COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	1	9	9	9	0	8	8	7	4	

COMPANY NAME

DFNN INC. AND SUBSIDIARIES

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

3rd Floor Bonifacio Technology Center 31st Street Corner 2nd Avenue E-Square IT Park-SEZ, Bonifacio Global City, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	MSRD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
richard@dfnn.com	396-5270	09175361526

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
99	Any day in March	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Richard Allan A. Co	richard@dfnn.com	396-5270	09175361526

CONTACT PERSON's ADDRESS

L2-L5 14TH Floor Philippine Stock Exchange Tower 5TH Avenue corner 28TH Street, Bonifacio Global City, Taguig City 1634

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2018**

2. SEC Identification Number **A199908874**

3. BIR Tax Identification No. **202-955-796-000**

4. Exact name of issuer as specified in its charter **DFNN INC.**

5. **Manila, Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. L2 – L5 14th Floor, Philippine Stock Exchange Tower, 5th Ave. cor. 28th St., Bonifacio Global City, Taguig, Metro Manila Philippines — **1634**
   Address of principal office — Postal Code

8. **(632) 396-5270**
   Issuer's telephone number, including area code

9. **Former address:** 3/F Bonifacio Technology Center, 31st St. cor. 2nd Ave., e-Square IT Park – SEZ, Bonifacio Global City, Taguig, Metro Manila Philippines
   Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Securities Outstanding
Common Stock	**324,620,008**

Debt Securities **none**

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

Yes [**x**] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, Inc. **Common Stock**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that the registrant was required to file such reports);

Yes [**x**] No [ ]

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

Yes [**x**] No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the company as of December 31, 2018 is **Php 2,496,327,861.52**

PART I - BUSINESS AND GENERAL INFORMATION

Item 1.1 Company History

DFNN, Inc. ("DFNN") (formerly Diversified Financial Network, Inc.), was incorporated on June 14, 1999 as a leading IT solutions provider and systems integrator. Backed by its domain expertise in financial services, the company has become a proprietary software technology, wireless and secure solutions partner of leading corporations.

On January 5, 2000, the Company incorporated PGI SYSTEMS PTE. LTD. (*formerly DFNN International Pte. Ltd.), hereinafter called* PGI, in Singapore, to expand the Company's intellectual property and consulting services to other highly-populated South and Southeast Asian countries with promising e-commerce and BPO prospects, by adopting the same two-fold strategy of providing IT solutions and outsourcing capabilities as its introductory business and pursuing strategic partnerships with strong local and international business partners.

PGI has also been at the forefront in marketing DFNN's Groups and Gaming Products to legally operating Gaming providers. The legalization of the gaming industry in Asia has allowed PGI to propose its products and the gaming systems and services of the group to various Gaming IT companies operating in the legal jurisdictions in Asia and will continue to seek other markets as they legalize. One solution it had created with DFNN is its WisePay Payment Solutions as registered with the BOI and which PGI deployed to two (2) clients in Japan. Its business should have the opportunity to grow as more countries in Asia legalize their gaming industries.

In 2007, PGI acquired 30% of Inter-active Entertainment Solutions Technologies, Inc. (IEST) and was instrumental in the technology aspect for the operations of IEST. Through IEST, DFNN is allowed to operate several gaming licenses issued by the Philippine Amusement and Gaming Corporation (PAGCOR).

On March 2, 2000, HATCHASIA INC. (HatchAsia), *formerly HatchAsia.com,* was incorporated. It was a subsidiary of the Company, which provides management and technology expertise, business infrastructure through shared office space. HatchAsia commenced commercial operations on April 1, 2000 and has been the early progenitor of the BPO facilities provision in the Philippines by being an early PEZA recognized facility.

In 2000, HatchAsia invested in 56% of iWave, Inc. (iWave) for and behalf of its parent, DFNN Inc., iWave is engaged in systems integration software and technology development. It has been actively providing professional services and products in the Philippine financial and banking sector since 1991. The Company started global outreach in 1992 by marketing and implementing its products and entering into distributorship agreements with foreign countries in the Asia-Pacific region, Hong Kong, South Korea, Thailand, Indonesia, Vietnam, Myanmar, Japan, the USA, and Australia. In 2006, the transfer of iWave shares, as originally intended to DFNN, was accomplished and all taxes relevant to the transfer were paid. The tax clearance has been issued by the BIR. DFNN Group maintains the ability to build customized software solutions through its majority owned subsidiary iWave.

iWave is one of the leading Information Technology companies that specializes in ON-LINE TRANSACTION PROCESSING (OLTP) and other business process outsource applications catering to financial institutions. iWave has evolved from being a distributor of the ON/2 ATM System in 1991 to a competent customized software developer with its own core products such as ATMPack (ATM System), Credit Card Pack (credit card authorization), Switch Pack (high speed transaction switching system for VISA, MASTERCARD, JCB and AMEXCO), and Brokerage Pack (On-line Stock Trading). iWave has designed and developed turn-key solutions to satisfy the unique requirements of customers engaged in Automatic Tellering Machine (ATM) services, Credit Card Business, On-Line Stock Trading, Web-based Remittance Services, and Manufacturing Business. iWave has expertise in designing, developing, implementing, and supporting various business process applications that leverage the best-of-breed technologies complemented by highly motivated and very knowledgeable young engineers. iWave adheres strictly to best practices in software quality assurance and total customer satisfaction that improve the customer's competitiveness in their respective industry. Almost ninety percent (90%) of iWave's revenues are derived from offshore clients, particularly those of Japanese clientele which engages iWave on a Business Process Outsourcing basis.

There was no material reclassification, merger, consolidation, purchase or sale of a significant amount of assets, with the exception of the consolidation of iWave holdings in DFNN through the transfer of ownership from HatchAsia in 2006.

In 2012, the shareholders of DFNN and IEST agreed for DFNN to acquire IEST shares, as disclosed to the investing public via the Philippine Stock Exchange.

Item 1.2 Subsidiaries

Inter-active Entertainment Solutions (IEST)

Incorporated in 2004, IEST Inc. is an I.T. solutions provider and a wholly-owned subsidiary of DFNN. As the owner and operator of multiple gaming licenses, IEST provides betting and gaming technologies. These licenses allow IEST to create and supply a proprietary system and technology platform inside partnered gaming outlets.

Products under the licenses are Instawin and Xchangebet.

Both PAGCOR licenses are valid until 2033 and allow provisions for multiple platforms.

IEST customers include affiliates operating e-casino sites in areas around the Philippines.

Instawin

Instawin is the trademark name of the PAGCOR regulated gaming platform utilizing server-based technology over electronic gaming machines (EGMs) providing a collection of captivating games such as slots, table games (blackjack, baccarat, and poker) as well as an extensive variety of interactive and fun games.

The platform consists of a Cashier Management System (CAMS) and Unified Gaming Lobby (UGL). The CAMS includes cashier module information pertaining to player profiles, cash management, terminal status, and the reporting system.

The UGL is the landing page that displays all the games on the Instawin platform and allows players to transfer their credit balance from one game provider to another without cashier intervention.

Software providers under the platform include some of the most reputable in the industry, such as CY Games, Max Fair, Playtech, Pragmatic Play, Realtime Gaming, Silvergoose 8, and Spadegaming.

Xchangebet

Xchangebet is the trademark name for IEST's development and operation of a sports betting exchange. It is the first and only betting exchange license and facility in the Philippines.

A bet placed by a customer must be successfully matched with another bet of a different customer for the transaction to take place. Unmatched bets in the system are not considered successful betting transactions. All winnings are automatically credited to the customer's Xchangebet account.

Xchangebet is powered by BetCRIS, one of the largest online sports betting providers in the world.

iWave, Inc. (iWave)

iWave, Inc. began as the Manila Representative Office of Intelligent Wave, Inc. of Tokyo, Japan in June 1990. It was established to provide its Philippine clients as a liaison office in conducting research and development on business information systems adapted to the cutting-edge technology available to the firm.

In July 1991, the Manila Representative Office was incorporated as a Philippine corporation. This restructuring was to cater to the rapidly increasing demand for the services and products in the Philippines. More importantly, it was to be the start of an unsurpassed organization and industry growth of iWave.

Since its incorporation, iWave has served banks and financial institutions for its software development requirements. We were the technology partner of former banks such as Traders Royal Bank, Urban Bank, Equitable-PCI Bank, Prudential Bank, Westmont Bank, and Capitol Development Bank when these banks first implemented an Automated Tellering Machine System (ATM). iWave was the exclusive distributor of S2 Systems, Inc. (USA) ON/2 System. Currently, iWave is a technology partner of Bank of Commerce, Development Bank of the Philippines and Banco De Oro Unibank, Inc. Recently, Bank of the Philippine Islands, Union Bank of the Philippines, East West Banking Corporation, and Asia United Bank.

PGI Systems PTE Ltd.

Incorporated in 2000 in Singapore, PGI engages in the development and marketing of application software and the provision of internet-based, value-added services, and other related consultancy.

PGI is a systems integrator and a gaming content aggregator.

Item 1.3. Business

DFNN Gaming Solutions

DFNN has found that many of its developed technologies and project management experience deployed at its various financial institutional clients are also capable of being customized and used in a gaming environment. Both financial and gaming industries require secure environments in which to operate. With the advent of the opening of the gaming industry, both land-and electronic in Asia, DFNN has created a division to cater to the legal Emerging Asian Gaming jurisdictions.

DFNN's gaming solutions span the capability for wireless gaming, game creation, and gaming related project management and software outsourcing. DFNN is willing to cater its gaming products to the needed business processes of legal gaming entities operating in legal gaming jurisdictions.

DFNN's powerful combination of game content and technology has resulted in revenue-enhancing solutions for its customers. DFNN is currently delivering innovative new game content through a wide array of products, systems, and solutions. Together with its customers, DFNN continues to transform the quality and service of its products, systems, and solutions to support and expand sales. Now, and in the future, DFNN will continue to invest in its innovative gaming technologies to deliver exciting, new content through leading technology to maximize the gaming revenue stream.

DFNN's mission is to provide authorized jurisdictions with the means to grow and prosper independently, by developing solutions that help clients in utilizing various channels successfully, emphasizing Internet, mobile and interactive technologies. DFNN sees client satisfaction as the source of employee, shareholder, supplier, and community benefits and will strive to exceed client expectations through continuous improvement in quality, flexibility, service, and productivity.

Table 1 Percentage Sales by Product

In Millions Pesos	2018	%	2017	%	2016	%
Commission Income	898.9	79.6	917.9	95.4	208.8	80.4
Sale of Licenses	54.8	4.9	12.5	1.3	30.0	11.5
Service Fees	175.9	15.5	31.6	3.3	20.9	8.1
TOTAL	**1,129.6**	**100%**	**962.0**	**100%**	**259.7**	**100%**

SERVICES:

Systems Integration

An integral part of the Company's services is to help companies integrate technology, processes, and people while they focus on their core business and their customers. DFNN and its subsidiaries may be used by customers as project managers for their IT needs as well.

Programming and Customization

This includes customized solutions to fit clients' required end applications and automation of business processes.

Consultancy

This includes technical consultation, project management of online and networking systems, hardware and system integration, software system development, software package distribution, software system implementation, system maintenance and training.

Gaming Development

DFNN may design on a customized basis various gaming platform solutions and products.

SOFTWARE PRODUCTS:

Electronic Payment Gateway

A convenient and secure way of ordering goods and paying bills without the hassle and at any time in the comfort of one's home office can be made possible through the Electronic Payment Gateway System. These systems are also deployed by online gaming and IT companies in their need to manage their cash and payment transactions.

Online Remittance System

A Windows-based application system that processes transaction on the ends of the remitter, the beneficiary, and the main office. It ensures both parties that the remittance will reach the expected recipient at the earliest time possible.

Distribution

The DFNN Group currently sells its services directly to the end user of the systems through its own sales force. The DFNN Group engages agents from time to time to augment its sales and varied leasing activities.

Competition

For its IT solutions, DFNN competes directly and indirectly with domestic and international IT professional service companies. Some of these international companies are TATA Consulting, Silverlake System Sdn. Bhd., Polaris Consulting, NCR Corporation and Diebold Philippines; and local companies such as IntelliTouch, Infoserv, Channel Technologies, M Tech, and AllCard Inc.

With respect to its gaming business, DFNN competes with local gaming technology providers and sportsbook companies. This includes companies like PhilWeb Corporation for the EGM segment and OCIV (MegaSportsWorld) for sports betting segment. In other instances, DFNN Group's products also complement our competitors' offerings depending on location.

Ever mindful of these competitors, the DFNN Group aims to provide superior and innovative products and services. It continues to maintain its existing customers and establish strategic partnerships to deliver above-market value to its stakeholders.

Government Regulations

1. *PAGCOR*:

Under its charter, PAGCOR is mandated to regulate all games of chance authorized by existing franchises or permitted by law. As such, DFNN Group's gaming business is under the direct regulation of PAGCOR.

2. *Corporation Code:*

Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines (Corporation Code), is the primary law governing private corporations. The Corporation Code: (i) provides for the incorporation, organization and regulation of private stock and non-stock corporations; (ii) defines the powers of corporations and provides for their dissolution; (iii) fixes the duties and liabilities of directors and other officers of the corporation; (iv) provides the rights and liabilities of stockholders; (v) provides for requirements under which foreign corporations may transact business in the Philippines; and (v) provides penalties for violations of the Corporation Code.

The Securities and Exchange Commission is the primary government regulatory agency tasked to implement and administer the Corporation Code.

3. *Securities Regulation Code:*

Republic Act 8799 or the Securities Regulation Code (SRC) was promulgated in 2000 with the following objectives: (i) the State shall establish a socially conscious, free market that regulates itself, (ii) to encourage the widest participation of ownership in enterprises, (iii) enhance the democratization of wealth, promote the development of the capital market, (iv) to protect investors, (v) to ensure full and fair disclosure about securities, and (vi) minimize if not totally eliminate insider trading and other fraudulent or manipulative devices and practices which create distortions in the free market.

One of the objectives of the SRC is to ensure full and fair disclosure about securities (such as stocks and bonds). The requirement of such disclosure is designed to assist in an informed investment decision, those contemplating the purchase, holding or disposition of securities, thereby providing for the integrity of fair and orderly trading of securities. Further, it is to protect investors and to prevent the possibility of insider trading.

Some of the disclosures the SRC requires to be filed by publicly companies are the following:

SEC Form 17-A – This form shall be used for the Annual Report which provides, among others, a balance sheet, profit and loss statement and statement of cash flows, for such last fiscal year, certified by an independent certified public accountant, and a management discussion and analysis of results of operations;

SEC Form 17-Q - This form shall be used for the Quarterly Report which likewise contains financial information about the company;

SEC Form 17-C – This form shall be used for the Current Report which provides for every material fact or event that occurs which would reasonably be expected to affect the investors' decisions in relation to those securities.

SEC Form 18-A – This form shall be used by any person who acquires in any manner the beneficial ownership of five percent (5%) of any class of equity securities of a company.

SEC Form 19-1 – This form shall be used each time there is a Tender Offer which is a publicly announced intention by a person acting alone or in concert with other persons to acquire outstanding equity securities of a public company, or outstanding equity securities of an associate or related company of such public company which controls the said public company.

SEC Form 23A - This is the initial statement of beneficial ownership of securities to be filed by every person who is, directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of any security of a public company, or who is a director or an officer of the issuer of such security, and indicating the amount of securities of such issuer of which he is the beneficial owner;

SEC Form 23-B – This is the statement of changes in beneficial ownership of securities to be filed by those persons mentioned in no. (vi), and indicating the changes in his or her own ownership that has occurred during a given month.

4. *Electronic Commerce Act:*

On June 14, 2000, President Estrada signed Republic Act 8792, more commonly known as the Electronic Commerce Act of 2000, which aims to promote e-commerce by allowing the legal recognition of electronic documents and electronic signatures and the legal retention of electronic documents. The said law also recognizes and treats computer hacking as a criminal offense. DFNN believes that the approval and enactment of the said law have generally been beneficial to the Company, as it will provide the legal framework conducive to promoting the growth of e-commerce in the Philippines as well as for the Philippines to be recognized as an ideal BPO hub on par with India.

5. *Public Telecommunications Policy Act:*

Under the Public Telecommunications Policy Act of the Philippines and its implementing rules and regulations, a value-added service provider (VAS) need not secure a congressional franchise provided that it does not put up its own network. A VAS provider shall be allowed to competitively offer its services and/or expertise and lease or rent telecommunications equipment and facilities necessary to provide such specialized services, in the domestic and/or international market in accordance with network compatibility. A non-public telecommunications entity VAS provider can utilize its own equipment capable only of routing, storing and forwarding messages in whatever format for the purpose of providing enhanced or augmented telecommunications services. It shall not put up its own network. It shall use the transmission network, toll or local distribution of the authorized public telecommunications entities.

6. *IT Solution:* DFNN's IT Solution business is currently not subject to direct regulation by any government agency, other than regulations applicable to businesses generally. Further, there are currently few laws

or regulations applicable to access to or commerce on the Web. However, due to the increasing popularity and use of the internet and its related technologies, it is possible that a number of laws and regulations may be adopted with respect to the use of the internet and newer developing technologies, which may cover issues such as user privacy, pricing, characteristics and quality of products and services. The adoption of any law or regulation governing the Internet may decrease the growth of the software for use by our end clients, which could, in turn, decrease the demand for on-line services and/or increase the costs of doing business by software and IT providing companies such as DFNN, and therefore have an adverse effect on the Company's business, results of operations, and financial condition.

7. *Business with Government entities*:

In the normal course of business with any Philippine government entity, approvals from such agencies as the Office of the Government Corporate Counsel (OGCC) and Commission on Audit (COA) are normally required and are the responsibility of each government agency. However, private transactions involving private entities do not require any government approvals.

Any change in existing or probable governmental regulations on the business will significantly delay any transaction with any government entity. We do not foresee any impact on transactions with private entities.

8. *Environmental laws*:

There has been no material impact from the cost of compliance from environmental laws.

Customers

The DFNN Group is serving satisfied clients here in the Philippines and abroad.

The DFNN Group has both international and local clients. Table 2 summarizes the Group Percentage Sales and EBITDA by Foreign vs Local last 3 years.

Table 2 Group Percentage Sales by Geographic Location

% of SALES	2018	2017	2016
Foreign	14%	2%	14%
Local	86%	98%	86%

About 86% of the DFNN Group total sales in 2018 are derived from local customers while 10% are from foreign customers.

DFNN is a subtenant to HatchAsia, Inc. and provides financial as well as management advisory services to its subsidiary, iWave.

Software and development costs spent amounted to Php1.29 million in year 2018, Php1.9 million in 2017, and Php923 thousand in 2016. These amounts represent 0.1%, 0.2%, and 0.3% of its yearly gross revenues, respectively.

Employees

As of December 31, 2018, DFNN has 33 employees compared to 22 employees as of December 31, 2017. The Company's subsidiaries have a total of 91 employees as of December 31, 2018, an increase from 73 employees as of December 31, 2017. Total Group headcount is 124 as at December 31, 2018. The Company is expecting increases in the number of its subsidiaries' employees for the year 2019, with the planned Initial Public Offerings or Capital Market events of its subsidiaries (subject to market conditions) IWAVE, HatchAsia, and PGI.

The Company and its employees have not entered into any Collective Bargaining Agreement (CBA). The Company believes that its relations with employees are good.

DFNN anticipates having approximately 142 employees by December 31, 2019.

Risk Factors

Important risk factors currently known to management that could cause actual results to differ materially:

1. **Regulatory.** DFNN's clients in the gaming industry are typically dependent on government regulations. Changes in government laws, rules and regulations affecting the gaming business could affect the company.

2. **Non-renewal of Gaming Licenses.** The DFNN Group is the owner of several gaming opportunities that operate under the trade names: InstaWin and Xchangebet. These licenses are valid until 2033 and contain provisions to allow for multiple platform implementation. Despite the length of these licenses, there is a risk of possible non-renewal after 2033.

3. **Non-renewal of Business Permits.** DFNN Group's gaming products are deployed in stand-alone EGM outlets and co-located in existing PAGCOR gaming venues. As is the nature of the business, there is a risk of possible non-renewal of business permits by the local governments where the venue operates. To prevent this, DFNN continues to obtain the necessary ordinances from the respective local government councils to continue its operations.

4. **Project Based Revenue.** Most of the Company's projects have implementation cycles between 6 months to 24 months. The Company does not experience any seasonality or cyclicality in its interim operations. Revenue comparisons on an annual or quarterly basis may not be comparable. As a result, reliance on historical operating results cannot be used as an indication of Future Performance. Management has been tasked to focus on generating revenue through recurring income models.

5. **Risk of Delay for Government Projects.** In the normal course of business with any Philippine government entity, approvals from such agencies as the Office of the Government Corporate Counsel (OGCC) and Commission on Audit (COA) are normally required. These approvals may be delayed from time to time. The Company is aware of this risk and is mitigating this risk through diligent application to the necessary approving authorities prior to engaging with any government entity as a potential client.

6. **Dependence on a Subsidiary for Service Revenue** A large portion of the Company's revenue is generated from its wholly-owned subsidiary, IEST. Instawin, IEST's gaming platform, accounted for P898.9 million or 69.6% in commission revenue which was driven by the 5,826 electronic gaming machines across 207 sites in the Philippines in 2018. Loss or failure in operation by this subsidiary could pose a material adverse effect on the Group's performance. Management is aware of this potential risk and is currently developing diversification strategies for its revenue streams.

Item 2. Properties

The Company's headquarters are currently located in and substantially all of its operations are conducted out of a leased facility in the Bonifacio Technology Center (formerly HatchAsia GlobalCity Center), Bonifacio Global City, Taguig, Metro Manila.

The Company has annual lease payments as follow:

Table 3. Detail of leases and subtenants

(In MILLION Pesos)		Area	Annual Rent
DFNN to HatchAsia	Office space	487.18 sqm	Php5.35m
DFNN to PSE	Office space	364.37 sqm	PhP4.96m
DFNN to Garlier	Land	3,700.00 sqm	Php24.25m

With the exception of the lease of its office space, all substantial facilities, including computer equipment and software equipment, are owned by the Company and are in good condition. There are no existing mortgages, liens or encumbrances over said facilities.

DFNN does not have any current plans to acquire any more property within the next twelve (12) months.

Item 3. Legal Proceedings

The following are the active cases of DFNN, Inc. involving the terminated Equipment Lease Agreement between the company and Philippine Charity Sweepstakes Office (PCSO) which are as follows:

1. **G.R. No. 234193** (ACTIVE) which is a Petition for Certiorari filed by PCSO from the Decision of the Court of Appeals (CA) 2nd Division in "PCSO vs. DFNN" **CA-GR SP. No. 145983** (WON/APPEALED) in favor of DFNN.

   With respect to **CA-GR SP. No. 145983**, the Court of Appeals has already ruled in favor of DFNN by denying the Motion for Reconsideration filed by PCSO which assailed its Decision AFFIRMING the ruling of the RTC of Makati City in **SP. PROC. No. M-7844.**

   The RTC of Makati City in **SP. PROC. No. M-7844** rendered a Decision in favor of DFNN, Inc. by correcting the arbitration panel's award to P310,095,149.70 plus 6% interest from the date of finality of the Decision. Further, a Writ of Execution for the aforesaid was issued by the RTC.

   PCSO has since filed a Petition for Certiorari questioning and/or seeking to reverse the aforesaid ruling of the Court of Appeals with the Supreme Court (SC) which is now pending and docketed as **G.R. No. 234193.**

2. “PCSO vs. DFNN” **C.A. G.R. Sp. No. 150401** (ACTIVE) pending with the Court of Appeals (CA) and filed by the PCSO assailing the issuance of a Writ of Execution by the RTC of Makati City Branch 66 in **SP. PROC. No. M-7844.**

   In this case, the parties have filed their respective Memorandum and now waiting for the appellate court’s order submitting case for Decision.

3. **G.R. No. 232801** (ACTIVE) which is a Petition for Certiorari filed by PCSO from the Decision of the Court of Appeals (CA) 14th Division in “DFNN vs. PCSO” **CA-GR SP. No. 145462** (WON/APPEALED) in favor of DFNN.

   On the matter of **CA-GR SP. No. 145462**, the Court of Appeals ruled in favor of DFNN by denying the Motion for Reconsideration filed by PCSO which assailed its Decision which REVERSING the ruling of the RTC of Mandaluyong City. In the ruling of the RTC Mandaluyong City, the court declared it to have wrongfully assumed jurisdiction over the petition for confirmation of the arbitration panel’s award filed by PCSO. The RTC further ruled to consolidate **Civil Case No. MC15-9557** with **SP. PROC. No. M-7844**.

   PCSO has since filed a Petition for Certiorari questioning and/or seeking to reverse the aforesaid ruling with the Supreme Court which is now pending and docketed as **G.R. No. 232801**.

   In a Resolution dated 04 July 2018, the Supreme Court directed the consolidation of **G.R. No. 234193** with **G.R. No. 232801**. No further resolutions or orders from the Supreme Court have been received by DFNN as of this date.

