**COVER SHEET**

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SEC Registration Number

L E I S U R E & R E S O R T S W O R L D

C O R P O R A T I O N & S U B S I D I A R I E S

(Company's Full Name)

2 6 t h F l o o r , W e s t T o w e r , P S E C e n t e r

E x c h a n g e R o a d O r t i g a s C e n t e r

P a s i g C i t y

(Business Address: No. Street City/Town/Province)

**MR. OSCAR C. KHO JR.**

(Contract Person)

**(02) 638-5557**

(Company Telephone Number)

1 2 3 1

*Month* *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

*Month* *Day*

(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

**Not Applicable**

Amended Articles Number/section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended March 31, 2018

2. Commission identification number 13174   3. BIR tax identification number 321-000-108-278

   LEISURE & RESORTS WORLD CORPORATION
4. Exact name of issuer as specified in its charter

   PASIG CITY, METRO MANILA, PHILIPPINES
5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: ________ (SEC use only)

   26F, WEST TOWER, PSE CENTER, EXCHANGE ROAD, ORTIGAS CENTER, PASIG CITY
7. Address of registrant's principal office

   (02) 687-0370; 637-5292 to 93
8. Issuer's telephone number, including area code

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of each class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| Common | 1,199,852,512/NA |
| Preferred | 1,650,000,000 |
| Warrants | 82,500,000 |

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ / ] No [ ]

12. Indicate by check mark whether the registrant:

    a.) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports).

    Yes [ / ] No [ ]

    b.) has been subject to such filing requirements for the past ninety (90) days.

    Yes [ / ] No [ ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

LRWC is functioning as a holding company with minimal operations. The Company is focusing its endeavor in supporting the productivity programs of its subsidiaries as grouped in the following segments: **CASINO** (1) Prime Investment Korea, Inc. (PIKI - 100% owned), (2) Blue Chip Gaming and Leisure Corporation (BCGLC - 100% owned),(3) Gold Coast Leisure World Corp. (GCLWC - 100% owned); **ONLINE** (4) First Cagayan Leisure and Resort Corporation (FCLRC - 69.68% owned),(5) LR Data Center and Solutions, Inc. (LRDCSI - 80% owned), (6) First Cagayan Converge Data Center Inc. (FCCDCI - 57.8%); **RETAIL** (7) AB Leisure Exponent, Inc.(ABLE - 100% owned), (8) Total Gamezone Xtreme, Inc. (TGXI - 100% owned); and **PROPERTY** (9) AB Leisure Global, Inc. (ABLGI - 100% owned), (10) LR Land Developers, Inc. (LRLDI - 100% owned).

PIKI

PIKI was registered with Philippine Securities and Exchange Commission (SEC) on November 9, 2012 and started its commercial operations on July 26, 2013. Its primary purpose is to engage in the business of gaming, recreation, leisure and lease of property. Together with Philippine Amusement and Gaming Corporation (PAGCOR), PIKI executed a Junket Agreement to jointly conduct junket gaming operations within PAGCOR's Casino Filipino-Midas located at Midas Hotel and Casino in Roxas Boulevard, Pasay City.

BCGLC and GCLWC

On April 27, 2011, LRWC acquired 70% of BCGLC's outstanding capital stock. BCGLC operates Slot Arcades at the King's Royale Hotel and Leisure Park, Olongapo-Gapan Road, Macabacle, Bacolor, Pampanga under a license issued by the PAGCOR. On July 24, 2015, BCGLC incorporated a subsidiary, GCLWC. GCLWC was incorporated to comply with Section 18, Chapter III of the Implementing Rules and Regulations of Republic Act No. 7227. GCLWC obtained itsCertificate of Registration in Subic Bay Metropolitan Authority on August 2, 2016. On December 1, 2015, LRWC acquired the remaining 30% of BCGLC bringing its total ownership to 100%.

On December 17, 2015 BCGLC received a letter from PAGCOR, informing that PAGCOR's Board of Directors (BOD) approved and confirmed the assignment in favor of BCGLC of the Contracts of Lease over four (4) PAGCOR VIP Clubs at (1) Venezia at Subic Bay Freeport Zone, Subic Zambales with Palmgold International Limited; (2) Pan Pacific, Malate Manila with Pacific Palm Corporation; (3) Paseo Premier Hotel, Sta. Rosa Laguna with Pacific Palm Corporation; and (4) Apo View Hotel, Davao City with Pacific Palm Corporation.

On January 18, 2016, BCGLC assigned the VIP Club at Venezia at Subic Bay Freeport Zone to its subsidiary, GCLWC.

On January 28, 2016, the Amended Contracts of Lease of three (3) VIP Clubs, namely Pan Pacific, Paseo Premier Hotel and Apo View Hotel were executed under the name of BCGLC, while the other VIP Club, Venezia at Subic Bay Freeport Zone was under the name of GCLWC.

FCLRC
The Cagayan Economic Zone Authority (CEZA), mandated by law to manage Cagayan Special Economic Zone and Free Port (CSEZFP), has authorized FCLRC to license, regulate and supervise the operations of registered online gaming enterprise in CSEZFP. FCLRC, on behalf of CEZA, can issue two types of licenses:(1) interactive gaming licenses which cover all types of online gaming including casinos, lotteries, bingo, sportsbook; and (2) restrictive licenses which limit the offerings to sports betting only. As the master licensor, FCLRC is entitled to half of the gaming levy imposed by CEZA on the gaming operators in the CSEZFP.

In the local scene, recent developments significantly affected FCLRC's business and operations due to the issuance on September 1, 2016 by the PAGCOR of the "Rules and Regulations for Philippine Offshore Gaming Corporations". The said PAGCOR Regulations was adopted to regulate the issuance of licenses which provide and participate in offshore gaming services or online games of chance via the Internet.

On November 24, 2017, FCLRC and CEZA signed a supplemental agreement which provides for the following: (1) CEZA retains the 25-year appointment of FCLRC as a non-exclusive Licensor for interactive gaming; (2) CEZA shall also grant appointment of FCLRC for land-based gaming after it has complied with all requirements; (3) To protect FCLRC's interest and investment as the pioneer Licensor, CEZA effectively restricted itself from directly issuing Gaming Licenses to FCLRC's current and previous licensees; (4) All applicants for gaming licenses from CEZA shall post the amount of USD100 million as an investment commitment. In consideration of the significant actual and future investments attributable to FCLRC, CEZA shall credit such investments towards the investment commitment compliance of applications for gaming licenses coursed through FCLRC.

FCLRC owns 60% of the outstanding capital stock of FCCDCI.

LRDCSI
On May 20, 2016, LRDCSI was registered and incorporated with SEC. LRDCSI is a technology company engaged in aggregating data and telecommunication services. LRDCSI's revenue model involves acquiring services from local and foreign technology and telecommunication companies at wholesale rates, bundling said services and then reselling the services at retail rates.

The premium for such activity is warranted given the bespoke and higher level of customer engagement provided by LRDCSI. LRDCSI's portfolio includes solutions related to data center co-location, Internet, private leased lines, mobile and video platforms, cybersecurity, content delivery networks, e-commerce, and network and website optimization. LRDCSI aims to provide these services to customers and clients in the industry sectors including land based and online gaming operators. LRWC owns 80% of the outstanding capital of LRDCSI while one of the incorporators owns the remaining 20%.

LRDCSI owns 20% of the outstanding capital stock of FCCDCI effective January 1, 2017.

LRDCSI commenced its commercial operations on October1, 2017.

FCCDCI
FCLRC and IP Converge Data Center Corporation (IPCDCC), a wholly owned subsidiary of listed firm IPVG Corp., formed a joint venture corporation with the name First Cagayan Converge Data Center Inc. which was incorporated on November 14, 2007. The joint venture corporation was formed to engage in the business of information technology such as IP communication, co-location, bandwidth, disaster recovery services, software development, internet merchant payment processing and payment solution, premium dial up access, voice over internet protocol, IP-wide area network services and other value-added services. Presently, FCCDCI provides a range of services to Internet Gaming Operators at the CSEZFP for a fee.

FCCDCI commenced its commercial operations on January 1, 2008.

IPVG Corp. acquired IPCDCC's interest in FCCDCI and entered into a Deed of Subscription of Rights with IP E-Games Ventures, Inc. (IP E-Games), whereby IPVG Corp. assigned 9,999,998 shares of stock in FCCDCI with a par and issue value of ₱1. The assignment was made effective January 1, 2009. However, on April 13, 2011, the Board of Directors of both IP E-Games and IPCDCC jointly approved the sale of IP E-Games' 40% equity stake in FCCDCI for a total consideration of ₱120.0 million.

On May 15, 2012, IPCDCC entered into a Deed of Assignment of Subscription of Rights with IP Ventures, Inc. (IPVI), a third-party company, whereby IPCDCC assigned all rights and interests and participation to its 9,999,998 shares of stock in FCCDCI with a par and issue value of ₱1 to IPVI.
On January 1, 2017, IPVI entered into a Deed of Absolute Sale of Share of Stock with LRDCSI, whereby IPVI assigned its rights, interest and participation to its 5,000,000 shares of stock or 20% ownership in FCCDCI with a par and issue value of ₱1 for a total consideration of ₱16.4 million to LRDCSI.

By virtue of the Deed of Absolute Sale of Share of Stock entered into by IPVI and LRDCSI, LRWC obtained a 57.808% effective interest and control in FCCDCI through its direct subsidiaries FCLRC and LRDCSI at 60% and 20% equity stake in FCCDCI, respectively. Thus, due to the effect of the 20% additional equity interest, FCCDCI is consolidated into the Group effective January 1, 2017.

<u>ABLE</u>
ABLE (popularly known as Bingo Bonanza Corporation), is the pioneer in professional bingo gaming in the Philippines. PAGCOR granted ABLE and its subsidiaries the authority to operate bingo games pursuant to P.D. 1869. Since then, bingo outlets of ABLE and its subsidiaries have become community and entertainment centers, a source of revenue for the government, and a sponsor for fund-raising activities relating to social and educational programs.

*Site Closures*
In September 2016, ABLE received notices from PAGCOR informing that the PAGCOR's BOD issued an order to ABLE and its subsidiaries to immediately cease the operations of its E-Bingo games at its 36 sites due to non-compliance with the distance restriction guidelines under Section 2 of Regulation 3 of the Gaming Site Regulatory Manual (GSRM) for Bingo Games version 2.0.
In response to this, LRWC sent a letter of reconsideration to PAGCOR. Consequently, ABLE received via email, notices from PAGCOR of the approval by the PAGCOR's BOD to recall the revocation to operate E-Bingo. Twenty (20) E-Bingo sites resumed its operations by virtue of the aforesaid approval.

