

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

corpsec@philweb.com.ph

Group's Telephone Number/s

(02) 8 845-4171

Mobile Number

0919-999-4816

No. of Stockholders

1,440

Annual Meeting (Month / Day)

Any day in May

Calendar Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Atty. Raymund S. Aquino

Email Address

rsaquino@philweb.com.ph

Telephone Number/s

(02) 8 845-4171

Mobile Number

-

CONTACT PERSON'S ADDRESS

1528 Princeton Street, Wack-Wack Village, Mandaluyong 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, 2020 and 2019, 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 years ended December 31, 2020, 2019 and 2018, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020, 2019 and 2018 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, 2020. These matters were addressed in the context of our audits 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.

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P741 Payer de Bienes
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Recoverability of Nonfinancial Assets

The Group's review of the recoverability of nonfinancial assets and impairment tests were significant to our audit because the assessment process requires significant judgments and assumptions involving expected future financial performance. These include estimation of future cash flows that are highly dependent on management's strategies and business plans to mitigate the continuing impact of the COVID-19 pandemic.

Our audit procedures included, among others, an understanding of management's assessment on the recoverable amounts of the Group's property and equipment, right-of-use assets and goodwill. We reviewed cash flow projections considered in the impairment tests. We assessed and tested the assumptions, methodologies and other data used by comparing them to external and historical data. We analyzed sensitivities in the Group's valuation model and evaluated cash generating units whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and assessed the appropriateness of its expected cash flow projections in a business environment that continues to be affected by the COVID-19 pandemic. We also assessed the adequacy of the disclosures in the consolidated financial statements (see Notes 2, 3, 7, 8 and 19 to the consolidated financial statements).

Recoverability of Deferred Tax Assets

As at December 31, 2020, 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 income tax returns. Further disclosures are included in Note 18 to the consolidated financial statements.

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. 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 the consolidated financial statements for the accounting policy related to revenue recognition.

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, 2020, 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.

REYES TAGANDONG & Co.
FIRM PRINCIPLES. WISE SOLUTIONS



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

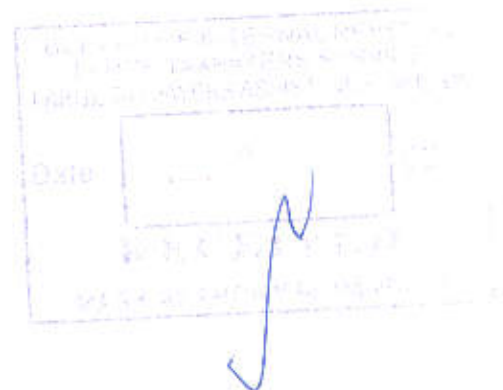
Valid until January 1, 2023

PTR No. 8534279

Issued January 5, 2021, Makati City

March 17, 2021

Makati City, Metro Manila



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, 2020, 2019 and 2018**, 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 17th day of March, 2021

SUBSCRIBED AND SWORN to before me this day of MAR 29 2021,
2021, in Makati City, affiant exhibited to me the following SSS No.

Gregorio Ma. Araneta III	SSS No. 03-2865157-1
Edgar Brian K. Ng	SSS No. 33-0410597-0
Ricky E. Rosario	SSS No. 34-1358052-5

Doc. No. 191 ;
Page No. 40 ;
Book No. I ;
Series of 2021.


RAYMUND NONATO S. AQUINO
Appointment No. M-70
Notary Public for Makati City
Until December 31, 2022
6/F Adamson Centre, 121 L.P. Leviste St.
Salcedo Village, Makati City
Roll No. 39348
PTR No. 8533122; 1-4-2021; Makati City
IBP No. 141031; 1-4-2021; RSM
MCLE Comp. No. VI-0018345; 2-18-19; TIN 167-317.7

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2020	2019
ASSETS			
Current Assets			
Cash	4	P41,061,388	P37,624,126
Receivables	5	355,893,313	334,118,995
Prepayments and other current assets	6	38,504,844	40,832,247
Total Current Assets		435,459,545	412,575,368
Noncurrent Assets			
Property and equipment	7	72,467,685	113,848,711
Right-of-use (ROU) assets	19	73,529,566	110,953,669
Net deferred tax assets	18	50,336,619	31,999,843
Other noncurrent assets	8	127,881,891	124,393,795
Total Noncurrent Assets		324,215,761	381,196,018
		P759,675,306	P793,771,386
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities	9	P226,873,251	P170,666,286
Notes payable	10	200,350,000	203,600,000
Current portion of lease liabilities	19	36,162,504	35,812,101
Total Current Liabilities		463,385,755	410,078,387
Noncurrent Liabilities			
Lease liabilities - net of current portion	19	44,967,593	78,543,103
Net retirement benefits liability	16	37,787,551	30,465,160
Other noncurrent liability	11	14,751,000	14,801,000
Total Noncurrent Liabilities		97,506,144	123,809,263
Total Liabilities		560,891,899	533,887,650
Equity			
Capital stock	13	1,517,157,525	1,517,157,525
Additional paid-in capital		656,751,427	656,751,427
Retained earnings		856,469,229	915,975,595
Accumulated remeasurement losses on net retirement benefits liability	16	(5,338,481)	(3,744,518)
Treasury stocks		(1,098,928,524)	(1,098,928,524)
Shares held by subsidiaries		(1,727,327,769)	(1,727,327,769)
Total Equity		198,783,407	259,883,736
		P759,675,306	P793,771,386

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
				2018
				(As Restated - Note 14)
	Note	2020	2019	
REVENUE				
	24			
Gaming application services		P129,995,506	P270,932,622	P223,351,090
Commission income		106,603,110	238,537,716	201,215,557
Others		28,283,117	30,392,454	-
		264,881,733	539,862,792	424,566,647
COSTS AND EXPENSES				
	14	(312,465,901)	(544,176,264)	(506,202,842)
OTHER CHARGES - Net				
	17	(29,575,847)	(29,687,837)	(11,033,255)
LOSS BEFORE INCOME TAX				
		(77,160,015)	(34,001,309)	(92,669,450)
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	18			
Current		-	67,522	-
Deferred		(17,653,649)	51,453,546	(14,603,213)
		(17,653,649)	51,521,068	(14,603,213)
NET LOSS				
		(P59,506,366)	(P85,522,377)	(P78,066,237)
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Parent Company		(P59,506,366)	(P87,871,241)	(P77,579,968)
Non-controlling interests		-	2,348,864	(486,269)
		(P59,506,366)	(P85,522,377)	(P78,066,237)
BASIC/DILUTED LOSS PER SHARE				
	20	(P0.05)	(P0.07)	(P0.07)
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) BEFORE EFFECT OF PFRS 16, LEASES				
	25	(P13,532,636)	P58,400,675	P9,278,305

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31		
		2020	2019	2018
NET LOSS		(P59,506,366)	(P85,522,377)	(P78,066,237)
OTHER COMPREHENSIVE LOSS				
<i>Not to be reclassified to profit or loss in subsequent periods</i>				
Remeasurement loss on net retirement benefits liability	16	(2,277,090)	(10,493,768)	(4,401,459)
Deferred tax effect on remeasurement loss on net retirement benefits liability	16	683,127	3,148,130	1,320,438
		(1,593,963)	(7,345,638)	(3,081,021)
TOTAL COMPREHENSIVE LOSS		(P61,100,329)	(P92,868,015)	(P81,147,258)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		(P61,100,329)	(P95,216,879)	(P80,660,989)
Non-controlling interests		-	2,348,864	(486,269)
		(P61,100,329)	(P92,868,015)	(P81,147,258)

See accompanying Notes to Consolidated Financial Statements.

