



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, 2018 and 2017 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years ended December 31, 2018, 2017 and 2016, and notes to consolidated financial statements, including a summary of significant accounting policies.

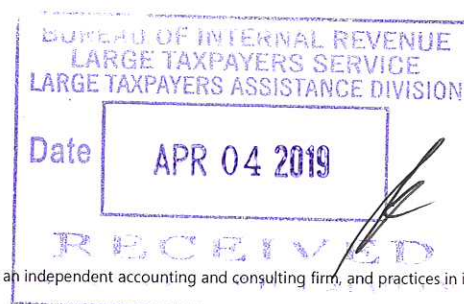
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the three years ended December 31, 2018, 2017 and 2016 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, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





Revenue Recognition

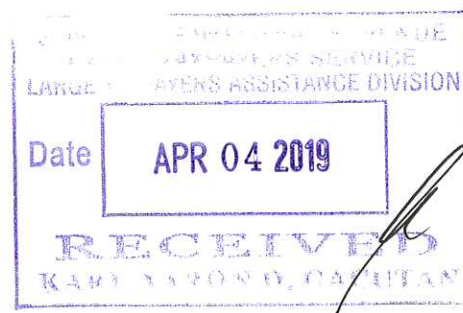
Revenue, a key driver of the Group's performance, is generated from the provision and maintenance of electronic gaming system (EGS), rendering related services as an accredited EGS service provider of Philippine Amusement and Gaming Corporation (PAGCOR) and from operating PAGCOR electronic gaming sites PAGCOR Electronic Gaming Sites (PeGS). Revenue is based on a percentage of the Gross Gaming Revenue (GGR). 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 involved IT specialists in evaluating and testing relevant IT controls 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. 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 for revenue recognition.

Valuation of Property and Equipment

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. The number of PeGS being serviced by the Parent Company increased in 2018. The Group still incurred net loss amounting to ₱78.1 million in 2018, but generated a positive Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) of ₱9.3 million. Consequently, the carrying amount of property and equipment may be in excess of its recoverable amount. Determining the recoverable amount requires a high degree of judgment and estimation and thus, was considered significant to our audit.

We reviewed management's impairment assessment by testing the assumptions used in the determination of the recoverable amount, including the identification of cash-generating units and if these are in accordance with Philippine Accounting Standards (PAS) 36, *Impairment of Assets*. We assessed if the inputs used in the derivation of the recoverable amount, particularly, the value-in-use are reasonable, and checked the mathematical accuracy of the said computation. We also reviewed the comparison made between the carrying amount of the property and equipment and its recoverable amount. Further disclosures are included in Note 7, *Property and Equipment*.





Recoverability of Deferred Tax Assets

As at December 31, 2018, the Group recognized deferred tax assets (DTA) primarily on future tax benefits arising from Net Operating Loss Carryover (NOLCO). DTA can only be recognized when it is probable that sufficient taxable income will be available against which the unused NOLCO can be utilized. The analysis on the recoverability of DTA on NOLCO 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 recoverability of DTA. We obtained the financial projections prepared by management supporting the utilization of NOLCO in the succeeding taxable years and reviewed and assessed the reasonableness of the assumptions, methodologies and inputs used. We compared the consistency of management's forecasted profit as against the budget already approved by the Board of Directors. We also determined if the DTA recognized are disclosed in the financial statements and NOLCO are reported in the tax returns. Further disclosures are included in Note 18, *Income Taxes*.

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, 2018, 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, 2018 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.

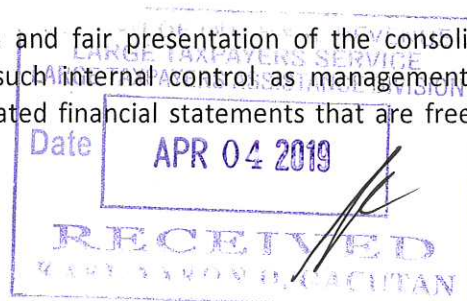
In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2016 were audited by another auditor whose report dated April 13, 2017, expressed an unmodified opinion on those statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.





In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

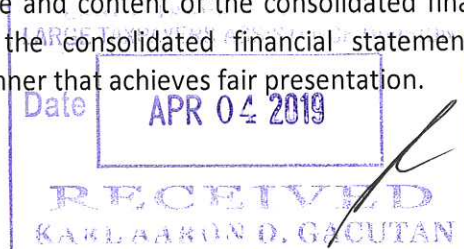
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in our audits of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Michelle R. Mendoza-Cruz.