4. DFNN vs. PCSO” **COA CP. Case No. 2017-069** (ACTIVE) pending with the Commission on Audit (COA) Commission Proper.

   In that case, a Petition for the Enforcement of its money claims was filed by DFNN against PCSO (i.e. ₱310,095,150 plus 6% interest) due to the immediate executory nature of the RTC Makati Decision. However, to date, the COA has yet to resolve the Petition.

To date, DFNN has not filed any bankruptcy petition, nor was there any related final judgment, order, judgment or decree. DFNN has not violated a securities or commodities law.

There are no material legal proceedings involving the Company or its subsidiaries terminated during the fourth quarter of the fiscal year covered by this report.

Item 4. Submission of Matters to a Vote of Security Holders

There are no matters that will be submitted to a vote of the security holders.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Company's common stock was listed last October 30, 2000 with the PSE.

The high and low sales prices of the Company's securities for each quarter within the last two (2) fiscal years are indicated below:

	High	Low
First Quarter 2019	7.74	6.72
First Quarter 2018	9.78	6.68
Second Quarter 2018	8.46	6.60
Third Quarter 2018	9.35	6.70
Fourth Quarter 2018	9.00	7.00
First Quarter 2017	9.50	7.94
Second Quarter 2017	9.07	8.35
Third Quarter 2017	11.74	6.52
Fourth Quarter 2017	8.39	6.50

Source: www.pse.com.ph

On December 28, 2018, the trading price of the Company's common stock at the Philippine Stock Exchange closed at Php7.69.

Holders of Securities

The number of common shareholders of record as of December 31, 2018 is 73. Common shares outstanding as of December 31, 2018 stood at 324,620,008. The top twenty (20) common shareholders as of December 31, 2018 are as follows:

Name	No. of Shares	% of Total
PCD Nominee Corporation (Filipino)	211,163,157	65.05%
PCD Nominee Corporation (Non-	81,991,493	25.26%

Filipino)		
Jean Henri D. Lhuillier	6,924,444	02.13%
Ramon C. Garcia Jr.	4,888,666	01.51%
Clarex Limited	4,244,344	01.31%
OCU Group, Inc.	2,800,000	00.86%
Bridge Information Systems (Int'l.) Inc.	2,223,993	00.69%
P.J. Lhuillier, Inc.	1,000,000	00.31%
Uno Primera Holdings & Property, Inc.	1,000,000	00.31%
Summit Investments Worldwide, Inc.	963,969	00.30%
Raul A. Daza or Gina Marie Daza Sadhwani	893,663	00.28%
Raul A. Daza or Joan Ruby Daza Dwyer	893,662	00.28%
Dra Lily Cha	815,302	00.25%
James Beltran	760,000	00.23%
Gary Lee Seaton	750,000	00.23%
Niseko Holdings Corporation	500,000	00.15%
Shun Wei Holdings Ltd	475,000	00.15%
Raul Daza	400,000	00.12%
Paul Bradley	300,000	00.09%
Paulo Coppola	268,000	00.08%
Total	**323,255,693**	**99.58%**

Dividends

There were no dividend declarations for the years 1999 to 2017.

On February 28, 2018, the Board of Directors approved the declaration of property dividends consisting of 8 million shares of its affiliate HatchAsia Inc. with record date of March 14, 2018 and payment date to be determined upon compliance with regulatory requirements.

On June 27, 2018, the Board of Directors approved the declaration of property dividends consisting of 40,000 shares of its affiliate iWave, Inc. with record date December 28, 2018 and payment date to be determined upon compliance with regulatory requirements.

There are no restrictions to declare dividends as and when the DFNN Group has positive retained earnings.

Recent Sales of Unregistered Securities

(1) On August 6, 2015, the SEC approved the increase in DFNN's authorized capital stock from ₱150,000,000.00 to P500,000,000 composed of 400,000,000 common shares and 100,000,000 preferred shares each with par value of ₱1.00 per share. A total of 91,284,732 new shares were issued pursuant to the increase in the authorized capital stock.

Out of the 91,284,732 shares, 26,603,789 shares were paid for in cash for a total purchase price of ₱87,690,302.84, while 64,370,832 shares were paid for in cash for a total purchase price of ₱593,005,451.92 and 310,111 shares were sold at par for cash also for a total purchase price of ₱310,111.

The transaction qualifies as an exempt transaction under Rule 10-1(i) of the Securities Regulation Code being subscriptions for shares of the capital stock of DFNN pursuant to an increase in its authorized capital stock and no expense is incurred, or no commission, compensation or remuneration is paid or given in connection with the sale of such securities. No underwriter was engaged for the issuance of the foregoing securities and no underwriting discounts or commission were given and/or paid.

(2) On April 19, 2017, the Board of Directors approved the subscription by Excel Century Investment Limited and/or its nominees, designees and assignees to 74,877,694 common shares at a subscription price of Php8.30 per share or an aggregate subscription price of Php621,484,860.20 payable in cash. Proceeds from the subscription will be used by DFNN for, among others, expansion of infrastructures (data centers) and gaming systems and platforms (unified e-wallet subsystem, security systems for IT platforms, etc. No underwriter was engaged for the issuance of the foregoing securities and no underwriting discounts or commission were given and/or paid.

(3) On September 28, 2017, DFNN issued 150,000 shares to Mr. Joseph Roxas pursuant to the exercise of his stock option grant.

The transactions qualify as an exempt transaction under Rule 10-1(c) (An isolated transaction) and (k) (Sale of securities to fewer than twenty (20) persons) of the Securities Regulation Code. The sole subscription by Excel Century Investment Limited is an isolated transaction and is covered under the exemptions allowed by the SRC as a sale of securities to not more than 20 persons within a 12-month period.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The Management's Discussion and Analysis or Plan of Operation listed in the Index to the Financial Statements and Supplementary Schedules are filed as part of this Form 17-A. (See Exhibit III attached.)

Item 7. Financial Statements

The Consolidated Financial Statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with the Company' s accountants on accounting and financial disclosure during the past three fiscal years. There has been no change in external auditor for the Group except for two of its subsidiaries; PGI in Singapore, replaced P.B. Low & Co., its external auditor with SGV & Co. in 2007 (member practice of Ernst & Young Global), in preparation for PGI' s planned capital market exercise; and HatchAsia's former auditors were SGV & CO., from 2011 to 2012; and San Jose Verde Santos and Associates, from 2013 to 2015. HatchAsia engaged the audit services of Reyes Tacandong & Co. for 2016.

Yearly group external audit and audit-related fees on an aggregate basis amounted to approximately Php1,945,000 in 2016, Php2,030,000 in 2017, and Php2,310,000 in 2018. These represent fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements. No other services were provided by the external auditor for the Company for the calendar years 2016, 2017 and 2018.

The audit committee reviewed and approved the above fees. The members of the Audit Committee are as follows:

1. Marco Antonio R. Urera – Chairman
2. Jean Henri D. Lhuillier – Member
3. Edwin B. Villanueva – Member
4. Brandon C. Chan – Member

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Set forth below are the names, ages and current positions of the directors and executive officers of the Company as of December 31, 2018. Term of office of all directors is one year and until their successors shall have been elected and qualified. A director who was elected to fill any vacancy holds office only for the unexpired term of his predecessor. The Directors' period served is identified in the last column.

Name	Age	Present Position	Citizenship	Period Served
Antonio A. Lopa	80	Chairman of the Board	Filipino	Director since June 1999; Chairman since March 2011
Ramon C. Garcia, Jr.	51	Executive Vice Chairman and Executive Director	Filipino	Director since June 1999; President/CEO from 1999 to February 2018; Chairman from December 2000 to March 2011
Monico V. Jacob	74	Independent Director	Filipino	Director since June 1999
Jean Henri D. Lhuillier	50	Director	Filipino	Director since June 1999; Treasurer from December 2000 to June 2010
Marco Antonio R. Urera	52	Independent Director	Filipino	Director since June 1999
Edwin B. Villanueva	68	Director and Treasurer	Filipino	Director since May 2002; Treasurer since June 2010
Eric Francis P. Ongkauko	50	Director	Filipino	Director since August 2003
Brandon C. Chan	55	Director	Filipino	Director since July 2014
Calvin Lim	38	President/Chief Executive Officer/Director	Malaysian	President /CEO / Director from March 2018
Franchette M. Acosta	46	Director	Filipino	Director since July 2017
Elmer B. Serrano	51	Director and Corporate Secretary	Filipino	Director/Corporate Secretary since July 2017
Cyrus R. Montesa	43	Assistant Corporate Secretary and Chief Legal Counsel	Filipino	Assistant Corporate Secretary/Chief Legal Counsel since March 2018

Set forth below is a brief description of the experience of the members of the Board of Directors and management of DFNN inclusive of the last five years:

Antonio A. Lopa, 80, Chairman of DFNN (Filipino)

Mr. Lopa is currently the Chairman and President of Equitiworld Securities, Inc. (since 1987) and a member of the Philippine Stock Exchange where he is a Trading Participant. He is also currently Chairman of the Board of Wordtext Systems, Inc. and WSI Pacific Publications, Inc. He is also Chairman of the Board of Cavite Biofuel Producers, Inc. and served as President and Chairman of various family-owned corporations under the Manlo Group of Companies.

Mr. Lopa previously served in government as President (July 2000 to February 2001) and Director (July 1998 to February 2001) of the government-owned and controlled corporation, Philippine National Oil Company (PNOC) and as Director of the Subic Bay Metropolitan Authority (SBMA) (1998 to June 2000).

Mr. Lopa was the Chairman of the Board from April 2007 to June 2013 of OMICO Corporation, a company listed in the PSE. He was also a Director of the listed company, IVANTAGE Corporation up to June 2005. Mr. Lopa was once elected as Governor of the PSE. Currently, he is the Board Secretary of the Philippine Association of Securities Brokers and Dealers Inc (PASBDI), an ex officio member of the Board of the Philippine Chamber of Commerce and Industry (PCCI), the President and Trustee of Philippines Trade Foundation, Inc, and a life member of the Management Association of the Philippines (MAP). Mr. Lopa is also Treasurer and a trustee in D.A.R.E. Philippines Association (Drug Abuse Resistance Education) a civic organization founded to fight drug abuse through education of young elementary students who are mentored police officers trained in the D.A.R.E. program of drug-abuse resistance education.

Mr. Lopa is a Bachelor of Arts in Economics (Cum Laude) graduate of the Ateneo de Manila University.

Ramon C. Garcia, Jr., 51, Director and Executive Vice Chairman of DFNN (Filipino)

Mr. Garcia holds directorships in Cuyapo Rural Bank since 2013; IEST, Inc. since 2007; HatchAsia, Inc. since 2000; iWave, Inc. since 2000; MAA General Assurance, Inc. since 2001; and Philippine Mineral and Alloys Corporation since 1993. Additionally, he serves as Chairman of Diversified Special Economic Zone since 2000 and Chairman of Pacific Gaming Investments, Pte. Ltd. since 2002.

Passionate about the education industry, he is the Founder and Director of South Forbes City College Corp. The college offers CHED-approved tertiary level courses in Marketing Management, Tourism Management and Hotel and Restaurant Management. From 2002 to 2011, he was Chairman of the Board of Trustees of Global City Innovative College. From 2000 to 2008, under the Junior Achievement Phil., Inc, Mr. Garcia implemented IT solutions for Business Mentoring Programs.

Mr. Garcia is the co-founder of the Financial and Capital Market Trading Foundation and likewise serves on the Board of Trustees. The foundation aims to improve and continuously train the skill sets of participants in the capital market and leads fundraising activities.

Previously, Mr. Garcia was elected as Governor of the PSE for two terms: 1996 to 1998 and 2000 to 2001. From 2000- 2004, he served as head of the Finance Committee of the IT Economic Coordinating Council. He also served as Chairman of Primetown Property Group Inc from 2007 to 2010.

In 2015, Mr. Garcia was awarded in the Asia Pacific Entrepreneurship Awards under the Most Promising Category for his exemplary achievements in entrepreneurship.

Mr. Garcia graduated with a Bachelor of Science degree in Industrial Engineering from De La Salle University.

Calvin Lim, 38, President and Chief Executive Officer of DFNN (Malaysian)

Mr. Lim holds an Executive MBA from the National University of Singapore with a diploma in Computing and Information Technology from the Asia Pacific Institute of Information Technology in Malaysia. Mr. Lim has over fifteen years of experience overseeing operations in the software development and gaming industry. Prior to his appointment, Mr. Lim was the co-founder and served as the Chief Operating Officer of Nogle Limited, a venture studio for early-stage technology start-ups headquartered in Hong Kong, with its main office in Taiwan. He has also served as a Director in several companies in the Philippines, Malaysia, Mauritius, and Taiwan.

Monico V. Jacob, 74, Independent Director of DFNN (Filipino)

For the past five years, Mr. Monico Jacob has acted as an advisor to companies requiring corporate restructuring, energy, and general legal advice. Prior to joining DFNN, Mr. Jacob was Chairman and CEO of Petron Corporation, the Philippine National Oil Company and all of its subsidiaries. He first joined the government in 1986 as Associate

Commissioner of the Securities and Exchange Commission. In addition, Mr. Jacob served for three terms as Governor of the Philippine Stock Exchange (PSE). He is a member of the Management Association of the Philippines, the Integrated Bar of the Philippines, and the Philippine Business for Education.

Mr. Jacob is currently involved in the following corporations:

1. STI Education Services Group – Vice-Chairman and CEO from 2016 to present;
2. Philplans First, Inc. –Chairman from 2009 to present;
3. Philhealthcare, Inc. – Director from 2013 to present;
4. STI Education Systems Holdings, Inc. – President and CEO from 2009 to present;
5. Maestro Holdings, Inc. –President from 2009 to present;
6. Philippine Life Financial Assurance Corp. – Chairman from 2013 to present;
7. Jollibee Foods Corp. –Director from 2002 to present;
8. Phoenix Petroleum, Inc. – Director from 2010 to present;
9. Rockwell Land Corp. –Director from 2016 to present;
10. Asian Terminals, Inc. – Director from 2009 to present; and
11. Lopez Holdings, Inc. – 2013 to present.

Mr. Jacob graduated with a Bachelor of Arts degree in Liberal Arts from Ateneo de Naga University and a Bachelor of Laws degree from Ateneo de Manila University.

Jean Henri D. Lhuillier, 50, Director of DFNN (Filipino)

Mr. Lhuillier currently serves as the President and CEO of several companies which include PJ Lhuillier, Inc.; Cebuana Lhuillier Insurance Solutions; Cebuana Lhuillier Services Corporation; Cebuana Lhuillier Business Solutions; Networld Capital Ventures; Le Soleil De Boracay Resort; and, Just Jewels Diamonds Boutique Corporation. He is also the Director and Chairman of the Board of Global Restaurant Concepts, Inc. He likewise serves as Director of Enderun Colleges, Inc; FalcorHeli Solutions Philippines, Inc; HatchAsia; iWave Philippines; and Next Ideas, Inc. He is also the Director and Chairman of the Board of Global Restaurant Concepts.

Mr. Lhuillier was also named Honorary Consul General of the Republic of San Marino, and awarded the Knighthood of the Equestrian Order of St. Agatha. He also serves as a co-sponsor of the Lhuillier-Hess Scholarship at the Wharton School of the University of Pennsylvania.

A lifelong advocate of sports and a Sportsman of the Year awardee for 2018, Mr. Lhuillier serves as President of Unified Tennis Philippines (UTP) and the Amateur Softball Association of the Philippines (ASAPHIL). He also sits as the Chairman of the Board of the Philippine Tennis Association (PHILTA) and was recently elected as Vice President of Softball Asia. Mr. Lhuillier is also the President of the Chamber of Pawnbrokers of the Philippines, Inc. (CPPI), and also served as the Interim Chairman of the Mutual Exchange Forum on Inclusive Insurance (MEFIN).

In 2018, he was awarded by the International Business Awards with it's first-ever "Lifetime Achievement Awards for Consumer Services", on top of the other recognitions he received from the IBA or Stevies, Golden Bridge Awards and the Asia CEO Awards, among others.

Mr. Lhuillier graduated with a degree in Bachelor of Science in Economics and Business Administration from Saint Mary's College in Moraga, California, U.S.A. He also graduated from the Management Program at the Harvard Business School. He became an alumnus of the Gemological Institute of America, and a Doctor of Humanities at the Polytechnic University of the Philippines.

Marco Antonio R. Urera, 52, Independent Director of DFNN (Filipino)

Mr. Marco Urera has served as the CEO/President for Vision Technical & Management Services, Inc. ("VTMSI") since 1987 and Vision A&E, Inc. ("VAE") since 2007; Founder and Director of Home Alert, Inc. ("HAI") since 2002 and President of JW Tea Products, Inc. (Natural Health Products) since 1987.

Mr. Urera is currently a Board Member and Executive Director of iWave, Inc. VTMSI is an operating and holdings company. VAE, a subsidiary of VTMSI, is a business process outsourcing company engaged in Architecture and Engineering Design using Property Technology (PropTech) such as BIM, Analytics & CAD Production services. It has recently established a branch office in Vancouver, Canada, VAE. Another subsidiary of VTMSI is HAI, a company that imports and distributes fire safety and security products and involved in facilities management services in the Philippines. Mr. Urera is also the Founder (since 1991) and formerly Managing Director (from 1991 to 2013) of Fax n Parcel, Inc. (FNP), a one-stop telecommunications, business cente,r and printing company. He was also the former CEO of EDSAMAIL and Evoserve, an Internet Service Provider and Software Development Services company.

Mr. Urera graduated with a Bachelor of Science in Computer Science from the De La Salle University.

Edwin B. Villanueva, 68, Director and Treasurer of DFNN (Filipino)

Mr. Edwin Villanueva is currently the President of A.B.V. Inc., Chairman of VFL Advisors, Inc. and President of CIBI Foundation Inc. He is also an Independent Director and Chairman of the Audit Committee of the CTBC Bank Philippines. He is the Treasurer of DFNN Inc., and Adviser to CDC Holdings Inc. and PhilRatings Inc. He currently holds directorships in the Makati Supermarket Group, DFNN, iWave Inc, CreditAccess Philippine Financing Company, Inc., Fuji Haya Electric Co., and Testech Inc.

In 1998, Mr. Villanueva was the President of Financial Executives Institute of the Philippines (FINEX), an industry association of finance professionals from 1998 to 2001, he served as the Chairman of the Capital Markets Development Council.

Mr. Villanueva served as President of Vickers Ballas Securities Philippines Inc., a member of the Philippine Stock Exchange, from 1997 to 2001 and Sun Hung Kai Securities Philippines from 1990 to 1997. He was with SGV & CO. from 1976 to 1990, where he served as Principal in Charge of the Project Development Services Division and Managing Director of the Hong Kong member firm.

Mr. Villanueva received his Bachelor of Science degree in Management Engineering (Cum Laude) from the Ateneo de Manila University in 1972. He received his Master of Business Administration from Wharton Graduate School, University of Pennsylvania in 1974. He is also a Fellow of the Institute of Corporate Directors after having completed the Directors Training Course of the Australian Institute of Company Directors in 2002.

Eric Francis P. Ongkauko, 50, Director of DFNN (Filipino)

Mr. Ongkauko is currently the President of the OCU Group since 2003 and OC Ventures Corp. Inc. since 1995. He is also a Director of Centaur International Pty Ltd. since 2002; Centaur Exim Pte Ltd. since 2004; Assie Asia Pty. Ltd. since 1986; San Antonio Marketing Inc. since 1997; and Technofoods Inc. since 1993.

Mr. Ongkauko graduated with a Bachelor of Science degree in Business Management from the De La Salle University.

Brandon C. Chan, 55, Director of DFNN (Filipino)

Mr. Chan is currently involved in the following corporations:

1. AB Gaming & Leisure Specialist' Inc. – President;
2. Arwen Gaming Consultancy, Inc – Director;
3. Grandshares, Inc. – Director;
4. Caliraya Lakeview Resort & Management Corp. – Director;
5. Blackberry Gaming & Leisure Corp. – Director;
6. Global 8 Fortune Holdings, Inc. – Director

Mr. Chan graduated from the Philippine School of Business Administration in 1986.

Franchette M. Acosta, 46, Director of DFNN (Filipino)

Atty. Acosta is a lawyer and Senior Partner at Villaraza & Angangco Law Firm. She has acted as corporate counsel for various private and public companies including companies engaged in property development, telecommunications, information technology, banks, investment companies, and other financial intermediaries, power and mining. In such capacity, Ms. Acosta regularly renders legal advice on regulatory compliance of corporations. Ms. Acosta has extensive practice in the areas of mergers & acquisitions, structuring of foreign investments, government infrastructure, and information technology systems, procurement of goods and services, capital markets, securities and regulation, finance, corporate reorganization and corporate rehabilitation. Ms. Acosta acts director and Corporate Secretary of various corporations.

Atty. Acosta graduated from New York University with a Master of Laws. She ranked 3rd in the Philippine Bar Examination and earned her Bachelor of Laws from the University of the Philippines College of Law where she graduated Class Valedictorian and Cum Laude. She holds a Bachelor of Science in Business Economics from the University of the Philippines School of Economics where she graduated Magna Cum Laude.

Elmer B. Serrano, 51, Director and Corporate Secretary of DFNN (Filipino)

Atty. Elmer B. Serrano is a practicing lawyer specializing in Corporate Law, Mergers & Acquisitions, Capital Markets and Banking & Finance. He is co-founder and the Managing Partner of Martinez Vergara Gonzalez & Serrano, a full-service law firm recognized as top tier in several practice areas by the foremost international ranking and editorial publications.

After being consistently cited as "Recommended Lawyer" by The Legal500 Asia Pacific, Mr. Serrano is now recognized as an elite "Leading Individual" in Banking & Finance, Legal500's list of outstanding lawyers in Asia Pacific.

Mr. Serrano is also ranked as a leading lawyer (2019) by IFLR1000 in the areas of Mergers & Acquisitions, Banking & Finance, and Capital Markets. Mr. Serrano is a director of 2GO Group, Inc, a company listed with the Philippine Stock Exchange. He is Corporate Secretary of some of the largest and most respected public companies in the Philippines, including SM Investments Corporation, SM Prime Holdings, Inc., Premium Leisure Corp., Crown Equities, Inc., as well as various subsidiaries of BDO Unibank. He is Corporate Secretary of, and counsel to, prominent banking industry associations and companies such as the Bankers Association of the Philippines, PDS Group of Companies and the Philippine Payments Management, Inc.

Mr. Serrano is a Certified Associate Treasury Professional (2017) and was among the top graduates of the Trust Institute of the Philippines in 2001.

Mr. Serrano holds a Juris Doctor degree from the Ateneo Law School and a BS Legal Management degree from Ateneo de Manila University.

Cyrus R. Montesa, 43, Chief Legal Counsel, Chief Compliance Officer and Assistant Corporate Secretary and of DFNN (Filipino)

Atty. Montesa currently serves as the Chief Legal Counsel and Chief Compliance Officer of DFNN, Inc. Prior to his appointment in DFNN, he was connected with the law office of Mendoza & Pangan and the Securities and Exchange Commission (SEC). Atty. Montesa has extensive specialized experience in the financial and legal industry.

He completed his Bachelor of Science degree in Marketing from St. John's University in New York, USA and his Bachelor of Laws degree from San Beda College. He is also a member of the Integrated Bar of the Philippines and the New York State Bar Association.

The independent directors of DFNN are Monico V. Jacob and Marco Antonio R. Urera.

Significant Employees

There are no non-executive officers who are expected by the Company to make a significant contribution to the business.

Family Relationships

There are no family relationships (up to 4^{th} civil degree) either by consanguinity or affinity among the abovementioned directors and executive officers of DFNN.

Involvement in Certain Legal Proceedings

For the past five (5) years and as of the date of this Annual Report, there was and there are no threatened or pending litigation involving any other directors, executive officers or control persons of DFNN before any judicial, quasi-judicial or administrative tribunal that is material to an evaluation of their ability and integrity.

To DFNN's knowledge, none of its directors and officers has been subject of the following during the last five (5) years:

1. bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
2. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
3. any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
4. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Item 10. Executive Compensation

Compensation of Directors and Executive Officers

Name Principal Position	Year	Salary (₱)	Bonus & Other Compensation (₱)	TOTAL

Calvin Lim (President/CEO) Ramon C. Garcia, JR. (Executive Director) Ricardo F. Banaag (Chief Technology Officer) Christopher M. Tio (Chief Strategy Officer) are the most highly compensated executive officers*	2019 (est.) 2018 2017	14,079,000 14,079,000 11,933,000	0 0 0	14,079,000 14,079,000 11,933,000
All directors and executive officers as a group	2019 (est.) 2018 2017	32,906,000 32,906,000 12,168,000	0 0 0	32,906,000 32,906,000 12,168,000

* Executive officers of DFNN.

The CEO, Executive Director, Chief Technology Officer, and Chief Strategy Officer are the most highly compensated executive officers namely, Calvin Lim, Ramon C. Garcia, Jr., Ricardo F. Banaag, and Christopher M. Tio, respectively.

The executive officers are paid the standard compensation package. No bonuses and other forms of compensation beyond the regulatory law were provided by the management of DFNN.

