or loss amounted to ₱422,773,300 in 2018, ₱166,534,829 in 2017 and ₱381,992,190 in 2016 (see Note 19).

The reconciliation of movements of loans payable to cash flows arising from financing liabilities are as follows:

	January 1, 2018	Cash Flows	Noncash Changes	December 31, 2018
Long term loans	₱3,254,107,724	(₱177,181,248)	₱620,333,922	₱3,697,260,398
Short term loans	2,382,346,330	528,363,110	(556,231,020)	2,354,478,420
Total liabilities and equity from financing activities	₱5,636,454,054	₱351,181,862	₱64,102,902	6,051,738,818

Interest expense on loans payable amounting to ₱166,534,829 was paid during the year.

13. **Trade and Other Payables**

	Note	**2018**	2017
Payable to suppliers		**₱447,307,287**	₱61,226,476
Payable to government agencies		**127,366,945**	131,073,341
Payable to CEZA	*16*	**124,421,888**	13,687,186
Payable to PAGCOR	*15*	**105,667,568**	56,218,340
Finders' fee	*8*	**105,106,426**	129,106,426
Unearned revenues	*16*	**44,532,139**	155,782,854
Rent payable		**18,244,165**	8,049,862
Output VAT		**–**	24,481,635
Accrued expenses and other payables:			
Payable to machine owners		**358,806,664**	393,703,438
Dividends payable	*14*	**289,613,319**	298,928,577
Contracted services		**97,960,114**	166,571,746
Salaries, wages and benefits		**69,199,643**	55,930,035
Interest payable		**53,035,566**	–
Others		**86,114,311**	47,043,261
		₱1,927,286,036	₱1,541,803,177

Payable to government agencies pertain to payments for final withholding taxes and other regulatory agencies that are expected to be settled with one year.

Payable to PAGCOR includes franchise fees that are remitted twice weekly.

Payable to machine owners pertains to owners' share for the use of bingo machines and are payable on a 30-day credit terms.

14. **Equity**

The composition of the Group's capital stock is as follows:

	2018		2017		2016	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK						
Authorized:						
Common shares - P1 par value	**2,500,000,000**	**₱2,500,000,000**	2,500,000,000	₱2,500,000,000	2,500,000,000	₱2,500,000,000
Issued:						
Balance at beginning and end year	**1,199,852,512**	**₱1,199,852,512**	1,199,852,512	₱1,199,852,512	1,199,852,512	₱1,199,852,512
Authorized:						
Preferred shares - P1 par value	**2,500,000,000**	**₱2,500,000,000**	2,500,000,000	₱2,500,000,000	2,500,000,000	₱2,500,000,000
Issued:						
Balance at beginning and end of year	**1,650,000,000**	**₱1,650,000,000**	1,650,000,000	₱1,650,000,000	1,650,000,000	₱1,650,000,000

Increase in Authorized Capital Stock
On June 18, 2013, the SEC approved the increase in the Parent Company's authorized capital stock from ₱1,600,000,000 to ₱5,000,000,000 divided into 2,500,000,000 common shares and 2,500,000,000 preferred shares with each class having a par value of ₱1 per share. The preferred shares may be issued in tranches or series and shall be non-voting, non-participating, entitled to preferential and cumulative dividends at the rate not exceeding 12% per annum, and shall have such other rights, preferences, restrictions and qualifications as may be fixed by the BOD at their issuance.

Registration of Securities under the Securities Regulation Code
Pursuant to the registration statement rendered effective by the SEC on February 6, 1958 and permit to sell issued by the SEC dated February 6, 1958 - 15,000,000 common shares of LRWC were registered and may be offered for sale at an offer price of ₱1.33 per common share. As at December 31, 2018 and 2017, the Parent Company has a total of 1,199,852,512 issued and outstanding common shares and 1,832 stockholders.

On January 22, 2013, the BOD of LRWC authorized the issuance, through a private placement, of 1,750,000,000 shares from its unissued preferred shares. On March 22, 2013, the stockholders of LRWC approved the said issuance. In May 2013, 1,650,000,000 shares were subscribed at P1 per share by virtue of the subscription agreements entered by LRWC with investors which was subsequently collected in July 2013.

The preferred shares have a coupon rate of 8.5% per annum and are paid semi-annually. These preferred shares are cumulative, non-voting and non-participating. Twenty (20) preferred shares will entitle each investor to one warrant. Each warrant, if exercised at a price of ₱15 or the average weighted trading price for the three months prior (whichever is lower) will be converted to one common share. This option will be exercisable starting on the fifth year until the eighth year.

Listing of Preferred Shares and Warrants
On June 10, 2013, the BOD of LRWC approved the listing of 1,650,000,000 newly issued preferred shares and 82,500,000 warrants. The said listing was completed in December 2013.

On December 5, 2013, the BOD approved to change the expiry date of the warrants issued by the Parent Company to September 2021.

As at December 31, 2018, the Parent Company has a total of 1,650,000,000 issued and outstanding preferred shares and five (5) stockholders.

Declaration of Cash Dividends
Cash dividends declared by the BOD to preferred stockholders of the Parent Company in 2018 and 2017 as follows:

Date of Declaration	Date of Record	Amount	Amount Per Share
June 4, 2018	June 20, 2018	₱70,125,000	₱0.0425
May 30, 2017	June 16, 2017	70,125,000	0.0425
December 13, 2017	December 26, 2017	70,125,000	0.0425

Cash dividends declared by the BOD to common stockholders of the Parent Company in 2017 as follows:

Date of Declaration	Date of Record	Amount	Amount Per Share
June 30, 2017	September 29, 2017	₱95,988,201	₱0.080
June 30, 2017	March 2, 2018	83,989,676	0.070

As at December 31, 2018 and 2017, unpaid dividends, included under "Trade and other payables" account in the consolidated statements of financial position, amounted to ₱289,613,319 and ₱298,928,577, respectively (see Note 13).

Acquisition of LRWC Shares by ABLE
On July 29, 2013, LRWC erroneously disclosed a cash dividend of P0.40 instead of P0.04 as approved by the BOD of LRWC. As a result, the PSE suspended trading of LRWC's shares for three days pending resolution of the problem. As a sign of good faith, the LRWC through ABLE offered to buy-back and sell-back to those who traded their shares on the same day the error was made. ABLE bought 1,959,700 shares of LRWC at a total cost of ₱15,949,947 and sold at cost 125,500 shares amounting to ₱1,015,330.

On June 27, 2013, the BOD of ABLE approved the subscription to the preferred shares of LRWC in the total amount of ₱200,000,000 and authorized the Philippine Business Bank as the investment manager. In December 2013, ABLE sold the ₱2163,500,000 worth of preferred shares.

ABLE acquired additional 245,000 common shares at cost amounting to ₱21,005,929 in 2018 and 2,142,000 common shares of LRWC at cost amounting to ₱9,541,081 in 2017.

As at December 31, 2018 and 2017, ABLE has a total of 24,067,100 (at cost of ₱53,911,276) and 23,822,100 (at cost of ₱52,905,347) common shares, respectively, of LRWC. These are accounted as treasury shares in the consolidated financial statements.

LRWC declared dividends to preferred and common stockholders of the Group. In 2018 and 2017, ABLE received dividends amounting to ₱1,505,625 and ₱6,715,475, respectively, which are eliminated in the consolidated financial statements.

15. **Gaming Licenses to Operate Bingo Games**

a. Operation of Traditional Bingo Games

PAGCOR awarded ABLE and its subsidiaries the authority to operate and conduct traditional bingo games, as well as the betting aspect thereof, within the confines of the game sites. The Licenses for various periods ranging from October 2014 to September 2019 are subject to renewal after one (1) to (2) two years upon mutual agreement of both parties.

ABLE and its subsidiaries pay PAGCOR 15% of its gross bingo card sales as franchise fee.

Revenue from traditional bingo games amounted to ₱2,106,084,940 in 2018, ₱2,203,605,691 in 2017 and ₱2,331,211,277 in 2016.

As at December 31, 2018 and 2017, ABLE and its subsidiaries deposited cash performance bonds with PAGCOR totalling ₱44,250,000 and ₱38,750,000, respectively, to ensure due observance of and faithful compliance with the terms and conditions of the License (see Note 11).

b. Operation of Electronic Bingo Games

PAGCOR awarded ABLE and its subsidiaries the authority to operate and conduct electronic bingo games, as well as the betting aspect thereof, within the confines of the game sites. The Licenses for various periods ranging from October 2014 to September 2018 are subject to renewal after one (1) to (2) two years upon mutual agreement of both parties.

ABLE and its subsidiaries pay PAGCOR 50% of its revenue less payouts as franchise fee.

Revenue from electronic bingo games amounted to ₱4,754,906,261 in 2018, ₱4,335,682,089 in 2017 and ₱4,511,977,403 in 2016.

