

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	0	0	0	0	0	3	9	1	2	1
---	---	---	---	---	---	---	---	---	---	---

COMPANY NAME

P	H	I	L	W	E	B	C	O	R	P	O	R	A	T	I	O	N	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S					

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

4	1	s	t	F	l	o	o	r	,	O	n	e	S	a	n	M	i	g	u	e	l	A	v	e	n	u	e	C	o	n	d	o					
m	i	n	i	u	m	,	S	a	n	M	i	g	u	e	l	A	v	e	n	u	e	c	o	r	n	e	r	S	h	a	w	B					
o	u	l	e	v	a	r	d	,	O	r	t	i	g	a	s	C	e	n	t	e	r	,	P	a	s	i	g	C	i	t	y						

Form Type

A	A	C	F	S
---	---	---	---	---

Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A
---	---	---

COMPANY INFORMATION

Group's Email Address	Group's Telephone Number/s	Mobile Number
—	(02) 8 845-4171	—
No. of Stockholders	Annual Meeting (Month / Day)	Calendar Year (Month / Day)
1,441	Any day in May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. Raymund S. Aquino	rsaquino@philweb.com.ph	(02) 8 845-4171	—

CONTACT PERSON'S ADDRESS

6F Adamson Centre, 121 L.P. Leviste Street, Salcedo Village, Makati 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 shall not excuse the corporation from liability for its deficiencies.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
PhilWeb Corporation and Subsidiaries
41st Floor, One San Miguel Avenue Condominium
San Miguel Avenue corner Shaw Boulevard
Ortigas Center, Pasig City

Opinion

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years ended December 31, 2019, 2018 and 2017, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the three years ended December 31, 2019, 2018 and 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 the 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 as at and for the year ended December 31, 2019. 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.



Revenue Recognition

Revenue, a key driver of the Group's performance, is generated from the provision and maintenance of electronic gaming system (EGS), rendering of related services as an accredited EGS service provider of Philippine Amusement and Gaming Corporation (PAGCOR), operating PAGCOR Electronic Gaming Sites (PeGS), and the provision of technical services to a third party e-bingo operator. Revenue is based on a percentage of the Gross Gaming Revenue (GGR) for gaming application services and commission income, and a percentage of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for other revenue. The accuracy and completeness of revenue recognized is dependent on the effectiveness of the Information Technology (IT) controls and the manual controls over revenue recognition.

We tested relevant IT and key manual controls over revenue. We recomputed the revenue allocation based on the provisions of the accreditation issued by PAGCOR and the related agreements with the supplier of gaming platforms and e-bingo operators. We reviewed and tested the reconciliation of the monthly GGR report and remittances to PAGCOR, supplier of gaming platforms and operators. We also performed analytical procedures and tested journal entries posted to revenue accounts to identify unusual or irregular items. Further disclosures are included in Note 2 to consolidated financial statements for the accounting policy related to revenue recognition.

Accounting for Lease Arrangements

Effective January 1, 2019, the Group has adopted the requirements of PFRS 16, *Leases*, using the modified retrospective approach. The new standard requires lessees to account for all leases under a single on-balance sheet model and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The application of this standard requires management to make certain judgments and estimates such as the likelihood of exercising the lease renewal options, and determining the appropriate lease term and discount rates for the measurement of Right-of-Use (ROU) asset and lease liability, among others. Hence, this matter was considered significant to our audit.

We reviewed the reasonableness of management's judgments by obtaining lease contracts and agreeing the terms with these judgments. We reviewed the consistency of the application of judgment across all lease arrangements checked whether all the lease arrangements were being accounted for. We reviewed the inputs used in the computation of the ROU assets and lease liabilities and matched them with certain provisions in the lease contracts and checked the mathematical accuracy. We also reviewed the adequacy of the related disclosures as presented in Note 19 to the consolidated financial statements.



Realizability of Deferred Tax Assets

As at December 31, 2019, the Group recognized deferred tax assets (DTA) as management assessed that it is probable that there will be sufficient future taxable income against which the recognized DTA can be utilized. The analysis on the realizability of DTA is significant to our audit because the assessment process requires significant judgments and assumptions involving expected future financial performance.

We reviewed management's assessment on the realizability of DTA. We obtained the financial projections prepared by management supporting the utilization of DTA in the succeeding taxable years and reviewed and assessed the reasonableness of the assumptions, methodologies and inputs used. We also determined if the DTA recognized are disclosed in the consolidated financial statements and Net Operating Loss Carry Over (NOLCO) are reported in the tax returns. Further disclosures are included in Note 18 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover these 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 audit 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 PFRS, 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 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.

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



Auditors' 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 auditors' 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 PSA 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 PSA, 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 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 our audits of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report is Michelle R. Mendoza-Cruz.

REYES TACANDONG & Co.


MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1499-AR-1 Group A

Valid until July 17, 2021

BIR Accreditation No. 08-005144-012-2020

Valid until January 1, 2023

PTR No. 8116478

Issued January 6, 2020, Makati City

May 7, 2020

Makati City, Metro Manila

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2019	2018
ASSETS			
Current Assets			
Cash	4	₱37,624,126	₱54,304,294
Receivables	5	334,118,995	38,367,353
Prepayments and other current assets	6	40,832,247	37,275,733
Total Current Assets		412,575,368	129,947,380
Noncurrent Assets			
Property and equipment	7	113,848,711	99,186,099
Right-of-use (ROU) assets	19	110,953,669	–
Net deferred tax assets	18	31,999,843	80,305,259
Other noncurrent assets	8	124,393,795	76,606,631
Total Noncurrent Assets		381,196,018	256,097,989
		₱793,771,386	₱386,045,369
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities	9	₱170,666,286	₱202,834,562
Notes payable	10	203,600,000	146,171,875
Current portion of lease liabilities	19	35,812,101	–
Total Current Liabilities		410,078,387	349,006,437
Noncurrent Liabilities			
Lease liabilities - net of current portion	19	78,543,103	–
Net retirement liability	16	30,465,160	15,074,600
Other noncurrent liability	11	14,801,000	15,805,000
Total Noncurrent Liabilities		123,809,263	30,879,600
Total Liabilities		533,887,650	379,886,037
Equity			
	13		
Capital stock		1,517,157,525	1,505,937,831
Additional paid-in capital		656,751,427	1,010,387,648
Retained earnings		915,975,595	1,485,794,383
Accumulated remeasurement gain (loss)	16	(3,744,518)	3,601,120
Treasury shares		(1,098,928,524)	(1,098,928,524)
Shares held by subsidiaries		(1,727,327,769)	(2,898,284,262)
Equity attributable to equity holders of the Parent Company		259,883,736	8,508,196
Non-controlling interests		–	(2,348,864)
Total Equity		259,883,736	6,159,332
		₱793,771,386	₱386,045,369

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31				
		2019	2018 (As restated - Note 14)	2017 (As restated - Note 14)
	Note			
REVENUE	25			
Gaming application services		₱270,932,622	₱223,351,090	₱11,911,410
Commission income		238,537,716	201,215,557	148,839,343
Others		30,392,454	-	-
		539,862,792	424,566,647	160,750,753
COSTS AND EXPENSES	14	(544,176,264)	(506,202,842)	(498,698,748)
OTHER INCOME (CHARGES) - Net	17	(29,687,837)	(11,033,255)	3,059,204
LOSS BEFORE INCOME TAX		(34,001,309)	(92,669,450)	(334,888,791)
PROVISION FOR (BENEFIT FROM) INCOME TAX	18			
Current		67,522	-	-
Deferred		51,453,546	(14,603,213)	(40,463,639)
		51,521,068	(14,603,213)	(40,463,639)
NET LOSS		(₱85,522,377)	(₱78,066,237)	(₱294,425,152)
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Parent Company		(₱87,871,241)	(₱77,579,968)	(₱293,269,659)
Non-controlling interests		2,348,864	(486,269)	(1,155,493)
		(₱85,522,377)	(₱78,066,237)	(₱294,425,152)
BASIC/DILUTED LOSS PER SHARE	20	(₱0.07)	(₱0.07)	(₱0.25)
EARNINGS (LOSSES) BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) BEFORE EFFECT OF PFRS 16, LEASES	26	₱58,400,675	₱9,278,305	(₱152,478,187)

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	2019	2018	2017
NET LOSS		(P85,522,377)	(P78,066,237)	(P294,425,152)
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Not to be reclassified to profit or loss</i>				
Remeasurement gain (loss) on net retirement liability	16	(10,493,768)	(4,401,459)	8,465,695
Deferred tax effect on remeasurement gain (loss) on net retirement liability	16	3,148,130	1,320,438	(2,539,709)
		(7,345,638)	(3,081,021)	5,925,986
TOTAL COMPREHENSIVE LOSS		(P92,868,015)	(P81,147,258)	(P288,499,166)
TOTAL COMPREHENSIVE LOSS				
ATTRIBUTABLE TO:				
Equity holders of the Parent Company		(P95,216,879)	(P80,660,989)	(P287,343,673)
Non-controlling interests		2,348,864	(486,269)	(1,155,493)
		(P92,868,015)	(P81,147,258)	(P288,499,166)

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31		
	Note	2019	2018	2017
CAPITAL STOCK - ₱1 par value				
Authorized - 2,600,000,000 shares	13			
Issued and subscribed (net of subscriptions receivable amounting to ₱11.2 million in 2018 and ₱18.7 million in 2017):				
Balance at beginning of year		₱1,505,937,831	₱1,498,348,441	₱1,483,173,441
Collection of subscriptions receivable		11,219,694	7,439,390	15,000,000
Issuance during the year		–	150,000	175,000
Balance at end of year		1,517,157,525	1,505,937,831	1,498,348,441
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year	13	1,010,387,648	1,013,836,920	1,112,897,280
Reduction as a result of sale of shares of stock held by subsidiaries		(387,295,307)	(5,104,100)	(102,702,303)
Collection of subscriptions receivable		33,659,086	–	–
Subscriptions for additional shares of stock		–	472,500	551,250
Stock options exercised and forfeited		–	1,182,328	3,090,693
Balance at end of year		656,751,427	1,010,387,648	1,013,836,920
STOCK OPTIONS RESERVE				
Balance at beginning of year	13	–	1,182,328	4,273,021
Stock options exercised and forfeited		–	(1,182,328)	(3,090,693)
Balance at end of year		–	–	1,182,328
RETAINED EARNINGS				
Balance at beginning of year		1,485,794,383	1,563,374,351	1,856,644,010
Reduction as a result of the sale of shares of stock held by subsidiaries in excess of cost	13	(481,947,547)	–	–
Net loss		(87,871,241)	(77,579,968)	(293,269,659)
Balance at end of year		915,975,595	1,485,794,383	1,563,374,351
ACCUMULATED REMEASUREMENT GAINS (LOSSES) ON NET RETIREMENT LIABILITY				
Balance at beginning of year	16	3,601,120	6,682,141	756,155
Remeasurement gain (loss) on net retirement liability		(10,493,768)	(4,401,459)	8,465,695
Deferred tax effect on remeasurement gain (loss) on net retirement liability		3,148,130	1,320,438	(2,539,709)
Balance at end of year		(3,744,518)	3,601,120	6,682,141

(Forward)

		Years Ended December 31		
	Note	2019	2018	2017
TREASURY SHARES				
	13			
Balance at beginning and end of year		(₱1,098,928,524)	(₱1,098,928,524)	(₱1,098,928,524)
SHARES HELD BY SUBSIDIARIES				
	13			
Balance at beginning of year		(2,898,284,262)	(2,908,410,442)	(3,112,209,212)
Sale of shares of stock		1,170,956,493	10,126,180	203,798,770
Balance at end of year		(1,727,327,769)	(2,898,284,262)	(2,908,410,442)
NON-CONTROLLING INTERESTS				
Balance at beginning of year		(2,348,864)	(1,862,595)	(707,102)
Share in net income (loss)		2,348,864	(486,269)	(1,155,493)
Balance at end of year		-	(2,348,864)	(1,862,595)
		₱259,883,736	₱6,159,332	₱74,222,620