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31		
		2020	2019	2018
CAPITAL STOCK - ₱1 par value	13			
Authorized - 2,600,000,000 shares				
Issued and subscribed (net of subscriptions receivable amounting to ₱11.2 million in 2018):				
Balance at beginning of year		₱1,517,157,525	₱1,505,937,831	₱1,498,348,441
Collection of subscriptions receivable		-	11,219,694	7,439,390
Issuance		-	-	150,000
Balance at end of year		<u>1,517,157,525</u>	<u>1,517,157,525</u>	<u>1,505,937,831</u>
ADDITIONAL PAID-IN CAPITAL	13			
Balance at beginning of year		656,751,427	1,010,387,648	1,013,836,920
Reduction as a result of sale of shares of stock held by subsidiaries		-	(387,295,307)	(5,104,100)
Collection of subscriptions receivable		-	33,659,086	-
Stock options exercised and forfeited		-	-	1,182,328
Subscriptions for additional shares of stock		-	-	472,500
Balance at end of year		<u>656,751,427</u>	<u>656,751,427</u>	<u>1,010,387,648</u>
STOCK OPTIONS RESERVE	13			
Balance at beginning of year		-	-	1,182,328
Stock options exercised and forfeited		-	-	(1,182,328)
Balance at end of year		<u>-</u>	<u>-</u>	<u>-</u>
RETAINED EARNINGS				
Balance at beginning of year		915,975,595	1,485,794,383	1,563,374,351
Net loss		(59,506,366)	(87,871,241)	(77,579,968)
Reduction as a result of the sale of shares of stock held by subsidiaries in excess of cost	13	-	(481,947,547)	-
Balance at end of year		<u>856,469,229</u>	<u>915,975,595</u>	<u>1,485,794,383</u>
ACCUMULATED REMEASUREMENT GAINS (LOSSES) ON NET RETIREMENT BENEFITS LIABILITY	16			
Balance at beginning of year		(3,744,518)	3,601,120	6,682,141
Remeasurement loss		(2,277,090)	(10,493,768)	(4,401,459)
Deferred tax effect		683,127	3,148,130	1,320,438
Balance at end of year		<u>(5,338,481)</u>	<u>(3,744,518)</u>	<u>3,601,120</u>

(Forward)



		Years Ended December 31		
	Note	2020	2019	2018
TREASURY STOCKS	13			
Balance at beginning and end of year		(P1,098,928,524)	(P1,098,928,524)	(P1,098,928,524)
SHARES HELD BY SUBSIDIARIES	13			
Balance at beginning of year		(1,727,327,769)	(2,898,284,262)	(2,908,410,442)
Sale of shares of stock		-	1,170,956,493	10,126,180
Balance at end of year		(1,727,327,769)	(1,727,327,769)	(2,898,284,262)
NON-CONTROLLING INTERESTS				
Balance at beginning of year		-	(2,348,864)	(1,862,595)
Share in net income (loss)		-	2,348,864	(486,269)
Balance at end of year		-	-	(2,348,864)
		P198,783,407	P259,883,736	P6,159,332

See accompanying Notes to Consolidated Financial Statements.

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PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31		
		2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		(P77,160,015)	(P34,001,309)	(P92,669,450)
Adjustments for:				
Depreciation and amortization	7	82,808,971	97,320,626	64,260,395
Interest expense	10	29,911,013	29,676,860	12,285,638
Gain on:				
Rent concessions	19	(7,429,809)	-	-
Retirement of ROU assets	17	(347,924)	-	-
Disposal of property and equipment	17	(183,111)	-	-
Retirement benefits expense	16	5,045,301	4,896,792	3,530,695
Impairment losses	14	1,730,017	8,515,703	26,667,647
Interest income	4	(78,560)	(185,564)	(1,265,925)
Unrealized foreign exchange gain		-	-	(32,634)
Operating income before working capital changes		34,295,883	106,223,108	12,776,366
Increase in:				
Receivables		(21,774,318)	(6,038,003)	(15,688,385)
Prepayments and other current assets		(145,461)	(8,056,975)	(19,008,879)
Increase (decrease) in accounts payable and other current liabilities		55,320,076	(32,934,281)	(1,302,534)
Net cash generated from (used for) operations		67,696,180	59,193,849	(23,223,432)
Interest paid	10	(16,680,541)	(18,712,951)	(13,028,712)
Interest received		78,560	185,564	1,265,925
Net cash provided by (used in) operating activities		51,094,199	40,666,462	(34,986,219)
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in other noncurrent assets		(3,488,096)	(20,254,935)	(25,474,356)
Acquisition of:				
Property and equipment	7	(2,322,014)	(27,725,964)	(12,012,188)
PAGCOR e-Games Sites (PeGS)	8	-	(73,115,297)	(2,544,847)
Proceeds from disposal of property and equipment	7	220,506	-	-
Net cash used in investing activities		(5,589,604)	(121,096,196)	(40,031,391)

(Forward)

		Years Ended December 31		
	Note	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of:				
Notes payable	10	(P51,500,000)	(P102,071,875)	(P88,828,125)
Lease liabilities	19	(38,767,333)	(37,553,339)	-
Proceeds from:				
Availment of notes payable	10	48,250,000	159,500,000	95,000,000
Collection of subscriptions receivable	13	-	44,878,780	7,439,390
Subscriptions to and issuances of common stock		-	-	622,500
Increase (decrease) in other noncurrent liability		(50,000)	(1,004,000)	3,050,000
Net cash provided by (used in) financing activities		(42,067,333)	63,749,566	17,283,765
EFFECTS OF EXCHANGE RATE CHANGES ON CASH				
		-	-	32,634
NET INCREASE (DECREASE) IN CASH		3,437,262	(16,680,168)	(57,701,211)
CASH AT BEGINNING OF YEAR		37,624,126	54,304,294	112,005,505
CASH AT END OF YEAR		P41,061,388	P37,624,126	P54,304,294
NONCASH FINANCIAL INFORMATION:				
Impact of PFRS 16, <i>Leases</i> :				
Recognition of ROU assets	19	P7,826,038	P143,681,406	P-
Recognition of lease liabilities		7,826,038	141,710,639	-
Sale of Parent Company shares held by subsidiaries on account	5	-	292,000,000	-
Acquisition of PeGS in exchange for shares held by subsidiaries	8	-	12,000,000	5,022,080

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 in the Philippines 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 50 years from August 19, 2019;
- Change of principal address from The Penthouse, Alphaland Southgate Tower, 2258 Chino 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 February 20, 2019, the Revised Corporation Code of the Philippines (RCC) was signed into law. Under RCC, a corporation with certificate of incorporation issued prior to effective date of the RCC, and which continue to exist shall have perpetual existence. Accordingly, the Parent Company has perpetual corporate term.

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 57.78% owned by Gregorio Araneta, Inc., a holding company incorporated in the Philippines. The Parent Company's 1,517,157,618 shares are listed in the Philippine Stock Exchange (PSE) under the stock symbol "WEB".

The number of stockholders of such registered shares is 1,440 and 1,441 as at December 31, 2020 and 2019, 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, 2020, 2019 and 2018:

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	-

(Forward)

Subsidiaries	Principal Activities	Date and Place of Incorporation	Percentage of Ownership	
			Direct	Indirect
PhilWeb Convergence Corporation	Internet access provider	September 6, 2000, Philippines	100	–
BigGame, Inc. (BGI)*	Operates PeGS	February 11, 2005, Philippines	68	32
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 Corporate 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	N/A Cambodia	–	96
PhilWeb Lorosae, Lda. (PLL)	Engages in international gaming ventures	N/A Timor-Leste	–	67
Guam Sweepstakes Corporation (GSC)	Engages in international gaming ventures	N/A 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, 2020 and 2019.

The place of incorporation is also each entity's principal place of business.

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. After passing the initial inspection and testing in February 2018, PAGCOR then allowed the Parent Company to offer its services to 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, 2020, the number of sites serviced by the Parent Company increased from 56 in 2018, 66 in 2019 to 69 in 2020.

In 2020, the country experienced a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. On March 15, 2020, PAGCOR issued a memorandum directing the temporary cessation of the gaming operations of its licenses operating in the National Capital Region. On March 16, 2020, PAGCOR issued a memorandum extending nationwide the temporary cessation of the gaming operations of its licenses effective midnight of March 16, 2020 until midnight of April 14, 2020 or until the government declares the Novel Coronavirus (COVID-19) situation either under control or for extended community quarantine. On June 15, 2020, the Group resumed its gaming services to electronic gaming locations and electronic bingo sites that have reopened across the country. The Group incurred a net loss of ₱59.5 million in 2020.

The COVID-19 pandemic is still prevailing and it is not practicable to estimate its potential impact on the Group's operations after the reporting date. The Country's economic recovery is dependent on measures adopted by the Government such as quarantine, travel restrictions and any economic stimulus that maybe provided.

Notwithstanding the condition, the Group implemented initiatives, which include securing additional sites, targeting key accounts, cost management measures and improving efficiencies across all areas of operations. Management believes that these initiatives can overcome the impact of the COVID-19 pandemic. It is projecting a turnaround with positive results in the coming years.