As at December 31, 2018 and 2017, ABLE and its subsidiaries deposited cash performance bonds with PAGCOR totaling ₱242,055,000 and ₱198,155,000, respectively, to ensure due observance of and faithful compliance with the terms and conditions of the License (see Note 15).

c. Operation of New Rapid Bingo System (NRBS)

On September 27, 2005, PAGCOR granted ABLE the authority to operate and conduct rapid bingo games, subject to the approved terms and conditions of NRBS operations and the use of the prescribed NRBS card format. ABLE pays PAGCOR 15% of its gross sales (total amount wagered or bets) from the NRBS operations, which shall be remitted twice weekly.

Revenue from rapid bingo amounted to ₱230,386,430 in 2018, ₱231,344,036 in 2017 and ₱262,811,873 in 2016.

As at December 31, 2018 and 2017, ABLE deposited cash performance bonds amounting to ₱900,000, with PAGCOR to ensure due observance of and faithful compliance with the terms and conditions of the License (see Note 11).

d. Distribution and Sale of Pull-tabs or Break-open Cards

On August 3, 2005, PAGCOR granted ABLE the authority to distribute and sell pull-tabs or break-open cards in all of the branches of ABLE and its subsidiaries. In consideration of the Grant, ABLE shall pay PAGCOR 15% of gross card price which shall be remitted to PAGCOR by ABLE upon draw-down of cards from the supplier, regardless of quantity of cards sold.

Revenue from distribution of sale of pull-tabs or break-open cards amounted to ₱20,111,861 in 2018, ₱15,644,756 in 2017 and ₱17,715,410 in 2016.

Franchise fees included in “Franchise fees and taxes” account in the consolidated statement of comprehensive income amounted to ₱4,429,428,116 in 2018, ₱3,887,880,592 in 2017 and ₱4,691,725,486 in 2016.

16. **License Agreement**

CEZA is authorized under Section 6f of R.A 7922, “An Act Establishing a Special Economic Zone and Free Port in the Municipality of Santa Ana and the Neighboring Islands in the Municipality of Aparri, Province of Cagayan, Providing Funds Therefore, and for Other Purposes”, to operate on its own, either directly or through a subsidiary entity, or license to others, tourism-related activities, including games, amusements, recreational and sport facilities, such as horse racing, gambling casinos, golf courses, and others, under priorities and standards set by CEZA in CSEZFP.

On February 3, 2001, FCLRC and CEZA entered into a license agreement authorizing FCLRC to set up a network operation/hub with its internet server including web sites, gaming software, application programs, administrative software, hardware, internet, as well as telecommunication connections, collection and payment system and toll-free telephone operations, all in connection with the development, operation and conduct of internet and gaming enterprises and facilities in CSEZFP. In line with this mandate, FCLRC was also authorized and licensed to conduct interactive games as defined in the license agreement.

Subsequent to the signing of the license agreement, FCLRC and CEZA signed a supplemental agreement which provides for the following:

1. Appointment of FCLRC as Master Licensor for internet gaming activities and shall be responsible for monitoring all activities pertaining to the licensing and operation of interactive games in CSEZFP;

2. FCLRC is authorized to assist CEZA in its functions as a regulator for interactive gaming activities on behalf of CEZA in accordance with Part 5 of CSEZFP Interactive Gaming Rules and Regulations;

3. The authorization of FCLRC as Master Licensor shall be exclusive for twenty-five years starting from November 7, 2006 or until 2031;

4. FCLRC is authorized to collect a sub-license fee of two percent of the gross winnings from the internet casino, in accordance with an agreed formula. Also, FCLRC is authorized to collect from sub-licenses an annual fixed amount for the first year of operations and thereafter, from sportsbook operators. The amount collected is recognized by FCLRC as unearned fees and recognized the revenue over term of the license. Unearned fees included under “Trade and other payables” account in the consolidated statements of financial position amounted to ₱12,035,050 and ₱127,830,615 as at December 31, 2018 and 2017, respectively (see Note 13); and

5. FCLRC must pay CEZA, on a monthly basis to commence upon the start of actual operations of FCLRC, an amount equivalent to one percent (1%) of the monthly gross winnings payable not later than the seventh (7th) day of the subsequent month. Starting on the sixth (6th) year after the start of FCLRC’s operation, FCLRC shall pay a minimum guaranteed amount of $250,000 each month. Unpaid CEZA fees are charged with interest of 12% per annum. CEZA fees included in “Franchise fees and taxes” account in the profit or loss amounted to P199,875,763, ₱196,058,813 and ₱847,085,501 in 2018, 2017 and 2016, respectively. Interest expense on unpaid CEZA fees recognized in the consolidated statement of comprehensive income amounted to ₱5,403,043 in 2018, ₱3,325,947 in 2017 and nil in 2016 (see Note 20). The Group’s revenues from FCLRC’s service and hosting fees amounted to ₱395,499,397, ₱423,284,360 and ₱1,866,742,326 in 2018, 2017, and 2016, respectively.

FCLRC is entitled to tax incentives under Section 4c of RA No. 7922 (CEZA law). No taxes, local, and national, shall be imposed on business establishments operating within the CSEZFP. In lieu of paying taxes, FCLRC shall pay and remit to the national government five percent (5%) of locators' gross income less allowable deductions. In 2018, 2017, and 2016, FCLRC's gross income tax amounted to ₱9,071,403, ₱13,174,114 and ₱56,775,955, respectively (see Note 21).

FCLRC proposed a Master Development Plan in keeping its authority under the license agreement. The Master Development Plan proposed by FCLRC will accordingly create a self-sustaining industrial zone and mixed-use new township in the CSEZFP with tourism and leisure as the lead sector to be developed. The Master Development Plan envisaged by FCLRC shall comprise of the three (3) phases with time frame of completion as follows:

Phase I supposedly completed in 2009 after authorization of the CEZA BOD which includes telecommunication connectivity via microwave radio; upgrading of the existing internet data center; conversion of the CEZA Complex into a gaming facility; upgrading of the San Vicente Naval Airport; and Construction of a new CEZA Administration Office. Phase 1 was completed in January 2011.

In August 2007, FCLRC and CEZA entered into an agreement with A.G. Pazon & Associates and CAMJ Construction Corporation, both third parties, to start the development of the Cagayan Business Park (CBP), part of Phase I of the Master Development Plan. The proposed CBP has a total lot area development of 90,005 square meters. The site development plan includes the construction of buildings with a total floor area of 2,400 square meters. The project also includes the construction of an administration building, commercial center, cable center, sub-station and parking spaces. It also includes the installation of an underground power/communication cabling system and an overhead water tank. The development of the CBP was completed in January 2011.

Another infrastructure required in Phase I of the Master Development Plan is the rehabilitation of the San Vicente Naval Airport (the Airport). On September 1, 2006, FCLRC entered into a contract for the airstrip rehabilitation with the same contractors for the CBP to undertake the expansion, paving and overlaying of the runway of the airport and the provision of basic airport amenities. The rehabilitation of the San Vicente Naval Airport was completed on December 8, 2006 (see Note 11).

As an initial project to establish the internet and telecommunication infrastructure, FCLRC entered into an Agreement with IPCDCC on March 1, 2007, incorporating FCCDCI. The parties shall infuse the necessary capital to fund the required infrastructure requirements of the Master Development Plan (see Note 10).

Phase II shall be completed after three (3) years of completion of Phase I and shall include the telecommunication connectivity via fiber optic; redundant telecommunication connectivity; and construction of a leisure and resort complex.

Phase III shall be completed three (3) years after completion of Phase II and shall include the implementation of the Comprehensive Feasibility Study that will provide a complete telecommunication infrastructure for the whole of the CSEZFP; and development of a beach front property into a leisure and gaming facility.

On September 15, 2006, the parties have extended the term of the license agreement from two (2) years to twenty five (25) years from the date of approval by the CEZA BOD of the Master Development Plan. The 25 years extension of the authority of FCLRC as Master Licensor commenced on November 7, 2006 and will end on November 7, 2031.

On November 24, 2017, FCLRC and CEZA signed a supplemental agreement which provides for the following:

- CEZA retains the 25-year appointment of FCLRC as a non-exclusive Licensor for interactive gaming;

- CEZA shall also grant appointment of FCLRC for land-based gaming after it has complied with all requirements;

- To protect FCLRC's interest and investment as the pioneer Licensor, CEZA effectively restricted itself from directly issuing Gaming Licenses to FCLRC's current and previous licensees; and

- All applicants for gaming licenses from CEZA shall post the amount of USD100 million as an investment commitment. In consideration of the significant actual and future investments attributable to FCLRC, CEZA shall credit such investments towards the investment commitment compliance of applications for gaming licenses coursed through FCLRC.