REYES TACANDONG & Co.


MICHELLE R. MENDOZA-CRUZ

Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

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

SEC Accreditation No. 1499-AR-1 Group A

Valid until August 17, 2021

BIR Accreditation No. 08-005144-012-2017

Valid until March 8, 2020

PTR No. 7334342

Issued January 3, 2019, Makati City

April 1, 2019

Makati City, Metro Manila





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

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

We have audited the accompanying consolidated financial statements of PhilWeb Corporation and Subsidiaries (the Group), as at and for the years ended December 31, 2018 and 2017, on which we have rendered our report dated April 1, 2019.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the Parent Company has one thousand two hundred eighty eight (1,288) 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

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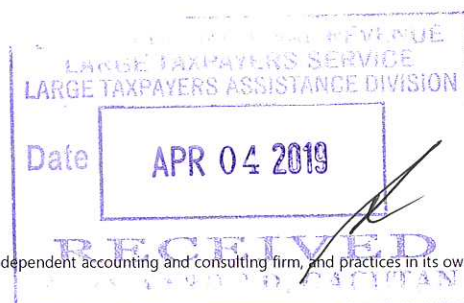
BIR Accreditation No. 08-005144-012-2017

Valid until March 8, 2020

PTR No. 7334342

Issued January 3, 2019, Makati City

April 1, 2019
Makati City, Metro Manila



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

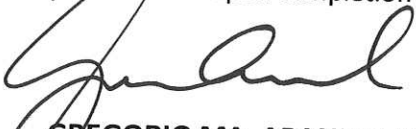
The Management of **PhilWeb Corporation and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended **December 31, 2018, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free 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



DENNIS O. VALDES
President



ZALDY M. PRIETO
SVP & Chief Finance Officer


Signed this 1st day of April, 2019

SUBSCRIBED AND SWORN to before me this APR 03 2019 day of 2019, in Makati City, affiant exhibited to me the following SSS No.

Gregorio Ma. Araneta III
Dennis O. Valdes
Zaldy M. Prieto

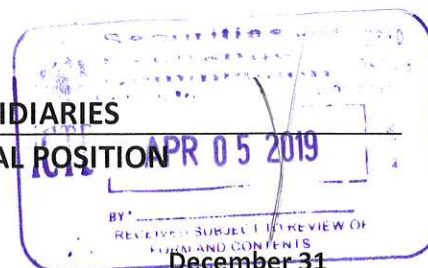
SSS No. 03-2865157-1
SSS No. 03-7979497-9
SSS No. 33-2870178-7

Doc. No. 122 ;
Page No. 26 ;
Book No. I ;
Series of 2019.


RAYMUND RENATO S. AQUINO
Appointment No. M-82
Notary Public for Makati City
Until December 31, 2020
6/F Adamson Centre, 1111 P. Leviste St.
Salcedo Village, Makati City
Roll No. 59348

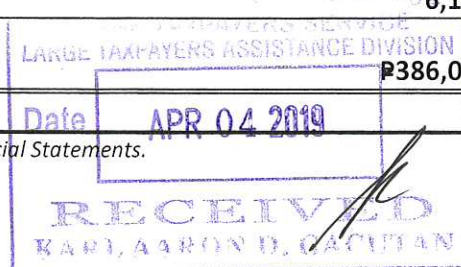
PTR No. 7333414; January 3, 2019 /Makati City
IBP No. 058235; January 3, 2019/RSM
MCLE Compliance No. VI-0018345-18 Feb 2019/ TIN 167-317-782

PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	4	P54,304,294	P112,005,505
Receivables	5	38,367,353	22,678,968
Prepayments and other current assets	6	37,275,733	26,518,120
Total Current Assets		129,947,380	161,202,593
Noncurrent Assets			
Property and equipment	7	99,186,099	143,867,379
Net deferred tax assets	18	80,305,259	64,381,608
Other noncurrent assets	8	76,606,631	68,805,582
Total Noncurrent Assets		256,097,989	277,054,569
		P386,045,369	P438,257,162
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities	9	P202,834,562	P204,137,096
Notes payable	10	146,171,875	140,000,000
Total Current Liabilities		349,006,437	344,137,096
Noncurrent Liabilities			
Net retirement liability	16	15,074,600	7,142,446
Other noncurrent liability	11	15,805,000	12,755,000
Total Noncurrent Liabilities		30,879,600	19,897,446
Total Liabilities		379,886,037	364,034,542
Equity			
Capital stock	13	1,505,937,831	1,498,348,441
Additional paid-in capital		1,010,387,648	1,013,836,920
Retained earnings		1,485,794,383	1,563,374,351
Accumulated rereasurement gain	16	3,601,120	6,682,141
Treasury shares and shares held by subsidiaries		(3,997,212,786)	(4,007,338,966)
Stock options reserve		-	1,182,328
Equity attributable to equity holders of the Parent			
Company		8,508,196	76,085,215
Non-controlling interest		(2,348,864)	(1,862,595)
Total Equity		6,159,332	74,222,620
		P386,045,369	P438,257,162

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES

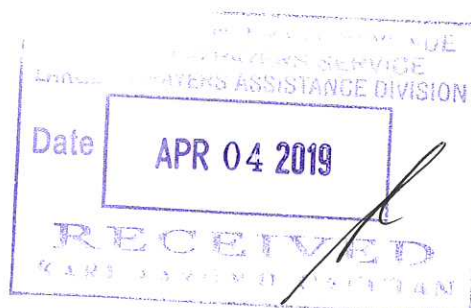
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2018 and 2017

(With Comparative Figures for 2016)

	Note	2018	2017	2016
REVENUE	24			
Commission income		₱201,215,557	₱148,839,343	₱187,260,000
Gaming application services		165,148,687	9,113,428	832,466,562
		366,364,244	157,952,771	1,019,726,562
COSTS AND EXPENSES	14	(448,000,439)	(495,900,766)	(676,313,684)
OTHER INCOME (CHARGES) - Net	17	(11,033,255)	3,059,204	(635,154,886)
LOSS BEFORE INCOME TAX		(92,669,450)	(334,888,791)	(291,742,008)
PROVISION FOR (BENEFIT FROM) INCOME TAX	18			
Current		—	—	21,000,452
Deferred		(14,603,213)	(40,463,639)	(15,050,602)
		(14,603,213)	(40,463,639)	5,949,850
NET LOSS		(78,066,237)	(₱294,425,152)	(₱297,691,858)
NET LOSS ATTRIBUTABLE TO:				
Equity holders of the Parent Company		(₱77,579,968)	(₱293,269,659)	(₱296,099,426)
Non-controlling interest		(486,269)	(1,155,493)	(1,592,432)
		(₱78,066,237)	(₱294,425,152)	(₱297,691,858)
BASIC LOSS PER SHARE	20	(₱0.07)	(₱0.25)	(₱0.25)
DILUTED LOSS PER SHARE	20	(₱0.07)	(₱0.25)	(₱0.25)
EARNINGS (LOSSES) BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)	25	₱9,278,305	(₱152,478,187)	₱580,444,055

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(With Comparative Figures for 2016)

	Note	2018	2017	2016
NET LOSS		(P78,066,237)	(P294,425,152)	(P297,691,858)
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Not to be reclassified to profit or loss</i>				
Remeasurement gains (loss) on net retirement liability	16	(4,401,459)	8,465,695	7,449,884
Deferred tax effect on remeasurement losses on net retirement liability	16	1,320,438	(2,539,709)	(2,234,965)
<i>To be reclassified to profit or loss</i>				
Foreign exchange translation adjustment		-	-	(6,165,227)
TOTAL COMPREHENSIVE LOSS		(P81,147,258)	(P288,499,166)	(P298,642,166)
TOTAL COMPREHENSIVE LOSS				
ATTRIBUTABLE TO:				
Equity holders of the Parent Company		(P80,660,989)	(P287,343,673)	(P296,994,146)
Non-controlling interest		(486,269)	(1,155,493)	(1,648,020)
		(P81,147,258)	(P288,499,166)	(P298,642,166)

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(With Comparative Figures for 2016)