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		(P34,001,309)	(P92,669,450)	(P334,888,791)
Adjustments for:				
Depreciation and amortization	7	97,320,626	64,260,395	108,549,479
Interest expense	10	29,676,860	12,285,638	3,925,278
Impairment losses	14	8,515,703	26,667,647	72,948,608
Retirement benefits expense	16	4,896,792	3,530,695	2,134,571
Interest income	4	(185,564)	(1,265,925)	(1,171,666)
Unrealized foreign exchange gain		-	(32,634)	(6,389)
Gain on disposal of assets	17	-	-	(3,113,945)
Operating income (loss) before working capital changes		106,223,108	12,776,366	(151,622,855)
Decrease (increase) in:				
Receivables		(6,038,003)	(15,688,385)	(3,188,083)
Prepayments and other current assets		(8,056,975)	(19,008,879)	8,432,472
Decrease in accounts payable and other current liabilities		(32,934,281)	(1,302,534)	(70,775,671)
Net cash generated from (used for) operations		59,193,849	(23,223,432)	(217,154,137)
Payments of lease liabilities	19	(37,553,339)	-	-
Interest paid	10	(18,712,951)	(13,028,712)	(4,400,000)
Interest received		185,564	1,265,925	1,171,666
Net cash used in operating activities		3,113,123	(34,986,219)	(220,382,471)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of:				
PAGCOR e-Games Sites (PeGS)	8	(73,115,297)	(2,544,847)	-
Property and equipment	7	(27,725,964)	(12,012,188)	(4,895,176)
Additions to other noncurrent assets		(20,254,935)	(25,474,356)	(7,159,030)
Proceeds from:				
Collection of loan receivable	5	-	-	139,653,819
Disposal of investments in associates	8	-	-	16,193,931
Disposal of property and equipment		-	-	1,372,800
Net cash provided by (used in) investing activities		(121,096,196)	(40,031,391)	145,166,344

(Forward)

		Years Ended December 31		
	Note	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of loans	10	₱159,500,000	₱95,000,000	₱90,000,000
Collection of subscription receivable	13	44,878,780	7,439,390	15,000,000
Subscriptions to and issuances of common stock		–	622,500	726,250
Payment of notes payable	10	(102,071,875)	(88,828,125)	–
Increase (decrease) in other noncurrent liability		(1,004,000)	3,050,000	(16,600,000)
Net cash provided by financing activities		101,302,905	17,283,765	89,126,250
EFFECTS OF EXCHANGE RATE CHANGES ON CASH				
		–	32,634	6,389
NET INCREASE (DECREASE) IN CASH		(16,680,168)	(57,701,211)	13,916,512
CASH AT BEGINNING OF YEAR		54,304,294	112,005,505	98,088,993
CASH AT END OF YEAR		₱37,624,126	₱54,304,294	₱112,005,505
NONCASH FINANCIAL INFORMATION:				
Sale of Parent Company shares held by subsidiaries on account	5	₱292,000,000	₱–	₱–
Recognition of ROU assets	19	143,681,406	–	–
Recognition of lease liabilities	19	141,710,639	–	–
Acquisition of PeGS in exchange for shares held by subsidiaries	8	12,000,000	5,022,080	67,389,413
Extinguishment of a liability in exchange for shares held by subsidiaries	9	–	–	34,251,673

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

PhilWeb Corporation (the Parent Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on August 20, 1969. The Parent Company's primary purpose is to develop, design, build, operate and manage gaming systems, applications and operating platforms and facilities, including but not limited to integrated and online computer systems, terminals, servers and routers together with interconnecting and interlinking telecommunications systems.

On July 4, 2018, the SEC approved the amendment to the Articles of Incorporation of the Parent Company consisting of:

- Extension of the corporate life for another fifty (50) years from August 19, 2019;
- Change of principal address from The Penthouse, Alphaland Southgate Tower, 2258 Roces Avenue corner EDSA, Makati City to 6th Floor, Adamson Centre, 121 LP Leviste Street, Salcedo Village, Makati City; and
- Change in the number of directors from fifteen (15) to eleven (11).

On September 12, 2018, the SEC approved the change in the principal address of the Parent Company from 6th Floor, Adamson Centre, 121 LP Leviste Street, Salcedo Village, Makati City to 41st Floor, One San Miguel Avenue Condominium, San Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City.

The Parent Company is 54.65% owned by Gregorio Araneta, Inc., a holding company incorporated in the Philippines. The Parent Company's 1,447,278,838 shares are listed in the Philippine Stock Exchange under the stock symbol "WEB".

The number of shareholders of such registered shares is 1,441 and 1,449 as at December 31, 2019 and 2018, respectively.

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries (collectively known as "the Group"). The following are the subsidiaries and the respective percentages of ownership and registered principal activities together with the place of incorporation as at December 31, 2019:

Subsidiaries	Principal Activities	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhilWeb Software Solutions, Inc.	Computer software programming and development services	April 3, 2000, Philippines	100	–
PhilWeb Cyberworld Corporation	Operates internet cafes and kiosks	July 6, 2000, Philippines	100	–
PhilWeb Convergence Corporation	Internet access provider	September 6, 2000, Philippines	100	–
BigGame, Inc. (BGI)*	Operates PEGS	February 11, 2005, Philippines	68	32

Subsidiaries	Principal Activities	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
Premyo sa Resibo, Inc.	Develops and markets computer systems, applications, programs and operates gaming platforms	December 8, 2006, Philippines	100	–
PhilWeb Casino Corporation	Develops and maintains gaming systems and applications for all types of casino operations	December 22, 2006, Philippines	100	–
PhilWeb Leisure and Tourism Corporation	Operates and maintains leisure and tourism-oriented activities	June 6, 2007, Philippines	100	–
PhilWeb Tourism and Entertainment Corporation	Operates and maintains leisure and tourism-related activities	July 26, 2007, Philippines	100	–
PhilWeb International Gaming Corporation	Engages in international gaming ventures	November 18, 2009, Philippines	100	–
Easy e-Bingo, Inc. (EEI)*	Operates internet bingo stations	October 23, 2009, Philippines	100	–
PhilWeb Mobile Lottery Corp.	Operates mobile-based lottery games and other related mobile games offerings	February 3, 2010, Philippines	100	–
Best Choice Holdings, Inc. (BCHI)	Engages to purchase, own, and hold stock of other corporations	September 11, 2012, Philippines	100	–
Pure Corporation Investments Limited (PCIL)	Investment vehicle for foreign operations	N/A, Special Purpose Entity	100	–
PhilWeb Asia-Pacific Corporation (PAPC)	Engages in international gaming ventures	July 13, 2010, Philippines	96	3
PhilWeb Cambodia Ltd. (PCL)	Engages in international gaming ventures	Cambodia	–	96
PhilWeb Lorosae, Lda. (PLL)	Engages in international gaming ventures	Timor-Leste	–	67
Guam Sweepstakes Corporation (GSC)	Engages in international gaming ventures	Guam, USA	–	49
e-Magine Gaming Corporation	Develops technology for the gaming industry	May 8, 2007, Philippines	90	–
Major Games and Amusement Corporation (MAGCOR)	Establishes, operates and provides consultancy services with regard to amusement, recreational, gaming, and gaming equipment facilities	July 29, 2008, Philippines	30	–

*Except for BGI and EEI, all other subsidiaries are not in commercial operations as at December 31, 2019 and 2018.

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2019, 2018 and 2017.

Status of Operations

The Parent Company used to have an Intellectual Property License and Management Agreement (IPLMA) with the Philippine Amusement and Gaming Corporation (PAGCOR) as a service provider of PAGCOR's Electronic Gaming Sites (PeGS).

On August 10, 2016, the Parent Company ceased to operate as a service provider of PAGCOR because of the expiration of its IPLMA.

On August 18, 2017, the Parent Company received a provisional certificate of accreditation from PAGCOR. After complying with the stringent requirements, on October 30, 2017, PAGCOR issued a certificate of accreditation to the Parent Company. Thereafter, in December 2017, PAGCOR allowed the Parent Company to offer its services to 16 PeGS, subject to inspection and testing by PAGCOR. Revenue from gaming application services during the testing period amounted to ₱11.9 million. After passing the initial inspection and testing in February 2018, PAGCOR then allowed the Parent Company to offer its services to an additional 21 PeGS.

On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Parent Company's electronic gaming system, thereby allowing the Parent Company to fully resume its operations. As at December 31, 2019, the number of sites serviced by the Parent Company increased from 56 in 2018 to 66 in 2019. The Group, however, still incurred a net loss of ₱85.5 million in 2019 but has positive EBITDA of ₱101.3 million (₱58.4 million if excluding PFRS 16 impact) (see Note 26).

The Group is continuously acquiring sites from operators to increase market share and on January 24, 2020, disclosed that it is in the process of acquiring a significant number of sites from a third-party operator. The Group projects to earn financial income in 2020.

Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the years ended December 31, 2019, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on May 7, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

Measurement Bases

The consolidated financial statements are presented in Philippine Peso (Peso) which is the Group's functional and presentation currency. All values are rounded to the nearest Peso unless otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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 transaction date.

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

- Level 1 - Quoted (unadjusted) 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values of financial assets and liabilities are disclosed in Note 23 to the consolidated financial statements.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Group adopted effective January 1, 2019:

- PFRS 16, *Leases*

PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC) -15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. 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. The standard includes two recognition exemptions for lessees - leases of low-value assets 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., Right-of-use (ROU) asset]. Lessees will be required to separately recognize the interest expense on the lease liability and the amortization expense on the ROU asset.

Lessees will also be 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 ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from 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.

The Group generally leases spaces for its office and parking spaces and PeGS and e-bingo sites for a term of six (6) months to five (5) years from various entities. These are renewable upon mutual agreement of the parties and do not contain any purchase options. The Group recognized ROU assets and lease liabilities for sites with permanent and significant improvements and other non-cancellable lease commitments. These liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate of 10.9% to 12.9% as at January 1, 2019. ROU assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Group has adopted PFRS 16 using the modified retrospective method, which measures ROU assets as equal to lease liabilities, adjusted by prepayments, and accrued lease payments relating to that lease at the date of initial application. Consequently, the application of PFRS 16 has no impact on the beginning retained earnings and no restatement was made for the 2018 comparative information presented.

The Group's ROU assets and lease liabilities recognized as at January 1, 2019 amounted to ₱64.5 million and ₱63.7 million, respectively.

Reconciliation of operating lease commitments under PAS 17 as at December 31, 2019 and lease liabilities as at January 1, 2019 is as follows:

Operating lease commitments as at December 31, 2018	₱118,079,831
Discounted operating lease commitments as at December 31, 2018	₱63,863,674
Extension and termination options reasonably certain to be exercised	6,749,048
Recognition exemption for short-term leases	(6,873,797)
Lease liabilities recognized as at January 1, 2019	₱63,738,925

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the “solely payments of principal and interest” criterion regardless of an 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. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).
- Annual Improvements to PFRS 2015 to 2017 Cycle:
 - Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11 clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.
 - Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9, *Financial Instruments*, when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income (OCI) or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements of the Group, except for PFRS 16. Additional disclosures have been included in the consolidated financial statements as necessary.

Amended PFRS Issued But Not Yet Effective

Relevant amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity –

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2017, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the consolidated financial statements as necessary.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the related share issuance costs. Acquisition-related costs incurred are expensed and included in costs and expenses.

