

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.

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

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.

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:

	<u>Number of Years</u>
Computer equipment	3
Computer software	5 - 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 statement 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 separate 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. The Group's equity instruments which are acquired (treasury shares) or issued to a subsidiary are deducted from equity. 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 Contract with Customers

Revenue from contract 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:

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.

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, site operators and service providers' share since the Group is merely acting as an agent. Share of the other parties in the gross gaming revenue are generally remitted in the following 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 they 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. Fair value is determined using an option pricing model as discussed in Note 13 to the consolidated financial statements. Stock options reserve presented as part of "Equity" is measured at fair value of the share options as at reporting date.

Operating Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

The Group as Lessee. The Group has entered into a lease agreement as a lessee. Critical judgment was exercised by management to distinguish such lease agreement as an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Loss Per Share

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

Diluted 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

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 other comprehensive income (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), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused NOLCO 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 consolidated 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's operating results are regularly monitored by the chief operating decision maker (CODM) for the purpose of making decisions about resource allocation and performance assessment. The President of the Group has been identified as the CODM. 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.

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 exercises judgment in classifying financial instruments in accordance with PFRS 9. 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.

Classifying Leases. The Group has entered into lease agreements as a lessor and as a lessee. Critical judgment was exercised by the Group to distinguish such lease agreement as an operating or finance lease 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 lease (see Note 19).

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 24).

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 the net amount of commission earned.

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 risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

ECL of Trade Receivables

The Group applies the PFRS 9 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 of sales over a period of three years and the corresponding historical credit losses experienced within this period. The Group has identified the inflation rate to be the most relevant macroeconomic factors affecting the ability of the customers to settle the trade receivables, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Based on the foregoing, the Group did not recognize provision for ECL on trade receivables in 2018. The carrying amount of trade receivables amounted to ₱9.2 million and ₱2.9 million as at December 31, 2018 and 2017, 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 2018 and 2017. The carrying amounts of the Group's other financial assets at amortized cost are as follows:

	Note	2018	2017
Cash in banks and cash equivalents	4	₱46,556,444	₱103,070,012
Receivables:	5		
Loans to PeGS operators		14,129,603	10,751,892
Others		2,602,248	2,087,790

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 2018 and 2017. The carrying amount of property and equipment amounted to ₱99.2 million and ₱143.9 million as at December 31, 2018 and 2017, 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.

The Group recognized impairment losses on nonfinancial assets as follows:

	Note	2018	2017	2016
Input VAT (current and noncurrent)	6, 8	₱26,667,647	₱39,864,341	₱30,102,747
Property and equipment	7	–	–	34,243,251

The carrying amounts of the nonfinancial assets as at December 31, 2018 and 2017 are as follows:

	Note	2018	2017
Advances to suppliers	5	₱12,430,638	₱6,967,024
Prepayments and other current assets (other than input VAT)	6	17,019,000	7,803,736
Property and equipment	7	99,186,099	143,867,379
Input VAT	6, 8	38,968,474	43,331,144
Advances for projects	8	–	–

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 ₱7.6 million and ₱67.4 million as at December 31, 2018 and 2017, respectively. Goodwill arising from the excess of the consideration paid less the fair value amounted to nil and ₱11.4 million as at December 31, 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, 2018 and 2017, calculated based on value in use are greater than the corresponding carrying amounts (including goodwill) of the CGUs. The carrying amount of goodwill amounted to ₱11.4 million as at December 31, 2018 and 2017. No impairment loss was recognized in 2018 and 2017 (see Note 8).

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 ₱15.1 million and ₱7.1 million as at December 31, 2018 and 2017, respectively (see Note 16).

Assessing Recoverability 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, 2018 and 2017 amounting to ₱81.8 million and ₱67.2 million, respectively (see Note 18). Unrecognized deferred tax assets amounted to ₱7.2 million and ₱14.4 million as at December 31, 2018 and 2017, 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 2018, 2017 and 2016.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	₱7,747,850	₱8,935,493
Cash in banks	46,556,444	48,070,012
Cash equivalents	–	55,000,000
	₱54,304,294	₱112,005,505

Cash in banks earn interest at prevailing bank deposit rates.