Accordingly, the financial statements were prepared on the going concern basis.

Subsequent Event

On March 8, 2021, the Group and Palmary Corporation and Subsidiaries (Palmary Group) executed a deed of sale for the acquisition of 100.0% of the issued capital stock of 16 e-Bingo companies for ₱450.0 million and two accredited e-bingo machine supplier companies for ₱280.0 million to expand its electronic games business. A goodwill is expected to be recognized from the expected synergies from acquiring these entities. The amounts of fair values of assets and liabilities and the goodwill are being finalized as of report date.

Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 were approved and authorized for issue by the Board of Directors (BOD) on March 17, 2021.

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 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 22 to the consolidated financial statements.

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS.

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

- Amendments to References to the Conceptual Framework in PFRS – The amendments include new concepts affecting measurement, presentation and disclosure and derecognition; improved definitions and guidance-in particular the definition of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence, measurement uncertainty and substance over form in financial reporting.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides an improved 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 include, at a minimum, ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The clarification 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.

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases - COVID-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

Due to the impact of COVID-19 pandemic, the Group received rent concessions from lessors for leases related to its sites. Accordingly, the Group has applied the practical expedient to all COVID-19 related rent concessions that meet all of the following criteria:

- a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b. any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- c. there is no substantive change to other terms and conditions of the lease.

By applying the practical expedient, the Group is no longer required to remeasure the lease liabilities to reflect the revised consideration using a revised discount rate. Instead, the effect of the change in the lease liabilities is reflected in the consolidated statements of comprehensive income in the period in which the event or condition that triggers the rent concession occurs. The amount of reduction in lease liabilities that was recognized in the consolidated statements of comprehensive income amounted to ₱7.4 million in 2020 (see Note 19).

Under prevailing circumstances, the adoption of the foregoing amended PFRS did not have any material effect on the consolidated financial statements of the Group, except for amendment to PFRS 16 as discussed in the foregoing. Additional disclosures were included in the consolidated financial statements, as applicable.

Amended PFRS Issued But Not Yet Effective

Relevant amended PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in the consolidated statements of comprehensive income. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
 - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.
 - Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023 -

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is 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 applicable.

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 the consolidated statements of comprehensive income or as a change to other comprehensive income (OCI). If the contingent consideration is not within the scope of PFRS 9, *Financial Instruments*, 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 the 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 cash-generating unit (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within CGU 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 statements of comprehensive income 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 the consolidated statements of comprehensive income. 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 the consolidated statements of comprehensive income 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, 2020 and 2019, 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 the consolidated statements of comprehensive income 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, 2020 and 2019, 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 the consolidated statements of comprehensive income when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2020 and 2019, the Group's accounts payable and other current liabilities (excluding statutory payable), notes payable, lease liabilities and other noncurrent liability are classified under this category (see Notes 9, 10, 19 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 10.0% 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 10.0% 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 expected credit losses (ECL) for all financial assets measured at amortized cost. 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 Assets at Amortized Cost. For other financial assets measured at amortized cost, 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. 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:

	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	3 - 5
Transportation equipment	3

The useful lives of the property and equipment are 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 the consolidated statements of comprehensive income in the year the item is derecognized.

Noncurrent Input VAT

Input VAT represents tax imposed on the Group by its suppliers for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is recognized as an asset and will be used to offset the Group's VAT liability. This is presented as part of other noncurrent assets as this is not expected to be applied within one year after the reporting date.

Advances for Projects

Advances for projects are recorded at the amount of cash paid and are applied to subsequent billings from the project contractor. Advances for projects pertain to advance payments for project costs which are not yet delivered to the Group.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (except goodwill) 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 the consolidated statements of comprehensive income 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 the consolidated statements of comprehensive income 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 (Loss). Other comprehensive income (loss) comprises items of income and expense that are not recognized in profit or loss for the year. Moreover, it pertains to accumulated remeasurement gains or losses on net retirement benefits liability.

Treasury Stocks. Acquired treasury stocks 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 the consolidated statements of comprehensive income 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 the consolidated statements of comprehensive income 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.

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. Income from other sources, except for those accounted under PFRS 16, is recognized when earned during the period.

Costs and Expenses Recognition

Costs and expenses are recognized in the consolidated statements of comprehensive income 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. 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 and is transferred to additional paid-in capital when the options are exercised, forfeited or lapsed.

Leases

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.

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, except for changes in lease payments in which the practical expedient on COVID-19 related rent concessions is applied. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets ranging from two to eight 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 the consolidated statements of comprehensive income unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in the consolidated statements of comprehensive income 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, a change in future lease payments resulting from a change in an index or a rate used to determine those payments or changes in lease payments in which the practical expedient on COVID-19 related rent concessions is applied.

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 permanent 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 the consolidated statements of comprehensive income. Net interest is calculated by applying the discount rate to the net retirement benefits 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 the consolidated statements of comprehensive income.

Past service costs are recognized in the consolidated statements of comprehensive income 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 benefits liability or asset) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to the consolidated statements of comprehensive income in subsequent years.

The retirement benefits 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 benefits 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 Currency - Denominated Transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at reporting date. Resulting exchange differences arising on the settlement of or on translating such monetary assets and liabilities are recognized in the consolidated statements of comprehensive income. For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

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. Related party transactions are considered material and/or significant if (i) these transactions amount to 10.0% or higher of the Group's total assets or, (ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10.0% or higher of the Group's total assets. Details of transactions entered into by the Group with related parties are reviewed by the BOD in accordance with the Group's related party transactions policies.

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 carryforward benefits from 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 carryforward benefits from 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 an 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.

Assessing the Ability of the Group to Continue as a Going Concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the reporting date. The degree of consideration and available information depends on the facts and wide range of factors the management may need to consider (e.g. current and expected profitability, debt repayment schedules, capital expenditures and potential sources of replacement financing).

The status of operations and management initiatives are disclosed in Note 1. Accordingly, the consolidated financial statements as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, are prepared on a going concern basis of accounting.

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

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

The Group has determined that the Parent Company has the ability to exercise control over its subsidiaries as at December 31, 2020 and 2019.

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 21 to the consolidated financial statements.

Evaluating Lease Commitments - Group as a Lessor. 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.

Classifying Lease Commitments - 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.

The carrying amounts of ROU assets and lease liabilities are disclosed in Note 19. Rent expense recognized is disclosed in Note 14.

Determining the Incremental Borrowing 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 was not readily available.

Assessing the 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 reasonably certain to exercise the extension options if there is a significant event or significant change in circumstances within its control.

For certain leases of PeGS and e-bingo sites, the financial effect of revising lease terms to reflect the effect of exercising options on these leases amounted to ₱19.7 million.

Determining the 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, *Operating Segments* due to their similar characteristics (see Note 24).

Determining the 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 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.

Assessing the ECL on 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 Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period.

ECL of Trade Receivables

The Group 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 and are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables including the impact of the COVID-19 pandemic.

Based on the foregoing, the Group did not recognize provision for ECL on trade receivables in 2020, 2019 and 2018. The carrying amount of trade receivables is disclosed in 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 2020 and 2019. The carrying amounts of cash in banks, receivables from sale of Parent Company shares, advances to PeGS operators and other receivables, and rental and other deposits are disclosed in Notes 4, 5 and 8, respectively.

Estimating the 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 2020 and 2019. The carrying amount of property and equipment is disclosed in Note 7.

Estimating the Impairment of Nonfinancial Assets. The Group also assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The relevant factors that the Group considers in deciding whether to perform an asset impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business;
- Significant negative industry or economic trends; and
- Significant changes or planned changes in the use of the assets.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make judgments and estimates that can materially affect the consolidated financial statements. The Group determined the recoverable amounts of CGUs based on the higher of fair value less costs of disposal and value in use calculation using 5% terminal growth rates in 2020 and 2019 and discount rates of 7.0% and 6.3% in 2020 and 2019, respectively. In estimating future cash flows, management considered the impact of the COVID-19 pandemic to the Group's business operations.

The Group's provision for ECL on advances to suppliers is disclosed in Note 5.

The Group's provision for impairment losses on input VAT is disclosed in Notes 6 and 8.