The members of the Board of Directors of DFNN are paid a per diem of ₱5,000 each per meeting of the Board of Directors.

Mr. Ramon C. Garcia, Jr. holds concurrent positions in the Company's subsidiaries namely; as President and Director of IEST and iWave; and as Director of HatchAsia, Inc., and PGI.

None of the employees is bound by an employment agreement that prevents such person from terminating his/her relationship at any time for any reason.

Item 11. Security Ownership of Certain Beneficial Owners and Management

As of December 31, 2018, DFNN knows of no one who is directly or indirectly the record or beneficial owner of more than 5% of DFNN's common stock except as set forth below:

		Name of			

Title of Class	Name and address of owner and relationship with issuer	Beneficial Owner and relationship with Record Owner	Citizenship	Number shares held	Percent of class
Common	PCD Nominee Corp. (Filipino) (Securities Depository) 37/F, Tower 1, The Enterprise Center 6766 Ayala Ave. cor. Paseo de Roxas, Makati City	Diversified Securities, Inc. (Member-Broker) Ramon C. Garcia, Jr. (Director)*	Filipino	211,163,157	65.05%
Common	PCD Nominee Corporation (Non-Filipino) 37F Tower 1, The Enterprise Center 6766 Ayala Avenue Paseo De Roxas, Makati City		Non-Filipino	81,991,493	25.26%

*To the best of the Company's knowledge, these persons are authorized to vote on behalf of the beneficial owners listed above.

The shares registered in the name of the corporate stockholders of DFNN shall be voted upon during the Annual Meeting by the duly authorized Proxy of the corporate stockholder.

The following are the stockholdings of directors and executive officers of DFNN, as of December 31, 2018:

DIRECTORS

Title of Class	Name of owner	Amount and Nature of Ownership	Citizenship	Percent of Class
Common	Ramon C. Garcia, Jr.	15,698,766	Filipino	4.83%
Common	Jean Henri D. Lhuillier	17,359,053	Filipino	5.35%
Common	Calvin Lim	1,000	Filipino	0.00%
Common	Marco Antonio R. Urera	1,133,501	Filipino	0.35%
Common	Eric Francis P. Ongkauko	125,001	Filipino	0.04%
Common	Monico V. Jacob	109,807	Filipino	0.04%
Common	Antonio A. Lopa	1,150,000	Filipino	0.35%
Common	Edwin B. Villanueva	1,012,501	Filipino	0.31%
Common	Brandon C. Chan	1	Filipino	0.00%

Common	Elmer B. Serrano	100	Filipino	0.00%
Common	Franchette M. Acosta	100	Filipino	0.00%

OFFICERS

Title of Class	Name of owner	Amount and Nature of Ownership	Citizenship	Percent of Class
Common	Raymundo Martin M. Escalona	0	Filipino	0%
Common	Dominique C. Laconico	110,000	Filipino	.03%
Common	Christopher M. Tio	0	Filipino	0%
Common	Elisaire Lacson	0	Filipino	0%
Common	Czarina Sophia Miren Cueto	0	Filipino	0%
Common	Atty. Cyrus R. Montesa	0	Filipino	0%
Common	Czarina G. Turla	0	Filipino	0%
Common	Ricardo F. Banaag	0	Filipino	0%

There is currently no person holding more than 5% of the shares of DFNN under a voting trust or similar agreement.

There are no arrangements that may result in a change of control of the Company. Since the last fiscal year, there has been no change in the control of the Company.

Item 12. Certain Relationships and Related Transactions

Atty. Elmer B. Serrano, Corporate Secretary, is a senior partner of the law firm of Martinez Vergara Gonzalez & Serrano Law Offices to whom DFNN is paying legal fees, which DFNN believes to be reasonable for the services rendered.

Mr. Lopa is the Chairman of the Board and President of Equitiworld Securities, Inc.

Some of DFNN's officers hold concurrent positions in the other subsidiaries of DFNN.

In connection with its intended provision of administrative and support services, DFNN has entered into commercial agreements with HatchAsia and PGI.

PART IV - EXHIBITS AND SCHEDULES

Item 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

See Accompanying Index to Financial Statements and Supplementary Schedules.

Management Discussion and Analysis of Results of Operations and Financial Condition is under Exhibit III. Financial soundness and key performance indicators are under Exhibit II.

(b) Reports on SEC Form 17-C

During the period covered by this report, the reports on Form 17-C filed with the SEC cover the following:

Date Filed	Subject
March 5, 2018	Approval of the following matters during the regular meeting of the Board of Directors held on February 28, 2018: 1. Resignation of Mr. Joseph Y. Roxas as director and election of Mr. Calvin Lim as director; 2. Resignation of Mr. Ramon C. Garcia, Jr. as President and CEO, and appointment of Mr. Calvin Lim as President and CEO; 3. Appointment of Mr. Ramon C. Garcia, Jr. as Executive Vice Chairman and Executive Director with Specific Focus on dealing with Regulatory and Government Institutions, Strategy and Business Direction for the Group and Business Development; 4. Appointment of Atty. Cyrus R. Montesa as Chief Legal Counsel, Chief Compliance Officer and Assistant Corporate Secretary effective March 26, 2018; 5. Declaration of property dividends consisting of 8 million shares of its affiliate HatchAsia Inc. with record date of March 14, 2018 and payment date to be determined upon compliance with regulatory requirements; 6. Purchase of outlets that have been authorized by PAGCOR to offer products under a Certificate to Operate.
July 2, 2018	Approval of the following matters during the regular

	meeting of the Board of Directors held on June 27, 2018: 1. The declaration of property dividends consisting of forty thousand (40,000) shares of its subsidiary iWave, Inc. to stockholders as of December 28, 2018; 2. Acquisition of 100% of the outstanding shares of LuckyU Inc.
August 20, 2018	Approval of the following matters during the regular meeting of the Board of Directors held on August 16, 2018: 1. Acquisition of Kirshner Games International Inc.; 2. Incorporation of three (3) subsidiaries to engage in the business of providing (a) software development, (b) new gaming technology; and (c) IT services intended to increase the subsidiary portfolio as well as to create a new stream of revenue for DFNN; and 3. Setting the 2018 Annual Stockholders' Meeting on October 19, 2018 with record date of September 30, 2018.
October 24, 2018	The following are the results of the annual stockholders' meeting and organizational board meeting of DFNN Inc. held on October 19, 2018: I. Results of the Annual Stockholders' Meeting a. The following were elected as directors of DFNN for the year 2018-2019 1. Antonio A. Lopa 2. Calvin Lim 3. Ramon C. Garcia, Jr. 4. Jean Henri D. Lhuillier 5. Eric Francis P. Ongkauko 6. Edwin B. Villanueva 7. Brandon C. Chan 8. Elmer B. Serrano 9. Franchette M. Acosta 10. Marco Antonio R. Urera as Independent Director 11. Monico V. Jacob as Independent Director b. Sycip Gorres Velayo & Co. was re-appointed as external auditor for 2018-2019. II. Results of the Organizational Meeting a. The following were appointed as officers of DFNN for 2018-2019:

	1. Chairman of the Board - Antonio A. Lopa 2. Executive Vice Chairman - Ramon C. Garcia, Jr. 3. President and Chief Executive Officer – Calvin Lim 4. Chief Operating Officer – Dominique C. Laconico 5. Chief Finance Officer and Investment Officer – Raymundo Martin M. Escalona 6. Chief Technology Officer – Ricardo F. Banaag 7. Treasurer – Edwin B. Villanueva 8. Corporate Secretary – Elmer B. Serrano 9. Assistant Corporate Secretary – Cyrus R. Montesa 10. Chief Legal Counsel and Chief Compliance Officer – Cyrus R. Montesa 11. Chief Strategy Officer - Christopher M. Tio 12. Chief Human Resource Officer – Vic C. Asuncion 13. Deputy Chief Finance Officer – Richard Allan Co 14. Finance Comptroller – Elisaire T. Lacson 15. Investor Relations Officer - Czarina Sophia Miren Cueto b. Appointment of members of the different Board Committees of DFNN. c. Mr. Roberto F. de Ocampo was designated as Chairman Emeritus. d. The following were appointed as members of the Board of Advisors: a. Joseph Y. Roxas b. Saturnino Belen c. Catherine Michelle Panotes

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in _______

By:

CALVIN LIM
President / CEO

RAYMUNDO MARTIN M. ESCALONA
Chief Financial and Investment Officer

CYRUS R. MONTESA
Chief Legal Counsel and
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 3 0 2019 in Makati City affiants exhibiting to me their Tax Identification Numbers, as follow:

NAMES	TIN NUMBER
CALVIN LIM	344-830-338-000
RAYMUNDO MARTIN M. ESCALONA	128-421-032-000
CYRUS R. MONTESA	295-916-491-000

Doc. No: 51
Page No: 12
Book No: 38
Series of 2019:

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. M-37- UNTIL DEC. 31, 2020
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. V-0026676/4-11-2018
IBP O.R No.706702-LIFETIME MEMBER JAN. 29, 2007
PTR No.7333720- JAN 03, 2019- MAKATI CITY
EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUPITER ST.
MAKATI CITY

Exhibit I

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto which form part of this Report. Such consolidated financial statements and notes have been prepared in conformity with generally accepted accounting principles in the Philippines ("Philippine GAAP")

CONSOLIDATED RESULTS OF OPERATIONS

Group revenues reached to ₱1,129.6 million in 2018, an increase by 17% compared to the previous year. Net income (before minority interest) for 2018 amounted to ₱65.2 million compared to ₱144.8 million in 2017. EBITDA is ₱177.6 million, whereas in 2017 it was ₱191.1 million.

In MILLION Pesos	**2018**		Fav/ (Unfav)	**2017**		Fav/ (Unfav)	**2016**	
		% of Sales	Vs. 2017		% of Sales	Vs. 2016		% of Sales
Revenue	₱1,129.6	100.0%	₱167.7	₱962.0	100.0%	₱702.1	₱259.8	100.0%
EBITDA/(Loss)	₱174.7	15.5%	24.7	191.1	19.9%	191.0	0.1	0.0%
Net Income/(Loss)	₱62.3	5.5%	₱(41.5)	144.8	15.1%	121.2	23.6	9.1%

DFNN's proprietary software and systems have been accepted for use by the Philippine Amusement and Gaming Corporation (PAGCOR), the regulator of the country's gaming industry. DFNN also focused its efforts on Business Management Outsourcing products and services, its gaming product offerings and its internet and wireless applications through its various proprietary systems.

DFNN has increased its marketing efforts to provide more systems to the growing internet gaming market and these initiatives which are long term in nature will impact significantly to the group's revenue and will provide for recurring revenue.

Key Performance Indicators

Year 2018

Liquidity. - Current ratio for 2018 is at 2.16 vs. 1.92 for the comparable period during the previous year. Current assets comprised 69% and 44% of Total Assets in 2018 and 2017, respectively.

Solvency. – Total Equity is at ₱1.16 billion for the year 2018 compared to ₱1.17 billion in the previous year.

Profitability. - The Return on Total Assets in 2018 is 3% compared to 8% during the previous year. The Return on Equity in 2018 is 5% compared to 12% in 2017.

Asset to Equity Ratio - Asset to equity ratio for 2018 is 1.68:1.00 vs. 1.44:1.00 in 2017.

Interest rate covered ratio - Interest coverage ratio is 7.07 in 2018 compared to 10.17 in 2017.

Year 2017

Liquidity. - Current ratio for 2017 is at 1.92 vs. 0.65 for the comparable period in 2016. Current assets comprised to 44% and 25% of Total Assets in 2017 and 2016, respectively.

Solvency. – Total Equity is at ₱1.17 billion for the year 2017 compared to ₱381.5 million in previous year.

Profitability. - The Return on Total Assets in 2017 is 8% compared to -3% in previous year. The Return on Equity in 2017 is 12% compared to -10% in 2016.

Asset to Equity Ratio - Asset to equity ratio for 2017 is 1.44:1.00 vs 2.22:1.00 in 2016.

Interest rate covered ratio - Interest coverage ratio is 10.17 in 2017 compared to -1.44 in 2016.

Revenue Breakdown

For the year ended December 31, 2018, the DFNN Group posted consolidated revenues of approximately ₱1,129.6 million. This consists mainly of:

Percentage Sales by Product

In Millions Pesos	2018	%	2017	%	2016	%
Commission Income	₱898.9	79.6%	₱917.9	95.4%	₱208.9	80.4%
Sale of Licenses	54.8	4.9%	12.5	1.3%	30.0	11.5%
Service Fees	175.9	15.5%	31.6	3.3%	20.9	8.1%
TOTAL	**₱1,129.6**	**100%**	**₱962.0**	**100%**	**₱259.8**	**100%**

Year 2018

Commission Income. Commission income is mainly in line with the previous year.

Sale of Licenses. Income from sale of licenses increased by ₱42.3 million as a result of the increase in the number of purchases from clients.

Service Fees. The increase in service fee income was mainly attributable to revenue generated from the software maintenance services.

Year 2017

Commission Income. The increase in this revenue category was the result of the 201% increase in the average number of gaming terminals deployed and an 85.16% increase in the average number of net win per terminal per day in 2017 compared to previous year.

Sale of Licenses. Income from sale of licenses decreased as a result of the decrease in the number of purchases from clients.

Service Fees. The increase in service income was mainly attributable to revenue generated from the software maintenance services.

Expense Breakdown

For the Year Ended December 31, 2018, the DFNN Group's cost of services and general and administrative expenses amounted to ₱1,070.8 million, an increase of 19.0% compared to last year. The increase in total cost and expense is consistent with the increase in revenues during the year brought about mainly by the increase sales of licenses and service fee income.

In Peso Millions	2018	2017	2016
Cost of services	₱702.8	₱639.5	₱201.8
General and administrative expenses	368.0	260.1	129.0
TOTAL	**₱1,070.8**	**₱899.6**	**₱330.8**

Year 2018

Outside Services. This variable cost is higher compared to the previous year mainly because of increased outsourced services due to the increase in volume related to gaming activities. In addition, there was a corresponding increase in service fees of third-party providers of quality assurance services and other software development related services due to the increase in the revenue.

Sales and Marketing. In order to boost revenue, the Company had intensified various marketing programs through product awareness and provision of marketing supports to gaming outlets.

Personnel Costs. The Company continued to augment its manpower resources to complement and support the Group's expansion and increase in business activities.

Transportation and Travel. The decrease in the account was caused by a decrease in foreign travel compared to the previous year.

Other operating costs. The costs related to rent, utilities and office supplies had increased as compared to the previous year.

Year 2017

Outside Services. This variable cost is higher compared to the previous year mainly because of increased outsourced services due to the increase in volume related to gaming activities. In addition, there was a corresponding increase in service fees of third-party providers of quality assurance services and other software development related services due to the increase in the revenue.

Sales and Marketing. In order to boost revenue, the Company had intensified various marketing programs through product awareness and provision of marketing supports to gaming outlets.

Personnel Costs. The Company continued to augment its manpower resources to complement and support the Group's expansion and increase in business activities.

Transportation and Travel. The increase in the account was caused by costs incurred by logistic group involved in the deployment of the Company's products in various gaming outlets nationwide. There was also an increase related to foreign travel to attend various gaming exhibits and conferences with major gaming suppliers.

Other operating costs. The costs related to rent, utilities and office supplies had increased as compared to the previous year.

FINANCIAL CONDITION

For the year ended December 31, 2018, DFNN's total assets stood at approximately ₱1.96 billion. DFNN had no significant long-term debt. Stockholders' Equity amounted to ₱1.16 billion.

The Company's cash position remained liquid throughout the year. DFNN had consolidated cash and cash equivalents amounting to approximately ₱96.4 million as of December 31, 2018.

DFNN had no material commitments for capital expenditures as of December 31, 2018.

Other Assets consists mainly of intangible assets and project advances including rental deposits and other advances from affiliate.

Accounts payable and accrued expenses generally consists of liabilities for personnel and marketing expenses, web and tech support and general and administrative expenses.

Year 2018

Cash. The decrease in cash and cash equivalents is mainly due to advances made to stockholders.

Receivables. The balance in this account increased as a result of the advances to stockholders, as well as advances to affiliated companies for its working capital for gaming operations.

Financial Assets at FVTPL. The account represents equity securities purchased by iWave and IEST. The balance in the account is mainly in line with the previous year.

Other Current Assets. The significant increase was mainly due to the increase in the balance of Input VAT in 2018.

Investment in Associates. This increase in this account is due to the revaluation of the investment in HatchAsia.

Property and Equipment. The decrease in this account is due to depreciation and amortization recognized, mainly on the cost of Build-Out and Fit-Out of Technology and Data Center in Sta. Rosa, Laguna. This is offset partially by acquisitions of computer equipment and leasehold improvements during the year.

Goodwill and Intangible Asset. Intangible asset pertains to license acquired through business combination, software license and goodwill. The license represents contract with PAGCOR with a finite useful life up to July 2033. The decrease is due to straight-line amortization during the year.

Deferred Tax Asset. The movement in the account represents the tax effect of the amortization of intangible assets and the income tax effect on other temporary differences for tax purposes.

Accounts Payable and Other Current Liabilities. The increase is due mainly to increase in trade payables as a result of higher volume of transactions related to licensed gaming operations and software development services, as well as property dividends declared during the year.

Short Term Loan. Pertains to interest-bearing loan obtained from stockholders for working capital purposes.

Deposits for Future Stock Subscriptions. The account represents amounts received from stockholders and shown under liability account since subscription agreement has yet to be executed.

Capital Stock / Additional Paid-in Capital. Total equity is in line with the previous year.

Year 2017

Cash. There was an increase in the account balance compared to previous year as result of the issuance of additional share capital and availment of loans from various creditors.

Receivables. The balance in the account increased as a result of the improved gaming operations. Also, the account included advances to affiliated companies for its working capital for gaming operations.

Financial Assets at FVTPL. The account represents equity securities purchased by iWave and IEST during the year.

Other Current Assets. The significant increase was mainly due to the increase in the balance of Input VAT in 2017. Also, there was a significant increase in the prepaid expenses mainly due to rent and insurance.

Investment in Associates. The balance substantially represents the retained interest in Hatchasia measured at fair value as at the date of loss of control.

Property and Equipment. The increase in asset account was mainly due to the additional leasehold improvements and transportation equipment acquired during the year.

Goodwill and Intangible Asset. Intangible asset pertains to license acquired through business combination, software license and goodwill. The license represents contract with PAGCOR with a finite useful life up to July 2033.

Deferred Tax Asset. The movement in the account represents the tax effect of the amortization of intangible assets and the income tax effect on other temporary differences for tax purposes.

Other Non-current Asset. The movement is caused by the increase in the project advances paid for future projects and advances and advances made to upgrade the gaming revenue.

Accounts Payable and Other Current Liabilities. The increase in the balance of this account as compared to previous year is attributable to the increase in the operations in 2017.

Short Term Loan. Interest bearing loan obtained from stockholders for working capital purposes.

Deposits for Future Stock Subscriptions. The amount was received from stockholders and shown under liability account since subscription agreement has yet to be executed.

Capital Stock / Additional Paid-in Capital. The increase in the account was due to issuance of 75,027,695 common shares at above par value out of the existing but unissued portion of the authorized capital stock of the Corporation.

On July 5, 2017, the Securities and Exchange Commission (SEC) approved the Company's equity restructuring, which applies Additional Paid-In Capital (APIC) to the deficit to wipe out the deficit of the company as of December 31, 2016. This does not affect the company's Authorized Capital and does not entail any issuance of new shares. The same simply wipes out the deficit with the use of APIC as of December 31, 2016.

Other than those stated above, there were no significant changes or events that impacted on DFNN's continuing operations.

Other than those stated above and to the best of the Company Management's knowledge, Management is not aware of any trend, demand, commitment, event or uncertainty that will have a material impact on the issuer's liquidity.

Management is not aware of any event that may trigger any material direct or contingent financial obligation, including any default or acceleration of an obligation. Management is not aware of any material off-balance sheet transaction, arrangement, obligation (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period. Management is not aware of any trend, event or uncertainty that may have a material impact (favorable or unfavorable) on the Company's net sales/revenues/income from continuing operations. Management is not aware of any significant element of income or loss that did not arise from the Company's continuing operations.

DFNN INC.

Index to Consolidated Financial Statements and Supplementary Schedules

Form 17-A

Consolidated Financial Statements

Supplementary Schedules

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of DFNN INC. is responsible for the preparation and fair presentation of the Consolidated Financial Statements including the schedules attached therein, for the year(s) ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Antonio A. Lopa
Chairman

Calvin Lim
President / CEO

Raymundo Martin M. Escalona
Chief Financial & Investment Officer

SUBSCRIBED AND SWORN to before me this APR 3 0 2019 day of affiants exhibiting to me their TIN, as follows:

NAMES	TIN	PLACE OF ISSUE
Antonio A. Lopa	101-784-676-000	
Calvin Lim	344-830-338-000	
Raymundo Martin M. Escalona	128-421-032-000	

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. M-87- UNTIL DEC. 31, 2020
ROLL OF ATTY. NO. 48348
MCLE COMPLIANCE NO. V-0026676/4-11-2018
IBP O.R No.706762-LIFETIME MEMBER JAN. 29, 2007
PTR No.7333020- JAN 03, 2019- MAKATI CITY
EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUPITER ST. MAKATI CITY

Doc No. 54
Page No. 12
Book No. 58
Series of 2019.

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	1	9	9	9	0	8	8	7	4	

C O M P A N Y   N A M E

DFNN INC. AND SUBSIDIARIES

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

3rd Floor Bonifacio Technology Center 31st Street Corner 2nd Avenue E-Square IT Park-SEZ, Bonifacio Global City, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	CFD	

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
richard@dfnn.com	818-3366	09175361526

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
99	Any day in July	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Richard Allan Co	richard@dfnn.com	8183366	09175361526

CONTACT PERSON's ADDRESS

3rd Floor Bonifacio Technology Center 31st Street corner 2nd Avenue E-Square IT Park – SEZ, Bonifacio Global City, Taguig City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
DFNN Inc.
3rd Floor, Bonifacio Technology Center
31st Street corner 2nd Avenue, E-Square IT Park-SEZ
Bonifacio Global City, Taguig City

Opinion

We have audited the consolidated financial statements of DFNN Inc. and Subsidiaries (collectively referred to as the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter in the succeeding section, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Company adopted Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, provides revised principles for classification and measurement of financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Company adopted the modified retrospective approach in adopting PFRS 9.

<u>Valuation of Advances to Kirschner Games International, Inc. (KGI)</u>
The Company, through PGI Systems PTE Ltd. (PGI) entered into a Share Purchase Agreement wherein PGI has the option to convert KGI's debt amounting to $3,325,025 into ordinary shares of KGI for an enterprise value of $23.0 million. The contract shall be settled by delivering a fixed number of KGI's own shares in exchange for the settlement of the advances. The advances to KGI amounting to ₱361.2 million were reclassified to financial assets at fair value through profit and loss (FVPL) as at January 1, 2018 (the transition date) under PFRS 9. Previously, these advances were classified as loans and receivables carried at cost.

This matter is significant to our audit because in addition to the magnitude of the amount, the determination of the fair values of advances to KGI requires significant judgment and estimates.

The Company's disclosures about financial assets at FVPL are included in Notes 2 and 6 to the consolidated financial statements.

Audit Response

We obtained an understanding of KGI's principal activities, sources of cash flows and composition of its underlying net assets. We involved our internal specialist in the review of the methodologies and assumptions used by the management for the valuation of KGI.

We also assessed and reviewed the methodology adopted discounts on marketability and lack of control applied by referencing to common valuation methodologies and convention. We also traced the other data used in the adjusted net asset value approach to accounting records.

<u>Expected Credit Losses</u>
The Company's adoption of the expected credit loss (ECL) model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: credit risk exposures; defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The application of the ECL model increased the allowance for credit losses by ₱7.1 million and decreased retained earnings by ₱5.0 million as of January 1, 2018. Additional allowance for credit losses in 2018 using the ECL model amounted to ₱7.1 million.

The Company's disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model are discussed in Notes 2 and 5 of the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money, and the best available forward-looking information.

We (a) assessed the Company's credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical recoveries and write-offs, if any; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Company's receivable portfolios and industry practices.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by examining the supporting documents and their subsequent settlements. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the transition adjustments and reviewed the disclosures made in the financial statements based on the requirements of PFRS 9.

Realizability of Deferred Tax Assets

As at December 31, 2018, the Company had deferred tax assets on deductible temporary differences of ₱36.9 million which were recognized. At the same date, the Company also had deferred tax assets on Net Operating Loss Carry Over (NOLCO) of ₱3.8 million which were also recognized. The analysis of the recognition and recoverability of the deferred tax assets was significant to our audit because the amounts are material, the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions. The related disclosures on deferred tax assets are included in Note 20.