Cash equivalents pertain to special savings and time deposits, with terms of varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at prevailing special savings and time deposits rates.

Interest income is earned from the following:

	Note	2018	2017	2016
Cash and cash equivalents		₱282,900	₱605,346	₱606,887
Receivables	5	983,025	566,320	13,469,772
		₱1,265,925	₱1,171,666	₱14,076,659

5. Receivables

This account consists of:

	2018	2017
Trade	₱9,204,864	₱2,872,262
Advances to suppliers	39,376,277	33,912,663
Receivables from non-affiliated entities	34,072,306	34,072,306
Loans to PeGS operators	14,129,603	10,751,892
Claims from telecommunication companies	8,090,049	8,090,049
Others	2,602,248	2,087,790
	107,475,347	91,786,962
Less allowance for impairment loss on:		
Receivables from non-affiliated entities	34,072,306	34,072,306
Advances to suppliers	26,945,639	26,945,639
Claims from telecommunication companies	8,090,049	8,090,049
	69,107,994	69,107,994
	₱38,367,353	₱22,678,968

Movements in the allowance for impairment losses are shown below:

	Note	2018	2017	2016
Balance at beginning of year		₱69,107,994	₱36,023,727	₱37,603,730
Provision - net of reversal	14	-	33,084,267	45,991,327
Write-off		-	-	(47,571,330)
Balance at end of year		₱69,107,994	₱69,107,994	₱36,023,727

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.

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. Allowance for impairment losses amounted to ₱26.9 million as at December 31, 2018 and 2017.

Receivables from Non-affiliated Entities

Receivables from non-affiliated entities pertain mainly to the following:

- Receivable from a third party amounting to ₱34.1 million as at December 31, 2018 and 2017, pertains 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.

- Receivable from the disposal of the Group's investment in Acentic GmbH thru Host Union International Limited (Host Union) and loan receivable from a third party totalling ₱139.7 million was collected in full in 2017, resulting to a loss on disposal of ₱649.3 million in 2016 (see Note 17).

Loans to PeGS Operators

Loans to PeGS operators amounting to ₱14.1 million and ₱10.8 million as at December 31, 2018 and 2017, respectively 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.

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.

Interest income earned from receivables amounted to ₱1.0 million in 2018 and ₱0.6 million in 2017 (₱13.5 million in 2016) (see Note 4).

6. Prepayments and Other Current Assets

This account consists of:

	Note	2018	2017
Input VAT - net of allowance for impairment		₱20,256,733	₱18,714,384
Prepayments for:			
Taxes and licenses		7,866,351	1,205,371
Outsourced services		5,323,037	3,844,229
Insurance		1,381,505	85,665
Rent	19	1,133,565	1,277,379
CWTs		1,314,542	1,391,092
		₱37,275,733	₱26,518,120

Movements in the allowance for impairment losses on input VAT are shown below:

	Note	2018	2017	2016
Balance at beginning of year		₱99,553,767	₱89,227,992	₱80,904,622
Provision	14	8,994,340	10,325,775	8,323,370
Balance at end of year		₱108,548,107	₱99,553,767	₱89,227,992

7. Property and Equipment

Movements in this account are as follows:

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

2017 (In Thousands)						
Note	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost						
	₱515,530	₱260,057	₱275,144	₱113,874	₱28,434	₱1,193,039
8	4,162	70	44,260	2,199	–	50,691
	484	162	4,243	6	–	4,895
	–	–	–	–	(3,951)	(3,951)
	520,176	260,289	323,647	116,079	24,483	1,244,674
Accumulated Depreciation and Amortization						
	404,742	188,549	245,317	98,245	25,012	961,865
	48,592	29,252	26,444	2,932	1,330	108,550
	–	–	–	–	(3,851)	(3,851)
	453,334	217,801	271,761	101,177	22,491	1,066,564
Accumulated Impairment Losses						
	27,621	174	5,814	634	–	34,243
	₱39,221	₱42,314	₱46,072	₱14,268	₱1,992	₱143,867

Fully-depreciated property and equipment still being used in operations amounted to ₱960.9 million and ₱703.8 million as at December 31, 2018 and 2017, respectively.