The carrying amounts of advances to suppliers, prepayments and other current assets, property and equipment, input VAT and ROUs are disclosed in Notes 5, 6, 7, 8 and 19, respectively.

Estimating the 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 and the goodwill arising from the excess of the consideration paid less the fair value are disclosed in 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, 2020 and 2019, calculated based on value in use are greater than the corresponding carrying amounts (including goodwill) of the CGUs. No impairment loss was recognized in 2020, 2019 and 2018. The carrying amount of goodwill amounted to ₱39.9 million as at December 31, 2020 and 2019 (see Note 8).

Estimating the Net Retirement Benefits 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 benefits liability.

Net retirement benefits liability is disclosed in Note 16.

Assessing the 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.

Details of the recognized and unrecognized deferred tax assets are disclosed in Note 18.

4. Cash

This account consists of:

	2020	2019
Cash on hand	₱8,560,174	₱11,993,340
Cash in banks	32,501,214	25,630,786
	₱41,061,388	₱37,624,126

Cash in banks earn interest at the prevailing bank deposit rates.

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

	Note	2020	2019	2018
Cash in banks		₱46,060	₱41,043	₱282,900
Receivables	5	32,500	144,521	983,025
		₱78,560	₱185,564	₱1,265,925

5. Receivables

This account consists of:

	2020	2019
Trade	₱24,715,475	₱16,013,622
Receivable from sale of Parent Company shares	292,000,000	292,000,000
Advances to suppliers	46,946,036	43,715,314
Receivables from non-affiliated entities	34,072,306	34,072,306
Advances to PeGS operators	22,527,486	12,096,068
Claims from telecommunication companies	8,090,049	8,090,049
Others	1,694,346	2,284,021
	430,045,698	408,271,380
Less allowance for impairment losses on:		
Receivables from non-affiliated entities	34,072,306	34,072,306
Advances to suppliers	31,990,030	31,990,030
Claims from telecommunication companies	8,090,049	8,090,049
	74,152,385	74,152,385
	₱355,893,313	₱334,118,995

Movements in the allowance for impairment losses are shown below:

	Note	2020	2019	2018
Balance at beginning of year		₱74,152,385	₱69,107,994	₱69,107,994
Provision	14	-	5,044,391	-
Balance at end of year		₱74,152,385	₱74,152,385	₱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. The receivable was subsequently collected.

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. These were fully provided with valuation allowance.

Advances to PeGS Operators

Advances to PeGS operators pertain to short-term, unsecured, interest-bearing advances extended to operators with interest rate of 8.0% to 12.0% a year that are expected to be settled in cash. Interest income earned from receivables amounted to ₱32,500, ₱0.1 million and ₱1.0 million in 2020, 2019 and 2018, 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	2020	2019
Input VAT - net of allowance for impairment		₱34,034,224	₱29,974,493
Prepayments for:			
Taxes and licenses		3,014,231	6,112,943
Outsourced services		1,199,251	2,600,287
Rent	19	205,745	787,996
Insurance		51,393	1,356,528
		₱38,504,844	₱40,832,247

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

	Note	2020	2019	2018
Balance at beginning of year		₱112,019,419	₱108,548,107	₱99,553,767
Provision	14	1,730,017	3,471,312	8,994,340
Balance at end of year		₱113,749,436	₱112,019,419	₱108,548,107

7. Property and Equipment

Movements in this account are as follows:

2020 (In Thousands)						
	Computer Equipment and Software	Network and Data Communication Equipment	Leasehold and Site Improvements	Furniture, Fixtures and Office Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱497,881	₱262,984	₱378,666	₱124,932	₱21,698	₱1,286,161
Additions	238	883	868	333	-	2,322
Disposals	(225)	-	-	(123)	-	(348)
Balance at end of year	497,894	263,867	379,534	125,142	21,698	1,288,135
Accumulated Depreciation and Amortization						
Balance at beginning of year	436,822	256,097	318,346	106,943	19,861	1,138,069
Depreciation and amortization	6,128	1,032	32,423	4,083	-	43,666
Disposals	(205)	-	-	(106)	-	(311)
Balance at end of year	442,745	257,129	350,769	110,920	19,861	1,181,424
Accumulated Impairment Losses						
Balance at beginning and end of year	27,621	174	5,814	634	-	34,243
Carrying Amount	₱27,528	₱6,564	₱22,951	₱13,588	₱1,837	₱72,468

2019 (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						
	₱522,667	₱260,309	₱337,313	₱119,481	₱24,483	₱1,264,253
	6,688	2,675	14,752	3,611	-	27,726
8	3,630	-	45,458	2,442	-	51,530
	(35,104)	-	(18,857)	(602)	(2,785)	(57,348)
	497,881	262,984	378,666	124,932	21,698	1,286,161
Accumulated Depreciation and Amortization						
	465,395	241,589	297,337	103,856	22,646	1,130,824
	6,530	14,508	39,866	3,689	-	64,593
	(35,104)	-	(18,857)	(602)	(2,785)	(57,348)
	436,822	256,097	318,346	106,943	19,861	1,138,069
Accumulated Impairment Losses						
	27,621	174	5,814	634	-	34,243
Carrying Amount	₱33,438	₱6,713	₱54,506	₱17,355	₱1,837	₱113,849

Fully-depreciated property and equipment still being used in operations amounted to ₱1,055.5 million and ₱925.0 million as at December 31, 2020 and 2019, respectively.

Depreciation and amortization are recognized from:

	Note	2020	2019	2018
Property and equipment		₱43,665,645	₱64,592,889	₱64,260,395
ROU assets	19	39,143,326	32,727,737	-
	14	₱82,808,971	₱97,320,626	₱64,260,395

The Group disposed of property and equipment with cost of ₱0.3 million, ₱57.3 million, and nil in 2020, 2019 and 2018, respectively. Gain on disposal of property and equipment amounted to ₱0.2 million in 2020 and nil in 2019 and 2018 (see Note 17).

As at December 31, 2020 and 2019, 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 5.0% growth rate. Discount rate applied to the cash flow projections in determining recoverable amounts is 7.0% and 6.3% in 2020 and 2019, 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.

Sensitivity Analysis. Generally, an increase (decrease) in the incremental after-tax cash flows and growth rate will result in an increase (decrease) in the value in use. An increase (decrease) in discount rate will result in a decrease (increase) in the value in use.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of Group's property and equipment calculated through value in use would not cause the CGU's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of the Group's property and equipment is based, this would result in further impairment charge.

8. Other Noncurrent Assets

This account consists of:

	Note	2020	2019
Noncurrent input VAT		₱213,290,217	₱210,019,099
Rental and other deposits	19	58,386,243	58,169,265
Goodwill		39,937,106	39,937,106
Advances for projects		5,378,199	5,378,199
		316,991,765	313,503,669
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	19	2,258,000	2,258,000
		189,109,874	189,109,874
		₱127,881,891	₱124,393,795

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	2020	2019	2018
Balance at beginning of year		₱181,473,675	₱181,473,675	₱163,800,368
Provision	14	-	-	17,673,307
Balance at end of year		₱181,473,675	₱181,473,675	₱181,473,675

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 acquired 8 sites in 2019 for ₱85.1 million and 3 sites in 2018 for ₱7.6 million.

Goodwill recognized from the acquisition in 2019 is as follows:

	Note	
Fair value of considerations:		
Cash		₱73,115,297
Treasury stocks - 4,411,765 in 2019, 946,372 in 2018 and 7,713,870 in 2017	13	12,000,000
Less fair value of assets acquired:		
Leasehold and site improvements	7	45,458,000
Rental and other deposits		5,000,000
Computer equipment and software	7	3,629,537
Office furniture and fixtures	7	2,442,000
Goodwill recognized from the business combination		₱28,585,760

Movements in the carrying amount of goodwill are shown below:

	2020	2019	2018
Balance at beginning of year	₱39,937,106	₱11,351,346	₱11,351,346
Additions	-	28,585,760	-
Balance at end of year	₱39,937,106	₱39,937,106	₱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 7.0% in 2020 and 6.3% in 2019. 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 loss on these assets.

9. Accounts Payable and Other Current Liabilities

This account consists of:

	2020	2019
Accounts payable	₱176,665,394	₱134,540,545
Accruals for:		
Contractors	15,875,514	13,776,325
Manpower services	14,604,731	8,486,216
Utilities and communications	9,332,889	4,235,669
Advertising and promotions	4,479,551	5,667,730
Interest on notes payable	1,652,667	765,778
Professional fees	704,585	244,814
Travel expenses	146,391	6,898
Others	1,575,426	1,230,390
Statutory payable	1,836,103	1,711,921
	₱226,873,251	₱170,666,286

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.