Audit response

Our audit procedures included, amongst others, the assessment of the recoverability of deferred tax assets, we compared the consistency of management's profit forecasts with those included in the budget approved by the Board of Directors. We evaluated management's assumptions on the projected profit forecasts, discount and terminal yield rates by comparing them against recent profit trends and externally available information. We also assessed the historical accuracy of management's assumptions and estimation process by comparing the actual financials against previously forecasted financials. We tested the completeness and accuracy of the amounts recognized as deferred tax assets, including the review of correspondences with the tax authorities and other uncertain tax positions. Our internal tax specialists supported us in the review of deferred taxation. We assessed the adequacy of the Company's disclosures on deferred tax positions and assumptions used. The Company's disclosures concerning the deferred tax are included in Note 20 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Maria Pilar B. Hernandez.

SYCIP GORRES VELAYO & CO.

Maria Pilar B. Hernandez

Maria Pilar B. Hernandez
Partner
CPA Certificate No. 105007
SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022
Tax Identification No. 214-318-972
BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332559, January 3, 2019, Makati City

April 25, 2019

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 23)	**₱96,410,210**	₱331,738,040
Receivables – net of noncurrent portion (Notes 5, 15 and 23)	**656,857,442**	222,224,859
Financial assets at fair value through profit or loss (Notes 2, 6, 23 and 24)	**386,423,829**	24,570,604
Other current assets (Note 7)	**202,614,941**	163,911,139
Total Current Assets	**1,342,306,422**	742,444,642
Noncurrent Assets		
Intangible assets (Note 8)	**278,116,893**	296,781,071
Noncurrent portion of financial assets (Notes 5, 15 and 23)	**18,634,586**	236,601,617
Investment in associates (Notes 10 and 25)	**75,014,329**	74,581,590
Property and equipment (Note 9)	**106,450,691**	147,949,939
Deferred tax assets - net (Note 20)	**36,912,915**	8,431,653
Other noncurrent assets (Notes 6, 11 and 22)	**100,939,184**	172,672,199
Total Noncurrent Assets	**616,068,598**	937,018,069
TOTAL ASSETS	**₱1,958,375,020**	₱1,679,462,711
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 12, 15 and 23)	**₱576,079,888**	₱347,280,040
Short-term loans payable (Notes 13 and 23)	**38,099,439**	37,317,100
Income tax payable	**8,127,171**	2,478,800
Total Current Liabilities	**622,306,498**	387,075,940
Noncurrent Liabilities		
Deferred tax liabilities - net (Note 20)	**83,098,699**	63,251,300
Deposits for future stock subscriptions (Note 14)	**36,750,000**	36,750,000
Retirement benefits liability (Note 19)	**11,502,653**	15,878,023
Loans payable – net of current portion (Note 13)	**6,505,437**	6,181,380
Accrued rent and rental deposits (Note 22)	**12,768,998**	2,572,218
Other noncurrent liabilities (Note 13)	**20,702,431**	–
Total Noncurrent Liabilities	**171,328,218**	124,632,921
Total Liabilities	**793,634,716**	511,708,861
Equity		
Capital stock (Note 14)	**324,620,008**	324,620,008
Additional paid-in capital (Note 14)	**583,036,164**	583,036,164
Cumulative translation adjustments (Note 14)	**(37,374,521)**	(26,426,385)
Treasury stock (Note 14)	**(26,677,255)**	(26,677,255)
Equity reserve (Note 14)	**(49,230,618)**	(49,230,618)
Stock options outstanding (Note 15)	**62,264,707**	57,233,922
Other comprehensive income (Note 19)	**(2,602,463)**	(4,107,935)
Retained earnings (Note 1)	**213,823,935**	239,405,913
Equity attributable to equity holders of the Parent Company	**1,067,859,957**	1,097,853,814
Non-controlling interests (Note 14)	**96,880,347**	69,900,036
Total Equity	**1,164,740,304**	1,167,753,850
TOTAL LIABILITIES AND EQUITY	**₱1,958,375,020**	₱1,679,462,711

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUES			
Commission income (Note 25)	**₱898,944,610**	₱917,911,475	₱208,934,957
Sale of licenses	**54,793,701**	12,533,685	30,043,537
Service fees and software solutions (Note 25)	**175,862,477**	31,503,014	20,904,221
	1,129,600,788	961,948,174	259,882,715
COST OF SERVICES (Note 16)	**(702,880,193)**	(639,489,735)	(201,756,784)
GROSS INCOME (LOSS)	**426,720,595**	322,458,439	58,125,931
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**(367,958,006)**	(260,050,261)	(129,039,215)
OTHER INCOME (CHARGES)			
Interest expense (Notes 13 and 19)	**(10,278,052)**	(12,972,515)	(17,050,936)
Rent income	**18,614,460**	–	–
Interest and dividend income (Notes 4 and 15)	**14,565,402**	10,270,847	2,645,094
Derivative gain (loss) (Notes 11, 23 and 24)	**(13,275,215)**	47,650,584	10,007,035
Foreign exchange gain	**14,946,653**	349,742	6,916,527
Mark-to-market gain (loss) of financial assets at FVPL (Note 6)	**(1,097,118)**	3,074,343	(2,209,836)
Share in profit of associates (Note 10)	**432,739**	5,972,141	6,038,161
Reversal of impairment of receivables and project advances (Notes 5 and 11)	**–**	299,346	14,792,794
Others (Notes 17 and 22)	**240,046**	1,948,726	8,232,665
	24,148,915	56,593,214	29,371,504
INCOME (LOSS) BEFORE INCOME TAX	**82,911,504**	119,001,392	(41,541,780)
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 20)	**(20,573,730)**	25,764,235	4,106,661
INCOME (LOSS) FROM CONTINUING OPERATIONS	**62,337,774**	144,765,627	(37,435,119)
DEEMED DISPOSAL OF A SUBSIDIARY (Note 10)			
Loss from deemed disposal	**–**	–	(2,460,690)
Gain on deemed disposal	**–**	–	63,503,875
NET INCOME FROM DEEMED DISPOSAL OF A SUBSIDIARY	**–**	–	61,043,185
NET INCOME	**₱62,337,774**	₱144,765,627	₱23,608,066
Attributable To			
Equity holders of the Parent	**₱33,283,676**	₱131,899,068	₱19,946,685
Non-controlling Interests	**29,054,098**	12,866,559	3,661,381
	₱62,337,774	₱144,765,627	₱23,608,066
Earnings per share for net income attributable to the equity holders of the parent (Note 21)			
Basic	**₱0.097**	**₱0.460**	₱0.081
Diluted	**0.099**	**0.440**	0.078
Earnings per share from continuing operations attributable to equity holders of the parent (Note 21)			
Basic	**₱0.097**	**₱0.460**	(₱0.171)
Diluted	**0.099**	**0.440**	(0.164)
Earnings per share from deemed disposal (Note 9)			
Basic	**₱–**	**₱–**	₱0.252
Diluted	**–**	**–**	0.242

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱62,337,774**	₱144,765,627	₱23,608,066
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement loss (gain) on defined benefit plans (Note 19)	**2,819,314**	(3,884,221)	472,700
Unrealized gain from changes in fair value of financial assets at FVOCI	**782,000**	–	–
Income tax effect	**(845,794)**	(202,612)	(142,491)
	2,755,520	(4,086,833)	330,209
Item to be reclassified to profit or loss in subsequent periods -			
Cumulative translation adjustment (Note 14)	**(13,627,254)**	(1,029,873)	(6,376,674)
Total other comprehensive loss	**(10,871,734)**	(5,116,706)	(6,046,465)
TOTAL COMPREHENSIVE INCOME	**₱51,466,040**	₱139,648,921	₱17,561,601
Attributable To			
Equity holders of the Parent Company	**₱23,841,012**	₱126,770,553	₱14,808,633
Non-controlling interests	**27,625,028**	12,878,368	2,752,968
	₱51,466,040	₱139,648,921	₱17,561,601

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Equity Attributable to Equity Holders of the Parent Company (Notes 2, 14 and 19)										
	Capital Stock (Note 14)	Additional Paid-in Capital (Note 1)	Stock Options Outstanding (Note 15)	Equity Reserve (Note 14)	Cumulative Translation Adjustment (Note 14)	Other Comprehensive Income (Note 19)	Retained Earnings (Deficit)	Treasury Stock (Note 14)	Total	Non-controlling Interests	Total
Balances at January 1, 2018, as previously presented	**₱324,620,008**	**₱583,036,164**	**₱57,233,922**	**(₱49,230,618)**	**(₱26,426,385)**	**(₱4,107,935)**	**₱239,405,913**	**(₱26,677,255)**	**₱1,097,853,814**	**₱69,900,036**	**₱1,167,753,850**
Effect of Adoption of PFRS 9 (Note 2)	–	–	–	–	–	–	**(9,326,457)**	–	**(9,326,457)**	–	**(9,326,457)**
Balances at January 1, 2018, as restated	**324,620,008**	**583,036,164**	**57,233,922**	**(49,230,618)**	**(26,426,385)**	**(4,107,935)**	**230,079,456**	**(26,677,255)**	**1,088,527,357**	**69,900,036**	**1,158,427,393**
Net income for the year	–	–	–	–	–	–	**33,283,676**	–	**33,283,676**	**29,054,098**	**62,337,774**
Remeasurement of defined benefit plan	–	–	–	–	–	**1,119,477**	–	–	**1,119,477**	**854,043**	**1,973,520**
Unrealized gain from changes in fair value of financial assets at FVOCI	–	–	–	–	–	**385,995**	–	–	**385,995**	**396,005**	**782,000**
Cumulative translation adjustment	–	–	–	–	**(10,948,136)**	–	–	–	**(10,948,136)**	**(2,679,118)**	**(13,627,254)**
Total comprehensive income (loss)	–	–	–	–	**(10,948,136)**	**1,505,472**	**33,283,676**	–	**23,841,012**	**27,625,028**	**51,466,040**
Adjustment on exercised stock option (Note 15)	–	–	**5,030,785**	–	–	–	**(4,343,272)**	–	**687,513**	–	**687,513**
Property dividend declaration (Note 14)	–	–	–	–	–	–	**(45,195,925)**	–	**(45,195,925)**	**(3,032,578)**	**(48,228,503)**
Cash dividend	–	–	–	–	–	–	–	–	–	**(5,064,000)**	**(5,064,000)**
Non-controlling interest on issuance of capital stock of an associate	–	–	–	–	–	–	–	–	–	**7,451,861**	**7,451,861**
Balances at December 31, 2018	**₱324,620,008**	**₱583,036,164**	**₱62,264,707**	**(₱49,230,618)**	**(₱37,374,521)**	**(₱2,602,463)**	**₱213,823,935**	**(₱26,677,255)**	**₱1,067,859,957**	**₱96,880,347**	**₱1,164,740,304**
Balances at January 1, 2017	₱249,592,313	₱727,363,138	₱35,618,422	(₱49,230,618)	(₱25,568,089)	₱162,284	(₱583,897,993)	(₱21,886,521)	₱332,152,936	₱49,325,329	₱381,478,265
Net income for the year	–	–	–	–	–	–	131,899,068	–	131,899,068	12,866,559	144,765,627
Remeasurement of defined benefit plan	–	–	–	–	–	(4,270,219)	–	–	(4,270,219)	183,386	(4,086,833)
Cumulative translation adjustment	–	–	–	–	(858,296)	–	–	–	(858,296)	(171,577)	(1,029,873)
Total comprehensive income (loss)	–	–	–	–	(858,296)	(4,270,219)	131,899,068	–	126,770,553	12,878,368	139,648,921
Equity restructuring (Note 14)	–	(691,343,639)	–	–	–	–	691,404,838	–	61,199	–	61,199
Issuance of:											
Capital Stock (Note 14)	74,877,695	546,607,165	–	–	–	–	–	–	621,484,860	7,696,339	629,181,199
Stock options (Note 15)	150,000	409,500	(34,500)	–	–	–	–	–	525,000	–	525,000
Stock options granted (Note 15)	–	–	21,650,000	–	–	–	–	–	21,650,000	–	21,650,000
Reissuance of treasury stock (Note 14)	–	–	–	–	–	–	–	(4,790,734)	(4,790,734)	–	(4,790,734)
Balances at December 31, 2017	₱324,620,008	₱583,036,164	₱57,233,922	(₱49,230,618)	(₱26,426,385)	(₱4,107,935)	₱239,405,913	(₱26,677,255)	₱1,097,853,814	₱69,900,036	₱1,167,753,850

	Equity Attributable to Equity Holders of the Parent Company (Notes 2, 14 and 19)										
	Capital Stock (Note 14)	Additional Paid-in Capital (Note 1)	Stock Options Outstanding (Note 15)	Equity Reserve (Note 14)	Cumulative Translation Adjustment (Note 14)	Other Comprehensive Income (Note 19)	Retained Earnings (Deficit)	Treasury Stock (Note 14)	Total	Non-controlling Interests	Total
Balances at January 1, 2016	₱249,592,313	₱712,920,066	₱30,811,494	(₱46,437,982)	(₱20,253,769)	(₱13,984)	(₱603,844,678)	(₱17,211,975)	₱305,561,485	₱42,355,423	₱347,916,908
Net income for the year	–	–	–	–	–	–	19,946,685	–	19,946,685	3,661,381	23,608,066
Remeasurement of defined benefit plan	–	–	–	–	–	176,268	–	–	176,268	153,941	330,209
Cumulative translation adjustment	–	–	–	–	(5,314,320)	–	–	–	(5,314,320)	(1,062,354)	(6,376,674)
Total comprehensive income (loss)	–	–	–	–	(5,314,320)	176,268	19,946,685	–	14,808,633	2,752,968	17,561,601
Stock Options Granted	–	–	19,250,000	–	–	–	–	–	19,250,000	–	19,250,000
Reissuance of treasury stocks	–	–	–	–	–	–	–	(4,674,546)	(4,674,546)	–	(4,674,546)
Reversal of exercised stock options	–	14,443,072	(14,443,072)	–	–	–	–	–	–	–	–
Changes in non-controlling interest (Note 14)	–	–	–	(2,792,636)	–	–	–	–	(2,792,636)	4,216,938	1,424,302
Balances at December 31, 2016	₱249,592,313	₱727,363,138	₱35,618,422	(₱49,230,618)	(₱25,568,089)	₱162,284	(₱583,897,993)	(₱21,886,521)	₱332,152,936	₱49,325,329	₱381,478,265

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax from continuing operations	**₱82,911,504**	₱119,001,392	(₱41,541,780)
Income before tax from discontinued operations	**–**	–	61,043,185
Income before tax	**82,911,504**	119,001,392	19,501,405
Adjustments for:			
Depreciation and amortization (Notes 8, 9, 16 and 17)	**81,528,747**	59,115,439	24,623,607
Provision for (reversal of) impairment assets (Notes 5 and 10)	**26,791,388**	2,009,546	(14,792,794)
Interest income and dividend income	**(14,194,168)**	(10,270,847)	(2,645,094)
Derivative loss (gain) (Notes 10, 23 and 24)	**13,275,215**	(47,650,584)	(10,007,035)
Interest expense (Notes 13 and 20)	**10,062,310**	12,972,515	17,050,936
Unrealized foreign exchange loss (gain) – net	**(9,945,617)**	20,706	(6,253,835)
Mark to market loss on financial assets at FVPL (Note 6)	**(675,119)**	907,315	2,209,836
Share in profit of an associate (Note 10)	**(432,739)**	(5,972,141)	(6,038,161)
Gain on deemed disposal (Note 10)	**–**	–	(63,503,875)
Working capital adjustments:			
Increase in:			
Receivables and due from related parties	**(584,772,732)**	(118,356,267)	(42,889,023)
Other current assets	**(65,582,766)**	(94,172,114)	(57,665,003)
Increase (decrease) in:			
Accounts payable and other current liabilities	**248,240,173**	75,687,836	165,348,257
Retirement benefits liability	**(4,040,738)**	1,223,774	1,727,868
Accrued rent and rental deposits	**10,196,780**	2,572,218	–
Cash from (used in) operations	**(206,637,762)**	(2,911,212)	26,667,089
Income taxes paid	**(16,758,198)**	(10,815,142)	(1,507,976)
Interest received	**420,508**	3,943,224	393,792
Net cash flows provided by (used in) operating activities	**(222,975,452)**	(9,783,130)	25,552,905
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment, net of assets acquired through business combination (Note 9)	**(21,365,322)**	(174,678,168)	(7,458,387)
Decrease (increase) in:			
Other noncurrent assets	**13,599,759**	(130,074,348)	(43,600,659)
Financial assets at fair value through profit or loss	**(3,788,658)**	(15,722,589)	549,591
Proceeds from sale of property and equipment	**2,242,301**	–	177,087
Contribution to the fund	**–**	(1,000,000)	–
Net cash flows used in investing activities	**(9,311,920)**	(321,475,105)	(50,332,368)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of stocks	**7,451,861**	629,740,699	–
Availment of loans payable (Note 13)	**1,106,395**	4,442,288	3,285,463
Deposits for future stock subscription (Note 14)	**–**	–	36,750,000
Stock options granted (Note 15)	**–**	21,615,500	19,250,000
Payments of:			
Dividends	**(10,000,000)**	–	–
Interest (Note 13)	**(1,598,714)**	(4,146,636)	(32,596,644)
Loans payable (Note 13)	**–**	(13,253,338)	(1,500,943)
Acquisition of treasury shares (Note 14)	**–**	(4,790,734)	(4,674,546)
Net cash flows from financing activities	**(3,040,458)**	633,607,779	20,513,330

(Forward)

	Years Ended December 31		
	2018	2017	2016
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱235,327,830)**	₱302,349,544	(₱4,266,133)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	106,176	160,678
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**331,738,040**	29,282,320	33,387,775
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱96,410,210**	₱331,738,040	₱29,282,320

See accompanying Notes to Consolidated Financial Statements.

1. **General Information**

Corporate Information

DFNN, Inc. (DFNN or the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 14, 1999 with a corporate life of 50 years. The Parent Company and its subsidiaries (collectively referred to as "the Company") are engaged in the provision of information technology services to financial institutions and gaming companies.

DFNN is a leading IT solutions provider and systems integrator, enabling its customers to complete in an increasingly technology dependent environment since 1999. Backed by its domain expertise in financial services, the company has become a propriety software technology, wireless and secure solutions partner of leading corporations and institutions.

DFNN was one of the pioneer providers of access to internet-based stock market trading systems and other IT Value Added Services (VAS) in Southeast Asia and Automated Stock Exchange trading platforms. The Company developed a proprietary order routing system technology, which allows stock brokerage firms to accept orders online and access real-time stock process as well as to execute these trades via the internet. Based on this core secure proprietary technology, the Company has developed other secure wireless, and internet applications which are now being used as secure data transactions processors of corporations to alert workforce, deliver services, including sales automation, marketing, customer support, helpdesk, online inquiries and payments, distribution, logistics, and other processes that require secure high volume processing. An integral part of DFNN's services is to help companies integrate technology, business processes and people while they focus on their core business and their customers. Business benefit from DFNN solutions by integrating their processes with technologies that leverage their existing IT investments, manpower, and newer applications that may need integrations with mature systems.

The Company continues to develop various interactive mobile, wide area network, and wireless solutions for operations requiring effective and 24/7 secure connectivity and operations either primarily or through its subsidiaries, iWave, Inc. (iWave) DFNN also provides proprietary corporate solutions designed to maximize client's existing computer infrastructure, which can be integrated with various front and back office systems. DFNN's wireless-based engines allow users to securely send, receive, and access data through the internet, desktop PCs, laptops, personal communication devices (PCD's) cellular phones, and other mobile computing devices. DFNN continues to develop, enhance and advance with technology including other wireless technologies such as, General Packet Radio Service (GPRS), Wireless Fidelity (Wi-fi), WIMAX and Nth Generation Wireless protocols (4G and beyond).

DFNN Gaming Solutions

DFNN has found that many of its developed technologies and project management experience deployed at its various financial institutional clients are also capable of being customized and used in a gaming environment. Both financial and gaming industries require secure environments in which to operate. With the advent of the opening of the gaming industry, both land based and electronic in Asia, DFNN has created a division to cater to the legal Emerging Asian Gaming jurisdictions.

DFNN's gaming solutions span the capability of wireless gaming, game creation, and gaming related project management and software outsourcing. DFNN is willing to cater its gaming products to the needed business processes of legal gaming entities operating in legal gaming jurisdictions.

DFNN's powerful combination of game content and technology has resulted in revenue-enhancing solutions for its customers. DFNN is currently delivering innovative new game content through wide array of products, systems, and solutions. Together with its customers, DFNN continue to transform the quality and services of our products, systems, and solutions to support and expand sales. Now, and in the future, DFNN will continue to invest in its innovative gaming technologies to deliver exciting, new content through leading technology to maximize the gaming revenue stream.

DFNN's mission is to provide authorized jurisdictions with the means to grow and prosper independently, by developing solutions that help clients in utilizing various channels successfully emphasizing Internet, mobile and interactive technologies. DFNN see client satisfaction as the source of employee, shareholder, supplier, and community benefits and will strive to exceed client expectations through continuous improvement in quality, flexibility, service, and productivity.

The registered business address of the Parent Company is 3rd Floor, Bonifacio Technology Center, 31st Street corner 2nd Avenue, E-square IT Park – SEZ, Bonifacio Global City, Taguig City. In February 2019, the Parent Company transferred its office at L2-L5 14th Floor Philippine Stock Exchange Tower, 5th Avenue corner 28th Street Bonifacio Global City, Taguig City.

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 25, 2019.

Status of Operations of DFNN

The Company has incurred significant costs and invested substantial funds towards the acquisition of a singed and executed contract (the Project) with the Philippine Charity Sweepstakes Office (PCSO), as well as the development and delivery of work under this contract. This project was unilaterally suspended by PCSO, despite the fact that the Company had already fulfilled all its deliverables under the contract.

The Parent Company filed for a civil case entitled and "Application for Interim Measure of Protection in Aid of Arbitration – Preliminary Injunction with Application for Temporary Order for Protection" and PCSO filed with the Regional Trial Court its Notice of Appeal. On March 21, 2013, the Parent Company received a resolution from the Court of Appeals granting DFNN's Motion to Dismiss and dismissing the Appeal filed by PCSO.

The Parent Company received a copy of the Arbitral Award dated May 21, 2015 in relation to the arbitration proceedings mandated by the Equipment Lease Agreement (ELA) dated April 9, 2003 between the Parent Company and the PCSO.

In its Arbitral Award, the Arbitration Panel ruled that PCSO illegally and improperly terminated the ELA with the Company. In this regard, PCSO was ordered to pay the Parent Company the amount of ₱27,000,000 as liquidated damages, in accordance with the terms of the ELA.

A Petition for Correction of Domestic Arbitral Award was instituted in the Regional Trial Court of Makati (the Court) to seek correction of the computation of damages awarded to the Parent Company in the arbitral award dated May 21, 2015.

The Parent Company received the Decision dated February 17, 2016 issued by the Court in relation to the Petition for Correction (the "Petition") filed by the Parent Company. In its Decision, the Court granted the Petition and ordered by correction of the Arbitral Award to ₱310,095,150 plus 6% interest from the date of finality of the Decision until final satisfaction thereof by PCSO in accordance with computation for liquidated damages provided under Section 13.2 of the ELA (see Note 25).

An Order dated May 18, 2016 was issued by the Court, in relations to its Petition for Correction of Arbitral Award with the PCSO. In the Order, the court denied the PCSO's Motion for Reconsideration for lack of merit. The said Order stated that, "The Court, after having read the parties' respective pleadings does not find any justifiable reason to overturn the assailed Decision, much less issue a different ruling. When the Court ruled for the petitioner, it was after a thorough perusal of the attendant circumstances, taking into consideration the facts and applicable law."

Meanwhile, on January 23, 2017, DFNN filed before the Commission on Audit ("COA") a Petition for the Enforcement of its money claims against PCSO (i.e. P310,095,150 plus 6% interest) considering the immediate executory nature of the RTC Makati Decision. However, to date, the COA has yet to resolve the Petition.

On January 23, 2017, the Company filed a petition for enforcement of its money claim against PCSO with the Commission on Audit (COA). The COA gave PCSO until February 23, 2017 to file its Answer to the Company's petition. However, PCSO failed to file its Answer within the prescribed period. On March 6, 2017, PCSO filed a Motion to Admit Attached Answer with the COA. As at April 25, 2019, the petition remains pending with the COA.

In a resolution dated February 20, 2017, the Supreme Court, in the case entitled "PCSO vs. DFNN, Inc." with the case number G.R. No. 206611, granted the Motion to Withdraw Petition filed by the PCSO and declared the instant case closed and terminated. The Supreme Court likewise ordered the issuance of an Entry of Judgment finally disposing of the case.

Thereafter, PCSO appealed the Decision of the RTC Makati City to the Court of Appeals, which then affirmed the ruling of the lower court. PCSO then elevated the matter to the Supreme Court assailing the ruling of the Court of Appeals. As of date, the Supreme Court has yet to resolve the case.

Equity Restructuring of DFNN and Inter-Active Entertainment Solution Technologies, Inc, (IEST)
On January 12, 2017, the BOD of DFNN approved the equity restructuring to wipe out the deficit of the Company as of December 31, 2017 amounting to ₱691,343,639. Application of such has been submitted to the SEC and was approved on July 5, 2017 (see Note 14).