The approval was based on the recommendation of PAGCOR's Gaming Licensing and Development Department (GLDD) and the legal opinion of its Corporate and Legal Services Department (CLSD) to honor licenses of operators whose gaming sites are located inside malls, arcades and hotels and consider them exempted from distance requirements.

The PAGCOR's BOD allowed the resumption of E-Bingo operations until the respective expiration of the licenses of the sites which are renewable every two years. PAGCOR's BOD, GLDD and CLSD are still in the process of studying whether they will permanently maintain the exemption of malls, arcade and hotels from the distance requirements.

In 2017, PAGCOR further allowed the re-opening of two (2) E-Bingo sites, while issuing an order to cease the operations for another site, bringing remaining closed sites to date to six (6).

In 2018, management decided to permanently close three (3) sites.

*Site Acquisitions*
In 2017, ABLE opened additional nine (9) sites, of which three (3) sites were built in the following locations: (1) Il Centro Sta. Lucia; (2) Imall Camarin Caloocan; and (3) Robinsons Las Pinas. The remaining six (6) sites were acquired by ABLE through its subsidiaries in the following areas: (4) Sir Thomas Square, Matalino Quezon City; (5) Tanjuatco Building, Tanay; (6) FRC Mall Bacoor, Cavite; (7) Northwalk San Fernando, Pampanga; (8) Puregold Novaliches; and (9) ATI Building Don Domingo Centro 2 Tuguegarao. This resulted in goodwill amounting to P48.7 million.

*Corporate Income Tax*
Effective November 1, 2005, Republic Act No. (R.A.) 9337, "An Act Amending the National Internal Revenue Code, as Amended, with Salient Features," particularly Section 27(c), excluded PAGCOR from the provision which identifies government-owned or controlled corporations or agencies exempted from the corporate income tax.
Management believes that ABLE's payment of 5% Franchise Tax to the Bureau of Internal Revenue (BIR) was effectively equivalent to the payment of corporate income tax. Based on consultations with tax advisers, the management also believes that the collection of income tax in addition to the 5% Franchise Tax has no legal basis.

Pursuant to P.D. 1869, also known as PAGCOR Charter and as amended by R.A. 9487, the 5% Franchise Tax shall be in lieu of all kinds of taxes, incurred or otherwise, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority. This exemption inures to the benefits of corporations, associations, agencies or otherwise, or individuals with whom PAGCOR has a contractual relationship in connection with the operations of casinos under the PAGCOR Franchise. Thus, the exemption referred to under PD 1869 is extended to its Bingo grantees/licensees.

In accordance with PAGCOR's directives, the Company continued to abide by the provisions of P.D. 1869 (as amended by R.A. 9487) whereby it paid the 5% Franchise Tax.

In view of the above, management has not provided for provision for income tax in previous years up to the first quarter of 2013.

On April 17, 2013, the applicability of RMC No. 33-2013 was clarified by PAGCOR in a Memorandum dated 09 July 2013 stating: "Pursuant to RMC No. 33-2013, PAGCOR's contractees and licensees, which include bingo grantees, are subject to income tax, under the National Internal Revenue Code (NIRC), as amended, and no longer subject to the 5% franchise tax. In view thereof, please be advised that effective the third quarter of this year, bingo grantees should no longer remit the 5% franchise tax. However, you ("bingo grantees") are now subject to income tax."

Hence, starting the second quarter of 2013, ABLE has stopped paying the 5% Franchise Tax to PAGCOR and began recognizing provisions for income tax instead.

On April 6, 2018, PAGCOR issued a Memorandum, through its Assistant Vice President, GLDD, stating that on April 4, 2018, PAGCOR's BOD approved the reversion to 5% Franchise tax on income from bingo game operations and bingo sites. The implementation of the 5% Franchise tax on bingo game offerings shall take effect on the first quarter of 2018. By the virtue of the memorandum issued, ABLE no longer recognized provision for income tax in the first quarter of 2018.

<u>TGXI</u>
On July 21, 2014, LRWC entered into an Asset and Share Purchase Agreement with Premiere Horizon Alliance Corporation (PHAC) to purchase the latter's 100% stake in TGXI, the assignee and purchaser of the assets, rights and interests of Digiwave Solutions, Inc. (DSI), the operator and licensee of PAGCOR e-games stations.

*Site Closures*
Due to the expiration of IPLMA license of Philweb last August 10, 2016, TGXI closed three (3) of its sites as well as 1,494 terminals in its 51 other sites.

The following month, TGXI received notices from PAGCOR informing that the PAGCOR's BOD issued an order to immediately cease the operations of its Electronic Games at its 17 sites due to non-compliance with the distance restriction guidelines under Section 2 of Regulation 3 of the Gaming Site Regulatory Manual (GSRM) for Bingo Games version 2.0. In response to this, LRWC sent a letter of reconsideration to PAGCOR.

In October and November 2016, PAGCOR allowed the re-opening of three (3) sites.

In February 2017, PAGCOR further allowed another site to be re-opened, while management decided to permanently close 12 sites.

In 2018, management decided to permanently close two (2) additional sites.

In reference to PAGCOR Memorandum issued on April 6, 2018, TGXI being a PAGCOR licensee no longer recognized provision for income tax in the first quarter of 2018.

<u>ABLGI</u>
On January 14, 2011, LRWC and the ABLGI entered into several agreements (the "ABLGI Agreements") with Belle Corporation (Belle) and Premium Leisure and Amusement, Inc. (PLAI) for the leasing, fit out, and operation of an integrated casino development project to be located at Aseana Business Park, Paranaque City (the "Project"). PLAI is a member of a consortium composed of SM Investments Corporation, SM Land, Inc., SM Hotels Corporation, SM Development Corporation, SM Commercial Properties, Inc., and PLAI, which was granted a Provisional License by PAGCOR to establish and operate a casino to be located within the Manila Bay Reclamation Area.

On March 20, 2013, ABLGI, LRWC, Belle, Belle Grande Resource Holdings, Inc. ("BGRHC"), and PLAI entered into a Memorandum of Agreement ("ABLGI MOA") effectively terminating its ABLGI Agreements. In consideration for the waiver of the Company's rights under the ABGLI Agreements, Belle and PLAI have agreed to pay the Company, among others, an amount equivalent to the 30% interest in the net lease income of the Project and the 30% share in the gaming revenue derived therefrom. These are to be paid to ABLGI upon actual receipt by Belle and PLAI of the lease income and gaming revenue from the Project.

ABLGI began recognizing share in gaming revenue in December 2014 when gaming operations began.

In December 2014, the ABLGI MOA was amended to operationalize the terms and conditions of ABLGI's advances to BGHRC as funding to the project and provided that such shall be treated as a loan payable in annual installments commencing on the fifth anniversary of the transfer date. As such, the difference between the 30% share in the net lease income of the Project and the principal and interest payments on the ABLGI advance will be considered as the annual compensation fee.

On 04 November 2016, Belle and PLAI ("Belle Group") signed a Termination agreement with LRWC and ABLGI("LRWC Group"), which would enable the latter to realize its interests under its existing agreements with the Belle Group. Under the agreement, Belle Group will pay the LRWC Group a total of ₱5,090.0 million, with ₱1,018.0 million paid upon signing and the balance at the end of March 2017. Until the finalization of the transaction, ABLGI will continue to share in the net lease income and gaming revenue of Belle Group.

The Termination agreement was finalized on March 31, 2017. ABLGI received ₱4,072.0 million, which comprised of:(1) payment for an outstanding loan of Belle Group to ABGLI amounting to ₱3,762.0 million, and (2) ₱310.0 million, of which ₱110.5 million was treated as a repayment of advances to Belle while the remaining ₱199.5 million was recorded under “Other Income” in the Unaudited Consolidated Statements of Profit or Loss and Other Comprehensive Income, representing assignment of rights in relation to the Advisory services rendered to the Philippine Consortium in favor of Belle.Effective March 31, 2017, ABLGI shall be deemed to have divested its economic interest in the City of Dreams-Manila Integrated Resort and Casino.

In 2017, ABLGI incorporated 7 direct and indirect subsidiaries as follows:

| Company | Incorporation Date | Nature of Business |
|---|---|---|
| AB Leisure Asia Holdings Inc. | August 30, 2017 | Holding Company |
| AB Leisure Holdings Philippines Corp. | September 6, 2017 | Holding Company |
| G-L Real Estate JV Corporation | September 15, 2017 | Real Estate |
| G Boracay Land Holdings Inc. | October 10, 2017 | Holding Company |
| G Boracay Alpha Holding Corp. | October 18, 2017 | Holding Company |
| G Boracay Beta Holding Corp. | October 18, 2017 | Holding Company |
| G Boracay Gamma Holding Corp. | October 18, 2017 | Holding Company |

In October 2017, LRWC signed an Omnibus Loan and Security Agreement (OLSA) with for Two Billion Five Hundred Million Pesos (Php 2,500,000,000.00) BDO Unibank, Inc. - Trust and Investment Group as Security Trustee and the Company, LRWC as Surety, for the acquisition, through its subsidiary 23 hectares of land property Boracay for future project. The land properties were acquired the same year.

<u>LRLDI</u>
In 2010, LRLDI has completed its construction of the CyberPark building intended for lease. Accordingly, in the same year, LRLDI entered into various lease agreements as lessor with lease terms ranging from monthly to five (5) years.

LRLDI is also committed in supporting the development of Cagayan Special Economic Zone and Free Port (CSEZFP). In executing an agreement with Cagayan Premium Ventures Development Corporation (CPVDC) and Cagayan Land Property Development Corporation (CLPDC), LRLDI has established its support by investing funds into the Lal-Lo Airport Project, Cagayan Economic Zone and Freeport (CEZFP) International Airport Project, and other facilities within the CSEZFP. These projects aim to improve and further advance CSEZFP into a self-sustaining industrial zone.

LRLDI has significant land properties in Cagayan which are carried at fair value.