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 to a local bank amounting to P200.4 million and P203.6 million as at December 31, 2020 and 2019, respectively, and bear annual interest at an average rate of 7.5% to 10.0% in 2020 and 8.0% to 11.0% in 2019. As at December 31, 2020 and 2019, 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	2020	2019	2018
Notes payable		P18,310,277	P19,478,956	P12,285,638
Lease liabilities	19	11,600,736	10,197,904	–
	17	P29,911,013	P29,676,860	P12,285,638

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.

	2019	Availments	Payments	Noncash changes	2020
Notes payable	P203,600,000	P48,250,000	(P51,500,000)	P–	P200,350,000
Interest	765,778	18,310,277	(16,680,541)	(742,847)	1,652,667
Lease liabilities	114,355,204	–	(38,767,333)	5,542,226	81,130,097
Other noncurrent liability	14,801,000	200,000	(250,000)	–	14,751,000
	2018	Availments	Payments	Noncash changes	2019
Notes payable	P146,171,875	P159,500,000	(P102,071,875)	P–	P203,600,000
Interest	–	19,478,956	(18,712,951)	(227)	765,778
Lease liabilities	63,738,925	–	(37,553,339)	88,169,618	114,355,204
Other noncurrent liability	15,805,000	–	(1,004,000)	–	14,801,000

11. Other Noncurrent Liability

This account consists of cash received from operators for 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 when the contract is terminated. The carrying amount of the operators' refundable deposits approximates its 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 ₱16.3 million, ₱32.1 million and ₱34.1 million in 2020, 2019 and 2018, respectively. The Group's key management compensation relating to post-employment benefits or other long-term benefits amounted to ₱1.9 million in 2020 and ₱2.9 million in 2019 and 2018.

13. Equity

Capital Stock

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

	Number of Shares		Amount	
	2020	2019	2020	2019
Issued Shares				
Balance at beginning of year	1,517,157,525	1,472,278,745	₱1,517,157,525	₱1,472,278,745
Issuance during the year	-	44,878,780	-	44,878,780
	1,517,157,525	1,517,157,525	1,517,157,525	1,517,157,525
Subscribed Shares				
Balance at beginning of year	-	44,878,780	-	44,878,780
Issuance during the year	-	(44,878,780)	-	(44,878,780)
Balance at end of year	-	-	-	-
Less subscriptions receivable:				
Balance at beginning of year	-	-	-	(11,219,694)
Collection of subscriptions	-	-	-	11,219,694
Balance at end of year	-	-	-	-
	-	-	-	-
Issued and Subscribed at End of Year	1,517,157,525	1,517,157,525	₱1,517,157,525	₱1,517,157,525
Treasury Stocks and Shares Held by Subsidiaries				
Balance at beginning of year	(238,424,948)	(340,170,046)		
Reissued shares	-	101,745,098		
Balance at end of year	(238,424,948)	(238,424,948)		
Outstanding Shares at End of Year	1,278,732,577	1,278,732,577		

As at December 31, 2020 and 2019, the Group's outstanding loan is secured by the assignment of all outstanding shares of the Parent Company at 300.0% cover based on prevailing market price (see Note 10).

Additional Paid-In Capital

Movements in additional paid-in capital in 2019 as follows:

Balance at beginning of year	P1,010,387,648
Reduction as a result of the sale of shares held by subsidiaries	(387,295,307)
Collection of subscriptions receivable	33,659,086
Balance at end of year	P656,751,427

Treasury Stocks and Stocks Held by Subsidiaries

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

Treasury Stocks	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning and end of year	81,380,792	P1,098,928,524	81,380,792	P1,098,928,524

Stocks Held by Subsidiaries	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	157,044,156	P1,727,327,769	258,789,254	P2,898,284,262
Re-issuance during the year to:				
Palmary	-	-	(97,333,333)	(1,123,750,608)
Others	-	-	(4,411,765)	(47,205,885)
Balance at end of year	157,044,156	P1,727,327,769	157,044,156	P1,727,327,769

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 P3.00 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 the Parent Company shares held by the subsidiaries resulted to a reduction of P387.3 million and P481.9 million in additional paid-in capital stock and retained earnings, respectively.

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. Stock options outstanding have been derecognized in 2018 due to the expiration of the stock options.

14. Costs and Expenses

This account consists of:

	Note	2020	2019	2018 (As restated)
Depreciation and amortization	7	₱82,808,971	₱97,320,626	₱64,260,395
Salaries and benefits	15	78,136,458	99,811,688	95,087,630
Outsourced services		62,457,996	166,430,749	133,362,457
Utilities and communications		28,683,585	41,952,546	36,360,849
Taxes and licenses		16,208,340	14,650,931	13,938,346
Representation and entertainment		14,480,215	23,614,595	35,223,392
Advertising and promotion		10,106,072	32,044,019	24,433,568
Supplies		8,805,003	24,656,982	17,985,715
Rental - net	19	2,200,257	17,582,107	50,621,733
Impairment losses		1,730,017	8,515,703	26,667,647
Professional fees		1,667,868	2,791,247	2,266,194
Miscellaneous		5,181,119	14,805,071	5,994,916
		₱312,465,901	₱544,176,264	₱506,202,842

Impairment losses were recognized from the following:

	Note	2020	2019	2018
Input VAT (current and noncurrent)	6, 8	₱1,730,017	₱3,471,312	₱26,667,647
Receivables	5	—	5,044,391	—
		₱1,730,017	₱8,515,703	₱26,667,647

In 2019, the Group restated its consolidated statement of comprehensive income for the year ended December 31, 2018 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	
	Gaming application services	Outsourced services
As Previously Reported	₱165,148,687	₱75,160,054
To report revenues and expenses at gross of SLP share	58,202,403	58,202,403
As Restated	₱223,351,090	₱133,362,457

15. Salaries and Benefits

This account consists of:

	Note	2020	2019	2018
Salaries and wages		₱73,091,157	₱94,914,896	₱91,556,935
Retirement benefits expense	16	5,045,301	4,896,792	3,530,695
		₱78,136,458	₱99,811,688	₱95,087,630

16. Net Retirement Benefits Liability

The Group has a funded, non-contributory, defined benefit plan (the "Benefit 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 for the year ended December 31, 2020 was dated January 29, 2021.

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):

	2020	2019	2018
Current service cost	₱4,613,036	₱3,669,238	₱3,117,481
Net interest cost	1,356,097	1,227,554	413,214
Settlement gain	(923,832)	–	–
	₱5,045,301	₱4,896,792	₱3,530,695

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

	2020	2019
Balance at beginning of year	₱30,465,160	₱15,074,600
Current service cost	4,613,036	3,669,238
Net remeasurement loss	2,277,090	10,493,768
Net interest cost	1,356,097	1,227,554
Settlement gain	(923,832)	–
Balance at end of year	₱37,787,551	₱30,465,160

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

	2020	2019
Present value of retirement obligation	₱46,854,605	₱47,411,150
Fair value of plan assets	(9,067,054)	(16,945,990)
	₱37,787,551	₱30,465,160

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

	2020	2019
Balance at beginning of year	₱47,411,150	₱33,274,913
Benefits paid	(7,218,914)	(2,541,976)
Current service cost	4,613,036	3,669,238
Interest cost	2,052,264	2,498,946
Settlement gain	(923,832)	-
Remeasurement loss	920,901	10,510,029
Balance at end of year	₱46,854,605	₱47,411,150

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

	2020	2019
Balance at beginning of year	₱16,945,990	₱18,200,313
Benefits paid	(7,218,914)	(2,541,976)
Remeasurement gain (loss)	(1,356,189)	16,261
Interest income	696,167	1,271,392
Balance at end of year	₱9,067,054	₱16,945,990

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

	2020	2019
Deposits in bank	₱1,498	₱1,287,653
Investment in unit investment trust fund	9,065,556	15,658,337
	₱9,067,054	₱16,945,990

The accumulated remeasurement gains (losses) recognized in OCI as at December 31 is as follows:

	Accumulated Remeasurement Gains (Losses)	Deferred Tax (Note 18)	Net
Balance as at December 31, 2019	(₱5,349,311)	₱1,604,793	(₱3,744,518)
Net remeasurement loss	(2,277,090)	683,127	(1,593,963)
Balance as at December 31, 2020	(₱7,626,401)	₱2,287,920	(₱5,338,481)

	Accumulated Remeasurement Gains (Losses)	Deferred Tax (Note 18)	Net
Balance as at December 31, 2018	₱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)

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

	Valuation at	
	2020	2019
Discount rates	3.64%	5.22%
Expected rates of salary increase	5.00%	5.00%

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

	Change in Assumption	Effect on Net Retirement Benefits Liability	
		2020	2019
Discount rate	+100 basis points	(P3,983,519)	(P3,273,457)
	-100 basis points	4,598,388	3,748,839
Salary rate	+100 basis points	4,488,470	3,719,294
	-100 basis points	(3,970,673)	(3,309,349)

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.