On August 2, 2018, the BOD of IEST approved the equity restructuring to partially wipe out IEST's deficit by ₱63,025,672. The application has been submitted to the SEC and was approved on December 14, 2018 (see Note 14).

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and derivative asset which has been measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Basis of Consolidated and Non-controlling Interests
The Consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to as the Company) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018. The financial statements of the subsidiaries are prepared for the same period reporting period as the Parent Company using consistent accounting policies.

The Company controls an investee if and only if the Company has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affects its returns

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of financial position and consolidated statements of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-company assets and liabilities, equity income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Non-controlling interest represents the portion of profit or loss and OCI and the net assets not held by the Parent Company and are represented separately in the consolidated statement of financial position and consolidated statement of changes in equity (capital deficiency), separately from equity attributable to equity holders of the Parent Company.

The following is a list of subsidiaries which the Parent Company controls:

		Percentage of Ownership		
Subsidiaries	Nature of Business	**2018**	2017	2016
IEST, Inc.	Incorporated in the Philippines as an information technology solutions provider in the Philippines which provides betting and gaming technologies to the Philippine Amusement and Gaming Corporation (PAGCOR).	**94.72%** (68.32% direct ownership and 26.4% indirect ownership through PGI).	94.72%	94.72%

Subsidiaries	Nature of Business	Percentage of Ownership **2018**	2017	2016
PGI Systems PTE Ltd. (formerly Pacific Gaming Investments Pte. Ltd) (PGI)	Incorporated in Singapore to engage in the development and marketing of application software and the provision of internet- based, value-added services and other related consultancy.	**83.34%**	83.34%	83.34%
iWave, Inc.	Incorporated in the Philippines to provide turnkey solutions to the information system requirements of retail finance institutions with high volume transactions.	**49.36%**	58.07%	55.94%

Accounting for loss of control and discontinued operations on deemed disposal
The Company accounts for loss of control of a subsidiary other than by actual disposal, such as when a subsidiary issues shares to a third party, as a "deemed disposal". A deemed disposal that results in the loss of control of a subsidiary is accounted for as a regular disposal.

If the Company loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value at the date when control is lost.

The fair value of any investment that it retains at the date control is lost is accounted for as the cost on initial recognition of an investment in an associate.

Where a parent loses control of a subsidiary, the former subsidiary becomes an associate accounted for under the equity method, the Company's interest in the investee is reported using the equity method from the date on which control is lost. Consolidation continues until control is lost, and equity accounting starts only from the date on which an entity becomes an associate.

When the entity represents a segment, a separate major line of business or geographical area of operations, it is presented as discontinued operations on deemed disposal. Discontinued operations on deemed disposal are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in profit or loss.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new pronouncements which became effective on January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's consolidated financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Entities are required to apply the amendments to: (a) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (b) share-based payment transactions granted on or after January 1, 2018 and to (c) modifications of share-based payments that occurred on or after January 1, 2018.

Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

Adoption of the amendments did not have any impact on the Company's consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9, *Financial Instruments*, replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Company applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. Upon adoption of PFRS 9, the Company had the following required or elected reclassifications:

  As at January 1, 2018

			PFRS 9 measurement category		
		Balance as at December 31, 2017	Amortized Cost	Fair value through profit or loss (FVPL)	Fair value through Other Comprehensive Income (FVOCI)
PAS 39 measurement category					
Loans and receivables					
Cash and cash equivalents	i	₱329,690,924	₱329,690,924	₱–	₱–
Receivables	i	458,826,476		–	–
Advances to KGI	i	294,259,236	–	294,259,236	–
Financial assets at FVPL	ii	24,570,604	–	513,612,906	–
Available for sale	ii	90,000	–	–	90,000
		₱1,107,437,240	₱329,690,924	₱807,872,142	₱90,000

Below is the impact on asset and equity:

	December 31, 2017, as previously presented	Adjustment	January 1, 2018, as restated
Asset:			
Receivables	₱458,826,476	(₱7,118,836)	₱451,707,640
Deferred tax asset	25,783,021	2,135,651	27,918,672
Equity -			
Retained earnings	106,164,458	(4,983,186)	101,181,272

Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through OCI (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of the initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

i. The Company's cash and receivables amounting to ₱788,517,400 as at January 1, 2018, previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.
ii. Receivables from Kirschner previously classified as loans and receivables was reclassified to financial asset at FVPL since it did not meet the SPPI test.

iii. Quoted equity securities classified as financial assets through FVPL as at December 31, 2017 remain to be classified and measured at FVPL.

iv. Equity instruments in securities previously classified as "AFS financial assets" under "Other noncurrent assets" account as at December 31, 2017 was reclassified and measured as "Equity instruments designated at FVOCI" beginning January 1, 2018. The Company elected to classify irrevocably its equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future.

There were no changes in classification and measurement for the Company's financial liabilities.

Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets. The adoption of ECL approach resulted to an increase of allowance for impairment amounting to ₱7,118,636 and the recognition of the related deferred tax asset amounting to ₱2,135,651 in the consolidated financial statements as at January 1, 2018.

- Amendments to PFRS 4, *Insurance Contract Applying PFRS 9, Financial Instruments with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Company since the Company has no activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:
  a. Identify the contracts with a customer
  b. Identify the performance obligations in the contract
  c. Determine the transaction price
  d. Allocate the transaction price to the performance obligations in the contract
  e. Recognize revenue as the entity satisfies a performance obligation.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Company adopted PFRS 15 using the modified retrospective approach with an initial application date of January 1, 2018. The adoption of PFRS 15 has no significant impact on the Company's consolidated financial statements. This is generally consistent with the timing and amounts of revenue the Company recognized in accordance with the previous standard, PAS 18.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)*

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  The amendments have no significant impact on the Company's consolidated financial statements.

- Amendments to PAS 40, Investment Property, Transfers of Investment Property

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments have no impact on the Company's consolidated financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Company's current practice is in line with the clarifications issued, the adoption of this standard does not have any effect on the Company's consolidated financial statements.

Standards Issued but Not Yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Company.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

<u>Current versus Noncurrent Classification</u>
The Company presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:
- It is expected to be realized or intended to be sold or consumed in the normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Financial Instruments – Initial Recognition and Subsequent Measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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 Company; 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.

Initial recognition, Subsequent Measurement and Impairment Upon the Adoption of PFRS 9 starting January 1, 2018

Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'SPPI' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets with in a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- *Financial assets at amortized cost (debt instruments).* This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:
  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

  Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in consolidated statement of income when the asset is derecognized, modified or impaired.

  The Company's financial assets at amortized cost includes cash and receivables.

- *Financial assets at FVOCI (debt instruments)*. The Company measures debt instruments at FVOCI if both of the following conditions are met:
  - The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

  The Company has no financial assets classified as FVOCI with recycling to profit or loss.

- *Financial assets designated at FVOCI (equity instruments).* Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

  Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designed at FVOCI are not subject to impairment assessment.

  As at December 31, 2018, the Company's financial assets at FVOCI consists of quoted equity securities amounting to P90,000, which is included as part of "Other non-current assets" in the consolidated financial statements.

- *Financial assets at FVPL.* Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at FVPL are carried in consolidated statement of statement of financial position at fair value with net changes in fair value recognized in consolidated statement of statement of comprehensive income.

  A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

  A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

  As at December 31, 2018, the Company's financial assets at FVPL consist of equity shares held for trading purposes and the Company's receivables from KGI.

Impairment of Financial Assets. The Company recognizes an allowance for expected credit losses (ELCs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Initial recognition, Subsequent Measurement and Impairment Prior to the Adoption of PFRS 9

a. Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and receivables which are classified as loans and receivables; quoted equity shares and derivative asset which are classified as financial assets at FVPL; and AFS financial asset which is included as part of "Other noncurrent assets".

The Company has no HTM investments as at December 31, 2017.

Subsequent Measurement. For purposes of subsequent measurements financial assets are classified in the following categories:

- *Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39, Financial Instruments: Recognition and Measurement. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value.

  Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

- *Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in consolidated statement of comprehensive income. The losses arising from impairment are recognized in interest expense for loans and in costs of services or general and administrative expenses for receivables.

- *AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets are subsequently measured at fair market value. Unrealized gains and losses arising from changes in fair market value of AFS financial asset are reported under "Unrealized gain (loss) on AFS financial assets" in the equity section of the consolidated statement of financial position until the financial asset is derecognized or as the financial asset is determined to be impaired.

  As at December 31, 2017, the Company's AFS financial assets consist of quoted equity securities amounting to ₱90,000 which is included as part of "Other noncurrent assets" in the consolidated statements of financial position.

Impairment of Financial Assets. The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest expense in the profit and loss.

Initial Recognition and Subsequent Measurement Prior to and Upon Adoption of PFRS 9

a. Financial Liabilities

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and other current liabilities (excluding statutory payables), loans payable which are classified under loans and borrowings. The Company has no financial liabilities at FVPL as at December 31, 2017.

Subsequent Measurement. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate amortization process.

b. 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 primarily derecognized (i.e. removed from consolidated statement of statement of financial position) when:

- The Company's rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

c. Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in consolidated statement of statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

d. Derivative Financial Instrument

The Company has a derivative financial instrument from a convertible financial asset. Such derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly from profit or loss.

Fair Value Measurement

The Company measures financial instruments such as financial asset at FVPL and derivative at fair value at each reporting date. The Company also discloses the fair value of financial instruments measured at amortized cost.

Fair value is the estimated 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 the most advantageous market must be accessible by the Company.

The fair value of an asset or a 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in consolidated statement of financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company 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.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration classified as equity is not to be remeasured and its subsequent settlement is accounted for within equity. Other contingent consideration that is within the scope of PFRS 9, *Financial Instruments*, shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with that PFRS.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortization in the case of intangible assets with finite lives, and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

License with PAGCOR. The license with PAGCOR is amortized using the straight-line method over 20 years until 2033.

Software license. The costs of obtaining the software license are capitalized as intangible asset if such costs are not integral part of the related hardware. Software license is initially measured at cost. Subsequently, this is measured at cost less accumulated amortization and allowance for impairment losses, if any. Amortization of software license is computed using the straight-line method over a period of 5 to 12 years.

Patent. In 2018, iWave filed an application for registration of patent with the Intellectual Property Office (IP Office). As of December 31, 2018, the application is still pending with the IP Office.

Investment in Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Company's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Company's share of the results of operations of the associates. Any change in OCI of the associates is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associates, the Company recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share of profit or loss of an associates is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associates.

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

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associates. At each reporting date, the Company determines whether there is objective evidence that the investment in the associates is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value, and then recognizes the loss as "Share of profit of associates" in the consolidated statement of income.

Upon loss of significant influence over the associates, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and impairment loss, if any. The initial cost of an item of property and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition. Such cost includes the cost of replacing the part of such property and equipment when the cost incurred meets the recognition criteria.

Subsequent costs are capitalized as part of property and equipment account only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. All other repairs and maintenance are charged to consolidated statement of comprehensive income as incurred. Depreciation is computed using the straight-line basis over the estimated useful life of all property and equipment as follows:

Computer equipment	5 years
Project gaming equipment	5 years
Office furniture, fixtures and equipment	5 years
Leasehold improvements	15 years or the term of lease, whichever is shorter

The property and equipment's residual values, useful lives and depreciation method are reviewed and adjusted prospectively, if appropriate, at each reporting period.

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

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

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating units exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining the fair value less cost to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or the fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year. Any impairment loss is recognized in consolidated statement of comprehensive income in the expense category consistent with the function of the impaired asset.

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

<u>Deposits for Future Stock Subscription</u>
The deposits for future stock subscription account represents funds received by the Company which it records as such with a view to applying the same as payment for additional issuance of shares or increase in capital stock. Deposits for future stock subscription is reported as part of consolidated statement of statement of changes in equity and as a separate item in the equity section of consolidated statement of statement of financial position, if the following criteria are met, otherwise, this is classified as noncurrent liability:

- the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- there is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by the Company);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC on or before the financial reporting date.

<u>Equity</u>
Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares are shown as a deduction from equity, net of any tax. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

Additional Paid-in Capital. When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock. These are the Parent Company's own equity instruments that are held by subsidiaries and are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Other Comprehensive Income (OCI). OCI comprises items of income and expense, including reclassification adjustments that are not recognized in profit or loss as required or permitted by other PFRS.

Cumulative Translation Adjustments. The financial statements of the consolidated subsidiaries and associates with functional currency other than peso are translated to peso as follows:
- Assets and liabilities using the spot rate of exchange prevailing at the reporting date;
- Components of equity using historical exchange rates; and
- Income and expenses using the monthly weighted average exchange rate.

The exchange differences arising on the translation are recognized as OCI. Upon disposal of any of these subsidiaries and associates, the deferred cumulative amount recognized in OCI relating to that particular subsidiary or associate will be recognized in profit or loss.

Retained Earnings (Deficit). Retained earnings *(*deficit) includes income (loss) attributable to the Parent Company's equity holders. Retained earnings (deficit) may also include effect of changes in accounting policies as may be required by the standard's transitional provisions.

Share-based Payment

Certain officers, directors, employees and consultants of the Company receive remuneration in the form of share-based payments, whereby equity instruments (or "equity-settled transactions") are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using an appropriate valuation model. The amount is fixed at grant date.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each financial reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Revenue from Contracts with Customers
Upon adoption of PFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Company assesses its revenue components against specific criteria to be determined since it is the primary obligor in all the revenue arrangements.

Upon effectivity of PFRS 15, the following revenue recognition criteria have been adopted by the Company:

Commission Income. Commission income is recognized at a point in time based on pre-agreed rates as stated in existing contracts.

Sale of Licenses. Sale of licenses is recognized at a point in time when the right to use the software is approved through the license agreement.

Service Fees and Software Solutions. Revenue from providing internet services, maintenance and technical services is recognized at a point in time when the service is performed with reference to the agreement for the period covered. Revenue from developing software solutions is recognized at a point in time by reference to the percentage of completion determined based on surveys of work performed.

The following revenue streams are outside the scope of PFRS 15:

Interest Income. Interest is recognized as the interest accrues taking into account the effective yield on the asset.

Rental Income. Revenue is accounted for on a straight-line basis over the lease term.

Prior to adoption of PFRS 15, revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and sales taxes, as applicable. The Company has concluded that it is acting as principal in all of its revenue arrangements, except for the commission income it receives from gaming revenue, since it is the primary obligor, has pricing latitude and is also exposed to credit risks.

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

Commission Income. Commission income is recognized based on pre-agreed rates as stated in existing contracts.

Sale of Licenses. Sale of licenses is recognized when the right to use the software is approved through the license agreement.

Service Fees and Software Solutions. Revenue from providing internet services, maintenance and technical services is recognized when the service is performed with reference to the agreement for the period covered. Revenue from developing software solutions is recognized by reference to the percentage of completion determined based on surveys of work performed.

Interest Income. Interest is recognized as the interest accrues taking into account the effective yield on the asset.

Rental Income. Revenue is accounted for on a straight-line basis over the lease term.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. General and administrative expenses, interest and bank charges and other expenses are recognized in consolidated statement of comprehensive income in the period these are incurred.

Retirement Benefit Costs

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in consolidated statement of comprehensive income.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a Lessor. Leases where the Company retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Operating lease receipts from lessees are recognized as income in profit or loss on a straight-line basis over the lease term.

Company as a Lessee. 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 expense in consolidated statement of comprehensive income on a straight-line basis over the lease term.

Foreign Currency-denominated Transactions and Translations

The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. Each entity in the Company determines its own functional currency and items included in the consolidated financial statements of each entity are carried using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currency of PGI is the United States dollar. As at the reporting date, assets and liabilities of PGI are translated into the functional and presentation currency of the Parent Company, using the closing exchange rate at the reporting date and the items in the consolidated statement of comprehensive income are translated at weighted average exchange rates. The exchange rate differences arising from translation adjustments are reported as OCI in the consolidated statement of comprehensive income and taken directly as a separate component of equity as "Cumulative translation adjustments".

Upon disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

Earnings (Loss) Per Share Attributable to the Equity Holders of the Parent Company
Basic earnings (loss) per share is computed by dividing net income (loss) for the year attributable to ordinary equity holders of the Parent Company and total comprehensive income (loss) for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, excluding treasury shares, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts is computed by dividing the net income (loss) for the year attributable to equity holders of the Parent Company and total comprehensive income (loss) for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding, excluding treasury shares, during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

Taxes
Current Tax. Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date where the Company operates and generates taxable income.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused net operating loss carryover (NOLCO) and unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of unused excess MCIT and NOLCO can be utilized. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Value Added Tax. Revenues, expenses and assets are recognized net of the amount of value-added tax, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in consolidated statement of statement of financial position.

<u>Provisions</u>

Provisions are recognized when the Company has a present obligation (legal or constructive): (a) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized in consolidated statement of statement of comprehensive income, net of any reimbursement. 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 assessment 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 under the “Finance costs” account in consolidated statement of statement of comprehensive income.

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

Segment Reporting
Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Company considers the entire business as one segment.

Management monitors the operating results of its business unit separately based on geographic location for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating income or loss in consolidated statement of financial statements.

Company financing, excluding interest income and expense and income taxes are managed on a group basis and are not allocated to operating segments.

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

Consolidation of iWAVE. An investee is included in consolidation even in cases where the Company owns less than one-half of the investee's equity, when the substance of the relationship between the Company and the investee indicates that the investee is controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. While the Company has only 49.46%% equity interest in iWAVE, the Company has representation in iWAVE's BOD. The Company also appointed personnel to deal with business development and strategy. Also, decision-making is exercised by the executives of the Company. Based on these facts and circumstances, management concluded that the Company controls iWAVE and, therefore, included iWAVE in the consolidated financial statements of the Company.

Material Partly-owned Subsidiaries. The consolidated financial statements include additional information about subsidiaries that have non-controlling interests that are material to the Company (see Note 14). Management determined that IEST, PGI and iWave (2017) are material partly-owned subsidiaries based on the following considerations:

- The carrying amount of the non-controlling interest attributable to the subsidiary relative to the net equity of the Company;
- The profit or loss or other comprehensive income of the subsidiary attributable to the non- controlling interest relative to the Company's net income or other comprehensive income for the year;
- Total revenues and total expenses included in the Company's consolidated statement of income relative to the Company's total revenues and total expenses for the year;
- Assets and liabilities of the subsidiary relative to the total assets and total liabilities of the Company; and
- Nature of the activities and their significance to the Company's activities.

Determination of Control Over an Investee Company. Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company has established that it has the ability to control its subsidiaries by virtue of either 100% or majority interest in the investee companies.

The Company's ownership interest in HatchAsia, Inc. was diluted from 59.44% as at December 31, 2015 to 34.77% on May 4, 2016, resulting in loss of control over HatchAsia. The Company accounted for the loss of control as a deemed disposal. As at the date of loss of control, the Company derecognized the net assets, equity reserve and non-controlling interests in HatchAsia and recognized the 34.77% retained interest in HatchAsia at fair value amounting to ₱62,571,288, resulting to gain on deemed disposal amounting to ₱63,503,875. The Company's retained interest in HatchAsia is accounted for using the equity method beginning on May 4, 2016 (see Note 10).

Evaluation of Lease Commitments - Company as Lessee. The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains a lease, when fulfillment of the arrangement depends on specific asset or assets and the arrangement conveys a right to use the asset.

The Company has entered into property leases, where it was determined that the risks and rewards related to those properties are retained by the lessor. These lease agreements are accounted for as operating leases. Rent expense amounted to ₱40,860,922 in 2018, ₱18,488,204 in 2017 and ₱5,185,551 in 2016 (see Notes 16, 17 and 19).

Contingent Assets. The Company has possible claims from other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within its control. Management has determined that the present claims do not meet the recognition criteria, and therefore has not recorded any such amounts (see Notes 1 and 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next calendar year are as follows:

Upon adoption of PFRS 9. Impairment of Trade and Other Receivables. The Company uses a provision matrix to calculate ECLs for its receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type and rating).

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forward-looking information, and ECLs is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company’s receivables is disclosed in Note 5.

The carrying value of receivables amounted to ₱702,166,812 as at December 31, 2018. Allowance for doubtful accounts amounted to ₱26,674,747 as at December 31, 2018 (see Note 5).

Prior to Adoption of PFRS 9. Determination of Impairment of Trade and Other Receivables. The Company maintains allowance for impairment at a level based on the result of individual assessment. Under the individual assessment, the Company is required to obtain the present value of estimated cash flows using the financial asset’s original effective interest rate. Impairment loss is determined as the difference between the financial asset’s carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Company to group its financial assets based on the credit risk characteristics such as customer type, payment history, past-due status and term of the customers. Impairment loss is then determined based on historical loss experience of the financial assets grouped per credit risk profile. Historical loss profile is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual assessments are based on management’s judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The carrying value of receivables amounted to ₱469,576,163 as at December 31, 2017. Allowance for doubtful accounts amounted to ₱10,749,687 as at December 31, 2017 (see Note 5).

As at December 31, 2017, the Company has advances, loans and interest receivable from Kirschner Games International, Inc. (KGI) amounting to ₱236,601,617. In 2010, KGI temporarily suspended its operations due to PAGCOR’s decision to stop the use of Internet and Mobile Intermediation Platform for hosting PAGCOR-approved games. Due to the resumption of the operations of KGI, the Company reversed impairment loss on advances to KGI amounting to ₱11,478,728 in 2016. The Company’s recoverability assessment process involves significant judgment and estimates of various assumptions such as projectednumber of terminals, gross bets and payout ratio and factors, including the financial condition of KGI, expected future cash flows and future market conditions (see Note 5). The discount rates applied to the cash flow projections range from 10.80% to 11.70% in 2017.

Impairment of Nonfinancial Assets. The Company assesses whether there are any indicators of impairment for all nonfinancial assets which includes prepaid expenses and other current assets, property and equipment, intangible assets, investment in associates and other noncurrent assets at each reporting date. These are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Impairment losses, if any, are recognized in profit or loss.

The aggregate carrying amount of nonfinancial assets are as follows:

	2018	2017
Intangible assets (see Note 8)	**₱278,116,893**	₱121,294,698
Investment in associates (see Note 10)	**75,014,329**	74,581,590
Property and equipment (see Note 9)	**106,450,692**	147,949,939
Prepaid expenses (see Note 7)	**35,925,428**	43,133,157
Other current assets (see Note 7)	**4,209,764**	2,274,451
Other noncurrent assets (see Note 11)	**100,939,184**	115,014,580
	₱600,656,290	₱504,248,415

Estimation of Employee Benefits. The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The carrying values of retirement benefits liability recognized in the consolidated statements of financial position amounted to ₱11,502,653 and ₱15,878,023 as at December 31, 2018 and 2017, respectively (see Note 20).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Realizability of Deferred Tax Assets. The Company reviews the carrying amounts at each reporting date and adjusts the balance of deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized.

The Company recognized deferred tax assets amounting to ₱36,912,915 and ₱34,279,840 as at December 31, 2018 and 2017, respectively. Deferred tax assets were not recognized because the Company believes that it is not possible that sufficient future taxable income will be available against which these deferred tax assets can be utilized.

4. Cash and Cash Equivalents

	2018	2017
Cash on hand	**₱2,354,290**	₱2,047,116
Cash in banks	**83,499,190**	329,690,924
Cash equivalents	**10,556,730**	–
	₱96,410,210	₱331,738,040

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits earn interest at the respective short-term deposit rates.

Interest income earned from cash and cash equivalents amounted to ₱178,325 in 2018, ₱124,388 in 2017 and ₱95,417 in 2016.

5. Receivables

	2018	2017
Trade	**₱264,005,452**	₱125,558,965
Loans receivable (see Note 15)	**67,622,667**	57,106,667
Accrued interest (see Note 15)	**23,502,846**	9,848,751
Due from related parties (see Note 15)	**299,408,876**	6,689,164
Advances to officers, employees and shareholders (see Note 15)	**25,927,217**	20,457,388
Advances to KGI (see Note 15)	**–**	236,601,617
Others	**21,699,754**	13,313,611
	702,166,812	469,576,163
Less allowance for impairment	**26,674,747**	10,749,687
	675,492,028	458,826,476
Less noncurrent portion	**18,634,586**	236,601,617
Current portion	**₱656,857,442**	₱222,224,859

In 2011, PGI and KGI entered into a Share Purchase Agreement wherein PGI has the option to convert KGI's debt amounting to $3,325,025 (₱139,103,104) into ordinary shares of KGI for an enterprise value of $23.0 million which is equal to 12.77% interest in KGI's ownership. In the agreement, the Company may subscribe up to 60% of the total issued and outstanding shares of KGI. Since the contract shall be settled by delivering a fixed number of KGI's own shares in exchange for the settlement of the advances, the Company recorded a derivative asset amounting to ₱57,657,619 as at December 31, 2017 (see Note 11). As at December 31, 2018 and 2017, the advances have not yet been converted.