LRLDI entered into a joint venture property development project in Makati with Total Consolidated Asset and Management, Inc. called Techzone Philippines, Inc (TPI). As envisioned, the building planned will be a world-class BPO center with offices for various BPO locators not limited to licensees of FCLRC.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AS AGAINST MARCH 31, 2017**

**GROSS PROFIT**

Breakdown of gross gaming revenues and its related direct costs are as follows:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **Change** | **% Change** |
| **CASINO** | | | | |
| Income from junket operations | **₱933,146,850** | ₱975,603,050 | (₱42,456,200) | -4.4% |
| Casino gaming revenues | **388,672,117** | 326,219,228 | 62,452,889 | 19.1% |
| | **1,321,818,967** | **1,301,822,278** | **19,996,689** | **1.5%** |
| **ONLINE** | | | | |
| Service and hosting fees | **131,430,442** | 132,948,844 | (1,518,402) | -1.1% |
| Bandwidth and co-location | **166,059,504** | 180,650,310 | (14,590,806) | -8.1% |
| | **297,489,946** | **313,599,154** | **(16,109,208)** | **-5.1%** |
| **RETAIL** | | | | |
| Electronic bingo | **1,469,758,189** | 1,387,832,737 | 81,925,452 | 5.9% |
| Traditional bingo | **492,028,816** | 565,184,034 | (73,155,218) | -1.3% |
| Electronic games | **210,524,916** | 183,693,557 | 26,831,359 | 1.5% |
| Rapid bingo | **56,549,977** | 62,804,611 | (6,254,634) | -10.0% |
| Pull tabs | **6,288,148** | 3,873,095 | 2,415,053 | 62.4% |
| | **2,235,150,046** | **2,203,388,034** | **31,762,012** | **1.4%** |
| **PROPERTY** | | | | |
| Rent income | **6,075,800** | 2,220,000 | 3,855,801 | 173.7% |
| Finance income | **-** | 37,620,000 | (37,620,000) | -100% |
| Compensation fee from a casino project | **-** | 65,995,956 | (65,995,956) | -100% |
| Share in gaming revenue of a casino project | **-** | 15,841,740 | (15,841,740) | -100% |
| | **6,075,800** | **121,677,696** | **(115,601,895)** | **95.0%** |
| Total gross gaming revenues | **3,860,534,759** | **3,940,487,162** | **(79,952,402)** | **2.0%** |
| Partner's share | **1,136,649,816** | 1,060,155,133 | 76,494,683 | 7.2% |
| Franchise fees and taxes | **1,020,590,264** | 1,001,169,200 | 19,421,064 | 1.9% |
| Payout | **342,435,629** | 395,790,289 | (53,354,660) | -13.4% |
| Vendor share | **326,265,243** | 310,633,235 | 15,632,008 | 5.0% |
| Other direct costs | **155,765,999** | 142,036,294 | 13,729,704 | 9.7% |
| Total direct costs | **2,981,706,951** | **2,909,784,151** | **71,922,799** | **2.5%** |
| Gross profit | **₱878,827,808** | **₱1,030,703,011** | **(₱151,875,203)** | **-14.7%** |

**Casino**

PIKI (Income from junket operations) registered the highest turnover record since 2017 at ₱10.7 billion in the month of March and better turnover figures for the three-month period ended March 31, 2018 amounting to ₱30.5 billion as against ₱24.9 billion of the same period in 2017. This, however, did not result to higher gross gaming revenue due to poor win rate of 3.06% as against 4.0% in the first quarter of 2017.

BCGLC and GCLWC (Casino gaming revenues) recorded an increase in gross gaming revenues of ₱62.5 million or 19.1% from same period last year due to higher turnover as a result of continuous marketing efforts.

**Online**

FCLRC generated ₱131.4 million gross revenues for the first quarter of 2018, a slight decline of P1.5 million or 1.1% decrease from last year's first quarter of ₱132.9 million.

Hosting fees from restrictive and interactive gaming locators contributed ₱94.1 million or 71.6% of FCLRC's total revenues, while license application and renewal fees accounted for ₱37.3 million or 28.4%.

FCCDCI and LRDCSI's gross revenues amounted ₱166.1 million, a P14.6 million or 8.1% decrease from last year's gross revenue of P180.7 million. The drop in revenues of FCCDCI is attributable to a mandated pricing scheme of CEZA.

**Retail**

ABLE and its subsidiaries generated total gross gaming revenues of P2,024.6 million for the first quarter of 2018, a slight increase from P2,019.7 million for the same period last year. The increase was due to the revenue growth of: (1) Electronic bingo (E-Bingo) by P81.9 million or 5.9%; and (2) Pull tabs by P2.4 million or 62.4%, partially reduced by the decline in revenues of: (1) Traditional bingo by P73.2 million or 1.3%; and (2) Rapid bingo by ₱6.3 million or 10.0%.

E-Bingo remained as ABLE's principal product line as its contribution has been increasing faster with new gaming products that are played with higher frequency and are not time bound as the traditional bingo game. The continuing expansion through acquisition and opening of new bingo outlets also contributed to E-Bingo's growth. For the first quarter of 2018, E-Bingo represented 72.6% of ABLE's total revenues or P1,469.8 million as compared to the 68.7% contribution amounting to P1,387.8 million during the same period last year. As of March 31, 2018, there were a total of 10,374 E-Bingo machines in 144 bingo parlors as compared to 10,103 E-Bingo machines in 141 bingo parlors as of March 31, 2017.

Revenues from Traditional Bingo accounted 24.3% in the first quarter of 2018 as against 28.0% in the same period of 2017.

During the first quarter of 2018, Rapid bingo contributed ₱56.5 million or 2.8% of ABLE's total revenues as compared to ₱62.8 million or 3.11% contribution to total revenues for the same period last year. By the end of March 31, 2018, there were a total of 122 Rapid bingo terminals in 122 bingo parlors as compared to 128 Rapid bingo terminals in 125 bingo parlors for the first quarter of last year.

TGXI generated gross gaming revenues from electronic games amounting to ₱210.5 million, ₱27 million or 1.5% higher than the same period of previous year. Despite the permanent closure of additional two (2) sites and decrease in machine count, TGXI reached its highest level since 2017 due to high turnover of ₱5.2 billion as against ₱4.2 billion in the same period last year.

**Property**

Since the effectivity of the Termination Agreement with Belle Group on March 31, 2017, ABLGI's sole source of revenue was the rent income from the lease of Binondo Suites. Rent income generated amounted to ₱2.0 million for the first quarter of 2018.

The 2017 Q1 figure of ₱173.0 million is not comparable as this was the last payment related to the net lease payment and share of gaming revenue from the City of Dreams-Manila project.

LRLDI generated rent income from its lease of Cyberpark Buildings 1 and 2. Rent income for the first quarter of 2018 amounted to ₱4.1 million.

## OPERATING EXPENSES

Breakdown of operating expenses are as follows:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| People expenses | **₱268,636,872** | ₱273,761,072 | (₱5,124,200) | -1.9% |
| Rentals and utilities | **239,901,239** | 244,856,729 | (4,955,490) | -2.0% |
| Depreciation and amortization | **112,015,862** | 108,027,536 | 3,988,326 | 3.7% |
| Advertising and promotion | **63,623,059** | 61,099,231 | 2,523,828 | 4.1% |
| Taxes and licenses | **27,745,490** | 34,141,529 | (6,396,039) | -18.7% |
| Professional and directors' fees | **23,997,426** | 29,111,689 | (5,114,263) | -17.6% |
| Repairs and maintenance | **19,045,751** | 22,781,030 | (3,735,279) | -16.4% |
| Travel and transportation | **17,460,588** | 25,515,678 | (8,055,090) | -31.6% |
| Interest expense - net | **20,214,899** | 70,194,837 | (49,979,938) | -71.2% |
| Supplies | **11,848,633** | 17,846,183 | (5,997,550) | -33.6% |
| Income tax expense | **5,753,031** | 71,122,859 | (65,369,828) | -91.9% |
| Others | **58,110,689** | 29,097,424 | 29,013,265 | 99.7% |
| | **₱868,353,539** | **₱987,555,797** | **(₱119,202,258)** | **-12.1%** |

Overall operating expenses decreased by ₱154.8 million or 15.8%. Significant decreases as follows: (1) Interest expense by ₱54.8 million due to termination of loan related to the City of Dreams-Manila project; and (2) Income tax expense by ₱65.4 million due to non-recognition of 30% income tax by ABLE and TGXI as discussed previously in this document. All other decreases in were due to the Group's efforts to strictly monitor and manage operational expenses, including closure of non-performing sites.

## CONSOLIDATED NET INCOME

Net income details as follows:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| Gross gaming revenues | **₱3,860,566,409** | ₱3,940,487,162 | (79,920,753) | 2.0% |
| Direct costs | **2,981,706,950** | 2,909,784,151 | 71,922,799 | 2.5% |
| | **878,859,459** | **1,030,703,011** | | |
| Operating expenses | **868,353,539** | 987,555,797 | (119,202,258) | -12.1% |
| **Net Operating Income** | **10,505,920** | **43,147,214** | **(32,672,945)** | **-75.7%** |
| Equity share in net income of a joint venture | **42,699,219** | 15,471,044 | 27,228,175 | 176.0% |
| Equity share in net income of an associate | **17,175,806** | 10,492,399 | 6,683,407 | 63.7% |
| Other income | **27,537,003** | 227,595,439 | (200,058,436) | -87.9% |
| | **87,412,028** | **253,558,882** | | |
| **Net income after tax** | **97,917,948** | **296,706,096** | | |
| Minority interest | **15,495,076** | 24,582,698 | | |
| Net income attributable to Parent Company | **₱82,422,872** | **₱272,123,398** | **(₱189,700,526)** | **-69.7%** |

As a result of the foregoing developments, the Group posted a consolidated net income (net of minority share) during the first quarter of 2018 amounting to ₱82.4 million or a 69.7% decline from last year's first quarter consolidated net income of ₱272.1 million. The decline of ₱189.7 million is mainly due to the following: (1) divestment from the City of Dreams-Manila project interest amounting to P173M; (2) non-recognition of deferred tax assets of P36M for LRWC; and (3) Pre-operating expenses of our project in Boracay amounting to P15M. Without the effects of the enumerated, consolidated net income would have increased by P34M or P70%.

Net income distribution per business segment is as follows:

| | For the three months ended March 31 | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **Change** | **% Change** |
| **CASINO** | | | | |
| BCGLC | **₱49,392,425** | ₱37,561,657 | ₱11,830,768 | 31.5% |
| PIKI | **13,787,677** | 24,882,181 | (11,094,504) | -44.6% |
| HEPI* | **42,699,219** | 15,471,043 | 27,228,176 | 176.0% |
| | **105,879,321** | **77,914,881** | **27,964,440** | **35.9%** |
| **ONLINE** | | | | |
| FCLRC | **24,363,591** | 10,107,647 | 14,255,944 | 141.0% |
| FCCDCI | **4,784,909** | 27,454,874 | (22,669,965) | -82.6% |
| LRDCSI | **617,600** | - | 617,600 | 100.0% |
| | **29,766,100** | **37,562,521** | **(7,796,421)** | **-20.8%** |
| **RETAIL** | | | | |
| ABLE and subsidiaries | **54,754,955** | 47,601,036 | 7,153,919 | 15.0% |
| TGXI | **14,059,690** | (2,023,024) | 16,082,714 | 795.0% |
| | **68,814,645** | **45,578,012** | **23,236,633** | **51.0%** |
| **PROPERTY** | | | | |
| ABLGI | **(15,873,301)** | 173,227,646 | (189,100,947) | -109.2% |
| LRLDI | **(247,893)** | 71,322 | (319,215) | -447.6% |
| TPI* | **17,175,806** | 10,492,475 | 6,683,331 | 63.7% |
| | **1,054,612** | **183,791,443** | **(182,736,831)** | **-99.4%** |
| **LRWC (PARENT COMPANY)** | **(123,091,806)** | **(72,723,459)** | **(50,368,347)** | **69.3%** |
| Consolidated net income | **₱82,422,872** | **₱272,123,398** | **(₱189,700,526)** | **-69.7%** |

*****_equity share in joint venture/associate_

## Casino

The Casino division's 2018 first quarter contribution was ₱63.2 million vs 2017 first quarter of ₱62.4 million. BCGLC's slot arcade business produced ₱49.4 million, up slightly from first quarter of 2017 of ₱36.8 million. PIKI's 2018 first quarter contribution was ₱13.8 million versus 2017's ₱24.9 million. HEPI brought in an impressive ₱42.7 million for the first quarter of 2018 compared to ₱15.5 million in 2017 or a rise of 175.5%.