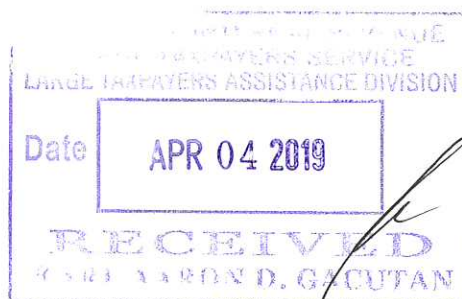
	Note	2018	2017	2016
CAPITAL STOCK - ₱1 par value	13			
Authorized - 2,600,000,000 shares				
Issued and subscribed (net of subscriptions receivable amounting to ₱11.2 million in 2018, ₱18.7 million in 2017, and ₱33.7 million in 2016):				
Balance at beginning of year		₱1,498,348,441	₱1,483,173,441	₱1,389,874,997
Collection of subscriptions receivable		7,439,390	15,000,000	91,421,344
Issuance during the year		150,000	175,000	1,877,100
Balance at end of year		1,505,937,831	1,498,348,441	1,483,173,441
ADDITIONAL PAID-IN CAPITAL	13			
Balance at beginning of year		1,013,836,920	1,112,897,280	1,091,982,096
Reduction as a result of reissuance of shares held by subsidiaries		(5,104,100)	(102,702,303)	–
Stock options exercised and forfeited		1,182,328	3,090,693	2,484,939
Subscriptions for additional stock		472,500	551,250	18,430,245
Balance at end of year		1,010,387,648	1,013,836,920	1,112,897,280
STOCK OPTIONS RESERVE	13			
Balance at beginning of the year		1,182,328	4,273,021	6,757,960
Stock options exercised and forfeited		(1,182,328)	(3,090,693)	(2,484,939)
Balance at end of year		–	1,182,328	4,273,021
RETAINED EARNINGS				
Balance at beginning of year		1,563,374,351	1,856,644,010	2,617,356,756
Net loss		(77,579,968)	(293,269,659)	(296,099,426)
Cash dividends		–	–	(464,613,320)
Balance at end of year		1,485,794,383	1,563,374,351	1,856,644,010
ACCUMULATED REMEASUREMENT GAIN ON NET RETIREMENT LIABILITY	16			
Balance at beginning of year		6,682,141	756,155	(4,458,764)
Remeasurement gain (loss), net of deferred tax		(3,081,021)	5,925,986	5,214,919
Balance at end of year		3,601,120	6,682,141	756,155

(Forward)



	Note	2018	2017	2016
TREASURY SHARES AND SHARES HELD BY SUBSIDIARIES				
	13			
Balance at beginning of year		(P4,007,338,966)	(P4,211,137,736)	(P4,211,137,736)
Issuance		10,126,180	203,798,770	-
Balance at end of year		(3,997,212,786)	(4,007,338,966)	(4,211,137,736)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY				
		8,508,196	76,085,215	246,606,171
NON-CONTROLLING INTEREST				
Balance at beginning of year		(1,862,595)	(707,102)	940,918
Share in net loss		(486,269)	(1,155,493)	(1,648,020)
Balance at end of year		(2,348,864)	(1,862,595)	(707,102)
		P6,159,332	P74,222,620	P245,899,069

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(With Comparative Figures for 2016)

	Note	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		(P92,669,450)	(P334,888,791)	(P291,742,008)
Adjustments for:				
Depreciation and amortization	7	64,260,395	108,549,479	119,997,016
Impairment losses	14	26,667,647	72,948,608	110,337,325
Interest expense	10	12,285,638	3,925,278	6,227,941
Retirement expense	16	3,530,695	2,134,571	6,035,884
Interest income	4	(1,265,925)	(1,171,666)	(14,076,659)
Unrealized foreign exchange gain		(32,634)	(6,389)	(6,243,678)
Loss (gain) on disposal of assets		-	(3,113,945)	649,349,862
Equity in net loss of associates	8	-	-	415,384
Operating income (loss) before working capital changes		12,776,366	(151,622,855)	580,301,067
Decrease (increase) in:				
Receivables		(15,688,385)	(3,188,083)	48,253,834
Prepayments and other current assets		(19,008,879)	8,432,472	54,078,052
Increase (decrease) in accounts payable and other current liabilities		(1,302,534)	(70,775,671)	8,376,158
Net cash generated from (used for) operations		(23,223,432)	(217,154,137)	691,009,111
Interest paid		(13,028,712)	(4,400,000)	(8,856,409)
Interest received		1,265,925	1,171,666	25,843,653
Income tax paid		-	-	(127,907,285)
Net cash provided by (used in) operating activities		(34,986,219)	(220,382,471)	580,089,070
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to other noncurrent assets		(25,474,356)	(7,159,030)	(61,970,003)
Acquisition of:				
Property and equipment	7	(12,012,188)	(4,895,176)	(100,702,654)
PeGS	8	(2,544,847)	-	-
Proceeds from:				
Collection of loan receivable	5	-	139,653,819	-
Disposal of assets	8	-	17,566,731	864,600
Net cash provided by (used in) investing activities		(40,031,391)	145,166,344	(161,808,057)