In 2010, KGI temporarily suspended its operations due to PAGCOR's decision to stop the use of Internet and Mobile Intermediation Platform for hosting PAGCOR-approved games. Due to the resumption of the operations of KGI, the Company reversed impairment loss on advances to KGI amounting to ₱11,478,728 in 2016. Total advances and loans receivable (including interest receivable) from KGI amounted to ₱421,016,092 and ₱303,557,035 as at December 31, 2018 and 2017, respectively.

Trade receivables are noninterest-bearing and are normally settled in 15 to 90 days.

Advances and other receivables are normally settled within 30 days.

Other receivables include advances subject for liquidation and receivables from outlets which are normally settled within 30 days.

Movements in the allowance for impairment are as follows:

	2018				
	Trade	**Advances to Officers and Employees**	**Advances to Affiliates** (see Note 15)	**Others**	**Total**
Beginning balance	**₱2,028,302**	**₱6,051,498**	**₱–**	**₱2,669,887**	**₱10,749,687**
Effect of PFRS 9 (see Note 2)	**–**	**–**	**7,118,636**	**–**	**7,118,636**
Beginning balance, as adjusted	**2,028,302**	**6,051,498**	**7,118,636**	**2,669,887**	**17,868,323**
Provision for the year (see Note 17)	**8,315,546**	**–**	**486,487**	**–**	**8,802,033**
Translation adjustment	**–**	**–**	**–**	**4,391**	**4,391**
Ending balance	**₱10,343,848**	**₱6,051,498**	**₱7,605,123**	**₱2,674,278**	**₱26,674,747**

	2017				
	Trade	Advances to Officers and Employees	Advances to Affiliates (see Note 15)	Others	Total
Beginning balance	₱2,028,302	₱6,051,498	₱–	₱2,669,700	₱10,749,500
Translation adjustment	–	–	–	187	187
Ending balance	₱2,082,302	₱6,051,498	₱–	₱2,669,887	₱10,749,687

For the year ended December 31, 2018, the Company used the simplified provision matrix approach in estimating the expected credit losses on receivables. Based on the assessment made, the impact on the beginning retained earnings amounted to ₱7,118,636 (see Note 2).

For the year ended December 31, 2017, receivables were subjected for impairment using individual impairment assessment.

6. Financial Assets at FVPL

Financial assets at FVPL classified as current pertain to quoted equity shares held for trading purposes with movement as follows:

	2018	2017
Balance at beginning of year	**₱24,570,604**	₱9,755,330
Effect of adoption of PFRS 9	**294,259,236**	–
	318,829,840	9,755,330
Acquisitions	**85,283,663**	19,243,553
Disposals	**(2,564,938)**	(3,520,964)
Mark-to-market loss	**(15,124,736)**	(907,315)
Balance at end of year	**₱386,423,829**	₱24,570,604

Financial assets at FVPL classified as noncurrent pertain to the derivative asset amounting to ₱57,657,619 as at December 31, 2017 arising from the agreement between PGI and KGI (see Note 11).

Effective January 1, 2018, the advances to KGI were reclassified to financial assets at FVPL.

7. Other Current Assets

	2018	2017
Input value-added tax (VAT)	**₱97,423,828**	₱65,109,669
Restricted cash	**58,804,306**	46,030,396
Prepaid expenses	**35,925,428**	43,133,157
Progressive fund receivable	**21,886,693**	7,591,168
Deposits	**5,646,585**	10,572,476
Revolving fund	**5,500,000**	–
Inventory	**1,275,785**	1,275,785
Creditable withholding tax	–	2,554,188
Others	**4,209,764**	2,274,453
	230,672,389	178,541,292
Allowance for impairment	**28,057,448**	14,630,153
	₱202,614,941	₱163,911,139

Input VAT pertains to VAT on the purchase of goods and services which will be utilized through application against output VAT.

Restricted cash pertains to deposits of agents for the daily bets and betting credits.

Prepaid expenses mainly pertain to insurance, rent and legal services.

Progressive fund receivable pertains to the progressive contribution for remittance by the outlets (see Note 12).

Others include funds set aside for a specific purpose.

Movements in the allowance for impairment of other current assets are as follows:

	2018	2017
Beginning balance	**₱14,630,153**	₱12,313,071
Provisions for the year (see Note 17)	**20,712,219**	2,308,892
Write-off	**(7,470,424)**	–
Translation adjustment	**185,500**	8,190
Ending balance	**₱28,057,448**	₱14,630,153

8. Intangible Assets

In 2012, DFNN and IEST Selling Shareholders executed a Deed of Absolute Sale wherein the Selling Shareholders agreed to assign and transfer to DFNN their shares in IEST. Intangible asset which pertains to license acquired through business combination amounting to ₱395,708,095 was recognized including the related deferred tax liability (see Note 20).

	2018	2017
Cost:		
Balance at beginning of year	**₱395,708,095**	₱395,708,095
Additions during the year	**1,121,227**	–
	396,829,322	395,708,095

(Forward)

	2018	2017
Accumulated amortization:		
Balance at beginning of year	**₱98,927,024**	₱79,141,619
Amortization (see Notes 16 and 17)	**19,785,405**	19,785,405
Balance at end of year	**118,712,429**	98,927,024
Net Book Value	**₱278,116,893**	₱296,781,071

9. Property and Equipment

	2018				
	Computer Equipment and Software	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment** (see Not 13)	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱199,257,206**	**₱6,304,938**	**₱16,428,143**	**₱47,254,350**	**₱269,244,637**
Additions	**8,678,768**	**827,541**	**5,432,286**	**5,305,500**	**20,244,095**
Balance at end of year	**207,935,974**	**7,132,479**	**21,860,429**	**52,559,850**	**289,488,732**
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year	**77,467,054**	**3,585,066**	**5,761,656**	**34,480,922**	**121,294,698**
Depreciation and amortization (see Notes 16 and 17)	**53,190,281**	**1,098,679**	**2,809,500**	**4,644,883**	**61,743,343**
Balance at end of year	**130,657,335**	**4,683,745**	**8,571,158**	**39,125,805**	**183,038,041**
Net Book Value	**₱77,278,639**	**₱2,448,734**	**₱13,289,273**	**₱13,434,047**	**₱106,450,691**

	2017				
	Computer Equipment and Software	Furniture, Fixtures and Office Equipment	Transportation Equipment (see Not 13)	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱47,613,623	₱4,028,970	₱9,604,173	₱33,319,703	₱94,566,489
Additions	151,643,583	2,275,968	6,823,970	13,934,647	174,678,168
Balance at end of year	199,257,206	6,304,938	16,428,143	47,254,350	269,244,637
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year					
Depreciation and amortization	41,188,855	3,043,201	4,412,907	33,319,701	81,964,664
(see Notes 16 and 17)	36,278,199	541,865	1,348,749	1,161,221	39,330,034
Balance at end of year	77,467,054	3,585,066	5,761,656	34,480,922	121,294,698
Net Book Value	₱121,790,152	₱2,719,872	₱10,666,487	₱12,773,428	₱147,949,939

As at December 31, 2018 and 2017, accumulated impairment loss amounting to ₱8,903,818 was recognized on computer equipment relative to the PCSO Project.

There are no idle assets as of December 31, 2018 and 2017. The aggregate costs of fully depreciated property and equipment still being used in operations amounted to ₱61,616,103 and ₱51,324,724 as at December 31, 2018 and 2017, respectively.

IEST acquired transportation equipment amounting to ₱3,888,000 in 2018 and ₱6,894,800 in 2017 through finance lease agreement with Universal LMS Finance and Leasing Corporation. As at December 31, 2018 and 2017, the carrying values of the transportation equipment pledged as collateral for its long-term loans payable amounted to ₱11,324,524 and ₱10,127,072 (see Note 13).

10. **Investment in Associates**

	2018	2017
Cost:		
Balance at beginning of year	**₱63,770,888**	₱63,770,888
Accumulated equity in net earnings:		
Balance at beginning of year	**10,810,702**	4,838,561
Share in profit of associates	**432,739**	5,972,141
	11,243,441	10,810,702
Balance at end of year	**₱75,014,329**	₱74,581,590

The Company’s associates, all incorporated in the Philippines, consist of the following:

		Percentage of Ownership	
Associate	Principal Activity	**2018**	2017
Essence Asia Philippines, Inc. (EAP)	Management Travel agency	**40.00%**	40.00%
HatchAsia	Information technology services and business process	**22.87%**	34.77%

HatchAsia

On December 23, 2014, HatchAsia and Visayan Gaming, Inc. (VGI) entered into an Investment Agreement wherein HatchAsia and VGI agreed to partner together and jointly engage in gaming related business process management and outsourcing operations, game and software development, management consultancy and other allied activities including business process outsourcing for the gaming industry domestically and internationally.

On May 4, 2016, VGI gained majority control over HatchAsia and the Parent Company’s interest was diluted from 59.44% to 34.77%. The transaction resulted in loss of control on deemed disposal.

Consequently, on April 30, 2016, HatchAsia was deconsolidated which resulted in the recognition of gain on deemed deposit amounting to ₱63,503,875. The retained interest in HatchAsia, which was measured at fair value, amounted to ₱62,571,288 and represents the cost on initial recognition of the investment in HatchAsia.

The business of HatchAsia represented the entirety of the Company’s leasing and outsourcing segments until April 30, 2016. With HatchAsia being classified as discontinued operations on deemed disposal, the leasing and outsourcing segments are no longer presented in the segment note. The results of HatchAsia for the period January 1 to May 4, 2016 are presented below:

Revenues	₱47,216,780
Expenses	(49,026,430)
Loss from operations	(1,809,650)
Other expense	(651,040)
Loss before tax	(2,460,690)
Provision for income tax	–
Loss from deemed disposal	(₱2,460,690)

The net cash inflows recognized for the period January 1 to May 4, 2016 follow:

Operating	₱35,300,061
Investing	(3,452,625)
Financing	(29,391,673)
Net cash inflow	₱2,455,763

The impact of the deemed disposal of the subsidiary on the consolidated statement of financial position of the Company as at December 31, 2017 follows:

Current assets	₱62,893,021
Noncurrent assets	271,947,383
Current liability	(95,490,715)
Noncurrent liability	(247,101,561)
Net liability	(7,751,872)
Equity reserve	(5,405,056)
Noncontrolling interest	4,659,579
Cumulative translation adjustment	7,564,762
Net liability disposed of	932,587
Fair value of retained interest	62,571,288
Gain from deemed disposal	₱63,503,875

The following table illustrates the summarized financial information of the Company’s investment in HatchAsia as at December 31, 2017:

Current assets	₱55,860,815
Noncurrent assets	265,096,344
Current liabilities	(150,859,062)
Noncurrent liabilities	(3,860,527)
Equity	166,237,570
Fair value adjustment (see Note 24)	31,086,127
	₱197,323,697
Company’s carrying amount of the investment	₱68,609,449
Revenues	₱165,731,159
Expenses	(147,172,192)
Income before tax	18,558,967
Provision for income tax	(3,371,634)
Net income	15,187,333
Total comprehensive income as of December 31, 2017	14,905,319
Add: Total comprehensive loss as of May 4, 2016	–
Total comprehensive income from May 4 to December 31, 2017	2,460,690
	₱17,366,009
Company’s share of profit from May 4 to December 31, 2017	₱6,038,161

On February 28, 2018, the Parent Company declared property dividend consisting of 8 million common shares of Hatch Asia, Inc. with a book value of ₱0.93 per share or a total aggregate book value of ₱7,440,000 in favor of stockholders of records as of March 14, 2018 and payable on March 8, 2019. As of the dividend declaration date, HatchAsia is valued at ₱5.28 per share. Dividends payable amounted to ₱41,140,972 as at December 31, 2018.

The following table illustrates the summarized financial information of the Company's investment in HatchAsia as at December 31, 2018:

Current assets	₱445,889,830
Noncurrent assets	247,323,109
Current liabilities	(240,118,423)
Noncurrent liabilities	(11,222,374)
Equity	₱441,872,142
Company's carrying amount of the investment	₱56,368,289
Revenues	₱175,932,326
Expenses	(174,674,185)
Income before tax	1,258,141
Provision for income tax	5,852
Net income	1,252,289
Other comprehensive income	18,022
	1,270,311
	₱432,739

EAP
EAP has no operations since 2013 and has insignificant amount of net assets. The Company has unrecognized losses in EAP amounting to ₱1,180,838 as at December 31, 2018 and 2017.

In 2018, the Company recognized impairment in investment in EAP amounting to P1,199,600.

11. Other Noncurrent Assets

	2018	2017
Project advances	**₱95,181,803**	₱95,181,803
Rental deposits (see Note 23)	**5,181,604**	19,667,280
Derivative asset (see Note 6)	–	57,657,619
Others	**575,777**	165,497
	₱100,939,184	₱172,672,199

Project advances represents partial advances to contractors for future projects. This also includes advances made to upgrade the gaming venue to meet PAGCOR's requirements.

Rental deposits are equivalent to the three months' rent which shall answer for any and all unpaid obligations, including any damage to leased properties.

12. Accounts Payable and Other Current Liabilities

	2018	2017
Trade	**₱323,622,081**	₱243,631,457
Progressive fund payable (see Note 6)	**55,745,252**	13,930,398
Dividend payable (see Note 10 and 15)	**47,129,475**	–
Due to related parties (see Note 15)	**32,649,658**	20,980,846
Accrual for:		
Interest (see Note 13)	**27,740,321**	19,387,702
Taxes	**14,421,116**	14,653,351
Rent	**19,396,983**	–
Professional fees	**1,446,770**	1,074,594
Others	**49,095,444**	26,947,268
Withholding tax payable	**4,832,788**	6,674,424
	₱576,079,888	₱347,280,040

Trade payables are noninterest-bearing and are normally settled between 15 to 60 days term.

Progressive fund payable pertains to accumulated progressive jackpot embedded in the gaming software.

Accrued expenses are normally settled within one year from financial reporting date.

Other accrued expenses include accrual of interest and surcharges for unpaid taxes.

Withholding tax payable pertains to statutory payable to the government that are due within the year.

13. Loans Payable and Other Noncurrent Liabilities

Short-term loans

Short-term loans pertain to the Company's peso-denominated, interest-bearing loans obtained from a stockholder and financing companies and the current portion of the long-term loan from a financing institution. These loans are unsecured, payable on demand and bear interest ranging from 8% to 25.00% per annum. As at December 31, 2018 and 2017, short-term loans amounted to ₱38,099,439 and ₱37,317,100, respectively.

Interest expense on short-term loans amounted to ₱9,220,299 in 2018, ₱11,727,507 in 2017 and ₱12,655,990 in 2016.

Long-term loan

The Company's long-term loans payable pertains to a loan obtained from a financing institution to fund acquisition of various transportation equipment totaling to ₱4,386,000 in 2018 and ₱6,894,800 in 2017. The loan is payable within 5 years, with interest rate of 8% per annum. The loans are secured by a chattel mortgage over the transportation equipment purchased out of the proceeds of the loan (see Note 9). As at December 31, 2018 and 2017, long-term loans amounted to ₱9,046,305 and ₱6,181,380, respectively.

Interest expense on long-term loans amounted to ₱730,734 in 2018, ₱411,275 in 2017, and ₱146,004 in 2016.

Schedule payments of principal are as follows:

Year	**2018**	2017
2017	**₱–**	₱1,756,374
2018	**–**	1,891,168
2019	**2,540,868**	1,804,670
2019	**2,517,789**	1,616,055
2021	**2,400,055**	869,487
2022	**1,461,834**	–
2023	**125,759**	–
	₱9,046,305	₱7,937,754

Interest expense	**₱730,734**	₱411,275

Interest	**2018**	2017	2016
Short term loan	**₱9,220,299**	₱11,727,507	₱12,655,990
Long term loan	**730,734**	411,275	–
Retirement	**1,067,124**	833,733	594,386
	₱11,018,157	₱12,972,515	₱13,250,376

Principal payment scheduled in 2018 is included in the short-term loans payable.

Other Noncurrent Liabilities
Other noncurrent liabilities amounting to ₱20,702,431 includes accrual for marketing fee which is payable in three (3) years from the date of agreement.

14. **Equity**

Capital Stock
Authorized and issued capital stock of the Parent Company are as follows:

	2018		2017		2016	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value	**500,000,000**		500,000,000		500,000,000	
Issued and outstanding, January 1	**324,620,008**	**₱324,620,008**	249,592,313	₱249,592,313	249,592,313	₱249,592,313
Issued during the year (see Note 16)	**–**	**–**	75,027,695	75,027,695	–	
Issued and outstanding, December 31	**324,620,008**	**324,620,008**	324,620,008	324,620,008	249,592,313	249,592,313
Less treasury stock	**(3,658,934)**	**(26,677,255)**	(3,658,934)	(26,677,255)	(2,930,100)	(21,886,521)
	320,961,074	**₱297,942,753**	320,961,074	₱297,942,753	246,662,213	₱227,705,792

In 2017, the Company has sold 74,877,695 shares to Excel Century Investment Limited for a total consideration of ₱621,484,860. The additional issuance is equivalent to 23.08% of the total outstanding capital stock.

Below is the Parent Company's track record of the registration of securities:

Date of SEC Order Rendered Effective or Permit to Sell	Event	Authorized Capital Stock	Issued Shares	Issue Price
October 10, 2000	Initial Public Offering	100,000,000	59,384,873	₱10.00
May 16, 2003	Private Placement	100,000,000	7,000,000	4.20
July 25, 2003	Stock Rights	100,000,000	26,553,949	2.00
April 9, 2008	Convertibles listing	100,000,000	7,061,178	2.00/4.12/4.20
December 31, 2010	Employee stock option plan and convertible listings	150,000,000	22,851,882	2.00
February 13, 2013	Subscription agreement	150,000,000	27,148,118	1.00
August 6, 2015	Increase in authorized capital			
	Common shares	400,000,000	174,620,008	3.50/4.75
	Preferred shares	100,000,000	–	–
			324,620,008	

On August 6, 2015, SEC approved the amendments in the Parent Company's Articles of Incorporation increasing the authorized capital from ₱150,000,000 divided into 150 million common shares with par value of ₱1 per share to ₱500,000,000 composed of 400 million common shares with a par value of ₱1 per share and 100 million preferred shares with a par value of ₱1 per share.

Preferred shares are non-voting, non-participating, not convertible into common shares, entitled to a coupon rate not exceeding 12% per annum and redeemable at the option of the Parent Company.

As of December 31, 2018 and 2017, the number of total equity holders is 99.

Non-controlling Interests

The Company has the following significant non-controlling interests:

	2018		
Name	**NCI in Subsidiary**	**Total comprehensive income (loss) allocated to NCI**	**Accumulated NCI**
iWave	**50.64%**	**₱20,686,332**	**₱63,771,088**
IEST	**5.28%**	**5,335,097**	**29,169,775**
PGI	**16.66%**	**(3,191,306)**	**2,177,158**

	2017		
Name	NCI in Subsidiary	Total comprehensive income (loss) allocated to NCI	Accumulated NCI
iWave	41.93%	(₱967,027)	₱40,696,896
IEST	5.28%	9,073,755	23,834,678
PGI	16.66%	4,771,640	5,368,462

	2016		
Name	NCI in Subsidiary	Total comprehensive income (loss) allocated to NCI	Accumulated NCI
HatchAsia	44.06%	₱3,043,250	₱33,967,583
iWave	5.28%	1,155,331	14,760,923
IEST	16.66%	(447,557)	596,823
PGI	40.56%	(998,056)	–

The summarized financial information of material subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

	2018		
	iWave	**IEST**	**PGI**
Statement of financial position			
Current assets	**₱130,199,453**	**₱572,230,842**	**₱148,067,481**
Noncurrent assets	**21,846,584**	**120,320,704**	**44,973,623**
Current liabilities	**41,437,058**	**664,288,707**	**178,996,601**
Noncurrent liabilities	**245,793**	**32,236,425**	**24,154,903**
Total equity	**₱110,363,186**	**(₱3,973,586)**	**(₱10,110,400)**
Attributable to:			
Equity holders of the Parent	**₱37,336,989**	**(₱28,209,023)**	**(₱17,308,219)**
Non-controlling interest	**73,026,197**	**24,235,437**	**7,197,819**
Total	**₱110,363,186**	**(₱3,973,586)**	**(₱10,110,400)**
Statement of comprehensive income			
Revenue	**₱211,570,354**	**₱898,861,170**	**₱40,281,833**
Profit (loss) after tax	**49,126,068**	**7,593,168**	**10,980,529**
Attributable to:			
Equity holders of the Parent	**₱24,248,627**	**₱7,192,409**	**₱9,151,173**
Non-controlling interest	**24,877,441**	**400,759**	**1,829,356**
Total	**₱49,126,068**	**₱7,593,168**	**₱10,980,529**
Net increase (decrease) in cash and cash equivalents			
Operating	**₱65,052,732**	**₱8,658,784**	**₱313,548**
Investing	**(7,594,799)**	**(10,937,318)**	**-**
Financing	**(2,548,139)**	**(490,163)**	**-**
	₱54,909,794	**₱2,768,697)**	**₱313,548**

Total equity of iWave, PGI and IEST include unpaid dividends, deposit for future stock subscription, and fair value adjustments amounting to ₱5,064,000, ₱24,154,902 and ₱276,995,666, respectively, which are eliminated or adjusted in the computation of the share of NCI in 2018.

	2017		
	iWave	IEST	PGI
Statement of financial position			
Current assets	₱60,008,488	₱357,928,259	₱144,512,281
Noncurrent assets	15,348,185	147,899,727	44,973,623
Current liabilities	11,768,346	508,125,570	178,439,459
Noncurrent liabilities	2,209,850	9,861,104	24,154,902
Total equity	₱61,378,477	(₱12,158,688)	(₱13,108,457)
Attributable to:			
Equity holders of the Parent	₱20,681,581	(₱35,993,366)	(₱18,476,619)
Non-controlling interest	40,696,896	23,834,678	5,368,462
Total	₱61,378,477	(₱12,158,688)	(₱13,108,457)
Statement of comprehensive income			
Revenue	₱41,049,179	₱917,911,475	₱11,033,629
Profit (loss) after tax	(4,999,051)	25,125,975	(15,660,953)
Attributable to:			
Equity holders of the Parent	(₱5,088,762)	₱15,771,099	(₱21,462,466)
Non-controlling interest	(967,027)	9,073,755	4,771,640
Total	(₱6,055,789)	₱24,844,854	(₱16,690,826)
Net increase (decrease) in cash and cash equivalents			
Operating	₱2,597,099	₱200,722,300	₱626,578
Investing	(1,619,617)	(190,637,921)	–
Financing	(9,659,661)	3,838,950	–
	(₱8,682,179)	₱13,923,329	₱626,578

Total equity of iWave, PGI and IEST include unpaid dividends, deposit for future stock subscription, and fair value adjustments amounting to P10,481,369, P24,154,902 and P296,781,071, respectively, which are eliminated or adjusted in the computation of the share of NCI in 2017.

Equity Reserve
Equity reserve arises from the Parent Company's transactions with NCI.

Deposits for Future Stock Subscriptions
In 2016, the Parent Company received ₱36.8 million deposit for future stock subscription from stockholders. This was recorded as a liability since no subscription agreement has been executed as at December 31, 2018.

Treasury Stock
The movements in the shares held by a subsidiary are as follows:

	2018	2017
Balance at beginning of year	**₱26,677,255**	₱21,886,521
Issuance of shares to a subsidiary during the year	**-**	4,790,734
Balance at end of year	**₱26,677,255**	₱26,677,255

Retained Earnings (Deficit)
On the regular meeting held on January 12, 2017, the BOD approved the equity restructuring to wipe out the deficit of the Parent Company as of December 31, 2017 amounting to ₱691,343,639.

Application of such has been submitted to the SEC and was approved on July 5, 2017 subject to the condition that the remaining additional paid-in capital shall not be used to wipe-out future losses without prior approval from SEC. Accordingly in 2017, additional paid-in capital has been applied against the Company's December 31, 2017 deficit amounting to ₱691,343,639.

On August 2, 2018, the BOD of IEST approved the equity restructuring to partially wipe out IEST's deficit by ₱63,025,672. The application has been submitted to the SEC and was approved on December 14, 2018.

Cumulative Translation Adjustments
The movements in the cumulative effect of translating the financial statements of consolidated subsidiaries with functional currency other than peso are as follows:

	2018	2017
Balance at beginning of year	**(₱26,426,385)**	(₱25,568,089)
Amount recognized in OCI during the year	**(22,816,572)**	(858,296)
Balance at end of year	**(₱49,242,957)**	(₱26,426,385)

15. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control.