There are no unusual or significant risks to which the Benefit Plan exposes the Group.

No contribution is expected to be paid in 2021.

Weighted average duration of the defined benefit liability is 9.2 years and 7.4 years as at December 31, 2020 and 2019, respectively.

As at December 31, 2020, the expected future benefit payments are as follows:

Year	Amount
2021	P3,034,510
2022	3,210,594
2023	6,379,719
2024	3,133,250
2025 - 2029	41,272,965

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)

This account consists of:

	Note	2020	2019	2018
Interest expense	10	(P29,911,013)	(P29,676,860)	(P12,285,638)
Gain on retirement of ROU assets	19	347,924	-	-
Gain on sale of property and equipment	7	183,111	-	-
Interest income	4	78,560	185,564	1,265,925
Miscellaneous - net		(274,429)	(196,541)	(13,542)
		(P29,575,847)	(P29,687,837)	(P11,033,255)

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 Group has no taxable income in 2020 and 2018. The current income tax in 2019 pertains to MCIT.

The reconciliation of the benefit from income 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:

	2020	2019	2018
Benefit from income tax at statutory tax rate	(P23,148,005)	(P10,200,393)	(P27,800,835)
Adjustment resulting from:			
Change in unrecognized deferred tax assets	(44,764,337)	44,040,720	(7,190,353)
Expired NOLCO	47,530,450	14,119,503	7,270,383
ITH on BOI - registered activity	-	-	4,939,313
Add (deduct) tax effects of:			
Non-deductible expenses	2,742,061	3,573,551	8,263,149
Interest and other income already subjected to final tax	(13,818)	(12,313)	(84,870)
	(P17,653,649)	P51,521,068	(P14,603,213)

Expenses incurred related to the BOI-registered activity amounted to P25.8 million in 2018.

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

	Note	2020	2019
Items recognized in profit or loss:			
NOLCO		₱32,358,570	₱17,478,210
Net retirement benefits liability		9,048,345	7,534,755
Cumulative excess of amortization of ROU assets and accretion of interest on lease liabilities over rental payments, rent concessions and gain on retirement of ROU assets		2,871,389	1,611,690
Allowance for impairment losses on receivables		3,702,873	3,702,873
MCIT		67,522	67,522
		48,048,699	30,395,050
Item recognized directly in OCI -			
Remeasurement losses (gains) on net retirement benefits liability	16	2,287,920	1,604,793
		₱50,336,619	₱31,999,843

The Group did not recognize the deferred tax assets on the following temporary differences 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:

	2020	2019
Allowance for impairment losses on receivables	₱21,288,050	₱21,288,050
NOLCO	427,013	149,641,470
	₱21,715,063	₱170,929,520

As mandated by Section 4 of Republic Act No. 11494 or the “Bayanihan to Recover as One Act” and as implemented under Revenue Regulations No.25-2020, the net operating loss of a business enterprise incurred for the taxable years 2020 and 2021 can be carried over as a deduction from taxable income for the next five consecutive taxable years following the year of such loss. Consequently, NOLCO incurred in 2020 amounting to ₱58.8 million shall be carried over until 2025.

As at December 31, 2020, the Group has NOLCO incurred from other taxable years that can be carried forward and claimed as deduction against the regular taxable income as follows:

Year Incurred	Expiry Year	Amount	Applied	Expired	Balance
2017	2020	₱158,434,833	₱-	₱158,434,833	₱-
2018	2021	45,413,445	-	-	45,413,445
2019	2022	4,053,891	-	-	4,053,891
Total		₱207,902,169	₱-	₱158,434,833	₱49,467,336

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.

On November 26, 2020, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Bill was approved by the Senate of the Philippines. Under the CREATE Bill, domestic corporations will be subject to 25.0% or 20.0% RCIT depending on the amount of total assets or total amount of taxable income. In addition, MCIT shall be computed at 1.0% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

On February 3, 2021, the Senate and the Congress of the Philippines ratified the bill through a bicameral conference. As of March 17, 2021, the CREATE Bill is pending approval of the President which will still go over the tax measures for possible changes or insertions.

Accordingly, the income tax rates used in preparing the consolidated financial statements as at and for the year ended December 31, 2020 are 30.0% and 2.0% for RCIT and MCIT, respectively.

19. Significant Contracts

Cooperation Agreement

On June 1, 2019, the Parent Company entered into a cooperation agreement with Palmary Group 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.

On March 8, 2021, the Group and Palmary Group executed a deed of sale for the acquisition of 100.0% of the issued capital stock of 16 eBingo companies and 2 accredited e-bingo machine supplier companies (see Note 1).

Lease Agreements

Group as Lessee - Short-term Lease

The Group leases certain spaces for various events for a period of less than one year at a fixed rental rate and are renewable upon mutual agreement with the lessors.

Prepaid rent of the Group amounted to ₱0.2 million and ₱0.8 million as at December 31, 2020 and 2019, respectively (see Note 6). Total rent expense on short-term leases amounted to ₱9.6 million in 2020 and ₱17.6 million in 2019.

The Group has rental and other deposits amounting to ₱56.1 million and ₱55.9 million as at December 31, 2020 and 2019, respectively (see Note 8).

Group as Lessee - Long-term Lease

ROU Assets

The balance of and movements in ROU assets follow:

	Note	2020	2019
Cost:			
Balance at beginning of year		₱143,681,406	₱64,528,682
Additions		7,826,038	79,152,724
Retirement		(7,619,405)	–
Balance at end of year		143,888,039	143,681,406
Accumulated amortization:			
Balance at beginning of year		32,727,737	–
Amortization	7	39,143,326	32,727,737
Retirement		(1,512,590)	–
Balance at end of year		70,358,473	32,727,737
Carrying amount		₱73,529,566	₱110,953,669

Lease Liabilities

The balance and movements in lease liabilities follow:

	Note	2020	2019
Balance at beginning of year		₱114,355,204	₱63,738,925
Additions		7,826,038	77,971,714
Rental payments		(38,767,333)	(37,553,339)
Accretion of interest	10	11,600,736	10,197,904
Gain on rent concessions		(7,429,809)	–
Retirement		(6,454,739)	–
Balance at end of year		81,130,097	114,355,204
Less current portion		36,162,504	35,812,101
Noncurrent portion		₱44,967,593	₱78,543,103

Incremental borrowing rate ranging 11.9% to 12.1% was applied to determine the discounted amount of lease liabilities.

The amounts recognized in the consolidated statements of comprehensive income follow:

	Note	2020	2019	2018
Amortization of ROU assets	7	₱39,143,326	₱32,727,737	₱–
Interest expense on lease liabilities	10	11,600,736	10,197,904	–
Rental - net	14	2,200,257	17,582,107	50,621,733
Gain on retirement of ROU assets	17	(347,924)	–	–
		₱52,596,395	₱60,507,748	₱50,621,733

Rental - net consists of:

	Note	2020	2019	2018
Rent expense - short term leases		₱9,630,066	₱17,582,107	₱50,621,733
Less gain on rent concessions	2	(7,429,809)	-	-
	14	₱2,200,257	₱17,582,107	₱50,621,733

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

	2020		2019	
	Minimum Lease Payments	Present Value	Minimum Lease Payments	Present Value
Not later than one year	₱44,102,869	₱36,162,504	46,925,475	35,812,101
Later than one year but not more than five years	52,690,208	44,967,593	91,327,129	78,543,103
	96,793,077	₱81,130,097	138,252,604	114,355,204
Finance charges	(15,662,980)	-	(23,908,400)	-
	₱81,130,097	₱81,130,097	₱114,344,204	₱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, point of sale 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 ₱33.5 million, ₱69.3 million and ₱58.2 million in 2020, 2019 and 2018, respectively, and are recognized under "Outsourced services" in the consolidated statements of comprehensive income.