BCGLC's numbers continue to do well. GGR in the first quarter of 2017 was ₱326.2 million and increased to ₱388.7 million in the first quarter of 2018. The win-rate likewise improved from 6.2% in 2017 to 7.2% in 2018. Turnover also improved from ₱5.1 billion to ₱5.4 billion representing an increase of 5.9%.

## Online

For the Online division, FCLRC's revenues declined because of PAGCOR's Philippine Offshore Gaming Operations (POGO) licensing model. In previous years, FCLRC contributed 40% of the Group's total business net income. FCLRC's net income grew by 246.5% (or ₱24.9 million) from ₱10.1 million in the first quarter of 2017 to ₱35.0 million in 2018. Despite the decrease in the revenues of FCLRC in the first quarter of 2018, net income significantly grew due to the significant decrease in operating expenses from ₱74.3 million in 2017 to ₱26.7 million in 2018. LRDCSI and FCCDCI contributed ₱5.4 million to the Group's total net income. LRDCSI and FCCDCI will continue to do well moving forward.

Going forward, FCLRC's revenues will continue to be affected by PAGCOR's adoption of the Rules and Regulations for POGO last September 2016. Over the long-term, FCLRC is promoting the zone for investors and locators and has attracted a few licensees to locate their business in the Cagayan ecozone.

**Retail**
The 2018 first quarter net income of the Retail division was up significantly to ₱68.8 million from ₱45.6 million in 2017. ABLE's bingo operations grew by 15.0% from ₱47.6 million in 2017 to ₱54.8 million in the first quarter of 2018. TGXI's eCasino outlets gained an impressive ₱14.1 million reversing a loss in the first quarter of 2017. This was achieved by identifying and closing down losing sites while expanding on profitable existing sites and opening new sites.

As mentioned, ABLE and TGXI's performance was affected by regulations put forth by PAGCOR. However, ABLE and TGXI has adopted to all these challenges and have led the contribution to the Group's 2018 first quarter performance.

ABLE's E-Bingo machines continued to drive the growth in its earnings. ABLE has over 10,300 E-Bingo machines installed all over the country while TGXI has in excess of 1,650 eCasino terminals installed. The Company has taken steps to mitigate the effects of the regulatory environment and is confident that 2018 will be a banner year for this division. Year-on-year.

ABLE's E-Bingo GGR for Q1 2018 was at ₱1.5 billion, an increase from 2017's ₱1.4 billion. TGXI's GGR increased from ₱183.7 million in 2017 to ₱210.5 million in the first quarter of 2018. Turnover in Q1 2018 was at ₱5.1 billion representing a 4.0% win-rate.

**Property**
As disclosed, the OLSA was executed to fund the acquisition of parcels of land for the planned resort development in Boracay, dubbed Project Pineapple. Project Pineapple, under ABLGI, had expenses related to the project for first quarter of 2018 amounting ₱15.9 million. Figure for the first quarter of 2017 of ₱173.2 million is not comparable as this was the last payment related to the net lease payment and share of gaming revenue from the City of Dreams-Manila project.

LRLDI leases land and a Cyberpark building to online gaming operators in Sta. Ana, Cagayan and has an interest (through a convertible loan) in the airport located in Lallo, Cagayan named North Cagayan International Airport.

LRLDI, has a 50% equity in TPI, the joint venture company with Total Consolidated Asset and Management, Inc. TPI's equity share contribution was ₱17.2 million for the first quarter of 2018. This is up slightly by ₱6.7 million from the same period in 2017.

**LRWC**
LRWC's total operating expenses amounted to ₱109.8 million and ₱103.2 million during the first quarter of 2018 and 2017, respectively. As the Company's aim is to enable shared services functions that will provide consistent managerial and administrative services to all of its subsidiaries including marketing programs and continuous organizational changes. Other income/charges as of March 31, 2018 amounting to ₱13.3 million pertains to LRWC's interest expense on loans.

The significant increase in the operating loss was due to the non-recognition of deferred tax asset on NOLCO starting 2018.

**Financial Condition -March 31, 2018 vs. December 31, 2017**

On a consolidated basis, the financial position of LRWC and its subsidiaries -PIKI, BCGLC, FCLRC, LRDCSI, FCCDCI, ABLE, TGXI, ABLGI, and LRLDI- continue to be on solid ground. Total assets as of March 31, 2018 amounted to ₱17.3 billion, an increase of ₱495.7 million or 3.2% as compared to last year's balance of ₱16.7 billion.

Total liabilities also increased by ₱397.8 million mainly due to increase in trade and other payables and availment of additional short-term loans amounting to ₱208.4 million during the quarter.

**Cash Flows -Three Months Ended March 31, 2018 vs. March 31, 2017**

Cash balance as of March 31, 2018 of ₱427.4 million, a slight increase during the quarter due to cash generated from operations and financing activities. The amount of cash was more than enough to cover for loan amortizations and business expansion of LRWC and Subsidiaries.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Management of LRWC and subsidiary is not aware of any material events/and uncertainties that would address the past and would have impact on future operations of the following:

1. Any trends, demands, commitments, events or uncertainties that will have a material impact on LRWC's liquidity;
2. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
3. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period;
4. Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures;
5. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales/revenues/income from continuing operations;
6. Any significant elements of income or loss that did not arise from LRWC continuing operations;
7. Any seasonal aspects that had a material effect on the financial condition and results of operations.

**PLANS FOR 2018**

**Casino**

In 2018, BCGLC laid out plans of acquiring upgraded slot machines to supply the Pagcor VIP Clubs in its different venues. The new machines being considered were strategically chosen for their potential in ushering more playing patrons into the Pagcor VIP Clubs. Its newly-renovated premises which houses the Pagcor VIP Club Adriatico Square has taken on a novel look with visually scintillating classy interiors geared towards attracting customers. It exudes an aura of a relaxed atmosphere to entice more patrons. Further, in conjunction with the aesthetic improvements being introduced, BCGLC makes certain that, at all times, the structural integrity of all its premises are above par. Safety and security of its guests are among its foremost agenda.
Even as it continues to discover innovations directed towards elevating the sites to world-class standards, BCGLC to date, has already raised the bar of VIP Club locations.

LRWC through its investment in HEPI, plans to strengthen and enhance the operations of Midas Hotel and Casino.

**Online**

The uncertainty that began in July 2016 regarding the future roles of CEZA and FCLRC in online gaming licensing and regulation finally settled down with the issuance of Executive Order 13 in February 2017. EO 13 essentially confirms and clarifies, among others, the validity of CEZA's licensing powers as these are defined in Republic Act 7922. Such validation marked the start of a concerted effort between FCLRC and CEZA to strengthen their decade-old partnership and establish the basic components necessary to attract more online gaming operators to locate in Cagayan. These attributes to attract investors include accessibility, connectivity and office availability.

Another FCLRC affiliate, LRDCSI, has built a robust data network infrastructure in Cagayan that is connected to its Metro Manila facilities. Together, both the Cagayan and Metro Manila nodes offer world-class internet connectivity that is essential to online gaming operators. These nodes are, in turn, connected to LRDCSI nodes located in other countries in the Asia Pacific region. For 2018, additional capital expenditures are programmed to further improve the quality of this data network infrastructure and a new Tier One data center will be on the drawing board.

**Retail**
Retail operations were significantly affected by regulatory changes in 2017. The immediate implementation by PAGCOR of simultaneous revisions in rules pertaining to maximum operating hours, prohibition of smoking in gaming areas, and redefinition of dress code for players caused a steep drop in player visitations during the first half of 2017. The deleterious effects began to wane in the second half as players adjusted to the smoking and dress code restrictions and as PAGCOR reinstated 24-hour operations a few months after limiting business hours to only 16 hours.

With the settling down of the regulatory landscape towards the end of 2017, the retail business units started to put in place operational and marketing programs to regain lost ground and increase player activity. Among these programs is the accelerated installation of automated back-end systems that will deliver crucial statistical information and precise data analytics to guide the retail business units in formulating proper strategic decisions. A key feature of such automated systems is a player tracking module that accurately records player preferences, allowing the formulation of marketing and promotional programs that are responsive to players.

Pilot marketing programs were initiated in the second half of 2017 in the Gamezone electronic casino outlets ahead of the full installation of these back-end systems, with encouraging results in increased machine occupancy and machine average daily revenue. A full-blown player acquisition and retention strategy is expected to be on stream in early 2018.

A separate back-end system is being installed for the Bingo Boutique electronic bingo outlets. This system is scheduled to “go live” towards the middle of 2018 and will initially collect operating and market data from the Metro Manila branches. Full implementation for Metro Manila is expected by December 2018, at which point the retail business units will have access to necessary data required to determine the optimal brand mix of electronic bingo machines in every outlet.

These forward-looking technological steps, as well as physical improvements of outlet facilities and front-liner customer service training, are expected to result in a sustainable growth in overall gaming revenues.

**Property**
Programmed for 2018 is the redevelopment of the Cyberpark, a 10-hectare pocket light industrial park located in the municipality of Sta. Ana. Cyberpark is currently being masterplanned to host office buildings and residential dormitories for online gaming operators. Two legacy buildings have already been fully leased out to a locator and the next development phase will commence in the second quarter of 2018 primarily for office spaces.

To substantially improve Cagayan’s accessibility starting 2018, CEZA and FCLRC (together with affiliate LRLDI) will accelerate the development and opening of the Cagayan North International Airport (CNIA) located in the municipality of Lal-lo. When completed, the airport will be able to service commercial jets for both domestic and international flights. LR’s interest in the CNIA is through a convertible loan to the partner of CEZA in the Joint Venture (CNIA).

## PART II – OTHER INFORMATION

There is no significant information that needs to be reported under this section not previously reported in a report on SEC Form 17-C.