The Group disposed of property and equipment with a carrying amount of ₱99,950 in 2017. Gain on disposal of property and equipment amounted to ₱1.3 million in 2017 (see Note 17).

As at December 31, 2018 and 2017, 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 11.3% in 2018 and 10.4% in 2017.

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 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	2018	2017
Noncurrent input VAT		₱200,185,416	₱188,417,128
Rental and other deposits	19	48,801,544	35,095,476
Goodwill		11,351,346	11,351,346
Advances for projects		5,378,199	5,378,199
		265,716,505	240,242,149
Less allowance for impairment losses on:			
Noncurrent input VAT		181,473,675	163,800,368
Advances for projects		5,378,199	5,378,199
Rental and other deposits		2,258,000	2,258,000
		189,109,874	171,436,567
		₱76,606,631	₱68,805,582

Noncurrent Input VAT

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

	Note	2018	2017	2016
Balance at beginning of year		₱163,800,368	₱134,261,802	₱112,482,425
Provision	14	17,673,307	29,538,566	21,779,377
Balance at end of year		₱181,473,675	₱163,800,368	₱134,261,802

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 made the following acquisitions in 2018 and 2017:

	2018	2017
No. of Sites Acquired	3	13
Consideration	₱7,566,927	₱67,389,413

Goodwill recognized from the acquisition amounted to nil in 2018 and ₱11.4 million in 2017 as follows:

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

The carrying amount of goodwill amounted to ₱11.4 million as at December 31, 2018 and 2017.

The Group determined 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 acquirees, the CGU to which the goodwill was allocated, exceeds its carrying amount. In estimating the related value in use, management used a cash flow projection based on past experience with its existing PeGS covering a five-year period at a discount rate of 11.3% in 2018 and 10.4% in 2017. Cash flows beyond that five-year period have been extrapolated using the CGU's average historical growth rate.

The results of operations of the acquired PeGS (the acquirees) 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 2018 by ₱3.6 million and ₱0.4 million, respectively, and in 2017 by ₱44.5 million and ₱5.7 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 internet 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). The percentage of ownership of the Parent Company is 30% in CIBI and 40% in 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:

	2018	2017
Accounts payable	₱170,144,175	₱165,376,990
Accruals for:		
Contractors	18,424,803	22,281,503
Manpower services	6,333,310	7,000,640
Utilities and communications	4,896,174	5,546,017
Professional fees	778,647	877,925
Travel expenses	180,661	82,430
Others	277,594	342,698
Statutory payable	1,799,198	2,628,893
	₱202,834,562	₱204,137,096

Accounts payable pertain mostly to payables to suppliers to offset with receivables and PAGCOR.

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 (see Note 13).

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.

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 Parent Company has peso-denominated short-term notes payable from a local bank amounting to ₱146.2 million and ₱140.0 million as at December 31, 2018 and 2017, respectively, and bear annual interest at an average rate of 8.8% in 2018 and 6.6% in 2017. As at December 31, 2018 and 2017, the outstanding loan is secured by the assignment of Parent Company's shares at 300% cover based on prevailing market price.

Movements in notes payable are as follows:

	2018	2017
Balance at beginning of year	₱140,000,000	₱50,000,000
Availments	95,000,000	90,000,000
Payments	(88,828,125)	-
Balance at end of year	₱146,171,875	₱140,000,000

The Group recognized interest expense amounting to ₱12.3 million in 2018 and ₱3.9 million in 2017 (₱6.2 million in 2016) (see Note 17).

Reconciliation of Liabilities Arising from Financing Activities

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

	2018	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	-

	2017	Availments	Payments	Noncash changes	2017
Loans payable	₱50,000,000	₱90,000,000	₱-	₱-	₱140,000,000
Interest	-	3,925,278	4,400,000	474,722	-

11. Other Noncurrent Liability

This account consists of cash received from operators upon 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 approximate 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 ₱34.1 million in 2018 and ₱43.2 million in 2017 (₱45.8 million in 2016). The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to ₱2.9 million in 2018 and ₱2.8 million in 2017 (₱2.5 million in 2016).