17. **Lease Agreements**

Group as Lessee

Operating Lease

i. ABLE Group entered into several lease agreements for office space, warehouse and spaces where ABLE Group's sites conduct their bingo operations. The term of the lease agreements with various lessors varies from two (2) to three (3) years with escalation clauses ranging from 3% to 5%. The lease amounts are computed based on certain percentages of gross revenues or on a fixed rate per square meter which are generally determined on an annual basis. The lease period ranges from one (1) to seven (7) years with approximate annual escalation rates ranging from 5% to 10%.

ii. FCLRC entered into 25-year lease agreements with the municipality of Cagayan up to December 7, 2031, and with CEZA up to June 30, 2031, respectively, or until FCLRC serves as its Master Licensor. The lease amounts are computed on a fixed rate per square meter subject to 5% escalation every three years. FCLRC also entered into other lease contracts with various lessors up to a term of one (1) year which are renewable. The lease amounts are generally determined on an annual basis.

iii. BCGLC Group entered into a lease agreement for the operation of its initial site in Pampanga in 2014. BCGLC Group also obtained the rights from Palmgold Corporation under existing lease agreements as part of the acquisition of its four (4) sites in 2015. The lease amounts are computed based on certain percentages of net income or on a fixed rate per square meter which are generally determined on an annual basis.

iv. LRWC entered into several lease agreements for its office spaces. The term of the lease agreements with various lessors varies from three (3) to five (5) years with escalation ranging from 3% to 5%. The lease amounts are computed on a fixed rate per square meter which are generally determined on an annual basis.

v. TGXI entered into several lease agreements for the PeGS' locations and office space renewable by mutual agreement of both parties generally under the same terms and conditions. The lease period ranges from one (1) to five (5) years with annual escalation clauses ranging from 3% to 10%.

vi. ABLGI entered into a 25-year lease agreement for a parcel of land in Sta.Cruz, Manila from January 1, 2015 to December 31, 2039. The lease amount is computed on a fixed rate per square meter subject to 5% escalation every two years.

The lease agreements are non-cancellable and provide for, among others, rental deposits which are refundable upon termination of the lease. The rental deposits recognized in the consolidated statements of financial position as at December 31, 2018 and 2017 amounted to ₱436,816,153 and ₱362,093,223, respectively (see Note 11).

Rent expense recognized in the consolidated statement of comprehensive income amounted to ₱645,549,812 in 2018, ₱672,978,405 in 2017 and ₱635,803,172 in 2016.

Minimum lease payments as at December 31 are as follows:

	2018	2017
Less than one year	**₱399,375,013**	₱380,922,517
Between one and five years	**379,929,883**	490,410,931
More than five years	**144,561,716**	223,227,878
	₱923,866,612	₱1,094,561,326

Group as Lessor

Rent Income Recognized as Revenue

a. As an authorized representative of Munich Management Limited, a foreign corporation duly organized and registered in British Virgin Islands, BCGLC entered into an agreement with the PAGCOR for the sublease of the slot machines owned by Entertainment Gaming (Philippines), Inc., including the proprietary system of linking and networking of individual units of slot machine within the PAGCOR Club - Leisure World Bacolor located at King's Royal Hotel and Leisure Park, Bacolor, Pampanga. The lease is for the period of three (3) years until June 30, 2016. The Company renewed the lease contract with PAGCOR until December 31, 2017. In November 2017, the lease contract was renewed until June 30, 2023 or upon exhaustion of the contract amount based on the income sharing scheme, whichever comes first. In 2015, BGLC acquired slot machines from four (4) PAGCOR clubs with existing lease agreements with PAGCOR.

   As a consideration, PAGCOR shall pay BCGLC monthly rent equivalent to a percentage of the slot machines' gross revenues after deducting the players' winnings/prizes and related taxes thereof.

b. LRLDI leases its investment properties under non-cancellable operating lease agreements. The leases are for a period ranging from two (2) to five (5) years with escalation rate ranging from 5% to 10%.

c. ABLGI leases its investment property for a period of twenty (20) years until December 31, 2034 with escalation rate of 3% every three years. The lessee may pre-terminate the lease agreement without obligation to pay termination costs.

Total rent income recognized in the statement of consolidated comprehensive income amounted to ₱560,690,470 in 2018, ₱463,350,087 in 2017 and ₱397,385,417 in 2016.

Rent deposits refundable to the lessee included under "Deposits" account in the consolidated statements of financial position amounted to ₱6,337,611 and ₱4,421,800 as at December 31, 2018 and 2017, respectively.

Minimum lease receivables as at December 31 are as follows:

	2018	2017
Within one year	**₱21,602,354**	₱22,262,354
Between one and five years	**94,262,828**	97,684,810
More than five years	**89,137,677**	97,660,947
	₱205,002,859	₱217,608,111

Rent Income Recognized as Other Income
FCLRC has several lease agreements, renewable annually, with the locators for the use of the FCLRC's gaming facility and equipment in the CSEZFP.

Rent income recognized in the consolidated statement of comprehensive income amounted to ₱4,290,000 in 2018, ₱54,993,871 in 2017, and ₱133,592,009 in 2016 (see Note 20).

18. **Retirement Benefits**

The Group's actuarial valuations are obtained on a periodic basis. The retirement benefits are determined using the projected unit credit method.

The retirement benefits of ABLE are primarily based on the number of years of service of covered employees, as well as their fixed monthly salary. Under the provisions of the retirement plan, the mandatory retirement age is sixty-five (65), with at least five (5) years of service and the retirement benefit is equal to two hundred percent (200%) of the plan salary per year of service. The retirement benefits of FCLRC are equivalent to one-half month's salary for every year of service with six months or more of service considered as one year.

The Group's latest actuarial valuation reports are dated December 31, 2018. The following tables summarize the components of retirement expense recognized in the consolidated statement comprehensive income of ABLE and FCLRC:

Retirement Expense

	ABLE			**FCLRC**		
	2018	2017	2016	**2018**	2017	2016
Current service cost	**₱16,830,418**	₱13,049,647	₱12,143,396	**₱1,711,041**	₱1,387,875	₱1,616,659
Past service cost	–	146,243,252	–	–	4,252,370	–
Interest cost on defined benefit obligation	**12,468,696**	6,917,162	5,799,310	**435,504**	495,285	499,209
Net retirement expense	**₱29,299,114**	₱166,210,061	₱17,942,706	**₱2,146,545**	₱6,135,530	₱2,115,868

Changes in the Present Value of Defined Benefit Obligation

	ABLE	**FCLRC**

	2018	2017	2018	2017
Present value of defined benefit obligation at beginning of year	**₱217,210,863**	₱138,725,530	**₱8,068,319**	₱11,383,583
Actuarial loss/(gain)	**(26,740,730)**	(5,696,701)	**(1,207,677)**	2,734,742
Current service cost	**16,830,418**	13,049,647	**1,711,041**	1,387,875
Interest cost	**12,468,696**	6,917,162	**435,504**	495,285
Benefits paid	**(2,172,429)**	(82,028,027)	**(823,896)**	(12,185,536)
Past service cost	**₱–**	₱146,243,252	**₱–**	₱4,252,370
Present value of defined benefit obligation at end of year	**₱217,596,818**	₱217,210,863	**₱8,225,366**	₱8,068,319

The movement in retirement benefits reserve taken up under other comprehensive income and consolidated statements of changes in equity are as follows:

	ABLE			FCLRC		
	2018	2017	2016	**2018**	2017	2016
Actuarial loss (gain) from:						
Financial assumptions	**(₱47,832,203)**	(₱3,264,813)	(₱8,358,169)	**(₱1,207,677)**	(₱1,220,661)	(₱465,090)
Experience adjustments	**21,091,473**	45,460,832	15,332,404	**42,075**	6,022,049	(2,112,250)
Demographic assumptions	**–**	(47,892,720)	–	**–**	(2,066,646)	–
	(₱26,740,730)	(₱5,696,701)	₱6,974,235	**₱1,165,602**	₱2,734,742	(₱2,577,340)

The principal assumptions used in determining defined benefit obligations for the Group's plans are shown below:

	ABLE		FCLRC	
	2018	2017	**2018**	2017
Discount rate at end of year	**7.38%**	5.78%	**7.26%**	5.72%
Future salary increases	**4.00%**	4.00%	**4.00%**	4.00%

The weighted average duration of defined benefit obligation is as follows:

	ABLE		FCLRC	
	2018	2017	**2018**	2017
Average expected future service years	**11.00**	21.38	**11.00**	16.61

Sensitivity Analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	ABLE		FCLRC	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(23,998,184)	28,284,547	(661,488)	754,709
Future salary growth	30,943,253	(26,492,324)	826,977	(733,633)

Assumptions for mortality rate are based on the 2017 Philippine Intercompany Mortality Table. Assumptions for disability rates are based on the 1952 Disability Study, Period 2, Benefit 5.

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

The defined benefit obligation is exposed to actuarial risks such as longevity risk and interest rate risk.

Funding
The Group does not have a formal retirement plan. Benefit claims under the retirement obligation are paid directly by the Group when they become due.

Asset-liability Matching
The Group has no plan assets to match against liabilities under the retirement obligation.