## SIGNATURES

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **LEISURE & RESORTS WORLD CORPORATION**

Signature and Title: REYNALDO P. BANTUG, Chairman

Date: 5/17/18

Signature and Title: ENG HUN CHUAH, President

Date: 5/17/18

Signature and Title: OSCAR C. KHO, JR., Group CFO

Date: 5/17/18

**LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**(With Comparative Audited Figures as of December 31, 2017)**

| | *Note* | **March 31, 2018 Unaudited** | December 31, 2017 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *4* | **₱427,444,499** | ₱424,583,323 |
| Receivables - net | *5* | **1,247,534,333** | 842,749,215 |
| Playing cards | *6* | **30,404,469** | 32,777,872 |
| Due from related parties | *14* | **165,000,000** | 155,000,000 |
| Prepaid expenses and other current assets | *7* | **251,016,635** | 232,448,724 |
| **Total Current Assets** | | **2,121,399,936** | 1,687,559,134 |
| **Noncurrent Assets** | | | |
| Property and equipment - net | *8* | **1,957,874,523** | 2,023,479,032 |
| Investment properties - net | *9* | **6,037,941,999** | 6,037,941,999 |
| Investments and advances - net | *10* | **4,495,790,613** | 4,352,875,600 |
| Available for sale financial asset | | **153,309,029** | 153,309,029 |
| Deferred tax assets | | **238,185,533** | 238,185,533 |
| Goodwill - net | | **1,502,067,704** | 1,502,067,704 |
| Other noncurrent assets | *11* | **751,606,687** | 767,071,613 |
| **Total Noncurrent Assets** | | **15,136,776,088** | 15,074,930,510 |
| | | **₱17,258,176,024** | ₱16,762,489,644 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | *13* | **₱1,970,905,919** | ₱1,541,803,177 |
| Short-term loans payable | *12* | **2,447,967,302** | 2,382,346,330 |
| Current portion of long-term loans payable | *12* | **293,910,516** | 293,910,516 |
| Due to a related party | *14* | **9,070,691** | 9,070,691 |
| Income tax payable | | **10,406,197** | 46,082,138 |
| **Total Current Liabilities** | | **4,732,260,625** | 4,273,212,852 |
| **Noncurrent Liabilities** | | | |
| Long-term loans payable - net of current portion | *12* | **2,899,242,983** | 2,960,197,206 |
| Retirement benefits liability | | **224,954,066** | 225,279,182 |
| Rent deposits | | **109,990,867** | 109,990,867 |
| Deferred tax liabilities - net | | **268,941,157** | 268,941,157 |
| **Total Noncurrent Liabilities** | | **3,503,129,073** | 3,564,408,414 |
| | | **₱8,235,389,698** | ₱7,837,621,266 |

*Forward*

| | 31 March 2017 | 31 December 2017 |
|---|---|---|
| | **Unaudited** | Audited |
| **Equity** | | |
| **Equity Attributable to Owners of the Parent Company** | | |
| Capital stock | **₱2,849,852,512** | ₱2,849,852,512 |
| Additional paid-in capital - common | **1,114,028,555** | 1,114,028,555 |
| Treasury shares | **(89,405,347)** | (89,405,347) |
| Fair value reserve | **47,181,438** | 47,181,438 |
| Retirement benefits reserve | **(63,226,874)** | (63,226,874)) |
| Equity reserve | **62,142,500** | 62,142,500 |
| Foreign currency translation reserve | **(2,099,981)** | (2,099,981) |
| Other reserve | **(1,294,351)** | (1,294,351) |
| Retained earnings | **4,461,531,773** | 4,379,108,901 |
| | **8,378,710,225** | 8,296,287,353 |
| **Non-controlling Interests** | **644,076,101** | 628,581,025 |
| **Total Equity** | **9,022,786,326** | 8,924,868,378 |
| | **₱17,258,176,024** | ₱16,762,489,644 |

*See Notes to the Unaudited Consolidated Financial Statements.*

**LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| **REVENUES** | | |
| Electronic bingo | **P1,143,492,946** | ₱1,082,392,961 |
| Traditional bingo | **492,028,816** | 565,184,034 |
| Service and hosting fees | **131,430,442** | 132,948,844 |
| Bandwidth and co-location | **166,091,154** | 180,650,310 |
| Income from junket operations | **243,578,061** | 253,656,793 |
| Rent income | **176,414,270** | 114,627,175 |
| Compensation fee from a casino project | **-** | 65,995,956 |
| Commission income | **65,605,039** | 62,973,897 |
| Rapid bingo | **56,549,977** | 54,372,668 |
| Share in gaming revenue of a casino project | **-** | 15,841,740 |
| Pull tabs | **6,288,148** | 3,164,416 |
| | **2,481,478,853** | 2,531,808,794 |
| **COSTS AND OPERATING EXPENSES** | | |
| Franchise fees and taxes | **1,020,590,264** | 1,001,169,200 |
| Payouts - traditional bingo | **342,435,629** | 386,836,830 |
| Bandwidth and co-location | **124,249,295** | 110,434,499 |
| Rent | **167,219,901** | 169,540,482 |
| Salaries and other benefits | **134,842,416** | 153,063,889 |
| Contracted services | **133,794,456** | 120,697,183 |
| Depreciation and amortization | **122,015,862** | 108,027,536 |
| Communications and utilities | **72,681,338** | 75,316,247 |
| Advertising and promotion | **63,623,059** | 61,099,231 |
| Taxes and licenses | **27,745,490** | 34,141,529 |
| Professional fees and directors' fees | **23,997,426** | 29,111,689 |
| Transportation and travel | **17,460,588** | 25,515,678 |
| Repairs and maintenance | **19,045,751** | 22,781,030 |
| Store and office supplies | **11,848,633** | 17,846,183 |
| Others | **163,454,895** | 69,616,156 |
| | **2,445,005,003** | 2,385,197,362 |
| **OPERATING INCOME** | **36,473,850** | 146,611,432 |

*Forward*

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| **OTHER INCOME (EXPENSES) - Net** | | |
| Finance expense | **(₱20,250,349)** | (₱70,194,837) |
| Finance income | **35,450** | 37,651,422 |
| Equity in net earnings of joint ventures and associates | **59,875,025** | 25,963,518 |
| Other income | **27,537,003** | 227,595,439 |
| | **67,197,129** | 221,015,5442 |
| **INCOME BEFORE INCOME TAX** | **103,670,979** | 367,626,972 |
| **INCOME TAX EXPENSE** | **5,753,031** | 70,920,876 |
| **NET INCOME AFTER TAX** | **97,917,948** | 296,706,098 |
| **Attributable to:** | | |
| Owners of the Parent Company | **82,422,872** | 272,123,400 |
| Non-controlling interest | **15,495,076** | 24,582,698 |
| | **₱97,917,948** | ₱296,706,098 |
| **Basic Earnings Per Share** | **₱0.0713** | ₱0.2294 |
| **Diluted Earnings Per Share** | **₱0.0668** | ₱0.2149 |

*See next page for the computation of Basic and Diluted Earnings Per Share*

Basic earnings per share is computed as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| Net Income attributable to Parent Company | **₱82,422,872** | ₱272,123,398 |
| Dividends on preferred shares | **-** | - |
| Effect of AFS - preferred shares held by ABLE | **3,102,500** | 3,102,500 |
| Income attributable to ordinary stockholders of the Parent Company (a) | **85,525,372** | 275,225,898 |
| Adjusted weighted average number of shares outstanding (b) | **1,199,852,512** | 1,199,852,512 |
| Basic earnings per share (a/b) | **₱0.0713** | ₱0.2294 |

Diluted earnings per share is computed as follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| Income attributable to ordinary stockholders of the Parent Company *(a)* | **₱85,525,372** | ₱275,225,898 |
| Adjusted weighted average number of shares outstanding *(b)* | **1,199,852,512** | 1,199,852,512 |
| Effect of dilutive potential common shares* *(c)* | **80,675,000** | 80,675,000 |
| Adjusted weighted average number of shares outstanding (d=b+c) | **1,280,527,512** | 1,280,527,512 |
| Diluted earnings per share (a/d) | **₱0.0668** | ₱0.2149 |

**Adjusted for the convertible preferred shares.*

# LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES
# UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**For the Three Months Ended March 31, 2018**

| | Attributable to Owners of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** | | | | | | | | | | | | |
| | **Common Shares** | **Preferred Shares** | **Additional Paid-in Capital - Common** | **Treasury Shares** | **Retirement Benefits Reserve** | **Equity Reserve** | **Fair Value Reserve** | **Foreign Currency Translation Reserve** | **Other Reserve** | **Retained Earnings** | **Total** | **Non-controlling Interests** | **Total Equity** |
| **Balance at January 1, 2018** | **₱1,199,852,512** | **₱1,650,000,000** | **₱1,114,028,555** | **(₱89,405,347)** | **(₱63,226,874)** | **₱62,142,500** | **₱47,181,438** | **(₱2,099,981)** | **(₱1,294,351)** | **₱4,379,108,901** | **₱8,296,287,353** | **₱628,581,025** | **₱8,924,868,378** |
| Net income for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **82,422,872** | **82,422,872** | **15,495,076** | **97,917,948** |
| Other comprehensive income (loss) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Total comprehensive income (loss) for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **82,422,872** | **82,422,872** | **15,495,076** | **97,917,948** |
| **Balance at March 31, 2018** | **₱1,199,852,512** | **₱1,650,000,000** | **₱1,114,028,555** | **(₱89,405,347)** | **(₱63,226,874)** | **₱62,142,500** | **₱47,181,438** | **(₱2,099,981)** | **(₱1,294,351)** | **₱4,461,531,773** | **₱8,378,710,225** | **₱644,076,101** | **₱9,022,786,326** |

For the Three Months Ended March 31, 2017

| | Attributable to Owners of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock | | | | | | | | | | | | |
| | Common Shares | Preferred Shares | Additional Paid-in Capital - Common | Treasury Shares | Retirement Benefits Reserve | Equity Reserve | Fair Value Reserve | Foreign Currency Translation Reserve | Other Reserve | Retained Earnings | Total | Non-controlling Interests | Total Equity |
| Balance at January 1, 2017 | ₱1,199,852,512 | ₱1,650,000,000 | ₱1,114,028,555 | (₱79,864,266) | (₱44,112,307) | ₱ - | ₱76,268,593 | (₱434,274) | (₱1,294,351) | ₱2,690,802,125 | ₱6,605,246,587 | ₱606,194,703 | ₱7,211,441,290 |
| Net income for the year | - | - | - | - | - | - | - | - | - | 272,123,398 | 272,123,398 | 24,582,698 | 296,706,096 |
| Other comprehensive income (loss) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income (loss) for the year | - | - | - | - | - | - | - | - | - | 272,123,398 | 272,123,398 | 24,582,698 | 296,706,096 |
| Business combination under common control transactions | - | - | - | - | - | (26,632,382) | - | (1,732,577) | - | - | (28,364,959) | 39,646,055 | 11,281,096 |
| Balance at March 31, 2017 | ₱1,199,852,512 | ₱1,650,000,000 | ₱1,114,028,555 | (₱79,864,266) | (₱44,112,307) | (₱26,632,382) | ₱76,268,593 | (₱2,166,851) | (₱1,294,351) | ₱2,962,925,523 | ₱6,849,005,026 | ₱670,423,456 | ₱7,519,428,482 |