13. Equity

Capital Stock

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

	Number of Shares		Amount	
	2018	2017	2018	2017
Issued shares:				
Balance at beginning of year	1,472,128,745	1,353,453,745	₱1,472,128,745	₱1,353,453,745
Issuance during the year	150,000	118,675,000	150,000	118,675,000
	1,472,278,745	1,472,128,745	1,472,278,745	1,472,128,745
Subscribed shares:				
Balance at beginning of year	44,878,780	163,378,780	44,878,780	163,378,780
Issuance during the year	-	(118,500,000)	-	(118,500,000)
Balance at end of year	44,878,780	44,878,780	44,878,780	44,878,780
Less subscriptions receivable:				
Balance at beginning of year	-	-	(18,659,084)	(33,659,084)
Collection of subscriptions	-	-	7,439,390	15,000,000
Balance at end of year	-	-	(11,219,694)	(18,659,084)
	44,878,780	44,878,780	33,659,086	26,219,696
Issued and subscribed at end of year	1,517,157,525	1,517,007,525	₱1,505,937,831	₱1,498,348,441
Treasury shares and shares held by subsidiaries:				
Balance at beginning of year	(341,116,418)	(354,621,621)		
Reissued shares	946,372	13,505,203		
Balance at end of year	(340,170,046)	(341,116,418)		
Outstanding shares at end of year	1,176,987,479	1,175,891,107		

Stock Option Plan

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. The aggregate number of shares that may be purchased under the Plan shall not be more than five percent (5%) of the total number of shares of the outstanding capital stock of the Parent Company, at a price not less than eighty percent (80%) of the fair market value of the shares on the date the option is granted. Effectivity date is one (1) year after an option is awarded to the participant. One-third (1/3) of the total number of options covered by the grant shall vest upon effectivity date; 1/3 shall vest one year after effectivity date and 1/3 shall vest two years after the effectivity date.

The fair value of the stock options are estimated using the Black-Scholes option pricing method, which considered annual stock volatility, risk-free interest rate, expected life of option and exercise price.

The inputs to the model used to measure the fair value of the shares as at December 31, 2018 are as follows:

Expected volatility	33.18%
Risk-free interest rate	3.09%
Expected life of option	3 years

Expected volatility is estimated by considering average share price volatility.

Movements in the number of exercisable stock options outstanding are as follows:

	2018	2017
Balance at beginning of year	1,218,855	2,170,367
Exercised and forfeited	(1,218,855)	(951,512)
Balance at end of year	-	1,218,855

Stock options outstanding have been derecognized as at December 31, 2018 due to the expiration of the stock options.

Treasury Shares and Shares Held by Subsidiaries

The movements in treasury shares and shares held by subsidiaries are as follows:

Treasury Stock	2018		2017	
	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	2018		2017	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	259,735,626	₱2,908,410,442	273,240,829	₱3,112,209,212
Issuance during the year	(946,372)	(10,126,180)	(13,505,203)	(203,798,770)
Balance at end of year	258,789,254	₱2,898,284,262	259,735,626	₱2,908,410,442

- a. The Group acquired PeGS and e-bingo sites from independent operators by issuing 0.9 million and 7.7 million Parent Company shares in 2018 and 2017, respectively (see Note 8).
- b. On August 25, 2017, the Group settled its payable to the supplier of its casino software amounting to ₱34.3 million in exchange for 5.8 million treasury shares (see Note 9).