(Forward)



	Note	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of loans	10	₱95,000,000	₱90,000,000	₱-
Collection of subscription receivable	13	7,439,390	15,000,000	91,421,344
Subscriptions to and issuances of common stock		622,500	726,250	20,307,345
Payment of notes payable	10	(88,828,125)	-	(150,000,000)
Increase (decrease) in other noncurrent liability		3,050,000	(16,600,000)	(27,700,000)
Cash dividends paid		-	-	(464,613,320)
Net cash provided by (used in) financing activities		17,283,765	89,126,250	(530,584,631)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		32,634	6,389	78,452
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		(57,701,211)	13,916,512	(112,225,166)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		112,005,505	98,088,993	210,314,159
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		₱54,304,294	₱112,005,505	₱98,088,993
NONCASH FINANCIAL INFORMATION:				
Acquisition of e-Games sites in exchange for shares held by subsidiaries	8	₱5,022,080	₱67,389,413	₱-
Extinguishment of a liability in exchange for shares held by subsidiaries	9	-	34,251,673	-

See accompanying Notes to Consolidated Financial Statements.



PHILWEB CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(With Comparative Information for 2016)

1. General Information

Corporate Information

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

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

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

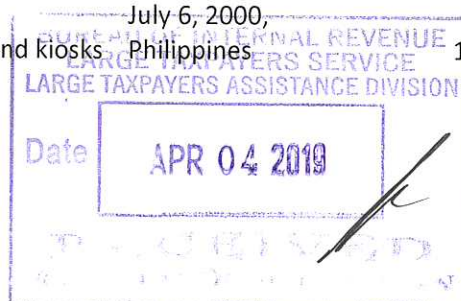
On September 12, 2018, the SEC approved the change in the principal office of the Parent Company from 6th Floor, Adamson Centre, 121 LP Leviste Street, Salcedo Village, Makati City to 41st Floor, One San Miguel Avenue Condominium, San Miguel Avenue corner Shaw Boulevard, Ortigas Center, Pasig City.

The Parent Company is 54.66% owned by Gregorio Araneta, Inc., a holding company incorporated in the Philippines. The Parent Company's shares are listed in the Philippine Stock Exchange (PSE) under the stock symbol "WEB".

The Company's 1,447,278,838 shares are listed in the Philippine Stock Exchange. The number of shareholders of such registered shares is 1,449 and 1,453 as at December 31, 2018 and 2017, 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, 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	–



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	100	—
Premyo sa Resibo, Inc.	Develops and markets computer systems, applications, programs and operates gaming platforms	December 8, 2006, Philippines	100	—
PhilWeb Casino Corporation	Develops and maintains gaming systems and applications for all types of casino operations	December 22, 2006, Philippines	100	—
PhilWeb Leisure and Tourism Corporation	Operates and maintains leisure and tourism-oriented activities	June 6, 2007, Philippines	100	—
PhilWeb Tourism and Entertainment Corporation	Operates and maintains leisure and tourism-related activities	July 26, 2007, Philippines	100	—
PhilWeb International Gaming Corporation	Engages in international gaming ventures	November 18, 2009, Philippines	100	—
Easy e-Bingo, Inc. (EEI)	Operates internet bingo stations	October 23, 2009, Philippines	100	—
PhilWeb Mobile Lottery Corp.	Operates mobile-based lottery games and other related mobile games offerings	February 3, 2010, Philippines	100	—
Best Choice Holdings, Inc. (BCHI)	Engages to purchase, own, and hold stock of other corporations	September 11, 2012, Philippines	100	—
Pure Corporation Investments Limited (PCIL)	Investment vehicle for foreign operations	N/A, Special Purpose Entity	100	—
PhilWeb Asia- Pacific Corp. (PAPC)	Engages in international gaming ventures	July 13, 2010, Philippines	96	3
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, 2018 and 2017.*

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2018, 2017 and 2016.