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled and accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedure used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then gain is recognized in consolidated statements of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

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

If necessary information, such as fair value of assets and liabilities acquired, is not available by the end of the reporting period in which the business combination occurs, provisional amounts are used for a period not exceeding one year from the date of acquisition or measurement period. During this period, provisional amounts recognized for a business combination may be retrospectively adjusted if relevant information has been obtained or becomes available.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. Subsidiaries are entities controlled by the Parent Company. In assessing control, the Parent Company considers if it is exposed, or has right, to variable returns from its investment with the subsidiary and if it has the ability to affect those returns.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. The results of operations of the subsidiaries acquired or disposed of during the period are included in the consolidated statements of income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

All intragroup balances, transactions, income and expenses and unrealized gains and losses are eliminated in full.

Non-controlling interests pertain to the portion of profit or loss and the net assets in subsidiaries not held by the Parent Company and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position. The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

The Group has a Special Purpose Entity (SPE) for investment purposes. An SPE is consolidated when the substance of its relationship with the Group indicates that the SPE is controlled by the Group.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference.

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group’s business model and its contractual cash flow characteristics.

As at December 31, 2019 and 2018, the Group does not have financial assets at FVPL and FVOCI and financial liabilities at FVPL.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the Group's cash, receivables (excluding advances to suppliers) and rental and other deposits presented under "Other noncurrent assets" account are classified under this category (see Notes 4, 5 and 8).

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2019 and 2018, the Group's accounts payable and other current liabilities (excluding statutory payable), notes payable and other noncurrent liability are classified under this category (see Notes 9, 10 and 11).

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has 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 right 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 right 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 continuing involvement of the Group 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.

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the consolidated statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Impairment of Financial Assets

The Group recognizes an allowance for ECL for all debt instruments not measured at FVPL. ECL is 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. The difference is then discounted at an approximation to the asset's original effective interest rate.

Trade Receivables. For trade receivables without significant financing component, the Group has applied the simplified approach in measuring ECL.

Simplified approach requires that ECL should always be based on the lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments at Amortized Cost. For these debt instrument, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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 assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; 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.

Advances to Suppliers

Advances to suppliers are recorded at the amount of cash paid and are charged to the related accounts upon receipt of the related good or service in the subsequent reporting periods. Advances to suppliers pertain to advance payments for purchase of materials, supplies and services which are not yet received by or rendered to the Group.

Prepayments and Other Current Assets

Prepayments and other current assets consist of:

Input Value-added Tax (VAT). Input VAT represents tax imposed on the Group by its suppliers for the acquisition of goods and services required under the Philippine taxation laws and regulations. Input VAT is recognized as an asset and will be used to offset the Group's current VAT liability.

Prepayments. Prepayments include expenses already paid but not yet incurred. These are measured at cost less amortization. Prepayments are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Creditable Withholding Taxes (CWTs). CWT is an amount that is withheld from income payments. This is deducted from income tax payable.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The estimated useful lives of property and equipment are as follows:

	Number of Years
Computer equipment and software	3 - 10
Network and data communication equipment	3 - 5
Leasehold and site improvements	5 or term of lease, whichever is shorter
Furniture, fixtures and office equipment	1 - 5
Transportation equipment	1 - 3

The useful life of each of the property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets. The property and equipment's useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its property and equipment and other noncurrent assets (except rental and other deposits) may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued less any unpaid subscriptions receivable.

Additional Paid-in Capital. This includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration.

Other Comprehensive Income. Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in profit or loss for the year. Moreover, it pertains to accumulated remeasurement gains or losses on net retirement liability.

Treasury Shares. Acquired treasury shares are accounted for at cost and shown as a deduction in the equity section of the consolidated statements of financial position. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Shares Held by Subsidiaries. Shares held by subsidiaries are accounted for at cost and shown as a deduction in the equity section of the consolidated statements of financial position. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the performance of the Group creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the performance of the Group does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as an agent in its PEGS and e-bingo operations, including its gaming application services.

The Group recognized revenue from contracts with customers when it has met the following specific performance obligations:

Gaming Application Services. Performance obligation is satisfied over time during the period when the Group provides technical, marketing and cash management services for electronic gaming operations of PAGCOR, particularly for sports betting and electronic casino operations, and is based on agreed percentages of gross bets and net winnings from the sports betting and electronic casino operations, respectively. For electronic casino, net winnings are derived after deducting from gross winnings the marketing expenses, franchise taxes and software licensing fees.

Gaming application services are recognized net of PAGCOR share and site operator share, but gross of service providers' share. Share of the other parties in the gross gaming revenue is generally remitted in the following month (see Note 14).

Commission Income. Performance obligation is satisfied over time during the period when the Group operates and manages PeGS and e-bingo sites for PAGCOR. Commission income from the operation of PeGS is recognized based on agreed percentage of casino winnings from PeGS' operations and are settled with the gaming application provider in the next month.

Other Sources of Income

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

Interest Income. Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Other Income. Other Income is recognized when earned.

Costs and Expenses Recognition

Costs and expenses are recognized in profit or loss upon consumption of the goods and/or utilization of the service or at the date these are incurred.

Share-based Transactions

The Parent Company has a stock option plan (the Plan) covering employees, officers and directors, whereby employees render services for shares or rights over shares ("equity-settled transaction"). The rights granted under the plan are not assignable and nontransferable. The cost of the equity-settled transaction is measured by reference to the fair value of the stock option on the date that it was granted. Stock options reserve presented as part of "Equity" is measured at fair value of the share options as at reporting date.

Leases

a. Accounting policies prior to January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or 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:

- i. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- ii. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- iii. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- iv. there is a substantial change to the asset.

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

The Group as a Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

b. Accounting policies beginning January 1, 2019

The Group assesses whether the contracts is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

- i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and
- ii. the right to direct the use of the identified asset.

If the Group has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Group also assesses whether a contract contains a lease for each potential separate lease component.

The Group as a Lessee. At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

ROU Assets. At commencement date, the Group measures ROU assets at cost. The cost comprises:

- i. the amount of the initial measurement of lease liabilities;
- ii. any lease payments made at or before the commencement date less any lease incentives received;
- iii. any initial direct costs; and
- iv. an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

The ROU assets are recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease term or the useful life of the underlying assets ranging from one to ten years.

Lease Liabilities. At commencement date, the Group measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its Group borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

- i. fixed payments, including in-substance fixed payments;
- ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii. amounts expected to be payable by the lessee under residual value guarantees; and
- iv. the exercise price under a purchase option that the Group is reasonably certain to exercise; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on weighted average number of issued and outstanding common shares during the year.

Diluted earnings (loss) per share is computed as if the potential common share or instrument that may entitle the holder to common share were exercised as of the beginning of the year.

EBITDA

EBITDA is computed at income (loss) before income tax after excluding the effect of interest, depreciation and amortization and other non-cash charges.

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 reporting year. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans of the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Group has a funded, non-contributory defined benefit plan covering all qualified employees. The retirement benefits funded cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Current service costs pertain to the increase in the present value of the defined benefit obligation arising from employee services in the current period, which are recognized in profit or loss.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability or asset) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement asset (liability) is the excess (deficiency) of fair value of plan assets on which the obligations are to be settled directly over the present value of the retirement obligation. The present value of the retirement obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. The asset ceiling is the present value of future economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan.

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 the reporting date.

Foreign Operations and Foreign Currency Denominated Transactions

The assets and liabilities of foreign operations are translated to Peso at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Peso at average exchange rates for the period.

Foreign currency differences are recognized in OCI, and presented as “cumulative translation adjustment” account in the consolidated statements of changes 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 control, significant influence or joint control is lost, the cumulative amount in the translation reserve 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, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the 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 are considered to form part of a net investment in a foreign operation and are recognized in OCI, and presented in the “cumulative translation adjustment” account in the consolidated statements of changes in equity.

Related Party Relationships and Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Parent Company; (2) associates; and (3) individuals owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the Parent Company and close members of the family of any such individual.

The key management personnel of the Group and post-employment benefit plan for the benefit of Group’s employees, if any, are also considered to be related parties.

Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

Income Taxes

Current Tax. Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date.

Deferred Tax. Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and unused net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused NOLCO and excess MCIT over RCIT can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax law) that have been enacted or substantively enacted at the reporting date.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. 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 asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events after the Reporting Date

Events after the reporting date that provide additional information about the Group's financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial statements when material. Events after the reporting date that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Information

The Group has aggregated the different business units of the Group to two operating segments, the domestic operations and foreign operations, according to the geographical location of the assets used to derive revenues. The Group's foreign operations are considered to be immaterial in relation to the consolidated financial statements.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, accounting estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Group's policies, the Group has made certain judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Establishing Control Over Investment in Subsidiaries. The Group made judgments in determining whether it has control over its subsidiaries by considering, among others, its power over 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. The following were also considered:

- Rights arising from other contractual agreements; and
- The Group's voting rights and potential voting rights.

Classifying Financial Instruments. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statements of financial position. Financial instruments are disclosed in Note 22 to the consolidated financial statements.

Evaluating Lease Commitments - Group as a Lessor. Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The Group has entered into lease agreements for portions of its office and store spaces. Critical judgment was exercised by the Group to distinguish such lease agreements as operating or finance leases by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. The Group accounted for its lease agreements as operating leases.

Evaluating Lease Commitments prior to January 1, 2019 - Group as a Lessee. The Group has entered into lease agreements related to its PeGS and e-bingo sites. The Group has determined that the significant risks and rewards of ownership of these sites are not transferred to the Group under operating lease arrangements. Accordingly, these leases are accounted for as operating lease.

Classifying Lease Commitments beginning January 1, 2019 - Group as a Lessee. The Group has entered into lease agreements for its PeGS and e-bingo sites. For these leases, the Group recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Group's incremental borrowing rate. The Group availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Determining the Appropriate Rate to Discount the Lease Payments. The Group's ROU assets and lease liabilities were initially measured at the present value of lease payments. In determining the appropriate discount rate, the Group considered readily available interest rate implicit in the lease agreements, interest rate on its borrowings and the term of each lease commitment. The Group determined that the incremental borrowing rate will be used since the implicit rate in the lease agreements were not readily available.

Assessing Extension Options of Lease Commitments. The Group's lease commitments contain extension options exercisable by the Group prior to the end of the non-cancelable contract period. Where practicable, the Group sought to include the extension options to provide operational flexibility. The Group assessed at lease commencement whether it is reasonably certain to exercise the extension options. A reassessment is made whether it is reasonable certain to exercise the extension options if there is a significant event or significant change in circumstances within its control.

Determining Operating Segments. The Group determined its operating segments based on geographical location. Moreover, management also made certain judgments by aggregating all revenue sources in the Philippines to one operating segment as allowed under PFRS 8 due to their similar characteristics (see Note 25).

Determining Functional Currency. The functional currency of the Group has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the operation of the Group.

Determining Agency Relationship in Revenue Recognition. The Group determined that it acts in the capacity of an agent, rather than as the principal, in conducting its services as an accredited service provider and site operator of PAGCOR. Moreover, the Group determined that the significant risks and rewards associated to the rendering of services are not transferred to the Group. Thus, revenue recognized is net of PAGCOR share.

Accounting Estimates and Assumptions

The key accounting estimates and assumptions concerning the future and other key sources of estimation of uncertainty at reporting date that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assessment of ECL of Trade Receivables and Other Financial Assets at Amortized Cost. The allowance for ECL of trade receivables and other financial assets at amortized cost are based on assumptions about risks of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period.

ECL of Trade Receivables

The Company applies simplified approach in measuring ECL of trade receivables which uses a lifetime expected loss allowance for all trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles and the corresponding historical credit losses experienced within this period.

Based on the foregoing, the Group did not recognize provision for ECL on trade receivables in 2019, 2018 and 2017. The carrying amount of trade receivables amounted to ₱16.0 million and ₱9.2 million as at December 31, 2019 and 2018, respectively (see Note 5).