Maturity analysis of the benefit payments:

	2018				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**More than 5 Years**
ABLE	**₱217,596,818**	**₱1,701,214,931**	**₱4,064,124**	**₱31,565,628**	**₱1,665,585,179**
FCLRC	**8,225,366**	**51,488,921**	**166,749**	**1,841,245**	**49,480,927**
	₱225,822,184	**₱1,752,703,852**	**₱4,230,873**	**₱33,406,873**	**₱1,715,066,106**

	2017				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
ABLE	₱217,210,863	₱1,453,902,643	₱2,978,954	₱26,284,311	₱1,424,639,378
FCLRC	8,068,319	57,172,098	909,242	1,421,053	54,841,803
	₱225,279,182	₱1,511,074,741	₱3,888,196	₱27,705,364	₱1,479,481,181

19. Finance Income/Finance Expense/Other Income

Finance income

	Note	**2018**	2017	2016
Interest income on advances to a casino project	*24*	**₱–**	₱37,620,000	₱276,620,000
Interest income on cash in banks	*4*	**1,396,080**	6,969,655	3,609,331
		₱1,396,080	₱44,589,655	₱280,229,331

Finance expense consists of:

	Note	**2018**	2017	2016
Interest expense on loans payable	*12*	**₱422,773,300**	₱166,534,829	₱381,992,190
Interest expense on unpaid CEZA fees	*17*	**5,403,043**	3,325,947	–
		₱428,176,343	₱169,860,776	₱381,992,190

Other income - net consists of:

	Note	**2018**	2017	2016
Consultancy fees		**₱168,675,000**	₱–	₱–
Marketing allowance		**60,000,000**	–	–
Commission income		**13,770,722**	–	–
Rent income	*17*	**4,290,000**	54,993,871	133,592,009
Gain on termination of contract	*24*	**–**	199,494,851	–
Management fee	*5*	**–**	12,000,000	8,400,000
Others - net		**(8,402,699)**	(17,722,033)	(21,720,533)
		₱238,333,023	₱248,766,689	₱120,271,476

Consultancy fees pertain to fees received from third parties for its projects.

Marketing allowance refers to the payments made by e-bingo machine vendors to the Group used to finance marketing expenses of the Group (e.g. advertisement, etc.)

20. **Related Party Disclosures**

Other than those disclosed in Notes 5 and 10, the Group's significant transactions and balances with related parties follow:

Categories	Nature of Transaction	Year	Amount of Transactions for the Year	Outstanding Balance: Due from Related Parties	Outstanding Balance: Due to a Related Party	Terms	Conditions
Longview Holdings Corporation	Cash advances	**2018**	**(₱9,070,691)**	**₱–**	**₱–**	Demandable; non-interest bearing;	Unsecured
		2017	2,803,396	–	9,070,691	to be settled in cash	
		2016	–	–	–		
Individual stockholder	Cash advances	**2018**	–	**5,000,000**	–	Demandable; non-interest bearing	Unsecured; no impairment
		2017	5,000,000	5,000,000	–	to be settled in cash	
		2016	–	1,800,000	–		
Advances to affiliates	Cash advances	2018	**–**	**150,000,000**	–	Demandable; non-interest bearing	Unsecured; no impairment
		2017	–	150,000,000	–	to be settled in cash	
		2016	–	–	–		
Total		**2018**		**₱155,000,000**	**₱–**		
Total		2017		₱155,000,000	₱9,070,691		

Advances to affiliates consist mainly of advances to Cyberpoint Holdings and Management Corporation (CHMC), a holding company which owns 3.7% of LRWC's outstanding shares, for working capital requirements.

All intra-group balances, transactions, including income and expenses and profits and losses resulting from intra-group transactions are eliminated. Intergroup balances and transactions before eliminations amounted to ₱670,147,428 and ₱869,906,052 as at December 31, 2018 and 2017, respectively.

All intragroup transactions are eliminated during consolidation are unsecured, non-interest bearing and payable on demand. Related party transactions are to be settled in cash.

For each of the years in the period ended December 31, the details of key management and directors' compensation representing short-term benefits are as follows:

	2018	2017	2016
Salaries and employee benefits	**₱34,644,203**	₱29,320,544	₱29,215,425
Directors' fees	**10,000,000**	15,535,000	18,140,000

21. Income Taxes

The components of the Group's income tax expense are as follows:

	Note	2018	2017	2016
Current tax expense	*16*	**₱26,168,752**	₱93,352,092	₱337,225,438
Deferred tax expense (benefit)		**522,973,342**	162,721,109	(150,411,020)
		₱549,142,094	₱256,073,201	₱186,814,418

The Group's income tax expense consists of the 30% regular corporate income tax and the 5% gross income tax on FCLRC and FCCDCI's operations with CSEZFP and LRLDI operations (see Note 16).

Reconciliation between income tax expense in the Group's profit or loss and the income tax computed at statutory income tax rate follows:

	2018	2017	2016
Income before income tax	**₱1,061,484,213**	₱742,889,951	₱2,282,947,896
Income tax using statutory tax rate of 30%	**₱318,445,264**	₱222,866,985	₱684,884,369
Additions to (reductions in) income taxes resulting from tax effects of:			
Change in unrecognized deferred tax assets	**295,186,670**	198,001,204	–
Gross income on service fees subject to 5%	**(93,508,156)**	(158,471,648)	(215,398,726)
Equity in net earnings of associates	**(21,126,568)**	(134,019,147)	(245,646,582)
Nondeductible operating expenses	**73,091,247**	107,597,140	7,158,784

(Forward)

	2018	2017	2016
Equity in net earnings of joint ventures	**(₱34,459,847)**	(₱18,300,201)	(₱43,100,628)
Expired NOLCO	**11,931,047**	40,489,765	–
Interest income subject to final tax	**(417,562)**	(2,090,897)	(1,082,799)
	₱549,142,094	₱256,073,201	₱186,814,418

The composition of recognized net deferred tax assets of the Group as at December 31 are as follows:

	Note	**2018**	2017
NOLCO		**₱103,836,405**	₱234,513,222
Retirement expense	*19*	**3,579,311**	3,579,311
MCIT		**–**	93,000
Impairment losses on receivables	*5*	**–**	–
Difference in tax base and carrying amount of investment property and property and equipment		**–**	–
		₱107,415,716	₱238,185,533

The composition of recognized deferred tax liabilities of the Group as at December 31 are as follows:

	2018	2017
Unrealized gain on changes in fair value of investment properties	**₱640,320,988**	₱254,484,697
Discount on loans payable	**13,080,404**	12,987,360
Unrealized gain on foreign exchange differences	**(3,476,370)**	1,469,100
	₱649,925,022	₱268,941,157

As at December 31, 2018, the Group's unrecognized deferred tax assets pertain to the following items:

	Tax Base	Amount
NOLCO	**₱1,046,057,817**	**₱313,817,345**
Retirement benefits liability	**179,212,973**	**53,763,892**
Allowance for impairment loss	**35,597,001**	**10,679,100**
Impairment loss on property and equipment	**14,464,632**	**4,339,390**
MCIT	**179,212,973**	**₱313,817,345**
	₱1,465,340,246	**₱385,838,182**

As at December 31, 2017, the Group's unrecognized deferred tax assets pertain to the following items:

	Tax Base	Amount
NOLCO	₱398,396,700	₱119,519,010
Retirement benefits liability	145,202,843	43,560,853
Allowance for impairment loss	56,496,870	16,949,061
Impairment loss on property and equipment	14,464,632	4,339,390
Advanced regulatory fee on instant games	12,864,993	3,859,498
MCIT	9,773,392	9,773,392
		₱198,001,204

Deferred tax assets were not recognized because the management believes it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

The Group has incurred NOLCO which can be claimed as deduction from future taxable income. Details of which are shown below:

Year Incurred	Amount	Expired/ Applied	Balance	Expiry Date
2018	₱566,189,665	₱–	₱566,189,665	
2017	378,806,488	–	378,806,488	December 31, 2020
2016	494,657,433	(44,033,476)	450,623,957	December 31, 2019
2015	344,803,013	(344,803,013)	–	December 31, 2018
	₱1,784,456,599	(₱388,836,489)	₱566,189,665	

The details of MCIT which can be claimed as credit against future RCIT liabilities are as follows:

Year Incurred	Amount	Expired/ Applied	Balance	Expiry Date
2018	₱6,469,732	₱–	₱6,469,732	
2017	1,997,658	–	1,997,658	December 31, 2020
2016	2,327,460	–	2,327,460	December 31, 2019
2015	5,541,274	(5,541,274)	–	December 31, 2018
	₱6,469,732	₱–	₱6,469,732	

The carryforward benefit of the excess of MCIT over regular corporate income tax of ₱93,000 can be credited against income tax until December 31, 2018.

On April 23, 2013, the BIR issued Revenue Memorandum Circular (RMC) 33-2013 clarifying the taxability of PAGCOR, its contractees and licensees. Pursuant to Section 1 of Republic Act No. 9337, amending Section 27 (C) of the National Internal Revenue Code (NIRC), as amended, effective November 1, 2005, PAGCOR is no longer exempt from corporate income tax as it has been effectively omitted from the list of government-owned or controlled corporations that are exempt from income tax. Accordingly, PAGCOR and its contractees and licensees' income from its operations and licensing of gambling casinos, gaming clubs and other similar recreation or amusement places, gaming pools, and other related operations are subject to corporate income tax under the NIRC, as amended.

Until March 31, 2013, in accordance with PAGCOR's directives, ABLE continued to abide by the provisions of P.D. 1869 (as amended by R.A. 9487) whereby it pays the 5% franchise tax.