20. Loss Per Share

Basic/diluted loss per share is computed as follows:

	2020	2019	2018
Net loss attributable to equity holders of the Parent Company	(₱59,506,366)	(₱87,871,241)	(₱77,579,968)
Weighted average no. of shares outstanding	1,278,732,577	1,278,732,577	1,176,443,253
Adjusted weighted average no. of shares outstanding	1,278,732,577	1,278,732,577	1,176,443,253
Basic/Diluted loss per share	(₱0.05)	(₱0.07)	(₱0.07)

In 2020 and 2019, the Company has no dilutive potential share.

21. 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 Group'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. The maximum exposure at the end of the reporting period is the carrying amount of trade receivables.

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:

	2020			
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Cash in banks	₱32,501,214	₱-	₱-	₱32,501,214
Receivable from non-affiliated entities	-	-	34,072,306	34,072,306
Advances to PeGS operators	22,527,486	-	-	22,527,486
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	-	56,128,243	-	56,128,243
Others	1,694,346	-	-	1,694,346
	₱348,723,046	₱56,128,243	₱42,162,355	₱447,013,644

	2019			
	12-month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Cash in banks	₱25,630,786	₱-	₱-	₱25,630,786
Receivable from non-affiliated entities	-	-	34,072,306	34,072,306
Advances 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
	₱332,010,875	₱55,911,265	₱42,162,355	₱430,084,495

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

	2020			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	₱32,501,214	₱-	₱-	₱32,501,214
Receivables*	340,937,307	-	42,162,355	383,099,662
Rental and other deposits	56,128,243	-	2,258,000	58,386,243
	₱429,566,764	₱-	₱44,420,355	₱473,987,119

*Excluding advances to suppliers amounting to ₱14,956,006

	2019			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P25,630,786	P-	P-	P25,630,786
Receivables*	322,393,711	-	42,162,355	364,556,066
Rental and other deposits	55,911,265	-	2,258,000	58,169,265
	P403,935,762	P-	P44,420,355	P448,356,117

*Excluding advances to suppliers amounting to P11,725,284

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:

	2020				Total
	On Demand	Between 1 to 3 Months	Between 3 to 12 Months	More than 12 Months	
Accounts payable and other current liabilities*	P225,037,148	P-	P-	P-	P225,037,148
Notes payable	-	-	200,350,000	-	200,350,000
Lease liabilities	-	12,863,337	31,239,532	52,690,208	96,793,077
Other noncurrent liability	-	-	-	14,751,000	14,751,000
	P225,037,148	P12,863,337	P231,589,532	P67,441,208	P536,931,225

*Excluding statutory payable amounting to P1,836,103

	2019				Total
	On Demand	Between 1 to 3 Months	Between 3 to 12 Months	More than 12 Months	
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	-	13,686,597	33,238,878	91,327,129	138,252,604
Other noncurrent liability	-	-	-	14,801,000	14,801,000
	P168,954,365	P13,686,597	P236,838,878	P106,128,129	P525,607,969

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

Interest Rate Risk

As at December 31, 2020 and 2019, the Group'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 amounted to P200.4 million and P203.6 million as at December 31, 2020 and 2019, respectively, 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 Group's profit before tax. There is no other impact on the Group's equity other than those already affecting the profit and loss.

	Increase/Decrease in Interest Rate	Effect on Profit or Loss before Tax
2020	72%	P13,610,163
	-72%	(13,610,163)
2019	94%	18,306,638
	-4%	(802,720)

22. 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, 2020 and 2019.

Financial Assets

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	P41,061,388	P41,061,388	P37,624,126	P37,624,126
Receivables*	340,937,307	340,937,307	322,393,711	322,393,711
Rental and other deposits	56,128,243	56,128,243	55,911,265	55,911,265
	P438,126,938	P438,126,938	P415,929,102	P415,929,102

*Excluding advances to suppliers amounting to P14,956,006 and P11,725,284 as at December 31, 2020 and 2019, respectively.

Financial Liabilities

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Accounts payable and other current liabilities*	P225,037,148	P225,037,148	P168,954,365	P168,954,365
Notes payable	200,350,000	200,350,000	203,600,000	203,600,000
Lease liabilities	81,130,097	92,046,700	114,355,204	124,577,981
Other noncurrent liability	14,751,000	14,751,000	14,801,000	14,801,000
	P521,268,245	P532,184,848	P501,710,569	P511,933,346

*Excluding statutory payables amounting to P1,836,103 and P1,711,921 as at December 31, 2020 and 2019, 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 based on the amount that the Group could be required to repay immediately (Level 3 hierarchy).

Lease Liabilities. The fair value of lease liabilities is determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments and estimated using significant and unobservable inputs (Level 3 hierarchy).

Generally, an increase or decrease in the incremental after-tax cash flows will result in an increase or decrease in the fair value of these financial asset and liabilities. An increase or decrease in discount rate will result in a decrease or increase in the fair value of these financial asset and liabilities.

The fair value hierarchy groups the financial instruments into Levels 1 to 3 based on the degree to which the fair value is observable. There were no transfers to other levels in 2020 and 2019.

23. 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:

	2020	2019
Total debt	₱560,891,899	₱533,887,650
Total equity	198,783,407	259,883,736
Debt-to-equity ratio	2.82:1	2.05:1

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.

Pursuant to the PSE's rules on minimum public ownership, at least 10.0% of the issued and outstanding shares of a listed company must be owned and held by the public. The public ownership is about 31.2% and 32.8% as at December 31, 2020 and 2019, respectively.

24. 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 are 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 1.0% in 2020, 2019 and 2018.

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:

	2020	2019	2018 (As restated - Note 14)
PeGS:			
Sites owned by subsidiaries	₱175,779,763	₱308,342,534	₱342,893,755
Independent operators	49,428,232	176,485,227	70,491,894
E-bingo sites	39,673,738	55,035,031	11,180,998
	₱264,881,733	₱539,862,792	₱424,566,647

25. 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:

	2020	2019	2018
Net loss attributable to equity holders of the Parent Company	(₱59,506,366)	(₱87,871,241)	(₱77,579,968)
Share of non-controlling interest in net loss	–	2,348,864	(486,269)
Net loss	(59,506,366)	(85,522,377)	(78,066,237)
Add (deduct):			
Depreciation and amortization	82,808,971	97,320,626	64,260,395
Interest expense	29,911,013	29,676,860	12,285,638
Provision for (benefit from) income tax	(17,653,649)	51,521,068	(14,603,213)
Impairment losses	1,730,017	8,515,703	26,667,647
Interest income	(78,560)	(185,564)	(1,265,925)
EBITDA	37,211,426	101,326,316	₱9,278,305
Less:			
Amortization of ROU assets	(39,143,326)	(32,727,737)	–
Accretion of interest on lease liabilities	(11,600,736)	(10,197,904)	–
EBITDA before effect of PFRS 16	(13,532,636)	₱58,400,675	₱9,278,305

	2020	2019	2018
Issued and outstanding shares at end of year	1,278,732,577	1,278,732,577	1,176,987,479
EBITDA per share before effect of PFRS 16	₱0.0106	₱0.0457	₱0.0079

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 (the Parent Company) and Subsidiaries (the Group), as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, on which we have rendered our report dated March 17, 2021.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Parent Company has one thousand two hundred seventy nine (1,279) 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. 8534279

Issued January 5, 2021, Makati City

March 17, 2021
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, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and have issued our report thereon dated March 17, 2021. 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, 2020 are the responsibility of the Group's management. These supplementary schedules include the following:

- Reconciliation of Retained Earnings Available for Dividend Declaration for the year ended December 31, 2020
- Schedules as required by Part II of the Revised Securities Regulation Code (SRC) Rule 68
- Map of Relationships of the Companies within the Group

These schedules are presented for purposes of complying with the 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 audits 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
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. 8534279