ECL of Other Financial Assets at Amortized Cost

The Group determines the allowance for ECL of other financial assets at amortized cost using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets. The provision for ECL recognized during the period is limited to 12 months ECL because the Group's other financial assets at amortized cost are considered to have low credit risk.

No loss allowance was provided on other financial assets at amortized cost in 2019 and 2018. The carrying amounts of the Group's other financial assets at amortized cost are as follows:

	Note	2019	2018
Cash in banks	4	₱25,630,786	₱46,556,444
Receivables:	5		
Sale of Parent Company shares		292,000,000	–
Loans to PeGS operators		12,096,068	14,129,603
Others		2,284,021	2,602,248
Rental and other deposits	8	55,911,265	46,543,544

Estimating Useful Lives of Property and Equipment. The Group estimates the useful lives of property and equipment based on the period over which they are expected to be available for use. The estimated useful lives are reviewed periodically 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 property and equipment. In addition, the estimation of the useful lives of property and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

There have been no changes in the useful lives of property and equipment in 2019 and 2018. The carrying amount of property and equipment amounted to ₱113.8 million and ₱99.2 million as at December 31, 2019 and 2018, respectively (see Note 7).

Estimating Impairment of Nonfinancial Assets. PFRS requires that an impairment review be performed when certain impairment indicators are present. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

ECL recognized on advances to suppliers amounted to ₱5.0 million in 2019 and nil in 2018 and 2017 (see Note 5).

The Group recognized impairment losses input VAT and CWT aggregating to ₱3.5 million, ₱26.7 million and ₱39.9 million in 2019, 2018 and 2017, respectively (see Notes 6 and 8).

The carrying amounts of the nonfinancial assets as at December 31, 2019 and 2018 are as follows:

	Note	2019	2018
Advances to suppliers	5	₱11,725,284	₱12,430,638
Prepayments and other current assets (other than input VAT)	6	10,857,754	17,019,000
Property and equipment	7	113,848,711	99,186,099
Right-of-use assets	19	110,953,669	–
Input VAT	6, 8	58,519,917	38,968,474

Estimating Fair Values of Acquiree's Identifiable Assets and Liabilities and Impairment of Goodwill. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Group determines the fair value from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values.

The total fair value of the identifiable net assets acquired from the operators amounted to ₱56.5 million, ₱7.6 million and ₱56.0 million in 2019, 2018 and 2017, respectively. Goodwill arising from the excess of the consideration paid less the fair value amounted to ₱28.6 million, nil and ₱11.4 million as at December 31, 2019, 2018 and 2017, respectively (see Note 8).

Moreover, the Group tests annually whether any impairment in goodwill is to be recognized, in accordance with related accounting policy in Note 2. The recoverable amounts of CGUs have been determined based on the higher of fair value less costs to sell and value in use calculations which require the use of estimates. Based on the impairment testing conducted, the recoverable amounts of the CGUs as at December 31, 2019 and 2018, calculated based on value in use are greater than the corresponding carrying amounts (including goodwill) of the CGUs. No impairment loss was recognized in 2019, 2018 and 2017 (see Note 8). The carrying amount of goodwill amounted to ₱39.9 million and ₱11.4 million as at December 31, 2019 and 2018.

Estimating Net Retirement Liability. The determination of the obligation and cost for provision for retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include among others, discount rates and expected rates of salary increase, are indicated in Note 16. Actual results that differ from the assumptions are accumulated and are recognized as part of equity. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement liability.

Net retirement liability amounted to ₱30.5 million and ₱15.1 million as at December 31, 2019 and 2018, respectively (see Note 16).

Assessing Realizability of Deferred Tax Assets. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting periods. This forecast is based on the Group's past results and future expectations on revenue and expenses.

The Group recognized deferred tax assets as at December 31, 2019 and 2018 amounting to ₱32.0 million and ₱81.8 million, respectively (see Note 18). Unrecognized deferred tax assets amounted to ₱51.3 million and ₱7.2 million as at December 31, 2019 and 2018, respectively (see Note 18).

Estimating Provisions and Contingencies. The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings.

No provision has been recognized in 2019, 2018 and 2017.

4. Cash

This account consists of:

	2019	2018
Cash on hand	₱11,993,340	₱7,747,850
Cash in banks	25,630,786	46,556,444
	₱37,624,126	₱54,304,294

Cash in banks earn interest at prevailing bank deposit rates.

Interest income is earned from the following (see Note 17):

	Note	2019	2018	2017
Cash		₱41,043	₱282,900	₱605,346
Receivables	5	144,521	983,025	566,320
		₱185,564	₱1,265,925	₱1,171,666

5. Receivables

This account consists of:

	2019	2018
Trade	₱16,013,622	₱9,204,864
Receivable from sale of Parent Company shares	292,000,000	–
Advances to suppliers	43,715,314	39,376,277
Receivables from non-affiliated entities	34,072,306	34,072,306
Loans to PeGS operators	12,096,068	14,129,603
Claims from telecommunication companies	8,090,049	8,090,049
Others	2,284,021	2,602,248
	408,271,380	107,475,347
Less allowance for impairment loss on:		
Receivables from non-affiliated entities	34,072,306	34,072,306
Advances to suppliers	31,990,030	26,945,639
Claims from telecommunication companies	8,090,049	8,090,049
	74,152,385	69,107,994
	₱334,118,995	₱38,367,353

Movements in the allowance for impairment losses are shown below:

	Note	2019	2018	2017
Balance at beginning of year		₱69,107,994	₱69,107,994	₱36,023,727
Provision	14	5,044,391	–	33,084,267
Balance at end of year		₱74,152,385	₱69,107,994	₱69,107,994

Trade Receivables

Trade receivables pertain to uncollected grosshold (cash) from PeGS operators. These are collected and deposited in the Parent Company's bank account on the banking day following the reporting date.

Receivable from Sale of Parent Company Shares

The Group sold 97.3 million Parent Company's shares held by subsidiaries to Palmary Corporation (Palmary) for a consideration of ₱3.00 a share in 2019, in accordance with a Share Purchase Agreement dated May 8, 2019 (see Note 13). The receivable is short-term, unsecured and non-interest bearing.

Advances to Suppliers

Advances to suppliers pertain to advance payments on services to be incurred or goods to be received in connection with the Group's operations which can be refunded or collected under the terms of agreement.

Receivables from Non-affiliated Entities

Receivables from non-affiliated entities pertain mainly to the Parent Company's share in foreign exchange losses/gains on a note receivable. The Parent Company made a formal demand on February 12, 2018 for the collection of the balance. The Group recognized an impairment loss on the remaining carrying amount of ₱34.1 million in 2017. In 2017, loan receivable amounting to ₱139.7 million was collected from a third party.

Loans to PeGS Operators

Loans to PeGS operators pertain to short-term, unsecured, interest-bearing loans extended to operators with interest rate of 8% to 12% per annum that are expected to be settled in cash. Interest income earned from receivables amounted to ₱0.1 million, ₱1.0 million and ₱0.6 million in 2019, 2018 and 2017, respectively (see Note 4).

Claims from Telecommunication Companies

Claims from telecommunication companies represent the amounts collectible for the Premyo sa Resibo's share in the value of the text entries of customers. These were fully provided with valuation allowance.

6. Prepayments and Other Current Assets

This account consists of:

	Note	2019	2018
Input VAT - net of allowance for impairment		₱29,974,493	₱20,256,733
Prepayments for:			
Taxes and licenses		6,112,943	7,866,351
Outsourced services		2,600,287	5,323,037
Insurance		1,356,528	1,381,505
Rent	19	787,996	1,133,565
CWTs		–	1,314,542
		₱40,832,247	₱37,275,733

Movements in the allowance for impairment losses on input VAT and CWTs are shown below.

	Note	2019	2018	2017
Balance at beginning of year		₱108,548,107	₱99,553,767	₱89,227,992
Provision	14	3,471,312	8,994,340	10,325,775
Balance at end of year		₱112,019,419	₱108,548,107	₱99,553,767

7. Property and Equipment

Movements in this account are as follows:

	2019 (In Thousands)						Total
	Note	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	
Cost							
Balance at beginning of year		₱522,667	₱260,309	₱337,313	₱119,481	₱24,483	₱1,264,253
Additions		6,688	2,675	14,752	3,611	–	27,726
Effect of business combination	8	3,630	–	45,458	2,442	–	51,530
Disposals		(35,104)	–	(18,857)	(602)	(2,785)	(57,348)
Balance at end of year		497,881	262,984	378,666	124,932	21,698	1,286,161
Accumulated Depreciation and Amortization							
Balance at beginning of year		465,396	241,589	297,337	103,856	22,646	1,130,824
Depreciation and amortization		6,530	14,508	39,866	3,689	–	64,593
Disposals		(35,104)	–	(18,857)	(602)	(2,785)	(57,348)
Balance at end of year		436,822	256,097	318,346	106,943	19,861	1,138,069
Accumulated Impairment Losses							
Balance at beginning and end of year		27,621	174	5,814	634	–	34,243
Carrying Amount		₱33,438	₱6,713	₱54,506	₱17,355	₱1,837	₱113,849

	2018 (In Thousands)						Total
	Note	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	
Cost							
Balance at beginning of year		₱520,176	₱260,289	₱323,647	₱116,079	₱24,483	₱1,244,674
Additions		2,189	20	6,602	3,201	–	12,012
Effect of business combination	8	302	–	7,064	201	–	7,567
Balance at end of year		522,667	260,309	337,313	119,481	24,483	1,264,253
Accumulated Depreciation and Amortization							
Balance at beginning of year		453,334	217,801	271,761	101,177	22,491	1,066,564
Depreciation and amortization		12,062	23,788	25,576	2,679	155	64,260
Balance at end of year		465,396	241,589	297,337	103,856	22,646	1,130,824
Accumulated Impairment Losses							
Balance at beginning and end of year		27,621	174	5,814	634	–	34,243
Carrying Amount		₱29,650	₱18,546	₱34,162	₱14,991	₱1,837	₱99,186

Fully-depreciated property and equipment still being used in operations amounted to ₱925.0 million and ₱960.9 million as at December 31, 2019 and 2018, respectively.

Depreciation and amortization are recognized from:

	Note	2019	2018	2017
Property and equipment		₱64,592,889	₱64,260,395	₱108,549,479
ROU assets	19	32,727,737	–	–
	14	₱97,320,626	₱64,260,395	₱108,549,479

The Company disposed of property and equipment with cost of ₱57.3 million, nil, and ₱4.0 million in 2019, 2018 and 2017, respectively. Gain on disposal of property and equipment amounted to nil in 2019 and 2018 and ₱1.3 million in 2017 (see Note 17).

As at December 31, 2019 and 2018, the recoverable amount of the Group's property and equipment calculated through value in use exceeded its carrying amount. The value in use was derived using cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are assigned a terminal value computed at a 5% growth rate. Discount rate applied to the cash flow projections in determining recoverable amounts is 6.3% and 11.3% in 2019 and 2018, respectively.

The calculations of value in use are most sensitive to the following estimates and assumptions:

- a. Cash flow estimates – Value in use is primarily dependent on the cash flow estimates used in the computation. When developing cash flow estimates, management used as basis historical financial performance of PeGS and e-bingo sites being operated at similar or comparable locations.
- b. Discount rates – Discount rates were derived from the Group's weighted average cost of capital and reflect management's estimate of the risks within the CGU. This is the benchmark 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, the five-year government bond yield, bank lending rates and market risk premium and country risk premium.
- c. Growth rate estimates – The long-term rate used to estimate the terminal value excludes expansions and possible acquisitions in the future. Management considers expectations from the industry and possible government interventions, among others, in estimating a reasonable growth rate.