On July 9, 2013, a memorandum was issued by PAGCOR to all its bingo contractees and grantees clarifying that they are no longer subject to the 5% franchise tax, and are subject to the corporate income tax, instead. In compliance with the said RMC, ABLE has changed to corporate income tax as its basis for determining the tax expense starting second quarter of 2013.

On December 10, 2014, a resolution in favor of PAGCOR was rendered by the Supreme Court regarding the change from franchise tax to corporate income tax. The resolution pertains only to PAGCOR and not to its grantees and contractees.

The Group made legal opinion on the implications of the Supreme Court's decision in the case of Bloomberry Resorts and Hotels, Inc. vs. Bureau of Internal Revenue in relation to the contract entered by PIKI, BCGLC and HEPI with PAGCOR. These components of the Group are duly organized and existing under the laws of the Philippines having existing agreements with PAGCOR.

The Group determined its income taxes on these components on the premise that the results from casino operations are no longer subject to regular income taxes in pursuant to Sec 13(2) of Presidential Decree 1869 (PAGCOR Charter) which states that "the five (5%) percent franchise tax of the gross revenue or earnings derived by PAGCOR and all its contractees and licensees shall be due and payable quarterly to the National Government and shall be in lieu of all kinds of taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority". The Group assessed that it is exempt from the corporate income tax on these components pursuant to the Supreme Court's decision to a tax case which categorically held PAGCOR and its contractees and licensees exempt from the payment of corporate income tax and other taxes.

Effective January 1, 2018, in accordance with the Amendments to the Regulatory Manual issued by PAGCOR on April 6, 2018, ABLE and its subsidiaries, as a licensee of PAGCOR, is exempt from all taxes and is only subject to 5% franchise tax on revenues from bingo gaming operations pursuant to Presidential Decree No. 1869, as amended by Republic Act No. 9487.

22. Earnings Per Share

Basic earnings per share (EPS) is computed as follows:

	2018	2017	2016
Net income attributable to Parent Company	**₱479,645,976**	₱430,275,524	₱1,824,673,362
Dividends on preferred shares	**(70,125,000)**	(140,250,000)	(140,250,000)
Effect of preferred shares held by ABLE	**3,102,500**	3,102,500	3,102,500
Income attributable to ordinary stockholders of the Parent Company (a)	**412,623,476**	293,128,024	1,687,525,862
Adjusted weighted average number of shares outstanding (b)	**1,199,230,595**	1,199,230,595	1,199,356,645
Basic earnings per share (a/b)	**₱0.3441**	₱0.2444	₱1.4070

Diluted earnings per share is computed as follows:

	2018	2017	2016
Income attributable to ordinary stockholders of the Parent Company *(a)*	**₱412,623,476**	₱293,128,024	₱1,687,525,862
Adjusted weighted average number of shares outstanding *(b)*	**1,199,230,595**	1,199,230,595	1,199,356,645
Effect of dilutive potential common shares* *(c)*	**80,675,000**	80,675,000	80,675,000
Adjusted weighted average number of shares outstanding (d=b+c)	**1,279,905,595**	1,279,905,595	1,280,031,645
Diluted earnings per share (a/d)	**₱0.3224**	₱0.2290	₱1.3183

** Adjusted for the convertible preferred shares (see Note 14).*

23. **Segment Information**

The Group operates in four (4) reportable business segments namely: the online group, casino group, retail group and investment group, and only one (1) reportable geographical segment which is the Philippines. The description of the reportable segments are as follows:

Online
The online segment's primary activity is licensing of operators engaged in interactive gaming, as well as the establishment and setup of all the gaming infrastructures required in connection with the development, operation and conduct of internet server, telecommunication network, gaming enterprises, and other systems facilities.

Casino
The casino group is involved in hotel operation and casino marketing, junket operations, and arcade leasing.

Retail
The retail segment consists largely of venues providing amusements and recreation to the public in such forms as, but not limited to, traditional, electronic and rapid bingo games. And with the acquisition of TGXI in July 2014, this business segment now currently includes PEGS offering online casino games. Multiple sites include Bingo Halls located in large popular malls, while Bingo Boutiques and eGames Stations are situated in strategic commercial establishments across the country.

Property
The property segment consists of an economic interest in one of the integrated resort operators in the Entertainment City and an investment in a joint venture property development project engaged in building a world-class Business Process Outsourcing center with offices for various locators.

Analysis of financial information by business segment in 2018 is as follows:

	Online Group	Casino Group	Retail Group	Property Group	Others	Eliminations	Consolidated
Net Revenues							
External revenue	**₱1,054,365,127**	**₱1,430,998,597**	**₱7,403,096,686**	**₱1,570,759,644**	**₱–**	**₱–**	**₱11,459,189,935**
Results							
Segment results	**(₱103,826,833)**	**₱153,202,475**	**₱81,321,221**	**₱714,625,681**	**(₱647,187,757)**	**(₱38,841,394)**	**₱159,293,393**
Results from Operating Activities	**(103,826,833)**	**153,202,475**	**81,321,221**	**714,625,681**	**(647,187,757)**	**(38,841,394)**	**159,293,393**
Finance income	**41,791**	**27,855**	**159,974**	**1,142,908**	**23,552**	**–**	**1,396,080**
Finance expense	**(11,111,631)**	**(25,982,488)**	**(82,886,523.39**	**(269,943,153)**	**(38,252,548)**	**–**	**(428,176,343)**
Rent/other income	**3,689,549**	**(8,077,324)**	**87,169,307.2**	**(11,165,108)**	**629,347,633**	**(631,306,034)**	**69,658,023**
Foreign exchange loss - net	**317,631**	**–**	**(9,477,871)**	**(16,482,993)**	**1,384,052**	**–**	**(24,259,181)**
Equity in net earnings of a joint venture	**–**	**–**	**–**	**–**	**114,866,158**	**–**	**114,866,158**
Equity in net earnings of associates	**–**	**–**	**–**	**70,421,894**	**–**	**–**	**70,421,894**
Unrealized gain on investment in FVOCI	**–**	**–**	**–**	**–**	**14,871,625**	**–**	**14,871,625**
Revaluation surplus - net of tax	**–**	**–**	**–**	**(95,072,759)**	**–**	**–**	**(95,072,759)**
Foreign currency translation loss	**–**	**–**	**–**	**–**	**–**	**–**	
Remeasurements of defined benefit liability - net of tax	**1,165,602**	**–**	**26,387,320**	**–**	**–**	**–**	**27,552,922**
Income tax	**14,524,957**	**4,373,527**	**3,630,770**	**395,843,025**	**130,769,815**	**–**	**549,142,094**
Total Comprehensive Income (Loss)	**(₱95,198,934)**	**₱123,544,045**	**₱106,304,198**	**₱789,369,495**	**₱205,822,530**	**(₱670,147,428)**	**₱459,693,907**
Other Information							
Segment assets	**₱2,919,316,051**	**₱1,477,276,865**	**₱2,887,380,296**	**₱10,996,860,817**	**₱2,009,197,524**	**(₱3,503,616,551)**	**₱16,786,415,002**
Investments at cost	**206,378,040**	**–**	**135,291,191**	**38,297,207**	**4,487,464,476**	**(3,587,559,355)**	**1,279,871,558**
Total Assets	**₱3,125,694,091**	**₱1,477,276,865**	**₱3,022,671,487**	**₱11,035,158,024**	**₱6,496,662,000**	**₱(7,091,175,906)**	**₱18,066,286,561**
Segment liabilities	**₱1,686,896,034**	**₱1,342,245,771**	**₱2,603,501,434**	**₱5,816,145,870**	**₱1,980,650,569**	**(₱4,471,730,345)**	**₱8,957,709,333**
Unallocated corporate liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Liabilities	**1,686,896,034**	**1,342,245,771**	**2,603,501,434**	**5,816,145,870**	**1,980,650,569**	**(4,471,730,345)**	**₱8,957,709,333**
Capital expenditures							
Depreciation and amortization	**₱43,964,764**	**₱102,496,432**	**₱285,922,074**	**(₱914,338)**	**₱39,833,447**	**₱–**	**₱471,302,380**

Analysis of financial information by business segment in 2017 is as follows:

	Online Group	Casino Group	Retail Group	Property Group	Others	Eliminations	Consolidated
Net Revenues							
External revenue	₱1,088,064,464	₱1,302,243,973	₱7,034,044,688	₱160,381,738	₱–	(₱1,290,000)	₱9,583,444,863
Results							
Segment results	127,853,302	114,211,498	118,395,720	(115,579,286)	(400,254,006)	8,099,688	(147,273,084)
Unallocated corporate expenses	–	–	–	–	–	–	–
Results from Operating Activities	127,853,302	114,211,498	118,395,720	(115,579,286)	(400,254,006)	8,099,688	(147,273,084)
Finance income	164,800	40,124	181,036	44,177,946	25,749	–	44,589,655
Finance expense	(12,012,534)	(163,745)	(47,740,434)	(72,118,144)	(37,825,919)	–	(169,860,776)
Rent/other income	54,715,677	(1,419,562)	(371,879)	197,267,474	(1,425,021)	–	248,766,689
Foreign exchange loss - net	(3,212,039)	–	–	4,897,000	398,496	–	2,083,457
Equity in net earnings of a joint venture	–	–	–	–	61,000,669	–	61,000,669
Equity in net earnings of associates	–	–	1,379,798	445,350,693	–	–	446,730,491
Unrealized gain on AFS	–	–	–	–	(29,087,155)	–	(29,087,155)
Unrealized gain on changes in fair values of investment properties	–	–	–	256,852,850	–	–	256,852,850
Revaluation surplus - net of tax	89,182,693	–	–	–	–	–	89,182,693
Foreign currency translation loss	(1,665,707)	–	–	–	–	–	(1,665,707)
Remeasurements of defined benefit liability - net of tax	(2,589,549)	–	(17,310,170)	–	–	–	(19,899,719)
Income tax (benefits)	(22,798,629)	(3,720,318)	(95,742,791)	(204,698,692)	70,887,229	–	(256,073,201)
Total Comprehensive Income	₱229,638,014	₱108,947,997	(41,208,720)	₱556,149,841	(336,279,958)	₱–	₱525,346,862
Other Information							
Segment assets	₱2,938,140,059	₱1,712,485,743	₱2,906,664,092	₱7,831,786,004	₱1,632,671,279	(₱1,708,040,658)	₱15,313,706,519
Investments at cost	138,308,170	–	513,470,659	1,730,866,955	4,282,954,597	(5,216,817,256)	1,448,783,125
Total Assets	₱3,076,448,229	₱1,712,485,743	₱3,420,134,751	₱9,562,652,959	₱5,915,625,876	(₱6,924,857,914)	₱16,762,489,644
Segment liabilities	₱1,034,379,507	₱1,557,998,694	₱3,018,708,817	₱5,238,964,211	₱1,438,933,558	(₱4,451,363,521)	₱7,837,621,266
Unallocated corporate liabilities	–	–	–	–	–	–	–
Total Liabilities	₱1,034,379,507	₱1,557,998,694	₱3,018,708,817	₱5,238,964,211	₱1,438,933,558	(₱4,451,363,521)	₱7,837,621,266
Capital expenditures	₱133,892,678	₱330,268,722	₱521,970,388	₱4,407,575,140	₱55,667,640	₱–	₱5,449,374,568
Depreciation and amortization	38,296,126	88,895,513	300,690,539	3,032,930	61,730,706	–	492,645,814

Analysis of financial information by business segment in 2016 (as restated) is as follows:

	Online Group	Casino Group	Retail Group	Property Group	Others	Eliminations	Consolidated
Net Revenues							
External revenue	₱1,866,742,326	₱1,275,789,664	₱7,392,369,646	₱353,020,992	₱–	₱–	₱10,887,922,628
Results							
Segment results	1,019,656,826	691,849,315	2,434,720,528	631,797,768	–	–	4,778,024,437
Unallocated corporate expenses	–	–	–	–	3,514,559,347	–	3,514,559,347
Results from Operating Activities	1,019,656,826	691,849,315	2,434,720,528	631,797,768	(3,514,559,347)	–	1,263,465,090
Finance income	68,027	16,798	372,402	279,749,680	22,424	–	280,229,331
Finance expense	(67,909,735)	(5,057)	(60,513,363)	(205,467,348)	(48,096,687)	–	(381,992,190)
Rent/other income	133,592,009	(8,133,187)	34,644,705	8,299,845	723,726,338	(771,858,234)	120,271,476
Foreign exchange loss - net	21,769,337	–	–	–	–	–	21,769,337
Equity in net earnings of joint ventures	98,527,205	–	–		45,141,556	–	143,668,761
Equity in net earnings of an associate	–	–	–	818,821,941	–	–	818,821,941
Unrealized gain on AFS	–	–	–	–	66,484,940	–	66,484,940
Unrealized gain on changes in fair values of investment properties	–	–	–	16,714,150	–	–	16,714,150
Remeasurements of defined benefit liability - net of tax	–	–	(2,433,492)	–	–	–	(2,433,492)
Income tax (benefits)	(59,858,142)	(1,780,894)	(136,322,727)	(120,944,826)	132,092,171	–	(186,814,418)
Total Comprehensive Income	₱1,145,845,527	₱681,946,975	₱2,270,468,053	₱1,428,971,210	(₱2,595,188,605)	(₱771,858,234)	₱2,160,184,926
Other Information							
Segment assets	₱2,553,369,162	₱1,125,718,396	₱3,212,997,132	₱8,088,997,774	₱5,369,385,512	(₱7,382,252,932)	₱12,968,215,044
Investments at cost	76,759,577	–	532,253,908	507,353,948	4,295,333,961	(3,751,500,436)	1,660,200,958
Total Assets	₱ 2,630,128,739	₱1,125,718,396	₱3,745,251,040	₱8,596,351,722	₱9,664,719,473	(₱11,133,753,368)	₱14,628,416,002
Segment liabilities	₱426,364,579	₱989,473,615	₱2,575,605,506	₱4,065,570,296	₱905,338,923	(₱3,153,575,707)	₱5,808,777,212
Unallocated corporate liabilities	–	–	–	–	–	–	–
Total Liabilities	₱426,364,579	₱989,473,615	₱2,575,605,506	₱4,065,570,296	₱905,338,923	(₱3,153,575,707)	₱5,808,777,212
Capital expenditures	₱28,002,437	₱256,875,462	₱334,815,606	₱1,765,209	₱74,633,685	₱–	₱696,092,399
Depreciation and amortization	35,839,218	53,567,957	249,501,519	3,605,604	8,962,688	–	351,476,986

There were no intersegment sales recognized among reportable segments in 2018, 2017 and 2016. Unallocated corporate expenses consist of net operating expenses of the Parent Company. Assets of the individual segments mainly comprise investments and advances, due from related parties, property and equipment, and trade receivables. Liabilities of the individual segments include loans payable, trade and other payables, retirement benefits liability, and due to related parties. Capital expenditures on noncurrent assets represent additions to property and equipment and investment properties. Noncash expenses pertain to depreciation and amortization expense attributable to reportable segments.

24. Memorandum of Agreement

On January 14, 2011, ABLGI entered into several agreements with Belle Corporation (Belle) and Premium Leisure and Amusement, Inc. (PLAI) (ABLGI Agreements) for the leasing, fit out and operation of an integrated casino development project to be located at Aseana Business Park, Paranaque City (the Project).

PLAI is a member of a consortium composed of SM Investments Corporation, SM Land, Inc., SM Hotels Corporation, SM Development Corporation, SM Commercial Properties, Inc. and PLAI, which was granted a Provisional License by PAGCOR to establish and operate a casino to be located within the Manila Bay Reclamation Area.

On March 20, 2013, ABLGI, Belle, Belle Grande Resource Holdings, Inc. ("BGRHC") and PLAI entered into a Memorandum of Agreement (MOA) effectively terminating its ABLGI Agreements. In consideration for the waiver of ABLGI, among others, an amount equivalent to the 30% interest in the net lease income of the Project and the 30% share in the gaming revenue derived from the Project which is presented in profit or loss as "Share in gaming revenue of a casino project" account. These are to be paid to ABLGI upon actual receipt by Belle and PLAI of the lease income and gaming revenue from the Project.

In addition, ABLGI made advances to BGRHC on March 20, 2013 amounting to P4,000,000,0000 (the "ABLGI Advance") as funding to the Project. In December 2014, the MOA was amended to operationalize the terms and conditions of the ABLGI Advance which provided that such was extended to BGRHC as a loan. The ABLGI advance is payable within 12 years from and after the Transfer Date. Payments shall be made in 13 annual installments to commence on the fifth anniversary of the Transfer Date and annually thereafter. Interest rates range from 4.05% to 6.55%. The difference between the 30% share in the net lease income of the Project and the principal and interest payments on the ABLGI advance is the annual compensation fee component which BGRHC shall pay to ABLGI starting on the first anniversary of the Transfer Date and annually thereafter until the termination of the Project's license. This is presented in profit or loss as "Compensation fee from a casino project" account.

In 2015, Belle made a capital call which ABLGI advanced an additional ₱780,000,000 to the Project.

On November 4, 2016, ABLGI entered into a termination agreement with Belle in relation to the MOA and its implementing agreements for the Project effective March 31, 2017. Under the agreement, Belle shall pay ABGLI ₱5,090,000,000 representing the advances to a casino project amounting to ₱4,780,000,000 and a final consideration for the share in PLAI's casino operations amounting to ₱310,000,000. Of the total consideration, ₱1,020,000,000 was paid upon the execution of the agreement and the balance will be paid on the effectivity of the termination agreement. Unless and until full payment of all the amounts, ABLGI shall continue to be entitled to receive an amount equivalent to its rights under the operating agreements.

The termination agreement was finalized on March 31, 2017. ABLGI received ₱4,072,000,000, which comprised: (1) payment for an outstanding loan of Belle to ABLGI amounting to ₱3,762,000,000, and (2) ₱310,000,000, of which ₱110,505,149 was treated as a repayment of advances to Belle while the remaining ₱199,494,851 was recorded under "Other Income" account in profit or loss, representing assignment of rights in relation to the Advisory services rendered to the Philippine Consortium in favor of Belle (see Note 19). Effective March 31, 2017, the Group shall be deemed to have divested its economic interest in the Project.