14. Costs and Expenses

This account consists of:

	Note	2018	2017	2016
Salaries and benefits	15	₱95,087,630	₱92,595,451	₱124,437,130
Outsourced services		75,160,054	50,664,367	80,803,579
Depreciation and amortization	7	64,260,395	108,549,479	119,997,016
Rental	19	50,621,733	60,119,389	66,652,418
Utilities and communications		36,360,849	35,758,491	57,718,220
Representation and entertainment		35,223,392	31,073,235	34,182,102
Impairment losses		26,667,647	72,948,608	110,337,325
Advertising and promotion		24,433,568	4,010,114	4,112,723
Supplies		17,985,715	12,914,885	28,219,512
Taxes and licenses		13,938,346	14,403,775	23,421,304
Professional fees		2,266,194	4,374,135	7,564,686
Miscellaneous		5,994,916	8,488,837	18,867,669
		₱448,000,439	₱495,900,766	₱676,313,684

Impairment losses were recognized from the following:

	Note	2018	2017	2016
Input VAT (current and noncurrent)	6, 8	₱26,667,647	₱39,864,341	₱30,102,747
Receivables	5	–	33,084,267	45,991,327
Property and equipment		–	–	34,243,251
		₱26,667,647	₱72,948,608	₱110,337,325

15. Salaries and Benefits

This account consists of:

	Note	2018	2017	2016
Salaries and wages		₱91,556,935	₱90,460,880	₱118,401,246
Retirement expense	16	3,530,695	2,134,571	6,035,884
		₱95,087,630	₱92,595,451	₱124,437,130

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, 2018.

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):

	2018	2017	2016
Current service cost	₱3,117,481	₱4,444,077	₱5,213,308
Net interest cost	413,214	893,146	822,576
Settlement gain	–	(3,202,652)	–
	₱3,530,695	₱2,134,571	₱6,035,884

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

	2018	2017
Balance at beginning of year	₱7,142,446	₱13,473,570
Net remeasurement loss (gain)	4,401,459	(8,465,695)
Current service cost	3,117,481	4,444,077
Net interest cost	413,214	893,146
Settlement gain	-	(3,202,652)
Balance at end of year	₱15,074,600	₱7,142,446

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

	2018	2017
Present value of retirement obligation	₱33,274,913	₱26,925,283
Fair value of plan assets	(18,200,313)	(19,782,837)
	₱15,074,600	₱7,142,446

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

	2018	2017
Balance at beginning of year	₱26,925,283	₱37,236,353
Current service cost	3,117,481	4,444,077
Remeasurement loss (gain)	1,911,255	(7,300,497)
Interest cost	1,534,741	2,003,316
Benefits paid	(213,847)	(6,255,314)
Settlement gain	-	(3,202,652)
Balance at end of year	₱33,274,913	₱26,925,283

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

	2018	2017
Balance at beginning of year	₱19,782,837	₱23,762,783
Interest income	1,121,527	1,110,170
Benefits paid	(213,847)	(6,255,314)
Remeasurement gain (loss)	(2,490,204)	1,165,198
Balance at end of year	₱18,200,313	₱19,782,837

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

	2018	2017
Deposits in bank	₱1,655,741	₱71
Investment in unit investment trust fund	16,544,572	19,782,766
	₱18,200,313	₱19,782,837

The cumulative remeasurement gain recognized in other comprehensive income as at December 31 is as follows:

	Accumulated Actuarial Gain (Loss)	Deferred Tax (Note 18)	Net
Balance as at January 1, 2018	P9,545,916	(P2,863,775)	P6,682,141
Net remeasurement loss	(4,401,459)	1,320,438	(3,081,021)
Balance as at December 31, 2018	P5,144,457	(P1,543,337)	P3,601,120

	Accumulated Actuarial Gain	Deferred Tax (Note 18)	Net
Balance as at January 1, 2017	P1,080,221	(P324,066)	P756,155
Net remeasurement gain	8,465,695	(2,539,709)	5,925,986
Balance as at December 31, 2017	P9,545,916	(P2,863,775)	P6,682,141

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

	Valuation at	
	2018	2017
Discount rates	7.51%	5.70%
Expected rates of salary increase	5.00%	5.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2018 is as follows:

	Change in Assumption	Effect on Net Retirement Liability
Discount rate	+100 basis points	(P1,156,323)
	-100 basis points	1,239,506
Salary Rate	+100 basis points	P1,257,804
	-100 basis points	(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 3.6 years as at December 31, 2018.