8. Other Noncurrent Assets

This account consists of:

	Note	2019	2018
Noncurrent input VAT		₱210,019,099	₱200,185,416
Rental and other deposits	19	58,169,265	48,801,544
Goodwill		39,937,106	11,351,346
Advances for projects		5,378,199	5,378,199
		313,503,669	265,716,505
Less allowance for impairment losses on:			
Noncurrent input VAT		181,473,675	181,473,675
Advances for projects		5,378,199	5,378,199
Rental and other deposits		2,258,000	2,258,000
		189,109,874	189,109,874
		₱124,393,795	₱76,606,631

Noncurrent Input VAT

This account pertains to input VAT of the Group which is not expected to be utilized within one year. Movements in the allowance for impairment losses on noncurrent input VAT are shown below:

	Note	2019	2018	2017
Balance at beginning of year		₱181,473,675	₱163,800,368	₱134,261,802
Provision	14	–	17,673,307	29,538,566
Balance at end of year		₱181,473,675	₱181,473,675	₱163,800,368

Goodwill

On March 8, 2017, the BOD approved the Group's plan to acquire PeGS and e-bingo sites from existing independent PeGS and e-bingo operators. The Group's goodwill is therefore derived from the excess of consideration over the fair value of assets acquired in relation to these acquisitions.

The Group made the following acquisitions in 2019 and 2018:

	2019	2018	2017
No. of sites acquired	8	3	13
Consideration	₱85,115,297	₱7,566,927	₱67,389,413

Goodwill recognized from the acquisitions are as follows:

	Note	2019	2018	2017
Fair value of considerations:				
Cash		₱73,115,297	₱2,544,847	₱–
Treasury shares - 4,411,765 in 2019, 946,372 in 2018 and 7,713,870 in 2017	13	12,000,000	5,022,080	67,389,413
Less fair value of assets acquired:				
Leasehold and site improvements	7	45,458,000	7,064,477	44,259,668
Computer equipment and software	7	3,629,537	301,900	4,161,595
Office furniture and fixtures	7	2,442,000	200,550	2,198,605
Rental and other deposits		5,000,000	–	5,348,199
Network and data communication equipment	7	–	–	70,000
Goodwill recognized from the business combination		₱28,585,760	₱–	₱11,351,346

Movements in the carrying amount of goodwill are shown below:

	2019	2018	2017
Balance at beginning of year	₱11,351,346	₱11,351,346	₱–
Additions	28,585,760	–	11,351,346
Balance at end of year	₱39,937,106	₱11,351,346	₱11,351,346

The Group determined the fair value of the assets acquired using the replacement cost approach, which is based on the price that the Group would pay to replace an existing asset at current market prices with a similar asset (Level 2).

The results of operations of the acquired PeGS and e-bingo sites (the acquirees) were consolidated in the Group's books from dates of acquisition.

Management assessed that the recoverable amount of the CGU to which the goodwill was allocated exceeds its carrying amount. In estimating recoverable amounts which are based on value in use, management used a cash flow projection based on past experience with its existing PeGS and e-bingo sites covering a five-year period at a discount rate of 6.3% in 2019 and 11.3% in 2018. Cash flows beyond that five-year period have been extrapolated using the CGU's average historical growth rate.

Additional revenue and net income from the acquired PeGS and e-bingo sites amounting to ₱51.8 million and ₱3.8 million, respectively, in 2019 and ₱2.2 million and ₱0.1 million respectively, in 2018, were consolidated in the Group's books from their respective dates of acquisition. Had the acquisitions occurred at the beginning of the year, revenues and income would have increased in 2019 by ₱9.6 million and ₱1.1 million, respectively, and in 2018 by ₱3.6 million and ₱0.4 million, respectively.

Advances for Projects

Advances for projects include receivables and related assets from the Group's internet service provider business which was discontinued when the Group focused operations on the gaming business. The Group has provided full allowance for impairment on these assets.

Investments in Associates

Investments in associates accounted for under the equity method represents shares of stock of Choice Insurance Brokerage, Inc. (CIBI) and Alphaforce Security Agency Inc. (ASAI) as at December 31, 2016. On December 22, 2017, the Parent Company sold its investments in CIBI and ASAI for ₱16.2 million. Gain on the disposal of shares amounted to ₱1.8 million (see Note 17).

9. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
Accounts payable	₱134,540,545	₱170,144,175
Accruals for:		
Contractors	14,542,103	18,424,803
Manpower services	8,486,216	6,333,310
Advertising and promotions	5,667,730	-
Utilities and communications	4,235,669	4,896,174
Professional fees	244,814	778,647
Travel expenses	6,898	180,661
Others	1,230,390	277,594
Statutory payable	1,711,921	1,799,198
	₱170,666,286	₱202,834,562

Accounts payable pertain mostly to payables to suppliers, PAGCOR and PeGS operators. The average credit period for payables to suppliers and PeGS operators are 30-60 days and 15 days, respectively. Payables to PAGCOR are remitted on the following business day.

On August 25, 2017, the Group settled its liability amounting to ₱34.3 million to a supplier of its casino software in exchange for 5.8 million treasury shares

Accrued expenses are normally settled within the next calendar year.

Statutory payable pertains to withholding taxes payable and payables to other government agencies. These are usually settled on the immediate subsequent month.

10. Notes Payable

The Group has peso-denominated short-term notes payable from a local bank amounting to ₱203.6 million and ₱146.2 million as at December 31, 2019 and 2018, respectively, and bear annual interest at an average rate of 8% to 11% in 2019 and 2018. As at December 31, 2019 and 2018, the outstanding loan is secured by the assignment of Parent Company's shares at 300% cover based on prevailing market price (see Note 13).

Interest expense is incurred from the following (see Note 17):

	Note	2019	2018	2017
Notes payable		₱19,478,956	₱12,285,638	₱3,925,278
Lease liabilities	19	10,197,904	–	–
	17	₱29,676,860	₱12,285,638	₱3,925,278

Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	2018	Availments	Payments	Noncash changes	2019
Loans payable	₱146,171,875	₱159,500,000	(₱102,071,875)	₱–	₱203,600,000
Interest	–	29,676,860	(18,712,951)	(10,963,909)	–
Other noncurrent liability	15,805,000	–	(1,004,000)	–	14,801,000
	2017	Availments	Payments	Noncash changes	2018
Loans payable	₱140,000,000	₱95,000,000	(₱88,828,125)	₱–	₱146,171,875
Interest	–	12,285,638	(13,028,712)	(743,074)	–
Other noncurrent liability	12,755,000	3,050,000	–	–	15,805,000

11. Other Noncurrent Liability

This account consists of cash received from operators upon the opening of PeGS. This serves as a bond/security in case an operator defaults from payments. These deposits shall be returned to the operator after the termination of the contract. The carrying amount of operators' refundable deposits approximates amortized cost as the impact of discounting is not material.

12. Compensation of Key Management Personnel

Compensation and short-term employee benefits of key management personnel of the Group amounted to ₱32.1 million, ₱34.1 million and ₱43.2 million in 2019, 2018 and 2017, respectively. The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to ₱2.9 million, ₱2.9 million and ₱2.8 million in 2019, 2018 and 2017, respectively.

13. Equity

Capital Stock

Movements in the number of issued and outstanding shares of capital stock are as follows:

	Number of Shares		Amount	
	2019	2018	2019	2018
Issued Shares				
Balance at beginning of year	1,472,278,745	1,472,128,745	₱1,472,278,745	₱1,472,128,745
Issuance during the year	44,878,780	150,000	44,878,780	150,000
	1,517,157,525	1,472,278,745	1,517,157,525	1,472,278,745
Subscribed Shares				
Balance at beginning of year	44,878,780	44,878,780	44,878,780	44,878,780
Issuance during the year	(44,878,780)	–	(44,878,780)	–
Balance at end of year	–	44,878,780	–	44,878,780
Less subscriptions receivable:				
Balance at beginning of year	–	–	(11,219,694)	(18,659,084)
Collection of subscriptions	–	–	11,219,694	7,439,390
Balance at end of year	–	–	–	(11,219,694)
	–	44,878,780	–	33,659,086
Issued and Subscribed at End of Year	1,517,157,525	1,517,157,525	₱1,517,157,525	₱1,505,937,831
Treasury Shares and Shares Held by Subsidiaries				
Balance at beginning of year	(340,170,046)	(341,116,418)		
Reissued shares	101,745,098	946,372		
Balance at end of year	(238,424,948)	(340,170,046)		
Outstanding Shares at End of Year	1,278,732,577	1,176,987,479		

As at December 31, 2019 and 2018, the Group's outstanding loan is secured by the assignment of all outstanding shares of the Parent Company at 300% cover based on prevailing market price (see Note 10).

Additional Paid-In Capital and Stock Options Reserve

Movements in additional paid-in capital and stock options reserve are as follows:

	Additional Paid-In Capital		Stock Options Reserve	
	2019	2018	2019	2018
Balance at beginning of year	₱1,010,387,648	₱1,013,836,920	₱–	₱1,182,328
Reduction as a result of the sale of shares held by subsidiaries	(387,295,307)	(5,104,100)	–	–
Collection of subscriptions receivable	33,659,086	–	–	–
Subscriptions for additional stock	–	472,500	–	–
Stock options forfeited	–	1,182,328	–	(1,182,328)
Balance at end of year	₱656,751,427	₱1,010,387,648	₱–	₱–

The Group has a stock option plan (the “Plan”) covering all employees, officers and directors of the Parent Company, and its subsidiaries and affiliates, as well as such other qualified persons determined as eligible by the BOD. Stock options outstanding have been derecognized in 2018 due to the expiration of the stock options.

Treasury Shares and Shares Held by Subsidiaries

Movements in treasury shares and shares held by subsidiaries are as follows:

Treasury Stock	2019		2018	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning and end of year	81,380,792	₱1,098,928,524	81,380,792	₱1,098,928,524

Shares Held by Subsidiaries	2019		2018	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	258,789,254	₱2,898,284,262	259,735,626	₱2,908,410,442
Re-issuance during the year to:				
Palmary	(97,333,333)	(1,123,750,608)	–	–
Others	(4,411,765)	(47,205,885)	(946,372)	(10,126,180)
Balance at end of year	157,044,156	₱1,727,327,769	258,789,254	₱2,898,284,262

The Group acquired PeGS and e-bingo sites from independent operators by issuing 4.4 million and 0.9 million Parent Company shares in 2019 and 2018, respectively (see Note 8).

The Group also sold 97.3 million Parent Company’s shares held by subsidiaries to Palmary for a consideration of ₱3.00 a share in 2019, as approved by the BOD in accordance with a Share Purchase Agreement dated May 8, 2019 (see Note 5). The issuance of Parent Company shares held by the subsidiaries resulted to a reduction in amount of ₱387.3 million and ₱481.9 million in additional paid-in capital stock and retained earnings, respectively.

14. Costs and Expenses

This account consists of:

	Note	2019	2018 (As restated)	2017 (As restated)
Outsourced services		₱166,430,749	₱133,362,457	₱53,462,349
Salaries and benefits	15	99,811,688	95,087,630	92,595,451
Depreciation and amortization	7	97,320,626	64,260,395	108,549,479
Utilities and communications		41,952,546	36,360,849	35,758,491
Advertising and promotion		32,044,019	24,433,568	4,010,114
Supplies		24,656,982	17,985,715	12,914,885
Representation and entertainment		23,614,595	35,223,392	31,073,235
Rental	19	17,582,107	50,621,733	60,119,389
Taxes and licenses		14,650,931	13,938,346	14,403,775
Impairment losses		8,515,703	26,667,647	72,948,608
Professional fees		2,791,247	2,266,194	4,374,135
Miscellaneous		14,805,071	5,994,916	8,488,837
		₱544,176,264	₱506,202,842	₱498,698,748

Impairment losses were recognized from the following:

	Note	2019	2018	2017
Receivables	5	₱5,044,391	₱–	₱33,084,267
Input VAT and CWTs (current and noncurrent)	6, 8	3,471,312	26,667,647	39,864,341
		₱8,515,703	₱26,667,647	₱72,948,608

The Group restated its consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017 to report revenue and expenses gross of software license fees. Since the Software License Providers (SLPs) render services on behalf of the Group in relation to its operations as a service provider to PeGS, revenue and expenses are therefore reported at gross of remittances made to SLPs as shown below.