As at December 31, 2018 and 2017, the carrying amounts of advances to a casino project in relation to the termination agreement amounted to nil and ₱3,762,000,000.

The compensation fee from a casino project amounted to ₱65,995,956 in 2017 and ₱128,502,833 in 2016. The share in gaming revenue of a casino project amounted to nil in 2018, ₱76,400,864 in 2017 and ₱208,533,866 in 2016, respectively. Interest income on advances to a casino project amounted to nil in 2018, ₱37,620,000 in 2017 and ₱276,620,000 in 2016 (see Note 19).

25. Other Matters

Electronic Bingo and Rapid Bingo

The revenues from electronic bingo and rapid bingo are presented in the consolidated statement of comprehensive income net of the share of owners of electronic bingo and rapid bingo machines as follows:

Electronic bingo

	2018	2017	2016
Gross receipts from electronic bingo	**₱6,087,271,518**	₱5,558,566,783	₱5,798,985,970
Less share of owners of electronic bingo machines	**1,332,365,257**	1,222,884,694	1,287,008,567
Net revenues	**₱4,754,906,261**	₱4,335,682,089	₱4,511,977,403

Rapid bingo

	2018	2017	2016
Gross receipts from rapid bingo	**₱230,386,430**	₱248,535,550	₱277,206,615
Less share of owners of rapid bingo machines	**16,835,474**	17,191,514	14,394,742
Net revenues	**₱213,550,956**	₱231,344,036	₱262,811,873

Commission Income

On July 3, 2013, PAGCOR awarded PIKI the authority to bring pre-registered non-Philippine junket players to play in the junket Gaming Rooms at PAGCOR's Casino Filipino - Midas, with a minimum gaming table mix to be determined by PAGCOR. The Group's revenue from PIKI's junket operations amounted to ₱895,694,852 in 2018, ₱855,588,806 in 2017 and ₱894,388,540 in 2016.

Revenues from e-Casino
ABLE generates income from e-casino representing operator's share in e-Casino game winnings. E-Casino offers popular casino games such as baccarat, poker and roulette via computer terminals. Income generated from these operations which amounted to ₱22,377,103 in 2018, P16,203,347 in 2017 and ₱11,164,963 in 2016 are presented as part of "Commission income" account in the consolidated statement of comprehensive income.

The Group's revenue from TGXI's commission income from PeGS which amounted to ₱291,607,194 in 2018, ₱247,768,115 in 2017 and ₱268,653,683 in 2016 are presented as part of "commission income" account in the consolidated statement of comprehensive income.

Contingencies
The Group currently has several tax assessments and legal cases. The Group's estimate of the probable costs for the resolution of these assessments has been developed in consultation with management as well as outside legal counsel handling these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments and legal cases will have a material adverse effect on its consolidated statement of financial position and consolidated statement of financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provision for probable losses were made in relation to these tax and legal assessments.

26. **Financial Risk and Capital Management Objectives and Policies**

Financial Risk Management Objectives and Policies
The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The main purpose of the Group's dealings in financial instruments is to fund their respective operations and capital expenditures. The Group is not actively engaged in the trading of financial assets for speculative purposes nor does it write options.

The BOD of the Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has established the Executive Committee, which is responsible for developing and monitoring the Group's risk management policies. The Executive Committee identifies all issues affecting the operations of the Group and reports regularly to the BOD on its activities.

The BOD has a Risk Oversight Committee which is responsible for overseeing and managing the risks that the Group may encounter. The BOD develops proper strategies and measures to avoid or at least minimize such risk incorporating the Group's established risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the:
a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure control and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report. The results of procedures performed by Internal Audit are reported to the Audit Committee. On the other hand, the Audit Committee reports all the issues identified over the financial reporting of the Group to the BOD on a regular basis.

Credit Risk

Credit risk represents the risk of loss the Group would incur if customers and counterparties fail to perform their contractual obligations. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk. Further, the Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Financial information on the Group's maximum exposure to credit risk as at December 31, 2018 and 2017, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	**2018**	2017
Loans and Receivables			
Cash in banks	*4*	**₱353,978,398**	₱341,380,723
Receivables - net*	*5*	**917,322,513**	823,730,513
Rental deposits	*11*	**436,816,153**	362,093,223
Cash performance bonds	*11*	**287,705,000**	237,805,000
Performance cash deposits and betting credit funds	*11*	**27,650,000**	7,600,000
Due from related parties	*20*	**155,000,000**	155,000,000
		2,178,472,064	1,927,609,459
FVOCI		**168,180,654**	–
AFS Financial Asset		–	153,309,029
		₱2,346,652,718	₱2,080,918,488

**Excluding advances to officers and employees amounting to P40,696,316 and P19,018,702 as at December 31, 2018 and 2017, respectively.*

Cash in Banks
The management evaluates the financial condition of the banking industry and bank deposits/investments are maintained with reputable banks only.

Receivables
Majority of the Group's credit risk on receivables is attributed to its internet gaming licensing activities influenced mainly by the individual characteristics of each customer and non-interest bearing advances made to entities with similar operations. The demographics of the Group's customer base, including the default risk of the industry and regions in which customers operate, has an influence on credit risk.

The BOD has established a credit policy under which each new advanced amount requested by customer/counterparties within the same gaming industry is analyzed individually for creditworthiness before standard credit terms and conditions are granted. The Group's review includes the requirements of updated credit application documents, credit verifications through the use of no negative record requests and list of blacklisted accounts, and analyses of financial performance to ensure credit capacity. The status of each account is first checked before advances are approved.

Most of the Group's customers have been transacting with the Group for several years, and losses have occurred from time to time. Results of credit reviews are grouped and summarized according to credit characteristics, such as aging profiles and credit violations.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The aging of receivables is as follows:

	2018		2017	
	Gross Amount	**Impairment**	Gross Amount	Impairment
Current	**₱163,672,264**	**₱–**	₱530,941,504	₱–
Past due 1 - 30 days	**92,925,350**	**–**	117,648,598	–
Past due 31 - 60 days	**86,002,258**	**–**	1,333,500	–
More than 60 days	**857,668,080**	**242,249,123**	326,636,427	133,810,814
	₱1,200,267,952	**₱242,249,123**	₱976,560,029	₱81,213,223

The Group has recognized impairment losses on trade receivables of ABLE amounting to ₱21,641,224 and ₱18,737,774 in 2018 and 2017, respectively, due to cessation of operations of its debtors. The remainder of the movement of impairment allowance for the year ended December 31, 2017 are related to the effect of business combination of FCCDCI.

As at reporting date, there were no significant concentrations of credit risk.

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of receivables not past due or past due by up to 60 days.

Rental Deposits
The management prefers well known business establishments in the selection of location for bingo operations to ensure profitable operations and recovery of the rental and other deposits upon termination of the lease agreements.

Cash Performance Bonds/Performance Cash Deposits and Betting Credit Funds
The Group's exposure to credit risk is negligible as PAGCOR has sufficient funds to settle these upon the expiration of the respective license agreements.

FVOCI/AFS Financial Assets
The Group's exposure to credit risk is negligible as this pertains to the Group's investment in DFNN's shares that are listed on the PSE.

Due from Related Parties
The Group limits its exposure to credit risk by only financing the operations of related parties that have viable operations and likewise engaged in gaming amusement activities.

The most significant amount of due from related parties of the Group are the advances to BLRI and HEPI, an associate and a joint venture, respectively, of the Parent Company.

Advances to a Casino Project
The Group has an insignificant exposure to credit risk on this account since the counterparty is a reputable entity with high quality external credit ratings.

The credit quality of the Group's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties has been defined as follows:

- Grade A: Financial assets which are consistently collected before maturity.
- Grade B: Financial assets which are collected on their due dates even without an effort from the Group's to follow them up.
- Grade C: Financial assets which are collected on their due dates provided that the Group's made a persistent effort to collect.