As at December 31, 2018, the expected future benefit payments are as follows:

Year	Amount
2019	₱8,309,556
2020	7,698,980
2021	11,677,878
2022	5,422,574
2023-2028	25,021,811

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	2018	2017	2016
Interest expense	10	(₱12,285,638)	(₱3,925,278)	(₱6,227,941)
Interest income	4	1,265,925	1,171,666	14,076,659
Foreign exchange gain (loss) – net		–	1,745,380	6,184,430
Gain on sale of investments in associates	8	–	1,841,095	–
Gain (loss) on sale of property and equipment	7	–	1,272,850	(64,806)
Loss on disposal of assets	5	–	–	(649,285,056)
Equity in net loss of associates		–	–	(415,384)
Bank charges		–	–	(33,664)
Miscellaneous - net		(13,542)	953,491	610,876
		(₱11,033,255)	₱3,059,204	(₱635,154,886)

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) for four (4) years for all income to be generated from the registered project in the said location. Revenue related to the registered activity amounted to ₱9.3 million in 2018 and ₱5.6 million in 2017. Expenses incurred related to the registered activity amounted to ₱25.8 million in 2018 and ₱85.7 million in 2017.

b) Income Tax Computation

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

	2018	2017	2016
Provision for current tax	P-	P-	P21,000,452
Benefit from deferred tax	(14,603,213)	(40,463,639)	(15,050,602)
	(P14,603,213)	(P40,463,639)	P5,949,850

The reconciliation of the provision for 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:

	2018	2017	2016
Income tax at statutory tax rate	(P27,800,835)	(P100,466,637)	(P87,522,602)
Adjustment resulting from:			
Expired NOLCO	7,270,383	-	-
Change in unrecognized deferred tax assets	(7,190,353)	29,319,043	3,849,883
ITH on BOI - registered activity	4,939,313	24,020,762	(78,625,279)
Add (deduct) tax effects of:			
Non-deductible expenses	8,263,149	7,792,495	168,305,299
Interest and other income already subjected to final tax	(84,870)	(1,129,302)	(182,066)
Equity in net (earnings) losses of associates	-	-	124,615
	(P14,603,213)	(P40,463,639)	P5,949,850

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

	2018	2017
Items recognized in profit or loss:		
NOLCO	P75,435,099	P61,891,094
Net retirement liability	6,065,717	5,006,509
Allowance for impairment of receivables	347,780	347,780
	81,848,596	67,245,383
Item recognized directly in OCI -		
Remeasurement losses on defined benefit liability	(1,543,337)	(2,863,775)
	(1,543,337)	(2,863,775)
	P80,305,259	P64,381,608

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:

	2018	2017
Allowance for impairment losses	P6,386,415	P6,386,415
NOLCO	851,720	8,042,073
	P7,238,135	P14,428,488

As at December 31, 2018, 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
2015	2018	₱24,234,610	₱-	₱24,234,610	₱-
2016	2019	48,178,284	-	-	48,178,284
2017	2020	160,697,672	-	-	160,697,672
2018	2021	45,413,446	-	-	45,413,446
Total		₱278,524,012	₱-	₱24,234,610	₱254,289,402

19. Significant Contracts

Lease Agreements

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 by the Group amounted to ₱1.1 million and ₱1.3 million as at December 31, 2018 and 2017, respectively (see Note 6). The Group has rental and other deposits amounting to ₱48.8 million and ₱35.1 million as at December 31, 2018 and 2017, respectively (see Note 8).

Rent expense amounted to ₱50.6 million in 2018 and ₱60.1 million in 2017 (₱66.7 million in 2016) (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 and 2017 follow:

	2018	2017
Not later than one year	₱40,730,498	₱36,717,604
Later than one year but not later than five years	77,349,333	56,067,798
	₱118,079,831	₱92,785,402

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 and do not set a monthly minimum fee.

20. Loss Per Share

Basic/diluted loss per share is computed as follows:

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	(P77,579,968)	(P293,269,659)	(P296,099,426)
Weighted average no. of shares outstanding	1,176,443,253	1,175,819,504	1,161,599,028
Adjusted weighted average no. of shares outstanding	1,176,443,253	1,166,173,779	1,161,599,028
Basic loss per share	(P0.07)	(P0.25)	(P0.25)
Diluted loss per share	(P0.07)	(P0.25)	(P0.25)

21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are comprised of cash in banks, cash equivalents, receivables (excluding advances to suppliers), rental and other deposits presented under "Other noncurrent assets" account, accounts payable and other current liabilities (excluding statutory payables), notes payable and other noncurrent liability. The main risks arising from the Group's financial instruments are credit and liquidity risks.