	2018		2017	
	Gaming application services	Outsourced services	Gaming application services	Outsourced services
As Previously Reported	₱165,148,687	₱75,160,054	₱9,113,428	₱50,664,367
To report revenues and expenses at gross of SLP share	58,202,403	58,202,403	2,797,982	2,797,982
As Restated	₱223,351,090	₱133,362,457	₱11,911,410	₱53,462,349

15. Salaries and Benefits

This account consists of:

	Note	2019	2018	2017
Salaries and wages		₱94,914,896	₱91,556,935	₱90,460,880
Retirement expense	16	4,896,792	3,530,695	2,134,571
		₱99,811,688	₱95,087,630	₱92,595,451

16. Retirement Benefits

The Group has a funded, noncontributory, defined benefit plan (the “Plan”) covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the Plan. The Plan is administered by a local bank appointed as a trustee. Annual cost is determined using the projected unit credit method. The Group’s latest actuarial valuation was for the year ended December 31, 2019.

The Group’s retirement plan is registered with the Bureau of Internal Revenue, and is based on the minimum retirement benefits required under RA No. 7641, otherwise known as the Retirement Pay Law.

Retirement benefits recognized as part of the “Salaries and benefits” account under costs and expenses in the consolidated statements of income are as follows (see Note 15):

	2019	2018	2017
Current service cost	₱3,669,238	₱3,117,481	₱4,444,077
Net interest cost	1,227,554	413,214	893,146
Settlement gain	-	-	(3,202,652)
	₱4,896,792	₱3,530,695	₱2,134,571

Movements in net retirement liability of the Group recognized in the consolidated statements of financial position are as follows:

	2019	2018
Balance at beginning of year	₱15,074,600	₱7,142,446
Net remeasurement loss	10,493,768	4,401,459
Current service cost	3,669,238	3,117,481
Net interest cost	1,227,554	413,214
Balance at end of year	₱30,465,160	₱15,074,600

The status of the Plan recognized in the consolidated statements of financial position as at December 31 is as follows:

	2019	2018
Present value of retirement obligation	₱47,411,150	₱33,274,913
Fair value of plan assets	(16,945,990)	(18,200,313)
	₱30,465,160	₱15,074,600

The changes in the present value of retirement obligation are as follows:

	2019	2018
Balance at beginning of year	₱33,274,913	₱26,925,283
Remeasurement loss	10,510,029	1,911,255
Current service cost	3,669,238	3,117,481
Interest cost	2,498,946	1,534,741
Benefits paid	(2,541,976)	(213,847)
Balance at end of year	₱47,411,150	₱33,274,913

The changes in the fair value of the plan assets are as follows:

	2019	2018
Balance at beginning of year	₱18,200,313	₱19,782,837
Benefits paid	(2,541,976)	(213,847)
Interest income	1,271,392	1,121,527
Remeasurement gain (loss)	16,261	(2,490,204)
Balance at end of year	₱16,945,990	₱18,200,313

The Group's plan assets are invested on the following:

	2019	2018
Deposits in bank	₱1,287,653	₱1,655,741
Investment in unit investment trust fund	15,658,337	16,544,572
	₱16,945,990	₱18,200,313

The accumulated remeasurement gain (loss) recognized in OCI as at December 31 is as follows:

	Accumulated Remeasurement Gain (Loss)	Deferred Tax (Note 18)	Net
Balance as at January 1, 2019	₱5,144,457	(₱1,543,337)	₱3,601,120
Net remeasurement loss	(10,493,768)	3,148,130	(7,345,638)
Balance as at December 31, 2019	(₱5,349,311)	₱1,604,793	(₱3,744,518)

	Accumulated Remeasurement Gain	Deferred Tax (Note 18)	Net
Balance as at January 1, 2018	₱9,545,916	(₱2,863,775)	₱6,682,141
Net remeasurement loss	(4,401,459)	1,320,438	(3,081,021)
Balance as at December 31, 2018	₱5,144,457	(₱1,543,337)	₱3,601,120

Principal actuarial assumptions used to determine retirement benefits are as follows:

	Valuation at	
	2019	2018
Discount rates	5.22%	7.51%
Expected rates of salary increase	5.00%	5.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2019 is as follows:

	Change in Assumption	Effect on Net Retirement Liability	
		2019	2018
Discount rate	+100 basis points	(₱3,273,457)	(₱1,156,323)
	-100 basis points	3,273,457	1,239,506
Salary Rate	+100 basis points	3,719,294	1,257,804
	-100 basis points	(3,719,294)	(1,193,992)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the retirement liability was expressed as a percentage change from the base retirement liability.

The changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed more responsible.

Weighted average duration of the defined benefit liability is 7.4 years as at December 31, 2019.

As at December 31, 2019, the expected future benefit payments are as follows:

Year	Amount
2020	₱3,434,870
2021	13,350,129
2022	3,285,223
2023	6,561,173
2024	3,423,638
2025-2024	28,156,322

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

17. Other Income (Charges) - Net

This account consists of:

	Note	2019	2018	2017
Interest expense	10	(₱29,676,860)	(₱12,285,638)	(₱3,925,278)
Interest income	4	185,564	1,265,925	1,171,666
Gain on sale of investments in associates	8	–	–	1,841,095
Foreign exchange gain - net		–	–	1,745,380
Gain on sale of property and equipment	7	–	–	1,272,850
Miscellaneous - net		(196,541)	(13,542)	953,491
		(₱29,687,837)	(₱11,033,255)	₱3,059,204

18. Income Taxes

a) Board of Investments (BOI) Registered Activity

On February 13, 2014, the Parent Company was registered with the BOI as a New Creative Industries/Knowledge-Based Services Provider (Software Development) on a non-pioneer status for its software development project in Pasig City. This entitles the Parent Company to an income tax holiday (ITH) up to 2018 for all income to be generated from the registered project in the said location.

b) Income Tax Computation

The composition of provision for (benefit from) income tax is as follows:

	2019	2018	2017
Current tax - MCIT	₱67,522	₱-	₱-
Deferred tax	51,453,546	(14,603,213)	(40,463,639)
	₱51,521,068	(₱14,603,213)	(₱40,463,639)

The reconciliation of the provision for (benefit from) tax computed at statutory tax rate to provision for (benefit from) income tax as presented in the consolidated statements of income is summarized as follows:

	2019	2018	2017
Income tax at statutory tax rate	(₱10,200,393)	(₱27,800,835)	(₱100,466,637)
Adjustment resulting from:			
Change in unrecognized deferred tax assets	44,040,720	(7,190,353)	29,319,043
Expired NOLCO	14,119,503	7,270,383	-
ITH on BOI - registered activity	-	4,939,313	24,020,762
Add (deduct) tax effects of:			
Non-deductible expenses	3,573,551	8,263,149	7,792,495
Interest and other income already subjected to final tax	(12,313)	(84,870)	(1,129,302)
	₱51,521,068	(₱14,603,213)	(₱40,463,639)

Expenses incurred related to the BOI-registered activity amounted to ₱25.8 million and ₱85.7 million in 2018 and 2017, respectively.

The components of the recognized net deferred tax assets of the Group are as follows:

	Note	2019	2018
Items recognized in profit or loss:			
NOLCO		₱17,478,210	₱75,435,099
Net retirement liability		7,534,755	6,065,717
Allowance for impairment of receivables		3,702,873	347,780
ROU assets and lease liabilities		1,611,690	-
MCIT		67,522	-
		30,395,050	81,848,596
Item recognized directly in OCI -			
Remeasurement losses (gains) on net retirement liability	16	1,604,793	(1,543,337)
		₱31,999,843	₱80,305,259

The Group did not recognize the following deferred tax assets because management believes that these may not be realized because future taxable income may not be sufficient against which the tax benefits can be claimed or deducted:

	2019	2018
NOLCO	₱44,892,441	₱851,721
Allowance for impairment losses	6,386,415	6,386,415
	₱51,278,856	₱7,238,136

As at December 31, 2019, the Group has NOLCO that can be carried forward and claimed as deduction against the regular taxable income as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2016	2019	₱48,178,284	₱1,113,273	₱47,065,011	₱-
2017	2020	160,697,672	2,262,839	-	158,434,833
2018	2021	45,413,445	-	-	45,413,445
2019	2022	4,053,891	-	-	4,053,891
Total		₱258,343,292	₱3,376,112	₱47,065,011	₱207,902,169

MCIT incurred in 2019 that can be carried forward and claimed as deduction against the regular taxable income amounting to ₱67,522 will expire in 2022.

19. Significant Contracts

Cooperation Agreement

On June 1, 2019, the Parent Company entered into a cooperation agreement with Palmary to jointly develop both party's e-bingo operations. The Parent Company's responsibilities include providing technical services and supervision of Palmary's operations for a fee.

Lease Agreements

Lease Commitments Prior to January 1, 2019

The Group leases its head office and other offices under various operating lease arrangements with terms ranging from three to five years. Such leases are renewable at the end of the lease term upon mutual consent of the parties.

Prepaid rent of the Group amounted to ₱1.1 million as at December 31, 2018 (see Note 6). The Group has rental and other deposits amounting to ₱46.5 million as at December 31, 2018, respectively (see Note 8).

Rent expense amounted to ₱50.6 million and ₱60.1 million in 2018 and 2017, respectively (see Note 14). The lease has a term of one year to five years subject to renewal under mutual agreement of both parties.

Future annual minimum lease payments over the remaining term of the leases as at December 31, 2018 follow:

Not later than one year	₱40,730,498
Later than one year but not later than five years	77,349,333
	₱118,079,831

Lease Commitments Beginning January 1, 2019

Company as Lessee - Short-term Lease

The Company leases certain spaces for various events for a period of less than one year at a fixed rental based on agreement with the lessors.

Prepaid rent of the Group amounted to ₱0.8 million as at December 31, 2019 (see Note 6). Total rent expense on short-term leases amounted to ₱17.6 million in 2019 (see Note 14).

The Group has rental and other deposits amounting to ₱55.9 million as at December 31, 2019 (see Note 8).

Company as Lessee - Long-term Lease

ROU Assets

The balance of and movements in ROU assets in 2019 follow:

	Note	
Cost:		
Balance at beginning of year		₱64,528,682
Additions		79,152,724
Balance at end of year		143,681,406
Accumulated amortization:		
Balance at beginning of year		-
Amortization	7	32,727,737
Balance at end of year		32,727,737
Carrying amount		₱110,953,669

Lease Liabilities

The balance and movements in lease liabilities in 2019 follow:

	Note	
Balance at beginning of year		₱63,738,925
Additions		77,971,714
Rental payments		(37,553,339)
Accretion of interest	10	10,197,904
Balance at end of year		114,355,204
Less current portion		35,812,101
Noncurrent portion		₱78,543,103

Incremental borrowing rate of 11.0% to 12.9% was applied to determine the discounted amount of lease liabilities.

The amounts recognized in profit or loss in 2019 follow:

	Note	
Amortization of ROU assets	7	₱32,727,737
Rental expense - short-term lease	14	17,582,107
Interest expense on lease liabilities	10	10,197,904
		₱60,507,748

The gross and present value of future minimum lease payments as at December 31, 2019 are as follows:

	Minimum Lease Payments	Present Value
Not later than one year	₱46,925,475	₱35,812,101
Later than one year but not more than five years	91,327,129	78,543,103
	₱138,252,604	₱114,355,204

License Agreements

The Group entered into agreements with service providers for the use of the games in combination with the online casino platform, POS and the related software, and the back-office system for management of the website with the ability to integrate third party gaming providers. The license agreements provide for a certain percentage of gross gaming revenue to be paid to the service providers.