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

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before franchise tax and income tax | **₱103,670,979** | ₱367,626,972 |
| Adjustments for: | | |
| Depreciation and amortization | **122,015,862** | 108,027,536 |
| Finance expense | **20,250,349** | 70,194,837 |
| Equity in net earnings of joint ventures and associates | **(59,875,025)** | 25,963,518 |
| Finance income | **(35,450)** | (37,651,422) |
| Retirement benefits | **-** | (4,751,124) |
| Unrealized foreign exchange loss | **-** | (1,350,352) |
| Operating income before working capital changes | **186,026,715** | 528,059,965 |
| Decrease (increase) in: | | |
| Receivables | **(404,785,118)** | 15,476,395 |
| Due from related parties | **(10,000,000)** | 1,800,000 |
| Playing cards | **2,373,403** | - |
| Prepaid expenses and other current assets | **(18,567,912)** | 102,563,452 |
| Increase (Decrease) in: | | |
| Trade and other payables | **442,777,626** | (14,414,137) |
| Cash generated from operations | **197,824,715** | 633,485,675 |
| Interest received | **35,450** | 37,651,422 |
| Interest paid | **(20,250,349)** | (70,194,837) |
| Income taxes paid | **(41,428,972)** | - |
| Net cash provided by operating activities | **136,180,844** | 600,942,260 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Deductions (Additions) to: | | |
| Advances to a casino project | **-** | 3,762,000,000 |
| Investments and advances | **(83,039,988)** | 45,214,926 |
| Property and equipment | **(56,411,353)** | (160,468,244) |
| Goodwill | **-** | (22,937,329) |
| Other noncurrent assets | **15,464,926** | (47,782,600) |
| Increase in non-controlling interests | **-** | 39,646,055 |
| Effects of business combination | **-** | 58,763,372 |
| Net cash provided by (used in) investing activities | **(₱123,986,415)** | ₱3,674,436,180 |

*Forward*

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loans payable | **₱208,278,598** | ₱156,350,000 |
| Payments of obligations under finance lease | **-** | (220,955) |
| Payments of loans payable | **(203,611,851)** | (2,863,215,770) |
| Dividends paid | **(14,000,000)** | (189,634,352) |
| Net cash provided by (used in) financing activities | **(9,333,253)** | (2,896,721,077) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | **-** | (1,732,577) |
| **NET INCREASE IN CASH** | **2,861,176** | 1,376,924,786 |
| **CASH AT BEGINNING OF YEAR** | **424,583,323** | 712,997,230 |
| **CASH AT END OF THE QUARTER** | **₱427,444,499** | ₱2,089,922,016 |

*See Attachment to the Unaudited Consolidated Financial Statements.*

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

### 1. Reporting Entity

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

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

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

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

### 2. Basis of Preparation

<u>Statement of Compliance</u>
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

<u>Basis of Measurement</u>
The consolidated financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis on each reporting date.

| Items | Measurement bases |
|---|---|
| Available-for-sale financial assets | Fair value |
| Investment properties | Fair value |
| Retirement benefits liability | Present value of the defined benefits obligation |

<u>Functional and Presentation Currency</u>
The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency, and all financial information is rounded to the nearest peso, except when otherwise stated.

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

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

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

*Determination of Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Group, the Group has determined its functional currency to be the Philippine peso. It is the currency of the primary economic environment in which the Group operates and the currency that mainly influences the revenue and expenses.

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

Although the Group has 51% ownership in Hotel Enterprises of the Philippines, Inc. (HEPI), the shareholders' agreement provides for equal representation in the board of directors which is similar to a joint venture arrangement. In addition, the Group has no capacity to direct HEPI to enter into, or can veto any changes to, significant transactions for the benefit of the Group.

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

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

*Fair Value of Investment Properties*
The Group carries its investment properties at fair value, with changes in fair value being recognized in profit or loss. The Group engages independent valuation specialists to determine the fair value. For the investment properties, the appraisers

used a valuation technique based on comparable market data available for such property.

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

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

*Operating Leases - Group As Lessee and As Lessor*
The Group entered into various lease agreements as a lessee and as a lessor. For lease agreements where the Group is the lessee, the Group determined that the lessors retain all significant risks and rewards of ownership of the properties which are classified as operating leases. For lease agreements where the Group is the lessor, the Group assessed that it retains substantially all the risks and rewards of ownership of the properties which are classified as operating leases.
*Acquisition Accounting*
The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

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

*Estimating Allowance for Impairment Losses on Receivables and Due from Related Parties*
The Group performs regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provides these with the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Group. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

*Estimating Net Realizable Value of Playing Cards*
In determining the net realizable value (NRV) of playing cards, the Group considers inventory obsolescence, damages, physical deterioration, changes in price levels, changes in consumer demands, introduction of new bingo games or other causes to identify playing cards which are to be written down to NRV. The Group adjusts the cost of playing cards to recoverable amount at a level considered adequate to reflect market decline in the amount of the bingo cards.

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

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

The estimated useful lives are as follows:

| | Classification | Number of Years |
|---|---|---|
| Leasehold improvements | Property and equipment | 5 years or lease term, whichever is shorter |
| Aircraft and transportation equipment | Property and equipment | 5 - 15 years |
| Bingo equipment and paraphernalia | Property and equipment | 5 years |
| Office furniture and fixtures and equipment | Property and equipment | 5 years |
| Condominium unit | Property and equipment | 25 years |
| Airstrip improvements | Airstrip improvements | 25 years or license agreement, whichever is shorter |

There are no changes in estimated useful lives in 2018.

*Estimating Useful Lives of Intangible Assets - Goodwill, Operating Licenses and Lease Rights*
The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

The management assessed the useful lives of goodwill and operating licenses to be indefinite, while lease rights was assessed to have finite life which is the period of the related leased agreement.

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

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

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

There are no indicators of impairment on the Group's property and equipment, investment properties, investments and advances, airstrip improvements and lease rights for the period ended March 31, 2018.

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

The impairment testing of goodwill and operating licenses utilized significant unobservable inputs (Level 3) to determine fair value.

The Group has not recognized any impairment losses on goodwill and operating licenses as at March 31, 2018.

*Estimating Retirement Benefits Liability*
The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include the discount rates and rate of future salary increase.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligation. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability. Other key assumptions for retirement liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

*Estimating Realizability of Deferred Tax Assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

*Asset Retirement Obligation*
Determining asset retirement obligation requires estimation of the cost of dismantling property and equipment and other costs of restoring the leased properties to their original condition.

The Group determined that there is no significant asset retirement obligation as at March 31, 2018.

*Estimating Provisions and Contingencies*
The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.
The Group has several tax cases at the Supreme Court and Court of Tax Appeals. The Group's estimates of the probable costs for the resolution of these cases have been developed in consultation with outside legal counsel handling the prosecution and defense of these matters and are based on an analysis of potential results. The Group currently does not believe that the cases will have a material adverse effect on its consolidated financial statements. It is possible, however, that the future consolidated financial statements could be materially affected by changes in the estimates or in the effectiveness of strategies relating to its proceeding

The Group has not recognized any provision as at March 31, 2018.

## 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards and interpretations starting January 1, 2018 and accordingly changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's consolidated financial statements.

- *PFRS 9, Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Group assessed that the new standard will not have a significant impact in terms of the amounts reported in the consolidated financial statements. However, upon adoption, the Group will update its disclosure in accordance with the revised guidance on the classification of financial assets.

- *PFRS 15, Revenue from Contracts with Customers* replaces, PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes,* IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The Group assessed that the new standard will not have a significant impact in terms of the amounts reported in the consolidated financial statements. However, upon adoption, the Group will update its disclosure in accordance with the new revenue recognition model.

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e., an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

- *Annual Improvements to PFRSs 2014 - 2016 Cycle.* This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2018, none of which has a significant effect on the consolidated financial statements of the Group:

  - *Measuring an associate or joint venture at fair value (Amendments to PAS 28).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are issued for annual periods beginning after January 1, 2018. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

*Effective January 1, 2019*

- *PFRS 16, Leases supersedes PAS 17, Leases and the related Philippine Interpretations.* The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 Income Taxes when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change – e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9).* The amendments cover the following areas:

  - Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

▪ *Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28).* The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

▪ *Deferral of the Local Implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28).* The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

    The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Financial Instruments

*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 the 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 of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes directly attributable transaction costs.

*Financial Assets*

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

The Group has no HTM investments and FVPL financial assets and liabilities as at March 31, 2018.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized in profit or loss on an accrual basis. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand, payout funds and cash in banks which are stated at face value.

The Group’s cash, receivables, due from related parties, advances to a casino project, rental deposits, performance cash deposits and betting credit funds, advances for a business venture, advanced regulatory fee on ICBG2 and cash performance bonds, included under “Other noncurrent assets” account are included in this category.

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

The Group’s investment in equity security included under “AFS financial asset” account is classified under this category.

*Financial Liabilities*
The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group has no financial liabilities at FVPL as at March 31, 2018.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings. Other financial liabilities are measured initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and directly attributable transaction costs. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

The Group’s trade and other payables, due to related parties, deposits, and short-term and long-term loans are included in this category.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Derecognition of Financial Assets and Financial 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 rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or 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 profit or loss.

Impairment of Financial Assets
The Group assesses at reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

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

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

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

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

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

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

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

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

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

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

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

Offsetting Financial Instruments

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

Determination of Fair Value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

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 prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

Playing Cards

Playing cards are valued at the lower of cost and net realizable value. Cost, which includes all costs attributable to acquisition, is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

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

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

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

Transactions under Common Control
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

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

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in associates or joint ventures are impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of associates or joint ventures. Such impairment loss is recognized as part "Equity in net income of an associate" and "Equity in net earnings of joint ventures" accounts in the consolidated statements of profit or loss and other comprehensive income.
Upon loss of significant influence over the associates or joint control over the joint ventures, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of associates or joint ventures upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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

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

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

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any.

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

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

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the property and equipment. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

The estimated useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the period, and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

When the use of a property changes from property and equipment to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in revaluation reserve. Any loss is recognized in profit or loss.

Investment Properties

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

Investment properties were previously measured at cost including certain transaction costs. Starting 2017, the Group adopted the fair value model for accounting for its investment properties. Under this method, investment properties are initially measured at cost but are subsequently remeasured at fair value, which reflects market conditions at the reporting date. The fair value of investment properties is determined by independent real estate valuation experts using cost approach and sales comparison approach. Gains or losses arising from changes in the fair values of investment property are included in profit or loss in the period in which they arise.