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 and trade and other receivables.

Trade Receivables

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

As discussed in Note 3 to the 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 other concentrations of credit risk within the Group.

As discussed in Note 3 to the 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.

	2018			Total
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	
Cash in banks and cash equivalents	₱46,556,444	₱-	₱-	₱46,556,444
Advances to non-affiliated	-	-	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
Others	2,602,248	-	-	2,602,248
	₱63,288,295	₱-	₱42,162,355	₱105,450,650

	2017			Total
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	
Cash in banks and cash equivalents	₱103,070,012	₱-	₱-	₱103,070,012
Advances to non-affiliated	-	-	34,072,306	34,072,306
Loans to PeGS operators	10,751,892	-	-	10,751,892
Claims from telecommunication companies	-	-	8,090,049	8,090,049
Others	2,087,790	-	-	2,087,790
	₱115,909,694	₱-	₱42,162,355	₱158,072,049

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

	2018			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	₱46,556,444	₱-	₱-	₱46,556,444
Receivables	38,367,353	-	69,107,994	107,475,347
Rental and other deposits	46,543,544	-	2,258,000	46,543,544
	₱131,467,341	₱-	₱71,365,994	₱200,575,335

	2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	₱103,070,012	₱-	₱-	₱103,070,012
Receivables	22,678,968	-	69,107,994	91,786,962
Rental and other deposits	32,837,476	-	2,258,000	35,095,476
	₱158,586,456	₱-	₱71,365,994	₱229,952,450

High grade receivables pertain to those receivables 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. Past due receivables and advances include those that are either past due but still collectible or determined to be individually impaired.

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 trade and other payables.

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

	2018				Total
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	
Accounts payable and other current liabilities*	₱201,035,364	₱-	₱-	₱-	₱201,035,364
Notes payable	146,171,875	-	-	-	146,171,875
Other noncurrent liability	-	-	-	15,805,000	15,805,000
	₱347,207,239	₱-	₱-	₱15,805,000	₱363,012,239

*Excluding statutory payables amounting to ₱1,799,198.

	2017				Total
	On Demand	1 to 3 Months	3 to 12 Months	More than 12 Months	
Accounts payable and other current liabilities*	₱201,508,203	₱-	₱-	₱-	₱201,508,203
Notes payable	-	-	140,000,000	-	140,000,000
Other noncurrent liability	-	-	-	12,755,000	12,755,000
	₱201,508,203	₱-	₱140,000,000	₱12,755,000	₱354,263,203

*Excluding statutory payables amounting to ₱2,628,893.

22. FV 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, 2018 and 2017.

Financial Assets

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents*	₱46,556,444	₱46,556,444	₱103,070,012	₱103,070,012
Receivables**	25,936,715	25,936,715	15,711,944	15,711,944
Rental and other deposits	46,543,544	46,543,544	32,837,476	32,837,476
	₱119,036,703	₱119,036,703	₱151,619,432	₱151,619,432

*Excluding cash on hand amounting to ₱7,747,850 and ₱8,935,493 as at December 31, 2018 and 2017, respectively.

**Excluding advances to suppliers amounting to ₱12,430,638 and ₱6,967,024 as at December 31, 2018 and 2017, respectively.

Financial Liabilities

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Accounts payable and other current liabilities*	₱201,035,364	₱201,035,364	₱201,508,203	₱201,508,203
Notes payable	146,171,875	146,171,875	140,000,000	140,000,000
Other noncurrent liability	15,805,000	15,805,000	12,755,000	12,755,000
	₱363,012,239	₱363,012,239	₱354,263,203	₱354,263,203

*Excluding statutory payables amounting to ₱1,799,198 and ₱2,628,893 as at December 31, 2018 and 2017, 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 and Cash Equivalents, 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.