License fees amounted to ₱69.3 million, ₱58.2 million and ₱2.8 million in 2019, 2018 and 2017, respectively, and are recognized under “Outsourced services” in the consolidated statements of income.

20. Loss Per Share

Basic/diluted loss per share is computed as follows:

	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	(₱87,871,241)	(₱77,579,968)	(₱293,269,659)
Weighted average no. of shares outstanding	1,278,732,577	1,176,443,253	1,166,173,779
Adjusted weighted average no. of shares outstanding	1,278,732,577	1,176,443,253	1,166,173,779
Basic (diluted) loss per share	(₱0.07)	(₱0.07)	(₱0.25)

21. Events after the Reporting Period

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. The extent of the consequences, including the financial effect to the Group, will depend on certain developments, including the duration of the spread of the pandemic virus. All of which are uncertain and cannot be determined as at the date of the issuance of the financial statements. Accordingly, the Group cannot reliably estimate the impact on its financial position and results of operations.

22. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are comprised of cash, receivables (excluding advances to suppliers), rental and other deposits presented under "Other noncurrent assets" account, accounts payable and other current liabilities (excluding statutory payable), notes payable, lease liabilities and other noncurrent liability. The main risks arising from the Company's financial instruments are credit, liquidity and interest rate risks. The BOD oversees management's policy of addressing risk exposures and determining credit concentrations.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial assets that potentially subject the Group to credit risk consist primarily of cash in banks, receivables and rental and other deposits.

Trade Receivables

The Group trades mainly with recognized, creditworthy third parties. The Group obtains guarantees where appropriate to mitigate credit risk.

As discussed in Note 3 to the consolidated financial statements, the Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning.

There are no guarantees against these trade receivables but the management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk. Management provides for full allowance for ECL on receivables that are credit-impaired.

Other Financial Assets at Amortized Cost

With respect to credit risk arising from the other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades with recognized third parties and related parties, there is no requirement for collateral. There are no concentrations of credit risk within the Group.

As discussed in Note 3 to the consolidated financial statements, the Group considers credit risk in measuring ECL of other financial assets at amortized cost. Since these financial assets of the Group are considered to have low credit risk, impairment loss is limited to 12 months ECL.

The carrying values of the Group's financial assets at amortized cost represent the maximum exposure to credit risk as at the reporting date.

The following table presents an analysis of the credit quality of the Group's financial assets at amortized cost. It indicates whether the financial assets at amortized cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

2019				
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Cash in banks	P25,630,786	P-	P-	P25,630,786
Receivable from non-affiliated entities	-	-	34,072,306	34,072,306
Loans to PeGS operators	12,096,068	-	-	12,096,068
Receivable from sale of Parent Company shares	292,000,000	-	-	292,000,000
Claims from telecommunication companies	-	-	8,090,049	8,090,049
Rental and other deposits	-	55,911,265	-	55,911,265
Others	2,284,021	-	-	2,284,021
	P332,010,875	P55,911,265	P42,162,355	P430,084,495

2018				
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Cash in banks	P46,556,444	P-	P-	P46,556,444
Receivable from non-affiliated entities	-	-	34,072,306	34,072,306
Loans to PeGS operators	14,129,603	-	-	14,129,603
Claims from telecommunication companies	-	-	8,090,049	8,090,049
Rental and other deposits	-	46,543,544	-	46,543,544
Others	2,602,248	-	-	2,602,248
	P63,288,295	P46,543,544	P42,162,355	P151,994,194

The breakdown of the Group's financial asset as to credit quality as at December 31 is as follows:

2019				
	High Grade	Standard Grade	Substandard Grade	Total
Cash in banks	P25,630,786	P-	P-	P25,630,786
Receivables*	322,393,751	-	42,162,315	364,556,066
Rental and other deposits	55,911,265	-	2,258,000	58,169,265
	P403,935,802	P-	P44,420,315	P448,356,117

*Excluding advances to suppliers amounting to P43,715,314

2018				
	High Grade	Standard Grade	Substandard Grade	Total
Cash in banks	P46,556,444	P-	P-	P46,556,444
Receivables*	25,936,715	-	42,162,355	68,099,070
Rental and other deposits	46,543,544	-	2,258,000	48,801,544
	P119,036,703	P-	P44,420,355	P163,457,058

*Excluding advances to suppliers amounting to P39,376,277

High grade pertains to receivable from clients or customers that consistently pay before the maturity date. Standard grade receivable includes those that are collected on their due dates even without an effort from the Group to follow them up while receivables which are collected on their due dates provided that Group made a persistent effort to collect them are included under substandard grade receivables.

Liquidity Risk

The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences, and forecasts from its collection and disbursements. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. Moreover, it continuously assesses conditions in the financial markets for possible business opportunities.

The Group's objective is to maintain a balance between continuity of funding and flexibility using noninterest-bearing advances from its related parties. The Group considers its available funds and its liquidity in managing its financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of accounts payable and other current liabilities.

The tables below summarize the maturity profile of the Group's financial liability based on contractual undiscounted payments:

2019					
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	Total
Accounts payable and other current liabilities*	P168,954,365	P-	P-	P-	P168,954,365
Notes payable	203,600,000	-	-	-	203,600,000
Lease liabilities	-	8,953,025	26,859,076	78,543,103	114,355,204
Other noncurrent liability	-	-	-	14,801,000	14,801,000
	P372,554,365	P8,953,025	P26,859,076	P93,344,103	P501,710,569

*Excluding statutory payable amounting to P1,711,921.

2018					
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	Total
Accounts payable and other current liabilities*	P201,035,364	P-	P-	P-	P201,035,364
Notes payable	146,171,875	-	-	-	146,171,875
Other noncurrent liability	-	-	-	15,805,000	15,805,000
	P347,207,239	P-	P-	P15,805,000	P363,012,239

*Excluding statutory payable amounting to P1,799,198.

Interest Rate Risk

As at December 31, 2019 and 2018, the Company's financial instruments that are exposed to cash flow interest rate risk represent short-term notes payable subject to floating interest rates.

Short-term notes payable amounting to ₱203.6 million and ₱146.2 million as at December 31, 2019 and 2018 which bear interest at floating interest rates and will mature in less than 6 months. Under existing loan agreements, principal payments are to be made in not more than six months.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax. There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/Decrease in Interest Rate	Effect on Profit before Tax
2019	94%	₱18,306,638
	-4%	(802,720)
2018	0.3%	41,493
	-63%	(7,709,172)

23. Fair Value Measurement

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial assets and liabilities as at December 31, 2019 and 2018.

Financial Assets

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	₱37,624,126	₱37,624,126	₱54,304,294	₱54,304,294
Receivables*	322,393,711	322,393,711	25,936,715	25,936,715
Rental and other deposits	55,911,265	55,911,265	46,543,544	46,543,544
	₱415,929,102	₱415,929,102	₱126,784,553	₱126,784,553

*Excluding advances to suppliers amounting to ₱11,725,284 and ₱12,430,638 as at December 31, 2019 and 2018, respectively.

Financial Liabilities

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Accounts payable and other current liabilities*	₱168,954,365	₱168,954,365	₱201,035,364	₱201,035,364
Notes payable	203,600,000	203,600,000	146,171,875	146,171,875
Lease liabilities	114,355,204	124,577,981	–	–
Other noncurrent liability	14,801,000	14,801,000	15,805,000	15,805,000
	₱501,710,569	₱511,933,346	₱363,012,239	₱363,012,239

*Excluding statutory payables amounting to ₱1,711,921 and ₱1,799,198 as at December 31, 2019 and 2018, respectively.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash in Banks, Receivables (excluding Advances to Suppliers), Accounts Payable and Other Current Liabilities (excluding Statutory Payables), Notes Payable. Due to the short-term nature of transactions, the carrying amounts approximate their fair values as at reporting date.

Rental and Other Deposits and Other Noncurrent Liability. These have no definite fixed terms. Accordingly, the fair value is not determinable, as the timing of future cash flows cannot be estimated reliably.

Lease Liabilities. Due to the long-term nature of the financial instrument, the fair value is determined as the total of all future cash outflows.

24. Capital Management

The Group considers its total equity as its core capital. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group monitors its capital structure using debt-to-equity ratio which is gross debt divided by equity. The Group's debt-to-equity ratio is as follows:

	2019	2018
Total debt	₱533,887,650	₱379,886,037
Total equity	259,883,736	6,159,332
Debt-to-equity ratio	2.05:1	61.68:1

The Group manages the capital structure and makes adjustments when there are changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

25. Operating Segment Information and Disaggregation of Revenue

The Group operates in two (2) geographical segments, the domestic operations and the foreign operations. However, foreign operations is not a reportable operating segment since it does not meet the minimum quantitative threshold provided by PFRS 8.

Bulk of the Group's revenue is coming from the domestic operations which is a group of related products or services that is subject to the same risks and returns. Its operations and sources of revenue are interdependent, share the use of the facilities of the Parent Company, particularly computer equipment, and are under agreements with PAGCOR, the Group's partner in the electronic gaming business.

The Group's foreign operations are considered to be immaterial in relation to the consolidated financial statements. Total assets and revenues are both below 1% in 2019, 2018 and 2017.

The Group disaggregates revenue from contract with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The disaggregation is as follows:

	2019	2018 (As restated - see Note 14)	2017 (As restated - see Note 14)
PeGS:			
Sites owned by subsidiaries	₱308,342,534	₱342,893,755	₱159,673,264
Independent operators	176,485,227	70,491,894	–
E-bingo sites	55,035,031	11,180,998	1,077,489
	₱539,862,792	₱424,566,647	₱160,750,753

26. EBITDA

The following table presents the computation of EBITDA as derived from the Group's consolidated net loss attributable to the equity holders of the Parent Company:

	2019	2018	2017
Net loss attributable to equity holders of the Parent Company	(₱87,871,241)	(₱77,579,968)	(₱293,269,659)
Share of non-controlling interest in net loss	2,348,864	(486,269)	(1,155,493)
Net loss	(85,522,377)	(78,066,237)	(294,425,152)
Add (deduct):			
Depreciation and amortization	97,320,626	64,260,395	108,549,479
Interest expense	29,676,860	12,285,638	3,925,278
Impairment losses	8,515,703	26,667,647	72,948,608
Provision for (benefit from) income tax	51,521,068	(14,603,213)	(40,463,639)
Interest income	(185,564)	(1,265,925)	(1,171,666)
Gain on sale or disposal of assets	–	–	(1,841,095)
EBITDA	101,326,316	9,278,305	(152,478,187)
Less:			
Amortization of ROU assets	(32,727,737)	–	–
Accretion of interest on lease liabilities	(10,197,904)	–	–
EBITDA before effect of PFRS 16	₱58,400,675	₱9,278,305	(₱152,478,187)
Issued and outstanding shares at end of year	1,278,732,577	1,176,987,479	1,175,891,107
EBITDA per share before effect of PFRS 16	₱0.0457	₱0.0079	(₱0.1297)

EBITDA and EBITDA per share are non-PFRS measures.

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors
PhilWeb Corporation and Subsidiaries
41st Floor, One San Miguel Avenue Condominium
San Miguel Avenue corner Shaw Boulevard
Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group), as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, on which we have rendered our report dated May 7, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Parent Company has one thousand two hundred eighty (1,280) stockholders owning one hundred (100) or more shares each.

REYES TACANDONG & Co.



MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1499-AR-1 Group A

Valid until July 17, 2021

BIR Accreditation No. 08-005144-012-2020

Valid until January 1, 2023

PTR No. 8116478

Issued January 6, 2020, Makati City

May 7, 2020
Makati City, Metro Manila

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
PhilWeb Corporation and Subsidiaries
41st Floor, One San Miguel Avenue Condominium
San Miguel Avenue corner Shaw Boulevard
Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and have issued our report thereon dated May 7, 2020. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules as at December 31, 2019 are the responsibility of the Group's management. These supplementary schedules include the following:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Financial Soundness Indicators
- Schedules required by Part II of Revised Securities Regulation Code (SRC) Rule 68

These schedules are presented for purposes of complying with Revised SCR Rule 68 Part II and are not part of the consolidated financial statements. This information have been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing and tracing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

REYES TACANDONG & Co.



MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1499-AR-1 Group A

Valid until July 17, 2021

BIR Accreditation No. 08-005144-012-2020

Valid until January 1, 2023

PTR No. 8116478

Issued January 6, 2020, Makati City

May 7, 2020
Makati City, Metro Manila

PHILWEB CORPORATION

**SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of DECEMBER 31, 2019**

Unappropriated retained earnings at the beginning of period as shown in the separate financial statements	₱1,411,682,925
Less:	
Restricted for treasury shares	(1,098,928,523)
Net deferred tax assets as shown in the prior year separate financial statements	(62,644,916)
<hr/>	
Unappropriated retained earnings, <i>as adjusted to available for dividend distribution, beginning</i>	250,109,486
Net loss during the year closed to retained earnings	(62,134,357)
Deferred tax benefit recognized during the year	40,510,465

TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION **₱228,485,594**

Reconciliation:

Unappropriated retained earnings as at end of year as shown in the separate financial statements	₱1,349,548,568
Less:	
Restricted for treasury shares	(1,098,928,523)
Net deferred tax assets as shown in the separate financial statements	(22,134,451)

TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION **₱228,485,594**

PHILWEB CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratio	Formula	2019	2018
Current ratio	Total Current Assets	₱412,575,368	₱129,947,380
	Divided by: Total Current Liabilities	410,078,387	349,006,437
	Current ratio	1.01:1	0.37:1
Quick ratio	Total Current Assets	₱412,575,368	₱129,947,380
	Less: Prepayments and other current assets	40,832,247	37,275,733
	Quick assets	371,743,121	92,671,647
	Divide by: Total Current Liabilities	410,078,387	349,006,437
	Quick ratio	0.91:1	0.27:1
Solvency ratio	Total Assets	₱793,771,386	₱386,045,369
	Divided by: Total Liabilities	533,887,650	379,886,037
	Solvency ratio	1.49:1	1.02:1
Debt ratio	Total Liabilities	₱533,887,650	₱379,886,037
	Divided by: Total Assets	793,771,386	386,045,369
	Debt ratio	0.67:1	0.98:1
Debt-to-equity ratio	Total Liabilities	₱533,887,650	₱379,886,037
	Divided by: Total Equity	259,883,736	6,159,332
	Debt-to-equity ratio	2.05:1	61.68:1
Interest coverage ratio	Net loss	(₱85,522,377)	(₱78,066,237)
	Add: Interest expense	29,676,860	12,285,638
	Provision for (benefit from) income taxes	51,521,068	(14,603,213)
	Earnings before interest and taxes	(4,324,449)	(80,383,812)
	Divide by: Interest expense	29,676,860	12,285,638
Interest coverage ratio	(0.15):1	(6.54):1	
Return on assets ratio	Net loss	(₱85,522,377)	(₱78,066,237)
	Divided by: Total Assets	793,771,386	386,045,369
	Return on assets ratio	(0.11):1	(0.20):1

Ratio	Formula	2019	2018
Return on equity ratio	Net loss	(₱85,522,377)	(₱78,066,237)
	Divided by: Total equity	259,883,736	6,159,332
	Return on equity ratio	(0.33):1	(12.67):1

PHILWEB CORPORATION AND SUBSIDIARIES

**SEC Supplementary Schedule as Required by Part II of the Revised SRC Rule 68
DECEMBER 31, 2019**

Table of Contents

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
A	Financial Assets	<u>1</u>
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>N/A</u>
C	Amounts Receivable from and Payable to Related Parties which are Eliminated During the Consolidation of the Financial Statements	<u>2</u>
D	Intangible Assets - Other Assets	<u>N/A</u>
E	Long-term Debt	<u>N/A</u>
F	Indebtedness to Related Parties	<u>N/A</u>
G	Guarantees of Securities of Other Issuers	<u>N/A</u>
H	Share Capital	<u>3</u>
I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries	<u>4</u>

PHILWEB CORPORATION AND SUBSIDIARIES

A. Financial Assets

DECEMBER 31, 2019

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds and notes</i>	<i>Amount shown in the balance sheet</i>	<i>Value based on market quotation at end of reporting period</i>	<i>Income received and accrued</i>
<i>Cash</i>				
Cash and cash equivalents	N/A	₱37,624,126	₱37,624,126	₱41,043
<i>Receivables</i>				
Trade	N/A	₱16,013,622	₱16,013,622	₱-
Others	N/A	306,380,089	306,380,089	144,521
		₱322,393,711	₱322,393,711	₱144,521
<i>Other noncurrent assets</i>				
Rental and other deposits	N/A	₱55,911,625	₱55,911,625	N/A

PHILWEB CORPORATION AND SUBSIDIARIES

**C. Amounts Receivable from Related Parties which are Eliminated During the
Consolidation of the Financial Statements
DECEMBER 31, 2019**

<i>Name and Designation of Debtor</i>	<i>Balance at Beginning of Period</i>	<i>Additions</i>	<i>Amounts Collected</i>	<i>Current</i>	<i>Noncurrent</i>	<i>Balance at End of Period</i>
Easy e-Bingo, Inc.	₱4,969,815	₱40,717,872	(₱1,941,189)	₱-	₱-	₱43,746,498
E-Magine Gaming Corporation	37,232,673	500	(111,945)	-	-	37,121,228
BigGame, Inc.	7,479,911	41,036,143	(13,069,679)	-	-	35,446,375
PhilWeb Asia Pacific Corporation	3,009,993	500	(72,446)	-	-	2,938,047
PhilWeb Casino Corporation	466,404	1,991,484	-	-	-	2,457,888
Best Choice Holdings Inc.	1,906,472	-	-	-	-	1,906,472
	₱55,065,268	₱83,746,499	(₱15,195,259)	₱-	₱-	₱123,616,508

PHILWEB CORPORATION AND SUBSIDIARIES

H. SHARE CAPITAL

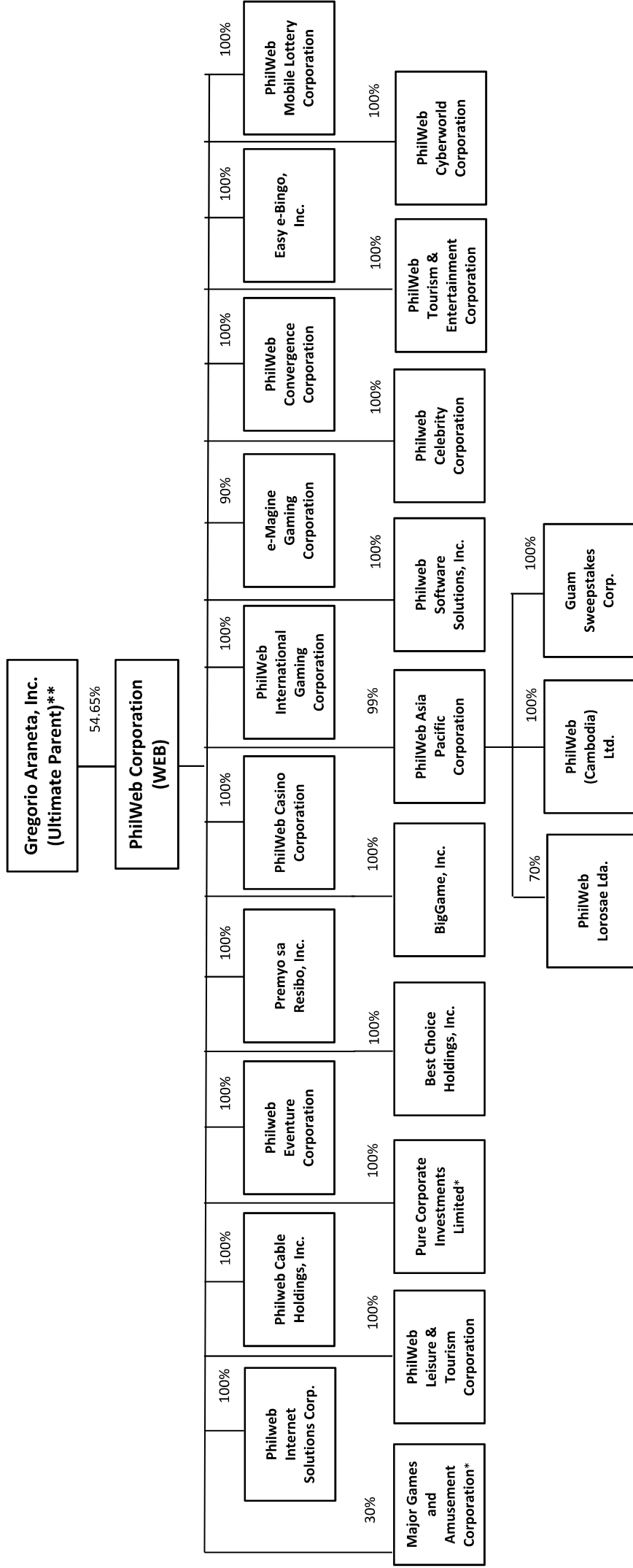
DECEMBER 31, 2019

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related financial position caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Capital Stock - ₱1 par value	2,600,000,000	1,278,732,577	-	807,303,306	471,429,271	

PHILWEB CORPORATION AND SUBSIDIARIES

I. Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries

DECEMBER 31, 2019



* Special Purpose Entity

** 10.94% is held by a subsidiary, Philweb Casino Corporation

PhilWeb

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

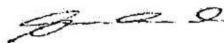
The Management of **PhilWeb Corporation and Subsidiaries**(the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended **December 31, 2019, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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 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.

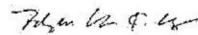
The Board of Directors is responsible in overseeing the Group's financial reporting process.

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

Reyes Tacandong and Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.



GREGORIO MA. ARANETA III
Chairman

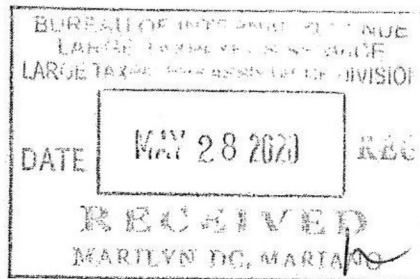


EDGAR BRIAN K. NG
President



RICKY E. ROSARIO
Chief Finance Officer & Comptroller

Signed this 7th day of May, 2020



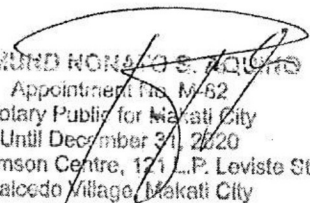
PhilWeb

SUBSCRIBED AND SWORN to before me this JUN 07 2020
2020, in Makati City, affiant exhibited to me the following SSS No.

Gregorio Ma. Araneta III
Edgar Brian K. Ng
Ricky E. Rosario

SSS No. 03-2865157-1
SSS No. 33-0410597-0
SSS No. 34-1358052-5

Doc. No. 415;
Page No. 24;
Book No. 1;
Series of 2020.


RAYMOND NONATO S. AQUINO
Appointment No. M-62
Notary Public for Makati City
Until December 31, 2020
6/F Adamson Centre, 171 L.P. Leviste St.
Salcedo Village, Makati City
Roll No. 39348
PTR No. 8116343; 1-3-2020 /Makati City
IBP No. 100780; 1-3-2020/RSM
MCLE Comp. No. VI-0018345; 2-18-2019/TIN 167-317-702