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

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

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

Unearned Fees

Unearned fees pertain to non-refundable deposit which is accrued upon submission of application/renewal of license by locators and amortized over the license period. The unearned fees also include advance billings which have been collected but not yet earned.

Operating Licenses

Operating licenses acquired separately are measured on initial recognition at cost. The cost of operating licenses acquired in a business combination is its fair value as

at the date of acquisition. Subsequently, operating licenses are measured at cost less impairment losses, if any.
The Group assesses the useful life of the operating license to be indefinite because based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Operating licenses are tested for impairment annually either individually or at the cash-generating unit level. Such are not amortized. The useful life of the operating licenses with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposition of operating licenses are measured as the difference between the disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Lease Rights
The Group's lease rights pertain to acquired rights and interests in the sublease agreement entered upon by the Group. Lease rights are stated at cost less accumulated amortization and impairment in value, if any. Lease rights are amortized on a straight-line basis over the remaining lease period of seven years.

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

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

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Non-controlling Interests
For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or

- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary. For changes to non-controlling interest without the loss of control, the difference between such change and any consideration paid or received is recognized directly in equity.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Electronic Bingo (E-Bingo)*
Revenue is recognized upon conclusion of the game. The revenue is net of payouts and share of machine owners.

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

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

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

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

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

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

*Commission Income*
Income is recognized based on a percentage of each PeGs' casino winnings. Commission income is recognized when the related services are rendered.

*Income from Junket Operations*
Income from junket operations is recognized upon conclusion of the game.

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

Costs and Expenses Recognition
Costs and expenses are decrease in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in profit or loss when they are incurred and are reported in the financial statements in the periods to which they relate.
*Payouts* represent payments to winners of traditional bingo games. This is recognized as expense upon conclusion of the game.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Finance Leases*
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

*Operating Leases*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term, unless other systematic basis is more representative of the time pattern of the Group's benefit.

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

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

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

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

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

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

Finance and Other Income and Finance Expenses
Finance income comprises of interest income on cash and cash equivalents, advances to a casino project, advances to joint venture and convertible loan that are recognized in profit or loss.

Interest Income is recognized as it accrues in profit or loss using the effective interest rate method, net of final tax.

Other income comprises miscellaneous income from operations and recognized when earned.

Finance expenses comprise interest expense on borrowings that are recognized as it accrues in profit or loss using the effective interest rate method.

Foreign currency gains and losses comprise the effects of restatement of foreign currency denominated financial assets and liabilities that are recognized in profit or loss on a net basis.

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

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

*Deferred Tax*
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carry-over (NOLCO) and minimum corporate income tax (MCIT). Deferred tax is

measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

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

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

<u>Foreign Currency</u>

*Foreign Currency Translations*

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

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

*Foreign Operations*

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

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

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

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Earnings Per Share

*Basic Earnings Per Share*

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends declared during the year.

*Diluted Earnings Per Share*

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

Related Party Transactions and Relationships

Related party relationship exists 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. Such relationship also exists between and/or among entities, which are under common control with the reporting entity, or between/or among the reporting entity and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 4. Cash

| | 2018 |
|---|---|
| Cash on hand and payout fund | ₱83,842,607 |
| Cash in banks | 343,601,892 |
| | ₱427,444,499 |

## 5. Receivables

| | 2018 |
|---|---|
| Trade receivables | ₱956,378,191 |
| Advances to third parties | 210,046,738 |
| Management fee and commission | 89,268,657 |
| Receivables from concessionaires | 49,915,611 |
| Advances to officers and employees | 45,113,157 |
| Others | 30,622,793 |
| | 1,381,345,147 |
| Less allowance for impairment losses | 133,810,814 |
| | ₱1,247,534,333 |

## 6. Playing Cards

This account consists of:

| | 2018 |
|---|---|
| At cost: | |
| Bingo cards | ₱28,617,134 |
| Others | 1,787,335 |
| | ₱30,404,469 |

## 7. Prepaid Expenses and Other Current Assets

| | 2018 |
|---|---|
| Prepaid expenses | ₱168,824,929 |
| Advances to contractors and suppliers | 27,925,766 |
| Creditable withholding tax | 27,548,336 |
| Input value-added tax (VAT) | 22,797,063 |
| Others | 3,920,541 |
| | ₱251,016,635 |

## 8. Property and Equipment

The movements in this account are as follows:

| | Land | Leasehold Improvements | Aircraft and Transportation Equipment | Gaming Equipment | Office Furniture, Fixtures and Equipment | Network equipment | Condominium Unit | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| January 1, 2017 | ₱185,546,674 | ₱1,158,991,379 | ₱488,367,064 | ₱569,487,891 | ₱513,816,260 | ₱ - | ₱7,146,816 | ₱ - | ₱2,923,356,084 |
| Assets acquired through business combination | - | - | - | - | 750,086 | - | - | - | 750,086 |
| Effect of change in interest in an investment | 814,000 | 18,213,177 | 3,273,214 | - | 6,595,053 | 223,943,352 | - | - | 252,838,796 |
| Additions | - | 121,855,954 | 18,941,975 | 337,826,000 | 150,131,137 | 108,018,721 | - | 3,052,032 | 739,825,819 |
| Retirement/ reclassification | (186,078,447) | (19,539,942) | - | (187,093) | (9,328,638) | | - | - | (215,134,120) |
| December 31, 2017 | 282,227 | 1,279,520,568 | 510,582,253 | 907,126,798 | 661,963,898 | 331,962,073 | 7,146,816 | 3,052,032 | 3,701,636,665 |
| Additions | - | 26,358,316 | 8,729,062 | 15,503,232 | 5,820,743 | - | - | - | 56,411,353 |
| **March 31, 2018** | **282,227** | **1,305,878,884** | **519,311,315** | **922,629,030** | **667,784,641** | **331,962,073** | **7,146,816** | **3,052,032** | **3,758,048,018** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| January 1, 2017 | - | 536,995,850 | 124,007,236 | 114,953,413 | 282,774,526 | - | 5,254,706 | - | 1,063,985,731 |
| Effect of change in interest in an investment | - | 18,094,895 | 2,475,250 | - | 5,699,689 | 117,776,427 | - | - | 144,046,261 |
| Depreciation and amortization | - | 205,734,718 | 37,624,541 | 97,766,571 | 121,503,709 | 20,683,697 | 239,586 | - | 483,552,822 |
| Retirement/ reclassification | - | (8,459,965) | - | (54,663) | (4,912,553) | - | - | - | (13,427,181) |
| December 31, 2017 | - | 752,365,498 | 164,107,027 | 212,665,321 | 405,065,371 | 138,460,124 | 5,494,292 | - | 1,678,157,633 |
| Depreciation and amortization | - | 51,556,353 | 16,804,932 | 30,265,651 | 18,095,777 | 5,170,924 | 122,225 | - | 122,015,862 |
| **March 31, 2018** | **-** | **803,921,851** | **180,911,959** | **242,930,972** | **423,161,148** | **143,631,048** | **5,616,517** | **-** | **1,800,173,495** |
| **Carrying Amount** | | | | | | | | | |
| December 31, 2017 | ₱282,227 | ₱527,155,070 | ₱346,475,226 | ₱694,461,477 | ₱256,898,527 | ₱193,501,949 | ₱1,652,524 | ₱3,052,032 | ₱2,023,479,032 |
| **March 31, 2018** | **₱282,227** | **₱501,957,033** | **₱338,399,356** | **₱679,698,058** | **₱244,623,593** | **₱188,331,025** | **₱1,530,298** | **₱3,052,032** | **₱1,957,874,523** |

## 9. Investment Properties

This account consists of:

| | Land | Land Improvements | Building | Total |
|---|---|---|---|---|
| January 1, 2017* | ₱471,893,400 | ₱14,279,000 | ₱242,537,000 | ₱728,709,400 |
| Additions | 4,759,548,749 | - | - | 4,759,548,749 |
| Transfer from property and equipment, at cost | 186,078,447 | - | - | 186,078,447 |
| Revaluation surplus | 106,752,553 | - | - | 106,752,553 |
| Unrealized gains on changes in fair values of investment properties | 249,054,850 | 121,000 | 7,677,000 | 256,852,850 |
| **December 31, 2017/March 31, 2018** | **₱5,773,327,999** | **₱14,400,000** | **₱250,214,000** | **₱6,037,941,999** |

## 10. Investments and Advances and Available for Sale Financial Asset

| | Percentage of Ownership | 2018 |
|---|---|---|
| **Investments** | | |
| Associates: | | |
| Binondo Leisure Resources, Inc. (BLRI) | | |
| Preferred shares | | **₱20,000,000** |
| Common shares | **30%** | **1,200,000** |
| Techzone Philippines, Inc. (Techzone) | | |
| Common shares | **50%** | **250,000,000** |
| Insular Gaming Corp. (Insular) | | |
| Common shares | **40%** | **199,800** |
| | | **271,399,800** |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | | **1,888,554,532** |
| Share in net income from Techzone | | **17,175,806** |
| | | **1,905,730,338** |
| **Balance at end of period** | | **2,177,130,138** |
| **Joint ventures:** | | |
| HEPI | **51%** | **750,938,000** |
| Accumulated equity in net income: | | |
| Balance at beginning of year | | **183,667,826** |
| Share in net income from HEPI | | **42,699,219** |
| | | **226,367,045** |
| **Balance at end of year** | | **₱977,305,045** |

*Forward*

| | Percentage of Ownership | 2018 |
|---|---|---|
| Advances: | | |
| Cagayan Premium Ventures Development Corporation (CPVDC) and Cagayan Land Property Development Corporation (CLPDC) | | **966,578,042** |
| HEPI | | **225,460,086** |
| BLRI | | **138,978,241** |
| AB Fiber Corp. | | **31,696,665** |
| Eco Leisure | | **26,136,049** |
| Land Owners | | **14,539,781** |
| Others | | **24,745,915** |
| | | **1,425,134,779** |
| Allowance for impairment losses | | **(87,336,049)** |
| | | **1,365,175,637** |
| | | **2,893,273,153** |
| Other investments - at cost | | **556,700** |
| | | **₱2,893,829,853** |

## 11. Other Noncurrent Assets

| | 2018 |
|---|---|
| Rental deposits | **₱351,993,426** |
| Cash performance bonds | **237,805,000** |
| Cash in bank - restricted | **88,768,075** |
| Airstrip improvements - net | **37,186,496** |
| Lease rights | **24,000,000** |
| Performance cash deposits and betting credit funds | **7,600,000** |
| Operating licenses | **4,253,690** |
| | **₱751,606,687** |