As at December 31, the credit quality per class of financial assets that are neither past due nor impaired is as follows:

	2018			
	Grade A	**Grade B**	**Grade C**	**Total**
Loans and receivables:				
Cash in banks	**₱353,978,398**	**₱–**	**₱–**	**₱353,978,398**
Receivables:				
Trade and other receivables	**905,085,119**	–	–	**905,085,119**
Receivables from concessionaires	–	**12,237,394**	–	**12,237,394**
Due from related parties	–	**155,000,000**	–	**155,000,000**
Rental deposits	–	**436,816,153**	–	**436,816,153**
Cash performance bonds	–	**287,705,000**	–	**287,705,000**
Performance cash deposits and betting credit funds	–	**27,650,000**	–	**27,650,000**
AFS financial asset	**168,180,654**	–	–	**168,180,654**
	₱1,427,244,171	**₱919,408,547**	**₱–**	**₱2,346,652,718**

	2017			
	Grade A	Grade B	Grade C	Total
Loans and receivables:				
Cash in banks	₱341,380,723	₱–	₱–	₱341,380,723
Receivables:	–	–	–	
Trade and other receivables	512,448,774	–	–	512,448,774
Due from related parties	–	155,000,000	–	155,000,000
Receivables from concessionaires	–	18,492,730	–	18,492,730
Rental deposits	–	362,093,223	–	362,093,223
Cash performance bonds	–	237,805,000	–	237,805,000
Performance cash deposits and betting credit funds	–	7,600,000	–	7,600,000
AFS financial asset	153,309,029	–	–	153,309,029
	₱1,007,138,526	₱780,990,953	₱–	₱1,788,129,479

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

In addition, the Group has an omnibus line of credit with a number of Philippine banks consisting of commitments for short term loans, letters of credit and documents against acceptances/documents against payment (DA/DP) facilities trust receipts. As at December 31, 2018 and 2017, the total commitment under the line of credit is P1,196,000,000 and P2,150,000,000, respectively. As at December 31, 2018 and 2017, the Group has drawn P1,138,134,420 and P1,732,766,330, respectively. All facilities under the omnibus line bear interest at floating rates consisting of a margin over current Philippine treasury rates (see Note 12).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements of the Group:

	2018				
	Carrying Amount	Contractual Cash Flow	6 Months or Less	6-12 Months	1-5 Years
Other Financial Liabilities					
Trade and other payables	₱1,569,919,637	₱1,569,919,637	₱1,569,919,637	₱–	₱–
Short-term and long-term loans payable	6,051,738,818	6,108,767,888	2,432,608,268	109,802,729	3,566,356,891
Deposits	95,732,478	95,732,478	–	–	95,732,478
	₱7,717,390,933	₱7,774,420,003	₱4,002,527,905	₱109,802,729	₱3,662,089,369

***Excluding statutory payables amounting to ₱355,319,505*.**

	2017				
	Carrying Amount	Contractual Cash Flow	6 Months or Less	6-12 Months	1-5 Years
Other Financial Liabilities					
Trade and other payables	₱1,160,559,821	₱1,160,559,821	₱1,160,559,821	₱–	₱–
Short-term and long-term loans payable	5,636,454,054	5,878,673,177	2,175,460,115	500,000,000	3,203,213,062
Due to a related party	9,070,691	9,070,691	9,070,691	–	–
Deposits	109,990,867	109,990,867	109,990,867	–	–
	₱6,916,075,433	₱7,158,294,556	₱3,455,081,494	₱500,000,000	₱3,203,213,062

** Excluding statutory payables amounting to P381,243,256.*

The group expects to meet its operating assets and liabilities, capital expenditure and investment requirements for the next 12 months primarily from the issuance of common shares.

On January 1, 2019 the stockholders approved the issuance of up to 1,300,147,488 common shares from the unissued capital stock through a private placement at a price based on a premium over the closing price of the shares of the Company on November 29, 2018. The Board of Directors (BOD) approved and ratified the issuance and subscription of its 1,300,147,488 common shares at an issue price of ₱3.60 on the same date. In March and April 2019, 1,217,647,488 common shares were subscribed at ₱3.60 per share by virtue of the subscription agreements entered into by the Company with its investors.

The proceeds from the issuance of common shares will be used to partially settle the Group's existing obligations, and finance its expansion programs, and working capital requirements to enable it to continue to operate as a going concern.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group is subject to various market risks, including risks from changes in prices, interest rates, currency exchange rates and equity price risk.

The Group minimizes its exposure to risks in changes in rental rates by entering into contracts with lessors with fixed rent commitment for the contract duration.

Foreign Currency Risk

The Group is exposed to foreign currency risk on purchases that are denominated in currencies other than the Philippine peso, mostly in U.S. dollar ($). In respect of monetary assets and liabilities held in currencies other that the Philippine peso, the Group ensures that its exposure is kept to an acceptable level, by buying foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's exposure to foreign currency risk based on notional amounts is as follows:

	2018		2017	
	In USD	**In PhP**	In USD	In PhP
Cash in banks	**$445,378**	**₱23,417,956**	$363,168	₱18,132,978
Trade receivables	**4,875,350**	**256,345,909**	330,014	16,477,599
Rental deposits	**1,716,035**	**90,229,105**	378,254	18,866,222
Trade and other payables	**(4,551,349)**	**(239,309,945)**	(1,086,067)	(54,227,325)
Net asset (liability)	**$2,485,414**	**₱130,683,025**	($14,631)	(₱730,526)

The following are the significant exchange rates applied during the year:

	2018	2017
PHP average rate	**52.56**	49.96
PHP spot rate	**52.58**	49.93

Sensitivity Analysis

A 2% strengthening of the Philippine peso against the US dollars would have increased equity and net income by P2,613,661 in 2018 and decreased equity and net income by P14,611 in 2017.

A 2% weakening of the Philippine peso against the US dollars as at December 31, 2018 and 2017 would have had the equal but opposite effect, on the basis that all other variables remain constant.

Interest Rate Risk
The Group's exposure to changes in interest rates relate primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk through interest rate swaps and options, and having a mix of variable and fixed interest rates on its loans. Presently, the Group's short-term and long-term bank loans are market-determined, with the long-term loan interest rates based on PSDT-R2 plus a certain mark-up. The Group has not entered into interest rate swaps and options during 2018 and 2017.

The sensitivity to a reasonably possible change in interest rates with all other variables held constant of the Group's profit before tax for the years ended December 31, 2018 and 2017 follows:

Change in Interest Rates (in Basis Points)	**2018**	2017
300bp rise	**(₱12,641,317)**	(₱5,204,934)
225bp rise	**(10,534,431)**	(3,903,700)
300bp fall	**12,641,317**	5,204,934
225bp fall	**10,534,431**	3,903,700

1 basis point is equivalent to 0.01%.

There is no other impact on the Group's equity other than those affecting the profit or loss.

Equity Price Risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified in the consolidated financial position as AFS financial asset
(see Note 10).

The effect on equity, as a result of a possible change in the fair value of the Group's equity instruments held as AFS financial assets as at December 31, 2018, that could be brought by changes in equity indices with all other variables held constant, are as follows:

Change in Quoted Prices of Investments Carried at Fair Value	**2018**
Increase by 10%	**₱16,818,065**
Increase by 5%	**8,409,033**
Decrease by 10%	**(16,818,065)**
Decrease by 5%	**(8,409,033)**

Fair Values
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash/Receivables/Due from Related Parties/Advances to a Casino Project/Rental Deposits/Cash Performance Bonds/Performance Cash Deposits and Betting Credit Funds/Trade and Other Payables/Due to a Related Party/Deposits/Short-term Loans Payable
The carrying amounts of cash, receivables, due from related parties, advances to a casino project, trade and other payables, due to a related party and short-term loans payable approximate their fair

values due to the relatively short-term nature of these financial instruments. The carrying amounts of rental deposits, cash performance bonds, performance cash deposits and betting credit funds and deposits approximate their fair values as management believes that the effect of discounting cash flows from these instruments is not significant.

Long-term Loans Payable
Long-term loans are reported at their present values, which approximate the cash amounts that would fully satisfy the obligations as at reporting date. The carrying amount approximates fair value since the interest rates are repriced frequently. These are classified as current liabilities when they become payable within a year.

Obligations under Finance Lease
Obligations under finance lease approximate their carrying amount since the Group does not anticipate that the effect of discounting using the prevailing market rate is significant.

FVOCI/Available for Sale Financial Asset
The fair value of the available for sale financial asset is based on the quoted market price of the investment in equity as at December 31, 2017 and 2016. The fair value is under Level 1 of the fair value hierarchy.

Capital Management
The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain high growth by applying free cash flows to selective investments. The Group sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The BOD monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The BOD also monitors the level of dividends to shareholders.

	2018	2017
Net operating income	**1,061,484,213**	742,889,951
Total stockholders equity	**9,090,383,083**	8,924,686,378
	11.68%	8.32%

The BOD seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group defines capital as equity, which includes capital stock, additional paid-in capital and retained earnings. There were no changes in the Group's approach to capital management as at December 31, 2018 and 2017. The Group is not subject to externally-imposed capital requirements.

27. **Subsequent Events**

On January 11, 2019, the Parent Company called for a Special Stockholder's Meeting for the approval of the issuance of up to 1,300,147,488 common shares from the unissued capital stock through a private placement at a price based on a premium over the closing price of the shares of the Company on November 29, 2018. The BOD approved and ratified the issuance and subscription of its 1,300,147,488 common shares at an issue price of ₱3.60 on the same date.

In March and April 2019, 1,217,647,488 common shares were subscribed at ₱3.60 per share by virtue of the subscription agreements entered into by the Company with its investors. The proceeds from the issuance of will be used to refinance the Company's existing obligations, for expansion programs and working capital requirements.

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
Leisure & Resorts World Corporation
26th Floor, West Tower, PSE Center
Exchange Road, Ortigas Center
Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Leisure & Resorts World Corporation and Subsidiaries (collectively referred to as "the Company") as at and for the year ended December 31, 2018 and have issued our report thereon dated April 29, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Pilar B. Hernandez

Maria Pilar B. Hernandez
Partner
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February 26, 2019, valid until February 25, 2022
Tax Identification No. 214-318-972
BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332559, January 3, 2019, Makati City

April 29, 2019