Entities owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The table below summarizes the transactions which have been entered into with related parties:

Category	Year	Volume of Transactions	Outstanding Balance	Terms and Conditions
Associate				
HATCHASIA				
Rent expense/payable	**2018**	**₱9,908,337**	**₱–**	Noninterest-bearing;
	2017	10,847,230	(482,225)	not impaired; due and demandable
Due from related parties	**2018**	–	**5,000,000**	Noninterest-bearing;
	2017	1,000,000	5,000,000	not impaired; due and demandable
Due to related parties	**2018**	**454,832**	**(2,108,542)**	Noninterest-bearing;
	2017	28,182,577	(2,563,374)	not impaired; due and demandable
EAP				
Due from related parties	**2018**	**–**	**666,989**	Noninterest-bearing; not
	2017	–	666,989	impaired; due and demandable
Stockholder				
Common Stockholders				
ADAC				
Due from related parties	**2018**	**655,897**	**823,803**	Noninterest-bearing; not
	2017	1,038,410	167,906	impaired; due and demandable
Westdale				
Due to related parties	**2018**	**–**	**(272,429)**	Noninterest-bearing; not
	2017	–	(272,429)	impaired; due and demandable
DFNN Technology Services				
Due from related parties	**2018**	**8,780**	**8,780**	Noninterest-bearing; not
	2017	–	–	impaired; due and demandable
LuckyU, Inc.				
Due from related parties	**2018**	**2,909,303**	**2,909,303**	Noninterest-bearing; not
	2017	–	–	impaired; due and demandable
Other related parties				
KGI				
Advances	**2018**	**80,228,021**	**316,834,294**	Noninterest-bearing; not
	2017	30,968,091	236,601,617	impaired; due and demandable
Accounts Receivable	**2018**	**18,134,550**	**18,134,550**	Noninterest-bearing; not
	2017	–	–	impaired; due and demandable

Category	Year	Volume of Transactions	Outstanding Balance	Terms and Conditions
Loans receivable	**2018**	**₱-**	**₱67,622,667**	Interest-bearing; not
	2017	37,345,000	57,106,667	impaired; due and demandable
Accrued interest receivable	**2018**	**13,654,095**	**23,502,846**	Due and demandable; not
	2017	9,990,648	9,848,751	impaired
IEST's Stockholders (see Note 8)				
Due to related parties	**2018**	**–**	**(2,541,770)**	Noninterest-bearing; not
	2017	–	(2,541,770)	impaired; due and demandable
DFNN's stockholders				
Due from related parties	**2018**	**290,000,000**	**290,000,000**	Noninterest-bearing; not
	2017	–	–	impaired; due and demandable
DFNN's stockholders				
Due to related parties	**2018**	**13,333,934**	**(14,082,711)**	Noninterest-bearing; not
	2017	748,777	(748,777)	impaired; due and demandable
LCG				
Due to related parties	**2018**	**–**	**(705,631)**	Noninterest-bearing; not
	2017	–	(705,631)	impaired; due and demandable
DSI				
Due to related parties	**2018**	242,753	**(242,753)**	Noninterest-bearing; not
	2017	–	–	impaired; due and demandable
Officers and Employees				
Due from related parties	**2018**	**₱245,909**	**₱608,360**	Noninterest-bearing; not
	2017	–	854,269	impaired; due and demandable
Due to related parties	**2018**	**1,453,043**	**(12,695,822)**	Noninterest-bearing; not
	2017	1,305,895	(14,148,865)	impaired; due and demandable
Advances to officers and	**2018**	19,961,196	**25,927,217**	Noninterest-bearing; not
employees	2017	14,256,682	20,457,388	impaired; due and demandable
Total:				
Advances (see Note 5)	**2018**	–	**₱316,834,294**	
	2017	–	236,601,617	
Loans receivable (see Note 5)	**2018**	–	**67,622,667**	
	2017	–	57,106,666	
Advances to officers and	**2018**	–	**25,927,217**	
employees (see Note 5)	2017	–	20,457,388	
Accrued interest receivable	**2018**	–	**23,502,846**	
(see Note 5)	2017	–	**9,848,751**	
Due from related parties	**2018**	–	**300,017,236**	
(see Note 5)	2017	–	**6,689,164**	
Due to related parties	**2018**	–	**(32,649,658)**	
(see Note 12)	2017	–	(20,980,846)	
Allowance for impairment	**2018**	–	**7,505,324**	
(see Note 5)	2017	–	–	

Outstanding balances as at December 31, 2018 and 2017 are unsecured and settlement occurs in cash. In the case of the receivable from KGI, the Company has the right to convert its advances to KGI for KGI's shares for an enterprise value of $23.0 million which is equal to 12.77% interest in KGI's ownership. There are no guarantees provided or received for any related party receivables or payables and expected collection or settlement is within one year (see Note 5).

On June 27, 2018, The Parent Company declared property dividend consisting of 40,000 shares of its subsidiary, iWave, Inc. in favor of stockholders of records as of the last trading day of 2018. As of the dividend declaration date, iWave is valued at ₱149.71 per share.

Compensation of key management personnel consists of the following:

	2018	2017	2016
Salaries and wages	**₱49,393,229**	₱22,720,029	₱19,514,469
Director's fees (see Note 18)	**10,384,200**	9,212,999	6,702,949
Management fees (see Note 18)	**5,379,363**	4,550,000	1,600,000
Retirement benefits	**1,538,825**	1,077,888	900,125
	₱66,695,617	₱37,560,916	₱28,717,543

Share-based Payment

The provisions of the employees' stock option plan (ESOP) were approved in 2007. On various dates, the Parent Company granted stock options to its officers, employees, directors and consultants in accordance with its ESOP as approved by the BOD.

Among the salient terms and features of the stock option plan are as follows:

Grant Date	Exercise Price	Ranging Average Share Price	Vesting period
September 17, 2007	2.00	₱9.70 to 33.33%	33.33% vesting immediately, with the remaining vesting annually at the rate of 33.33% over two years
December 7, 2007 to July 31, 2009	2.00	3.90 to 15.50	Vesting immediately
January 21, 2010 to September 30, 2013	3.50	3.73 to 10.00	Vesting immediately
September 8, 2016	3.50	5.29 to 5.50	Vesting immediately
November 8, 2016	3.50	5.50 to 8.66	Vesting immediately

Upon exercise of the share option, the full cash payment of the exercise price must be tendered and a subscription agreement should be executed for the shares actually purchased.

On February 15, 2013, the BOD approved the grant of employee stock option plans to directors, officers, employees and consultants of the Parent Company totaling to 29,455,500 common shares under the same terms and conditions previously approved by the stockholders to be offered at ₱3.50 per share.

The following table summarizes the movements of the stock options:

	Number of Options			Weighted Average Exercise Price		
	2018	2017	2016	**2018**	2017	2016
January 1	**12,451,711**	10,101,711	10,211,465	**₱2.81**	**₱2.81**	₱2.81
Granted	–	2,500,000	3,500,000	**3.50**	**3.50**	3.50
Forfeited	–	–	–	–	–	–
Reassigned	–	–	26,500	**3.50**	**3.50**	3.50
Exercised	–	(150,000)	(3,636,254)	**3.50**	**3.50**	3.50
December 31	**12,451,711**	12,451,711	10,101,711	**₱3.15**	**₱3.15**	₱3.15

All outstanding options as at December 31, 2018 and 2017 are exercisable.

As at December 31, 2018 and 2017, outstanding stock options pertaining to the ESOP amounted to ₱62,264,707 and ₱57,233,922, respectively. Movement is as follows:

	2018	2017
Balance at beginning of year	**₱57,233,922**	₱35,618,422
Stock options granted*	–	21,650,000
Tax effect in prior year	**4,343,272**	–
Tax effect in 2018	**687,513**	–
Reversal of exercised stock options and others	–	(34,500)
Balance at end of year	**₱62,264,707**	₱57,233,922

** Includes cash received from grantees amounting to ₱8,750,000 in 2017 and ₱12,250,000 in 2016.*

The Parent Company used the fair value of the shares at grant date less the exercise price to record the corresponding employee benefits expense from ESOP.

In 2017 and 2016, the Company granted 3,500,000 and 2,500,000 stock options to stockholders, respectively, and has reassigned previously retired ESOP of 26,500 in 2016. The employee benefits expense recognized pertaining to ESOP amounted to ₱12,900,000 and ₱7,000,000 in 2017 and 2016, respectively (see Notes 17 and 18).

In 2018, the Company recognized deferred tax asset on stock options which has impact amounting to ₱4,343,272 as at December 31, 2017 and ₱687,513 as at December 31, 2018.

Property Dividend

On June 27, 2018, The Parent Company declared property dividend consisting of 40,000 shares of its subsidiary, iWave, Inc. in favor of stockholders of records as of the last trading day of 2018. As of the dividend declaration date, iWave is valued at ₱149.71 per share arising to an unrealized gain on revaluation amounting to ₱5,988,503.

16. **Cost of Services**

	2018	2017	2016
Outside services (see Note 25)	**₱408,302,307**	₱371,317,530	₱107,052,676
Software licensing fee	**116,004,858**	112,438,898	24,588,248
Marketing	**108,840,501**	95,319,403	31,861,170
Personnel costs (see Note 18)	**38,029,081**	38,559,132	22,411,823
Rent (see Note 22)	**17,205,563**	6,969,126	3,060,624
Transportation and travel	**4,063,529**	2,840,692	2,201,157
Software development costs	**1,287,707**	1,852,156	923,831
Depreciation and amortization (see Notes 8 and 9)	**1,037,149**	1,187,095	2,498,541
Utilities	**1,979,238**	2,621,180	2,009,776
Supplies	**637,859**	124,751	141,806
Dues and fees	**501,135**	435,350	561,540
Others	**4,991,266**	5,824,422	4,445,592
	₱702,880,194	₱639,489,735	₱201,756,784

17. General and Administrative Expenses and Other Income (Expenses)

	2018	2017	2016
Personnel costs (see Note 18)	**₱52,983,758**	₱35,504,225	₱23,146,204
Depreciation and amortization (see Notes 8 and 9)	**80,491,458**	57,928,344	22,125,066
Outside services	**44,388,663**	22,197,923	10,743,168
Sales and marketing	**32,827,065**	41,800,391	17,699,811
Transportation and travel	**24,710,697**	45,007,185	22,989,841
Rent (see Note 22)	**23,655,359**	11,519,506	2,124,927
Provision for impairment of:			
Other current assets (see Note 7)	**20,712,219**	2,308,892	124,263
Receivables (see Note 5)	**6,079,169**	–	–
Inventory	**226,012**	–	–
Entertainment, amusement and representation	**18,044,438**	8,071,829	8,552,862
Utilities	**14,335,992**	4,514,941	3,563,341
Taxes and licenses	**12,361,747**	1,811,502	1,514,888
Directors' fee (see Note 15)	**10,384,200**	9,212,999	6,702,949
Management fees (see Note 15)	**5,379,363**	4,550,000	1,600,000
Repairs and maintenance	**5,182,633**	368,486	102,002
Supplies	**2,445,219**	2,350,460	903,711
Dues, fees and subscriptions	**1,435,639**	466,068	781,424
Insurance	**1,072,583**	242,358	167,507
Professional fee	**115,000**	120,000	75,000
Others	**11,126,792**	12,075,152	6,122,251
	₱367,958,006	₱260,050,261	₱129,039,215

The composition of "Others" in the "Other Income (Charges)" account in the consolidated statements of income are as follows:

	2018	2017	2016
Miscellaneous income	**₱717,880**	₱2,151,052	₱7,281,432
Rental income	**-**	792,897	1,144,876
Finance charges	**(477,834)**	(995,223)	(193,643)
	₱240,046	₱1,948,726	₱8,232,665

18. Personnel Costs

	2018	2017	2016
Salaries and wages	**₱75,706,407**	₱72,990,042	₱44,361,034
Employee benefits (see Note 20)	**13,257,323**	1,073,315	1,196,993
Retirement cost	**2,049,110**		
	₱91,012,840	₱74,063,357	₱45,558,027

19. **Employee Benefits**

iWave

iWave has a funded, noncontributory defined retirement benefit plan covering qualified employees and executives equal to about one-half of final monthly basic salary for every year of credited service. The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the plan. Costs and contributions are determined in accordance with the actuarial study made for the plan. iWave is not required to pre-fund the future defined benefits payable under Retirement Plan before they become due.

DFNN and IEST

DFNN and IEST accrue retirement benefit in accordance with Republic Act (RA) 7641, "*Retirement pay law*". Under the existing regulatory framework, RA 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Changes in the net retirement benefits liability in 2018, 2017 and 2016 follows:

		Net Benefit Cost in Consolidated Statement of Income					**Remeasurements in Other Comprehensive Income**			
	January 1, 2018	**Current Service Cost**	**Net Interest Cost**	**Settlement-gain/ (loss)**	**Subtotal**	**Contribution to the fund**	**Actuarial Loss on Defined Benefit Obligation**	**Remeasurement Loss on Plan Asset**	**Subtotal**	**December 31, 2018**
Present value of defined benefit obligation benefit obligation	**₱18,356,235**	**₱2,863,752**	**₱1,067,124**	**(₱5,339,726)**	**(₱1,408,850)**	**₱–**	**(₱2,967,719)**	**₱–**	**(₱2,967,719)**	**₱13,979,666**
Fair value of plan asset	**(2,478,212)**	**–**	**(147,206)**	**–**	**(147,206)**	**–**	**–**	**148,405**	**148,405**	**(2,477,013)**
Net retirement benefits liability	**₱15,878,023**	**₱2,863,752**	**₱919,918**	**(₱5,339,726)**	**(₱1,556,056)**	**₱–**	**(₱2,967,719)**	**₱148,405**	**(₱2,819,314)**	**₱11,502,653**

		Net Benefit Cost in Consolidated Statement of Income					Remeasurements in Other Comprehensive Income			
	January 1, 2017	Current Service Cost	Net Interest Cost	Settlement-gain/ (loss)	Subtotal	Contribution to the fund	Actuarial Loss on Defined Benefit Obligation	Remeasurement Loss on Plan Asset	Subtotal	December 31, 2017
Present value of defined benefit obligation benefit obligation	₱12,617,640	₱1,073,315	₱833,733	₱–	₱1,907,048	₱–	₱3,831,547	₱–	₱3,831,547	₱18,356,235
Fair value of plan asset	(1,438,423)	–	(92,463)	–	(92,463)	(1,000,000)	–	52,674	(947,326)	(2,478,212)
Net retirement benefits liability	₱11,179,217	₱1,073,315	₱741,270	₱-	₱1,814,585	(₱1,000,000)	₱3,831,547	₱52,674	₱2,884,221	₱15,878,023

		Net Benefit Cost in Consolidated Statement of Income					Remeasurements in Other Comprehensive Income			
	January 1, 2016	Current Service Cost	Net Interest Cost	Settlement-gain/ (loss)	Subtotal	Contribution to the fund	Actuarial Loss on Defined Benefit Obligation	Remeasurement Loss on Plan Asset	Subtotal	December 31, 2016
Present value of defined benefit obligation benefit obligation	₱11,348,062	₱1,196,993	₱594,386	₱–	₱1,791,379	₱–	(₱521,801)	₱–	(₱521,801)	₱12,617,640
Fair value of plan asset	(1,424,013)	–	(63,511)	–	(63,511)	–	–	49,101	49,101	(1,438,423)
Net retirement benefits liability	₱9,924,049	₱1,196,993	₱530,875	₱–	₱1,727,868	₱–	(₱521,801)	₱49,101	(₱472,700)	₱11,179,217

The plan assets of iWave are maintained by a trustee bank. The details of the fair value of the plan assets are shown below.

	2018	2017
Cash and cash equivalents	**₱275,738**	₱156,994
Investment held for trading	**2,186,647**	2,307,385
Receivables	**16,946**	16,164
Payables	**(2,320)**	(2,331)
Fair value of plan assets	**₱2,477,013**	₱2,478,212

a. Cash consists of current account, savings deposits and special savings deposits.
b. Investments held for trading are investments in government securities.
c. Receivables consist of interest receivables.
d. Payables consist of accrued transfer fees payable.

The principal assumptions used in determining the retirement benefits cost as at December 31 are as follows:

	2018	2017	2016
Discount rate	**7.47%**	5.83%	5.49%
Salary increase	**5.37%**	7.67%	7.67%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The discount rate is derived by discounting all expected benefit payments using various rates that correspond to the timing of benefits payments, after which, a single discount rate is computed considering the aggregate amount of all discounted values.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (decrease)	December 31, 2018	Increase (decrease)	December 31, 2017
Discount rates	+1%	(₱1,173,864)	(8.10%)	(₱1,491,444)
	-1%	1,337,262	9.30%	1,696,615
Future salary increases	+1%	1,375,122	8.40%	1,498,609
	-1%	(799,634)	(7.40%)	1,348,219

The average duration of the defined benefit obligation is 8.1 years and 8.3 years as at December 31, 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

Plan Year	Expected Benefit Payments
2019	₱1,471,274
2020	2,017,488
2021	26,760
2022	33,046
2023	40,612
2024-2028	21,472,015

20. **Income Taxes**

The Parent Company is registered under the Omnibus Investments Code of 1987, otherwise known as Executive Order No. 226 as Existing and Expanding Information Technology (IT) Service Firm Providing Application Services, Web-Based Advertising and Design and Development of E-Commerce Solutions on a Pioneer Status.

The Parent Company is also registered with the BOI as a pioneer IT Service Firm in the field of Payment Infrastructure System under the Omnibus Investments Code of 1987. The Parent Company has not claimed any tax incentives from these BOI registered activities in 2018, 2017 and 2016.

The following table shows the details of the Company's provision for (benefit from) income taxes:

	2018	2017	2016
Current:			
Regular corporate income tax	**₱22,173,705**	₱9,717,563	₱630,792
Final tax	**13,784**	8,027	8,112
Minimum corporate income tax (MCIT)	–	2,187,473	1,388,600
	27,230,224	11,913,063	2,027,504
Deferred	**(6,656,494)**	(37,677,298)	(6,134,165)
	₱20,573,730	(₱25,764,235)	(₱4,106,661)

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

	2018	2017	2016
Provision for (benefit from) income tax	**₱24,873,451**	₱35,700,417	(P12,462,534)
Tax difference of activities under 5% tax rate	**(20,687,104)**	–	–
Movement in unrecognized deferred tax assets	**2,795,330**	(53,161,688)	(14,888,241)
Nondeductible expenses	**14,800,571**	5,671,168	7,725,865
Nontaxable income	**(2,078,554)**	(4,445,393)	(7,846,534)
Other taxable income @ 5% GIT	**529,716**	–	–
Temporary differences for which no deferred income tax assets were	**359,880**	–	–
Interest income subjected to final tax	**(35,956)**	(80,171)	(11,272)
Dividend income	**(84,709)**	(45,543)	(174,978)
Expired NOLCO	**–**	–	24,584,279
Applied NOLCO	**–**	–	(5,966,229)
Expired MCIT	**–**	–	33,035
Nondeductible expenses and others	**101,105**	(9,403,025)	4,899,948
Benefit from income tax	**₱20,573,730**	(₱25,764,235)	(₱4,106,661)

The components of the Company's net deferred tax assets are as follows:

	2018	2017
Deferred tax assets:		
Employee stock options	**₱16,510,906**	₱–
Allowance for impairment	**8,673,815**	3,518,827
NOLCO	**3,794,795**	3,271,803
Retirement benefits	**3,640,210**	1,453,049
Accrued rent	**3,830,700**	217,093
MCIT	**411,581**	35,980
Unrealized loss on forex	**50,908**	–
	36,912,915	8,496,752
Deferred tax liability -		
Unrealized foreign exchange gain	–	65,099
Net deferred tax assets	**₱36,912,915**	₱8,431,653

The components of the Company's net deferred tax liabilities are as follows:

	2018	2017
Deferred tax assets:		
Employee stock options	**₱–**	₱15,213,449
Allowance for impairment	–	3,777,168
Retirement benefits	–	3,523,447
Accrued rent	–	554,573
NOLCO	–	2,104,506
Provision	–	609,945
	–	25,783,088
Deferred tax liabilities:		
Intangible assets	**83,098,699**	89,034,321
Unrealized foreign exchange gain	–	67
	83,098,699	89,034,388
Net deferred tax liability	**₱83,098,699**	₱63,251,300

Deferred tax assets amounting to ₱3,042,459 and ₱24,862,651 as at December 31, 2018 and 2017, respectively, have not been recognized for the following temporary differences since the Company believes that it is not probable that it will have sufficient future taxable profits against which the deductible temporary differences can be utilized:

	2018	2017
Allowance for impairment	**₱92,784,572**	₱82,417,032
Input VAT	–	–
Others	**458,472**	458,472
	₱93,243,044	₱82,875,504

As at December 31, 2018, the Company's NOLCO and MCIT will expire as follows:

Year Incurred	Expiry Date	MCIT	NOLCO
2018	2021	₱375,601	₱-
2017	2020	35,980	₱10,906,011
2016	2019	1,360,081	36,364,080
2015	2018	212,475	25,019,068
2014	2017	5,788	39,295,348
		1,989,925	111,584,507
Less: Applied		(1,578,344)	(100,678,496)
		₱411,581	₱10,906,011

21. Earnings Per Share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2018	2017	2016
Net income attributable to equity holders of the Parent			
(a) Continuing operations	**₱33,283,676**	₱131,899,068	(₱42,094,556)
(b) Discontinued operations	-	-	62,041,241
(c) Net income available to common shares	**₱33,283,676**	₱131,899,068	₱19,946,685
Number of shares:			
Common shares outstanding at beginning of year	**342,620,008**	249,592,313	249,592,313
(d) Adjusted weighted average number of common shares outstanding – basic	**342,620,008**	287,031,160	246,653,378
Effect of dilutive potential common shares under the ESOP and treasury shares (see Note 15)	**12,451,711**	12,451,711	10,101,711
(e) Adjusted weighted average number of common shares outstanding – diluted to equity holders of the parent:	**337,071,719**	299,482,871	256,755,089
EPS, net income attributable to equity holders of the parent *(Amounts in Philippine peso):*			
Basic (c/d)	**0.097**	0.460	0.081
Diluted (c/e)	**0.099**	0.440	0.078

EPS, net income from continuing operations attributable to equity holders of the parent:

	2018	2017	2016
Basic (a/d)	**₱0.097**	₱0.460	(₱0.171)
Diluted (a/e)	**0.099**	0.440	(0.164)

EPS, net income from discontinued operations attributable to equity holders of the parent:

	2018	2017	2016
Basic (a/d)	**₱–**	₱–	₱0.252
Diluted (a/e)	**–**	–	0.242

In addition, as at December 31, 2018, the Company has stock options which could potentially dilute basic loss per share for continuing operations in the future, hence were not included in the calculation of diluted loss per share because these are anti-dilutive.

The weighted average number of shares in 2018 and 2017 takes into account the weighted average effect of shares issued during the year related to treasury shares, stock options and convertible loans (see Notes 14 and 15).

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these consolidated financial statements.

22. **Lease Commitments**

a. The Company leases its office space located at Bonifacio Technology Center from HatchAsia, An associate. The gross rental area is approximately 772.60 square meters at a rate of P618.19 per square meter, effective from January 1, 2017 to September 30, 2017, ₱659.27 per square meter effective from January 1, 2018 to September 30, 2018, and ₱705.42 from October 1, 2018 to December 31, 2018. The lease is effective until December 31, 2018.

   Rent expense charged to operations amounted to ₱6,036,777 in 2018, ₱5,919,628 in 2017, and ₱5,185,551 in 2016 (see Note 16 and 17).

b. HatchAsia, an associate, subleases the building it leases from Fort Bonifacio Development Corporation (FBDC) to various locators. These non-cancellable leases have remaining non-cancellable lease terms between 3 to 15 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

   Rent income amounted to nil in 2018, nil in 2017, and ₱5,396,554 in 2016 and presented under net income from deemed disposal of a subsidiary in the consolidated statement of income.

c. On May 22, 2016, DFNN entered into a contract of lease with Garlier Enterprises, Inc. The lease is effective for a guaranteed period of 15 years commencing on the date the lessor has taken possession of the land, and ending on the date 15 years thereafter. Total monthly rent is ₱1,405,000 with an escalation rate of 5% per annum.

d. On October 1, 2017, a sub-lease agreement was entered into by IEST with DFNN. The sub-lease agreement is valid for one year commencing from the date of the agreement, and shall automatically and continuously be renewed until either party notifies the other in writing 30 days before the expiration of the term. Monthly rent is equivalent to ₱550,000 with an escalation rate of 5% per annum.

e. DFNN entered into a contract of lease with Ramon C. Garcia, Jr. for its office at the Philippine Stock Exchange Tower in Bonifacio Global City in Taguig City. The lease is effective for a period of 8 years starting on October 1, 2018. Monthly rent is equivalent to P346,275 with an escalation rate of 5% per annum.

   Rental deposit and advance rental amounting to ₱5,181,604 as at December 31, 2018, and ₱23,460,000 as at December 31, 2017, are included in the "Other noncurrent assets" account in the consolidated statements of financial position (see Note 11).

   Accrued rent amounted to ₱12,768,998 as at December 31, 2018, and ₱2,572,218 as at December 31, 2017.

23. Financial Risk Management Objectives and Policies

The primary objective of the Company's financial risk management framework is to protect the Company's equity holders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Company's financial instruments consist of cash and cash equivalents, receivables, financial assets at FVPL, derivative asset, accounts payable and other current liabilities, due to related parties, loans payable and rental deposits. The Company's activities expose it to credit risk, liquidity risk and foreign currency risk.