## 12. Loans Payable

| **Short-term Loans Payable** | **2018** |
|---|---|
| UCPB | **₱650,000,000** |
| BDO | **399,950,000** |
| AUB | **298,500,000** |
| PBCOM | **99,937,302** |
| Fortunegate | **495,103,000** |
| Classic Finance | **504,477,000** |
| | **₱2,447,967,302** |

| Long-term Loans Payable | 2018 |
|---|---|
| **Current Portion** | |
| AUB | **₱246,666,667** |
| BDO | **39,489,801** |
| UCPB | **1,138,829** |
| UB | **6,615,219** |
| **NonCurrent Portion** | |
| AUB | **₱365,555,555** |
| BDO | **2,526,440,259** |
| UCPB | **-** |
| UB | **7,247,169** |
| | **₱3,193,153,499** |

## 13. Trade and Other Payables

| | 2018 |
|---|---|
| Payable to PAGCOR | **₱172,513,174** |
| Unearned revenues | **137,172,616** |
| Payable to suppliers | **134,213,443** |
| Payable to CEZA | **113,526,054** |
| Payable to government agencies | **94,521,042** |
| Output VAT | **46,235,064** |
| Rent payable | **11,587,841** |
| Accrued expenses and other payables: | |
| Payable to machine owners | **570,088,237** |
| Dividends payable | **284,938,528** |
| Contracted services | **253,467,832** |
| Salaries, wages and benefits | **84,419,889** |
| Others | **68,222,199** |
| | **₱1,970,905,919** |

## 14. Related Party Disclosures

| Categories | Nature of Transaction | Year | Amount of Transactions for the Year | Outstanding Balance: Due from Related Parties | Outstanding Balance: Due to a Related Party | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Longview Holdings Corporation | Cash advances | **2018** | **₱ -** | **₱ -** | **₱9,070,691** | Demandable; non-interest bearing | Unsecured |
| | | 2017 | 2,803,396 | - | 9,070,691 | | |
| Individual stockholder | Cash advances | **2018** | **10,000,000** | **15,000,000** | **-** | Demandable; non-interest bearing | Unsecured; no impairment |
| | | 2017 | 5,000,000 | 5,000,000 | - | | |
| Advances to affiliates | Cash advances | **2018** | **-** | **150,000,000** | **-** | Demandable; non-interest bearing | Unsecured; no impairment |
| | | 2017 | - | 150,000,000 | - | | |
| **Total** | | **2018** | | **₱165,000,000** | **₱9,070,691** | | |
| Total | | 2017 | | ₱155,000,000 | ₱9,070,691 | | |

## 15. Segment Information

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

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

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

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

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

Analysis of financial information by business segment as of March 31 follows:

| | Casino Group | Online Group | Retail Group | Property Group | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Net Revenues** | | | | | | | |
| External revenue | **₱415,889,958** | **₱297,521,596** | **₱1,763,964,926** | **₱4,102,373** | **₱ -** | **₱ -** | **₱2,481,478,853** |
| **Results** | | | | | | | |
| Segment results | **64,652,700** | **48,398,869** | **44,316,363** | **(11,148,480)** | **(109,745,602)** | **-** | **36,473,850** |
| **Results from Operating Activities** | | | | | | | **36,473,850** |
| Finance income | **7,516** | **3,499** | **13,240** | **11,195** | **-** | **-** | **35,450** |
| Finance expense | **(224,103)** | **(92,927)** | **(1,898,667)** | **(4,778,079)** | **(13,256,573)** | **-** | **(20,250,349)** |
| Rent/other income (expense) | **(97,690)** | **(138,194)** | **27,864,984** | **(2,466)** | **(89,631)** | **-** | **27,537,003** |
| Equity in net earnings of a joint venture | **-** | **-** | **-** | **-** | **42,699,219** | **-** | **42,699,219** |
| Equity in net earnings of an associate | **-** | **-** | **-** | **17,175,806** | **-** | **-** | **17,175,806** |
| Income taxes | **1,060,631** | **4,489,037** | **-** | **203,364** | **-** | **-** | **5,753,031** |
| **Total Comprehensive Income** | | | | | | | **₱97,917,948** |
| **Other Information** | | | | | | | |
| Segment assets | **1,380,397,707** | **3,676,747,771** | **3,675,434,422** | **18,403,271,986** | **6,148,565,701** | **(16,026,241,563)** | **17,258,176,024** |
| **Total Assets** | | | | | | | **₱17,258,176,024** |
| Segment liabilities | **1,165,313,668** | **1,320,332,249** | **2,983,467,521** | **5,118,276,033** | **1,717,939,109** | **(4,069,938,883)** | **8,235,389,698** |
| **Total Liabilities** | | | | | | | **₱8,235,389,698** |
| Capital expenditures | **₱16,921,229** | **₱15,248,408** | **₱15,516,332** | **₱590,100** | **₱8,135,284** | **₱ -** | **₱56,411,353** |
| Depreciation and amortization | **25,583,567** | **6,845,363** | **69,753,192** | **2,047,260** | **17,786,480** | **-** | **122,015,862** |

Unallocated corporate expenses consist of net operating expenses of the Parent Company. Assets of the individual segments mainly comprise investments and advances, due from related parties, property and equipment, and trade receivables. Liabilities of the individual segments include loans payable, trade and other payables, retirement benefits liability, and due to related parties. Capital expenditures on noncurrent assets represent additions to property and equipment and investment properties. Noncash expenses pertain to depreciation and amortization expense attributable to reportable segments.

## 16. Financial Risk and Capital Management Objectives and Policies

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

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

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

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

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

The BOD constituted the Group's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the:

a) quality and integrity of the Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls;

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

Credit Risk

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

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

| | **2018** |
|---|---|
| Loans and receivables: | |
| Cash in banks | **₱343,601,892** |
| Receivables - net | **1,247,534,333** |
| Rental deposits | **351,993,426** |
| Cash performance bonds | **237,805,000** |
| Performance cash deposits and betting credit funds | **7,600,000** |
| Due from related parties | **165,000,000** |
| | **2,353,534,651** |
| AFS financial asset | **153,309,029** |
| | **₱2,506,843,680** |

*Cash in Banks*

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

*Receivables*

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

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

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

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

The aging of receivables as of March 31 is as follows:

| | 2018 | |
|---|---|---|
| | **Gross Amount** | **Impairment** |
| Current | **₱935,726,622** | **₱ -** |
| Past due 1 - 30 days | **117,648,598** | **-** |
| Past due 31 - 60 days | **1,333,500** | **-** |
| More than 60 days | **326,636,427** | **133,810,814** |
| | **₱1,381,345,147** | **₱133,810,814** |

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

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

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

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

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

*Due from Related Parties*
The Group limits its exposure to credit risk by only financing the operations of related parties that have viable operations and likewise engaged in gaming amusement activities.
The most significant amount of due from related parties of the Group are the advances to BLRI and HEPI, an associate and a joint venture, respectively, of the Parent Company.

*Advances to a Casino Project*
The Group has an insignificant exposure to credit risk on this account since the counterparty is a reputable entity with high quality external credit ratings.
The credit quality of the Group's neither past due nor impaired financial assets

based on their historical experience with the corresponding third parties has been defined as follows:

- Grade A: Financial assets which are consistently collected before maturity.

- Grade B: Financial assets which are collected on their due dates even without an effort from the Group's to follow them up.

- Grade C: Financial assets which are collected on their due dates provided that the Group's made a persistent effort to collect.

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

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

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Contractual Cash Flow** | **6 Months or Less** | **6-12 Months** | **1-5 Years** |
| **Other Financial Liabilities** | | | | | |
| Trade and other payables | **₱1,876,384,877** | **₱1,876,384,877** | **₱1,876,384,877** | **P -** | **P -** |
| Short-term and long-term loans payable | **5,641,120,801** | **5,878,673,177** | **2,175,460,115** | **500,000,000** | **3,203,213,062** |
| Due to a related party | **9,070,691** | **9,070,691** | **9,070,691** | **-** | **-** |
| Deposits | **106,800,910** | **106,800,910** | **106,800,910** | **-** | **-** |
| | **₱7,633,377,279** | **₱7,870,929,655** | **₱4,167,716,593** | **₱500,000,000** | **₱3,203,213,062** |

** Excluding statutory payables and unearned revenues amounting to P94,521,042.*

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

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

*Change in Prices*
The risk from price changes relates to the Group's ability to recover higher selling costs through price increases, which may be limited due to the regulated environment that exists in the Philippine gaming market and the willingness of players to purchase the same volume of bingo cards at higher prices. The Group's most significant exposure arises from increase in rental rates of leased premises in commercial establishments.

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

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

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

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

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

*Cash/Receivables/Due from Related Parties/Advances to a Casino Project/Rental Deposits/Cash Performance Bonds/Performance Cash Deposits and Betting Credit Funds/Trade and Other Payables/Due to a Related Party/Deposits*
The carrying amounts of cash, receivables, due from related parties, trade and other payables and due to a related party approximate their fair values due to the relatively short-term nature of these financial instruments. The carrying amounts of rental deposits, cash performance bonds and performance cash deposits and betting credit funds approximate their fair values as management believes that the effect of discounting cash flows from these instruments is not significant.

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

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

*Available for Sale Financial Asset*
The fair value of the available for sale financial asset is based on the quoted market price of the investment in equity as at March 31, 2018. The fair value is under Level 1 of the fair value hierarchy.

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

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

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

**LEISURE & RESORTS WORLD CORPORATION AND SUBSIDIARIES**
**Financial Soundness Indicators**
**As of March 31, 2018 and March 31, 2017**

| Key Performance Indicator | Formula | 2018 | 2017 |
|---|---|---|---|
| Current Ratio | Current Assets / Current Liabilities | 44.8% | 118.9% |
| Debt to Equity Ratio | Total Liabilities / Stockholders' Equity | 91.3% | 41.9% |
| Asset to Equity Ratio | Total Assets / Stockholders' Equity | 191.3% | 141.9% |
| Payout Turnover | Traditional Bingo Revenues / Payout | 1.44 times | 1.46 times |
| Return on Average Equity | Net Income* / Average Stockholders' Equity | 5.2% | 16.1% |
| Return on Average Assets | Net Income* / Average Total Assets | 2.8% | 10.1% |
| Solvency Ratio | Net Income* + Depreciation* / Total Liabilities | 10.7% | 51.4% |
| Interest Coverage Ratio | Income* Before Interest & Tax / Interest Expense | 24.5 | 6.2 |
| Net Book Value Per Share | Stockholders' Equity / Weighted Average Shares Outstanding | 7.5 | 6.2 |
| Basic Earnings Per Share | Income Attributable to Ordinary Stockholders of the Parent Company / Weighted Average Shares Outstanding | 0.0713 | 0.2294 |
| Diluted Earnings Per Share | Income Attributable to Ordinary Stockholders of the Parent Company / Weighted Average Shares Outstanding** | 0.0668 | 0.2149 |

**Annualized for quarterly reporting.*
***Adjusted for the convertible preferred shares.*