Issued January 5, 2021, Makati City

March 17, 2021

Makati City, Metro Manila

PHILWEB CORPORATION
SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2020

Unappropriated retained earnings at the beginning of period as shown in the separate financial statements	P1,349,548,568
Less:	
Treasury stocks	(1,098,928,523)
Net deferred tax assets as shown in the prior year separate financial statements	(22,134,451)
<hr/>	
Unappropriated retained earnings, <i>as adjusted to available for dividend distribution, beginning</i>	228,485,594
Net loss during the year closed to retained earnings	(542,466,082)
Deferred tax benefit recognized during the year	(4,634,913)
<hr/>	
DEFICIT, END OF YEAR	(P318,615,401)
<hr/>	
Reconciliation:	
Unappropriated retained earnings as at end of year as shown in the separate financial statements	P807,082,486
Less:	
Treasury stocks	(1,098,928,523)
Net deferred tax assets as shown in the separate financial statements	(26,769,364)
<hr/>	
DEFICIT, END OF YEAR	(P318,615,401)
<hr/>	

PHILWEB CORPORATION AND SUBSIDIARIES

SEC Supplementary Schedule as Required by Part II of the Revised SRC Rule 68
DECEMBER 31, 2020

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PHILWEB CORPORATION AND SUBSIDIARIES

A. Financial Assets
DECEMBER 31, 2020

<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	P41,061,388	P41,061,388	P46,060
<i>Receivables</i>				
Trade	N/A	P24,715,475	P24,715,475	P-
Others	N/A	316,221,832	316,221,832	32,500
		P340,937,307	P340,937,307	P32,500
<i>Other noncurrent assets</i>				
Rental and other deposits	N/A	P56,128,243	P56,128,243	N/A

PHILWEB CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 2020

<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.	₱43,746,498	₱-	(₱3,737,964)	₱-	₱-	₱40,008,534
E-Magine Gaming Corporation	37,121,228	-	(43,958)	-	-	37,077,270
BigGame, Inc.	35,446,375	-	(3,049,775)	-	-	32,396,600
PhilWeb Asia Pacific Corporation	2,938,047	18,805	-	-	-	2,956,852
PhilWeb Casino Corporation	2,457,888	18,980	-	-	-	2,476,868
Best Choice Holdings Inc.	1,906,472	-	-	-	-	1,906,472
	₱123,616,508	₱37,785	(₱6,831,697)	₱-	₱-	₱116,822,596

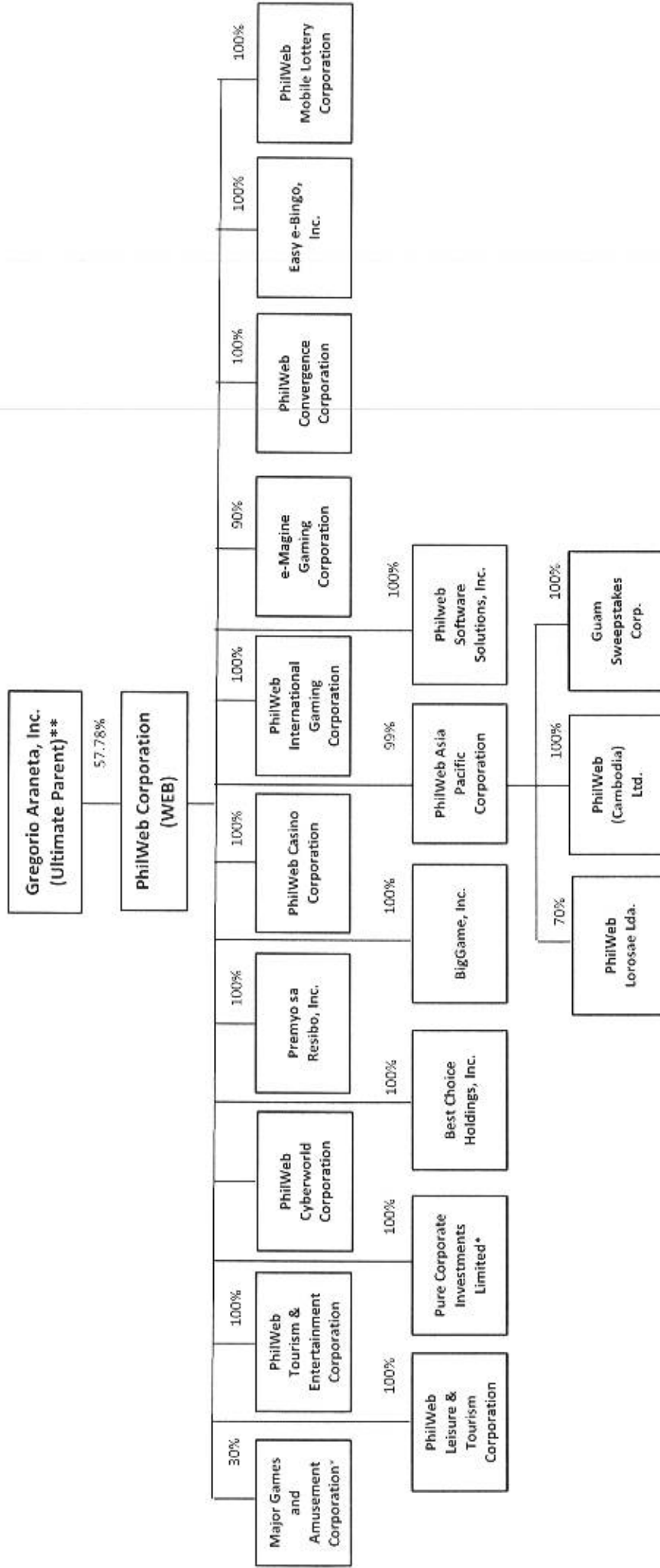
PHILWEB CORPORATION AND SUBSIDIARIES

**G. SHARE CAPITAL
DECEMBER 31, 2020**

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related statements of 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

Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries
DECEMBER 31, 2020



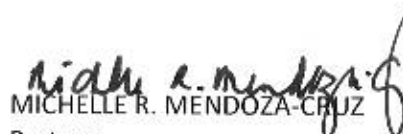
* Special Purpose Entity
** 10.94% is held by a subsidiary, PhilWeb Casino Corporation

**INDEPENDENT AUDITORS REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and have issued our report thereon dated March 17, 2021. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years ended December 31, 2020, 2019, and 2018 and no material exceptions were noted.

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. 8534279

Issued January 5, 2021, Makati City

March 17, 2021

Makati City, Metro Manila

PHILWEB CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Ratio	Formula	2020	2019
Current ratio	Total Current Assets	₱435,459,545	₱412,575,368
	Divided by: Total Current Liabilities	463,385,755	410,078,387
	Current ratio	0.94:1	1.01:1
Quick ratio	Total Current Assets	₱435,459,545	₱412,575,368
	Less: Prepayments and other current assets	38,504,844	40,832,247
	Quick assets	396,954,701	371,743,121
	Divide by: Total Current Liabilities	463,385,755	410,078,387
	Quick ratio	0.86:1	0.91:1
Solvency ratio	Total Assets	₱759,675,306	₱793,771,387
	Divided by: Total Liabilities	560,891,899	533,887,650
	Solvency ratio	1.35:1	1.49:1
Debt ratio	Total Liabilities	₱560,891,899	₱533,887,650
	Divided by: Total Assets	759,675,306	793,771,386
	Debt ratio	0.74:1	0.67:1
Debt-to-equity ratio	Total Liabilities	₱560,891,899	₱533,887,650
	Divided by: Total Equity	198,783,407	259,883,736
	Debt-to-equity ratio	2.82:1	2.05:1
Interest coverage ratio	Net loss	(₱59,506,366)	(₱85,522,377)
	Add: Interest expense	29,911,013	29,676,860
	Provision for (benefit from) income taxes	(17,653,649)	51,521,068
	Earnings before interest and taxes	(47,249,002)	(4,324,449)
	Divide by: Interest expense	29,911,013	29,676,860
Interest coverage ratio	(1.58):1	(0.15):1	
Return on assets ratio	Net loss	(₱59,506,366)	(₱85,522,377)
	Divided by: Total Assets	759,675,306	793,771,386
	Return on assets ratio	(0.08):1	(0.11):1

Ratio	Formula	2020	2019
Return on equity ratio	Net loss	(P59,506,366)	(P85,522,377)
	Divided by: Total equity	198,783,407	259,883,736
	Return on equity ratio	(0.30):1	(0.33):1