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 to PAGCOR because of the expiration of its IPLMA.

On August 18, 2017, the Parent Company received a provisional certificate of accreditation from PAGCOR. After complying with the stringent requirements, on October 30, 2017, PAGCOR issued a certificate of accreditation to the Parent Company. Thereafter, in December 2017, PAGCOR allowed the Parent Company to offer its services to 16 PeGS, subject to inspection and testing by PAGCOR. Revenue from internet application services during the testing period amounted to ₱9.1 million. After passing the initial inspection and testing in February 2018, PAGCOR then allowed the Parent Company to offer its services to an additional 21 PeGS.

On March 7, 2018, PAGCOR issued a memorandum accepting and processing applications of new and existing operators to resume the use of the Parent Company's electronic gaming system, thereby allowing the Parent Company to fully resume its operations. As at December 31, 2018, the number of sites serviced by the Parent Company increased from 18 in 2017 to 56 in 2018. The Group still incurred net loss amounting to ₱78.1 million in 2018 but EBITDA increased to P9.3 million.

The Group is continuously acquiring sites from operators to increase market share. In the first quarter of 2019, the number of sites increased to 62. With this number of sites, the Group projects to earn financial income in 2019.

Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on April 1, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Measurement Bases

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
- 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 financial statements.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Group adopted effective January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard replaced PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition, and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken. The amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an expected credit loss (ECL) model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

The Group has adopted the full retrospective approach in accordance with the transition provisions of PFRS 9. The effect of the adoption of PFRS 9 has no impact in the amounts recognized in the consolidated statements of financial position as at January 1, 2017. There are, however, changes in the classification categories for each class of financial assets.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9:

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	₱112,005,505	₱112,005,505
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	22,678,968	22,678,968
Rental and other deposits	Loans and receivables	Financial assets at amortized cost	32,837,476	32,837,476

The Group has not designated any financial liabilities as at FVPL. There are no changes in classification and measurement for the financial liabilities of the Group.

The Group has assessed that the determination of expected credit loss using simplified approach (or general approach, as applicable), has no impact on the carrying amounts of the Group's financial assets carried at amortized cost.

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The new standard has no impact on the consolidated statements of financial position and results of operations.
- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaced PAS 11, *Construction Contracts*, PAS 18, *Revenue* and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

Amendments to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Based on the Group's assessment, all of the Group's contracts with customers generally undertake to provide single performance obligation for a variable consideration which is mainly the rendering of gaming application services and earning of commission income. The Group has also assessed that it is merely acting as an agent of PAGCOR in conducting all of its revenue-generating activities. Thus, it presents its revenues net of PAGCOR, site operators and suppliers' share. Accordingly, the adoption of PFRS 15 has no impact on the Group's revenue recognition.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2019 –

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases*, and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Group's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Group will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases unless these qualify for low value or short-term leases upon the application of PFRS 16 which might have a significant impact on the amounts recognized in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Group complete the review.

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

Deferred effectivity –

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, except for PFRS 16, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group.

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 acquirer, 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 PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled and accounted for within equity.

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

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

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

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

Basis of Consolidation

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

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

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

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

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

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

Financial Assets and Liabilities

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

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

As at December 31, 2018 and 2017, the Group does not have financial assets at FVPL and FVOCI and financial liabilities at FVPL.

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

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

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

As at December 31, 2018 and 2017, the Group's cash and cash equivalents, trade and other receivables (except advances to suppliers) and rental and other deposits presented under "Other noncurrent assets" are classified under this category (see Notes 4, 5 and 8).

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

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

As at December 31, 2018 and 2017, the Group's accounts payable and other current liabilities (excluding statutory payables), notes payable and other noncurrent liability are classified under this category (see Notes 9, 10 and 11).

Derecognition of Financial Assets and Liabilities

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

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

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the continuing involvement of the Group in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

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

Impairment of Financial Assets

The Group recognizes an allowance for ECL for all debt instruments not measured at FVPL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

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

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

Other Financial Instruments at Amortized Cost. For these debt instruments, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result 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 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 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 applied for the subsequent purchases. Advances to suppliers pertain to advances payments for purchase of materials, supplies and services which are not yet received by or rendered to the Company.