Financial Risk

Credit Risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant credit concentrations of credit risks. The Company transacts only with a few recognized and creditworthy customers with whom it has already firmly established good business relationship.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the related financial instrument. The following table summarizes the Company's credit risk exposure as at December 31:

	2018	2017
Financial assets at FVPL:		
Derivative asset	**₱361,216,699**	₱57,657,619
Marketable securities	**25,207,130**	24,570,604
Financial assets through FVOCI	**90,000**	90,000
Financial assets at amortized cost / Loans and receivables:		
Cash*	**94,055,920**	329,690,924
Receivables:		
Advances to KGI	–	236,601,617
Trade receivables	**264,005,452**	123,530,663
Loans receivable	**67,622,667**	57,106,667
Advances to officers and employees	**19,875,719**	14,405,890

	2018	2017
Accrued interest receivable	**₱23,502,846**	₱9,848,751
Due from related parties	**299,408,876**	6,689,164
Other receivables	**19,025,476**	10,643,724
	₱1,174,010,785	₱870,835,623

**Excluding cash on hand.*

It is the Company's policy that all customers who wish to contract on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The following tables provide the credit quality of the Company's financial assets:

	2018			
	Neither Past Due nor Impaired		**Past Due**	
	High Grade	**Standard**	**and Impaired**	**Total**
Financial assets at FVPL:				
Derivative asset	**₱–**	**₱361,216,699**	**₱–**	**₱361,216,699**
Marketable securities	**25,207,130**	**–**	**–**	**25,207,130**
Financial assets through FVOCI	**90,000**	**–**	**–**	**90,000**
Financial assets at amortized cost:				
Cash*	**94,055,920**	**–**	**–**	**94,055,920**
Trade receivables	**–**	**264,005,452**	**10,343,848**	**274,349,300**
Advances to officers and Employees	**–**	**19,875,719**	**6,051,498**	**25,927,217**
Accrued interest receivable	**–**	**23,502,846**	**–**	**23,502,846**
Loans receivable	**–**	**67,622,667**	**–**	**67,622,667**
Other receivables	**–**	**19,025,476**	**2,674,116**	**21,699,592**
Due from related parties	**–**	**299,408,876**	**–**	**299,408,876**
	₱119,353,050	**₱1,054,657,735**	**₱19,069,462**	**₱1,193,080,247**

**Excluding cash on hand.*

	2017			
	Neither Past Due nor Impaired		Past Due	
	High Grade	Standard	and Impaired	Total
Financial assets at FVPL:				
Derivative asset	₱–	₱57,657,619	₱–	₱57,657,619
Marketable securities	24,570,604	–	–	24,570,604
Financial assets through FVOCI	90,000	–	–	90,000
Loans and receivables:				
Cash*	329,690,924	–	–	329,690,924
Trade receivables	–	123,530,663	2,028,302	125,558,965
Advances to officers and employees	–	14,405,890	6,051,498	20,457,388
Accrued interest receivable	–	9,848,751	–	9,848,751
Loans receivable	–	57,106,667	–	57,106,667
Advances to KGI	–	236,601,617	–	236,601,617
Other receivables	–	10,643,724	2,669,887	13,313,611
Due from related parties	–	6,689,164	–	6,689,164
	₱354,351,528	₱516,484,095	₱10,749,687	₱881,585,310

**Excluding cash on hand.*

The Company uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

- High grade - rating given to borrowers and counterparties who possess strong to very high capacity to meet its obligations.

- Standard - rating given to borrowers and counterparties who possess above average capacities to meet its obligations.

Liquidity Risk. Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The table below summarizes the maturity profile of the financial instruments of the Company based on remaining undiscounted contractual cash flows. It also summarizes the maturity profile of the financial assets based on expected realizability.

	2018		
	Within One Year	**1–5 Years**	**Total**
Financial assets at FVPL:			
Derivative asset	**₱361,216,699**	**₱–**	**₱361,216,699**
Marketable securities	**25,207,130**	**–**	**25,207,130**
Financial assets through FVOCI	**90,000**	**–**	**90,000**
Financial assets at amortized cost:			
Cash*	**94,055,920**	**–**	**94,055,920**
Trade receivables	**264,005,452**	**–**	**264,005,452**
Advances to officers and employees	**19,875,719**	**–**	**19,875,719**
Accrued interest receivable	**23,502,846**	**–**	**23,502,846**
Loans receivable	**67,622,667**	**–**	**67,622,667**
Other receivables	**19,025,476**	**–**	**19,025,476**
Due from related parties	**299,408,876**	**–**	**299,408,876**
Total financial assets	**1,174,010,785**	**–**	**1,174,010,785**
Other financial liabilities:			
Accounts payable and other current liabilities:			
Trade	**323,622,081**	**–**	**323,622,081**
Progressive fund payable	**55,745,252**	**–**	**55,745,252**
Accrued expenses**	**106,847,507**	**–**	**106,847,507**
Due to related parties	**32,649,658**	**–**	**32,649,658**
Short-term loans payable	**38,099,439**	**–**	**38,099,439**
	556,963,937	**–**	**556,963,937**
Liquidity gap	**₱617,046,848**	**₱–**	**₱617,046,848**

**Excluding cash on hand.*
***Excluding taxes, withholding tax, SSS, PHIC and HDMF payables.*

	2017		
	Within One Year	1–5 Years	Total
Financial assets at FVPL:			
Derivative asset	–	₱57,657,619	₱57,657,619
Marketable securities	24,570,604	–	24,570,604
Financial assets through FVOCI	90,000	–	90,000
Financial assets at amortized cost:			
Cash*	329,690,604	–	329,690,604
Trade receivables	123,530,663	–	123,530,663
Advances to officers and employees	14,405,890	–	14,405,890
Accrued interest receivable	9,848,751	–	9,848,751
Loans receivable	57,106,667	–	57,106,667

(Forward)

	2017		
	Within One Year	1–5 Years	Total
Advances to KGI	₱–	₱236,601,617	₱236,601,617
Other receivables	10,643,724	–	10,643,724
Due from related parties	6,689,164	–	6,689,164
Total financial assets	576,576,067	294,259,236	870,835,303
Other financial liabilities:			
Accounts payable and other current liabilities:			
Trade	243,631,457	–	243,631,457
Progressive fund payable	13,930,398	–	13,930,398
Accrued expenses**	54,692,616	–	54,692,616
Due to related parties	20,980,846	–	20,980,846
Short-term loans payable	35,560,726	–	35,560,726
	368,796,043	–	368,796,043
Liquidity gap	₱207,780,024	P294,259,236	P502,039,260

***Excluding cash on hand.*

***Excluding taxes, withholding tax, SSS, PHIC and HDMF payables.*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and extension of suppliers' credit. The strong creditworthiness of the Company gives it the ability to save funds as the need arises.

Foreign Currency Risk. Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's transactional currency exposures arise from revenue transactions in currencies other than its functional currency.

The Company's objective is to keep transactional currencies at an acceptable level to its operations to minimize foreign exchange exposures.

The Company's foreign currency-denominated assets and liabilities consist of the following:

	2018		2017	
	US$ Value	**Peso Equivalent**	US$ Value	Peso Equivalent
Assets:				
Cash	**$848,965**	**₱44,638,560**	$151,353	₱7,557,055
Receivables	**93,089**	**4,894,595**	123,667	6,174,692
Derivative asset	**4,169,118**	**361,216,699**	1,154,769	57,657,619
	5,111,172	**410,749,854**	1,429,789	71,389,366
Liabilities:				
Accounts payable and other current liabilities	**503,813**	**26,490,503**	148,274	7,403,338
	$4,607,359	**₱384,259,351**	$1,281,515	₱63,986,028

The closing functional currency exchange rates as at December 31 are as follows:

	2018	2017
U.S. dollar	**₱52.58**	₱49.93

The following table presents the impact on the Company's income before income tax and equity as at December 31, 2018 and 2017 due to a reasonably possible change in fair value of monetary assets and liabilities brought about by a change in peso to dollar exchange rate as at December 31:

	Changes in Foreign Exchange Rates	Impact on Loss Before Income Tax
2018	**Increase by 5.31%**	**₱4,387,863**
	Decrease by 5.31%	**(4,387,863)**
2017	Increase by 0.42%	268,741
	Decrease by 0.42%	(268,741)

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

The change in foreign currency exchange rate is based on the Company's best estimate of expected change considering historical trends and experiences.

Capital Management
The primary objective of the Company's capital management is to maintain its capital at a level adequate to support the funding requirements of its on-going projects and considering changes in economic conditions and risk characteristics of the Company's activities. No significant changes have been made in the objectives, policies, and processes of the Company from the previous year.

The capital considered by the Company is summarized below:

	2018	2017
Capital stock	**₱324,620,008**	₱324,620,008
Additional paid-in capital	**583,036,166**	583,036,164
Equity reserve	**(49,230,618)**	(49,230,618)
Retained earnings	**213,823,935**	239,405,913
Treasury stock	**(26,677,255)**	(26,677,255)
	₱1,045,572,236	₱1,071,154,212

24. **Fair Value Measurements**

Fair Value Measurement
The carrying value of the Company's financial assets and liabilities, except financial assets at FVPL and derivatives, approximate their fair values as at December 31, 2018 and 2017 due to the short-term nature of these financial instruments.

Fair Value Hierarchy

The following table provides the fair value hierarchy of the Company's assets which are measured at fair value:

	Year	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets for which fair value are disclosed:					
Financial assets at FVPL (see Note 6)	**2018**	**₱25,440,883**	**₱–**	**₱361,216,699**	**₱386,657,582**
Marketable securities	2017	24,570,604	–	–	24,570,604
Financial assets at FVOCI	**2018**	**90,000**	**–**	**–**	**90,000**
	2017	90,000	–	–	90,000
Liability for which fair value are disclosed:					
Loans payable - net of current portion	**2018**	**6,505,437**	**–**	**–**	**6,505,437**
	2017	6,181,380	–	–	6,181,380
Derivative Liabilities	**2018**	**–**	**–**	**83,098,699**	**83,098,699**
	2017	–	–	63,251,300	63,251,300

Equity Securities. The fair values of quoted equity securities are based on quoted market prices as at the financial reporting date.

Derivative asset. The derivative asset arises from the agreement between PGI and KGI, wherein PGI has the option to convert KGI's debt to ordinary shares of KGI (see Note 11). It was computed based on the Black-Scholes Option pricing model. Inputs used in the valuation are risk-free interest rate of 3.17% and volatility rate of 27.03%.

The significant unobservable inputs used in the fair value measurement of the derivative asset, together with a quantitative sensitivity analysis are as shown below:

	2018		2017	
	Change in rate	**Effect on Equity**	Change in rate	Effect on Equity
Interest rate	**1%**	**298,482**	1%	298,482
	(1%)	**(281,662)**	(1%)	(281,662)
Volatility rate	**1%**	**1,059,005**	1%	1,059,005
	(1%)	**(1,059,003)**	(1%)	(1,059,003)

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 measurements.

25. **Significant Contracts and Commitments**

Parent Company

a. Equipment Lease Agreement (ELA) with PCSO

On April 9, 2003, the Parent Company entered into an ELA with PCSO, a government-owned corporation. The agreement was for a period of eight years, commencing on the date of commercial operation of the equipment system. Under the agreement, PCSO shall pay the Parent Company a fee equal to a percentage of the gross amount of sales placed and received through the equipment system.

In 2004, the implementation of the Project was put on hold following the unilateral suspension of the PCSO Project.

In 2009, the Parent Company filed for a civil case entitled an "Application for Interim Measure of Protection in Aid of Arbitration - Preliminary Injunction with Application for Temporary Order for Protection". Pursuant to this case, the court granted the Parent Company's petition restraining the PCSO to implement text betting and to prevent PCSO from awarding any contract to any entity.

On March 19, 2010, the Regional Trial Court (RTC) granted the Parent Company's petition for, among others, the issuance of a writ preliminary injunction (WPI) restraining PCSO from implementing betting through wireless technologies with possible vendors.

In 2010, the RTC issued an Order denying PCSO's Omnibus Motion dated March 26, 2010 on the ground that all of the motions contained therein were without merit.

In 2011, PCSO filed with the RTC its Notice of Appeal, and on February 8, 2011, the Regional Trial Court gave due course to the same and ordered that the entire record of the case be forwarded to the Court of Appeals (CA) for further proceedings. On January 3, 2012, the CA issued a notice directing PCSO to file its Appellant's Brief.

In 2013, the CA granted the Parent Company's Motion to Dismiss and dismissed the appeal filed by PCSO.

On June 13, 2013, DFNN received from PCSO its nominated arbitrator in the Ad Hoc Arbitral Tribunal completing the composition of the arbitration panel.

The Parent Company received a copy of the Arbitral Award dated May 21, 2015 in relation to the arbitration proceedings mandated by the ELA dated April 9, 2003 between the Parent Company and the PCSO.

In its Arbitral Award, the Arbitration Panel ruled that PCSO illegally and improperly terminated the ELA with the Parent Company. In this regard, PCSO was ordered to pay the Parent Company the amount of ₱27,000,000 as liquidated damages, in accordance with the terms of the ELA.

A Petition for Correction of Domestic Arbitral Award was instituted in the Court to seek correction of the computation of damages awarded to the Parent Company in the arbitral award dated May 21, 2015.

The Parent Company received the Decision dated February 17, 2016 issued by Court in relation to the Petition for Correction (the "Petition") filed by the Company. In its Decision, the Court granted the Petition and ordered the correction of the Arbitral Award to ₱310,095,150 plus 6% interest from date of finality of the Decision until final satisfaction thereof by the PCSO in accordance with computation for liquidated damages provided under Section 13.2 of the ELA (see Note 1).

An Order dated May 18, 2016 was issued by the Court, in relation to its Petition for Correction of Arbitral Award with the PCSO. In the Order, the Court denied the PCSO's Motion for Reconsideration for lack of merit. The said Order stated that, "The Court, after having read the parties' respective pleadings does not find any justifiable reason to overturn the assailed Decision, much less issue a different ruling. When the Court ruled for the petitioner, it was after a thorough perusal of the attendant circumstances, taking into consideration the facts and applicable law."

In a Resolution dated February 20, 2017, the Supreme Court, in the case entitled "PCSO vs. DFNN Inc." with case number G.R. No. 206611, granted the Motion to Withdraw Petition filed by the PCSO and declared the instant case closed and terminated. The Supreme Court likewise ordered the issuance of an Entry of Judgment finally disposing of the case.

On January 23, 2017, the Company filed a petition for enforcement of its money claim against PCSO with the Commission on Audit (COA). The COA gave PCSO until February 23, 2017 to file its Answer to the Company's petition. However, PCSO failed to file its Answer within the prescribed period. On March 6, 2017, PCSO filed a Motion to Admit Attached Answer with the COA. As at April 25, 2019, the petition remains pending with the COA.

IEST

a. PAGCOR

IEST has Memorandum of Agreement (MOA) with PAGCOR dated July 27, 2004 which was amended on February 22, 2005. Under the Agreement, IEST shall customize, modify and optimize the Automated Trading System and Remote Trading System software to develop automated betting exchange system software (XCHANGEBET) according to PAGCOR specifications. Aside from supplying the betting exchange software, IEST shall provide PAGCOR the design of the XCHANGEBET Betting System, interactive and various wireless connectivity capabilities, and the additional developments for various payment platforms.

In 2009, IEST entered into a contract with PAGCOR wherein IEST grants an exclusive Intellectual Property License (License) to use IEST's propriety software system and the collateral hardware necessary for PAGCOR to operate Instawin. The operation of Instawin games shall entail the establishment of Instawin outlets subject to PAGCOR's approval and various interactive and wireless connectivity platforms and payment solutions.

Commission income related to IEST's license recognized in the consolidated statement of comprehensive income amounted to ₱898,944,610 in 2018, ₱917,911,475 in 2017, and ₱208,851,923 in 2016.

b. Technical Assistance Agreement

On January 29, 2014, IEST entered into a Technical Assistance Agreement with Access Base Technology, Inc. (ABTSI). IEST engaged ABTSI to be a provider of technical assistance in connection with various IEST game offerings but not inclusive of the suppliers already engaged prior by IEST. Technical assistance means the supply of assistance with regards to logistics, marketing, supplies and consolidated accounting of selected outlets using the IEST software.

In consideration for the technical assistance by ABTSI, IEST agrees to pay a monthly service fee equivalent to certain percentage of the IEST share from the revenue generated from the games offering. The monthly service fee incurred by IEST is included as part of the “Outside services” account under “Cost of services” in the consolidated statement of income.

Service fee related to ABTSI’s technical assistance amounted to ₱288,942,266 in 2018, ₱341,435,393 in 2017, and ₱70,486,310 in 2016 (see Note 17).

26. **Segment Information**

Since the Company has only one business segment, the primary segment reporting format is determined to be its geographical segment as the Company's risks and rates of return are affected predominantly by differences in the operating locations. The Company's geographical segments are based on the location of the Company's offices where external revenues are generated.

	2018					
	Philippines			**Singapore**	**Eliminating**	**Consolidated Financial**
	DFNN	**iWave**	**IEST**	**PGI**	**Entries**	**Statements**
	Software solutions	**Software solutions**	**Gaming software**	**Gaming software**		
Revenue	**₱78,082,675**	**₱211,570,354**	**₱898,861,170**	**₱40,281,833**	**(₱99,195,245)**	**₱1,129,600,788**
Cost of services	**49,521,268**	**111,380,587**	**630,062,145**	**11,424,851**	**(99,508,657)**	**702,880,193**
Gross profit (loss)	**28,561,407**	**100,189,767**	**268,799,025**	**28,856,983**	**313,413**	**426,720,595**
General and administrative expenses	**41,656,401**	**46,072,634**	**250,069,492**	**24,635,155**	**5,524,324**	**367,958,006**
Segment results	**(13,094,994)**	**54,117,133**	**18,729,534**	**4,221,828**	**(5,210,911)**	**58,762,589**
Interest income	**13,666,898**	**226,615**	**300,655**	**–**	**371,234**	**14,565,402**
Interest expense	**(8,352,619)**	**(144,786)**	**(1,709,691)**	**(70,956)**	**20,556,104**	**10,278,052**
Foreign exchange gain (loss)	**6,725**	**(138,238)**	**–**	**6,829,657**	**8,248,508**	**14,946,653**
Share in profit	**–**	**–**	**–**	**–**	**432,739**	**432,739**
Derivative gain (loss)	**–**	**–**	**–**	**–**	**(13,275,215)**	**(13,275,215)**
Others – net	**36,980,407**	**(980,217)**	**2,217,807**	**–**	**(41,016,713)**	**(2,798,716)**
Provision for income tax	**(10,609,775)**	**(3,954,440)**	**(11,945,137)**	**–**	**5,935,621**	**(20,573,730)**
Net (loss) income	**₱18,596,642**	**₱49,126,068**	**₱7,593,168**	**₱10,980,529**	**(₱23,958,633)**	**₱62,337,774**
Segment assets	**₱1,400,037,165**	**₱152,801,643**	**₱692,551,545**	**₱193,041,104**	**(₱480,056,437)**	**₱1,958,375,020**
Segment liabilities	**₱366,509,617**	**₱42,438,457**	**₱692,525,132**	**₱203,151,503**	**(₱514,989,993)**	**₱793,634,716**
Depreciation and amortization	**₱1,062,806**	**₱692,934**	**₱59,987,601**	**₱–**	**₱19,785,406**	**₱81,528,747**
Capital expenditures for the year	**₱5,568,725**	**₱3,738,053**	**₱9,368,852**	**₱–**	**₱–**	**₱18,675,630**

	2017					
	Philippines			Singapore	Eliminating	Consolidated Financial
	DFNN	iWave	IEST	PGI	Entries	Statements
	Software solutions	Software solutions	Gaming software	Gaming software		
Revenue	₱139,279,692	₱41,049,179	₱917,911,475	₱11,033,629	(₱147,325,801)	₱961,948,174
Cost of services	46,594,827	42,763,298	659,995,152	5,516,813	(115,380,355)	639,489,735
Gross profit (loss)	92,684,865	(1,714,119)	257,916,323	5,516,816	(31,945,446)	322,458,439
General and administrative expenses	(33,073,138)	(12,041,317)	(221,277,528)	(15,778,587)	22,120,309	(260,050,261)
Segment results	59,611,727	(13,755,436)	36,638,795	(10,261,771)	(9,825,137)	62,408,178
Interest income	15,727,087	283,674	–	–	(5,895,724)	10,115,037
Interest expense	(13,083,375)	(144,527)	(475,799)	(5,164,538)	5,895,724	(12,972,515)
Foreign exchange gain (loss)	224	304,806	–	(211,528)	256,241	349,743
Share in profit	–	–	–	–	5,972,141	5,972,141
Derivative gain	–	–	–	–	47,650,584	47,650,584
Others – net	21,864,934	4,880,741	(3,802,416)	(23,116)	(17,441,918)	5,478,225
Provision for income tax	23,631,528	3,431,691	(7,234,605)	–	5,935,621	25,764,235
Net (loss) income	₱107,752,125	(₱4,999,051)	₱25,125,975	(₱15,660,953)	₱32,547,532	₱131,765,627
Segment assets	₱1,335,816,643	₱75,356,673	₱505,827,986	₱189,485,904	(₱427,024,495)	₱1,679,462,711
Segment liabilities	₱268,118,364	₱13,978,196	₱517,896,674	₱202,594,361	(₱490,879,572)	₱511,708,861
Depreciation and amortization	₱1,813,998	₱440,820	₱37,075,215	₱–	₱19,785,405	₱59,115,438
Capital expenditures for the year	₱–	₱384,702	₱174,678,168	₱–	₱–	₱175,062,870

	2016							
	Philippines			Singapore	Eliminating	Deemed disposal		Consolidated Financial
	DFNN	iWave	IEST	PGI	Entries	HatchAsia		Statements
	Software solutions	Software solutions	Gaming software	Gaming software		Leasing	Outsourcing services	
Revenue	₱5,040,644	₱48,727,114	₱208,851,923	₱15,480,104	(₱18,300,104)	₱5,396,554	₱41,820,226	₱307,016,461
Cost of services	31,541,459	38,743,407	142,747,106	7,646,589	(18,921,777)	7,766,388	26,208,477	235,731,649
Gross profit (loss)	(26,500,815)	9,983,707	66,104,817	7,833,515	621,673	(2,369,834)	15,611,749	71,284,812
General and administrative expenses	(38,546,408)	(9,788,883)	(51,180,697)	(16,301,624)	(13,221,603)	(2,331,791)	(12,728,792)	(144,099,798)
Segment results	(65,047,223)	194,824	14,924,120	(8,468,109)	(12,599,930)	(4,701,625)	2,882,957	(72,814,986)
Interest expense	(15,166,718)	(161,000)	(1,723,218)	(4,364,830)	4,364,830	(132,428)	(722,897)	(17,906,261)
Interest income	6,156,937	269,725	–	–	(4,364,830)	13	74	2,061,919
Foreign exchange gain (loss)	(62,868)	826,158	–	6,153,238	–	803	4,382	6,921,713
Share in profit	–	–	–	–	6,038,161	–	–	6,038,161
Others – net	29,590,478	4,264,957	1,886,777	(527)	59,251,144	32,209	175,821	95,200,859
Provision for income tax	(28,797)	(440,083)	(1,360,081)	–	5,935,622	–	–	4,106,661
Net (loss) income	(₱44,558,191)	₱4,954,581	₱13,727,598	(₱6,680,228)	₱58,624,997	(₱4,801,028)	₱2,340,337	₱23,608,066
Segment assets	₱500,366,007	₱89,913,335	₱136,124,572	₱191,036,493	(₱413,601,064)	₱–	₱342,405,168	₱846,244,511
Segment liabilities	₱179,862,437	₱37,819,410	₱173,128,113	₱163,299,221	(₱273,672,912)	₱–	₱184,329,977	₱464,766,246
Depreciation and amortization	₱2,587,458	₱1,482,138	₱768,606	₱–	₱11,350,846	₱1,305,901	₱7,128,658	₱24,623,607
Capital expenditures for the year	₱–	₱500,307	₱6,958,080	₱–	₱–	₱–	₱–	₱7,458,387

27. **Notes to the Statement of Cash Flows**

Changes in liabilities arising from financing activities are as follows:

	January 1, 2018	Net cash flows	Noncash change	December 31, 2018
Loans payable (see Note 13)	₱43,498,480	(₱8,811,049)	₱–	₱43,498,480
Accrued interest (see Note 12)	19,387,702	(4,146,636)	12,381,704	19,387,702
Total liabilities from financing activities	₱62,886,182	(₱12,957,685)	₱12,381,704	₱62,886,182

Noncash change pertains to accrual of interest on short-term loans payable.

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
DFNN Inc.
3rd Floor, Bonifacio Technology Center
31st Street corner 2nd Avenue, E-Square IT Park-SEZ
Bonifacio Global City, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of DFNN, Inc. and Subsidiaries (collectively referred to as the "Company") as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated April 25, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Pilar B. Hernandez

Maria Pilar B. Hernandez
Partner
CPA Certificate No. 105007
SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022
Tax Identification No. 214-318-972
BIR Accreditation No. 08-001998-116-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332559, January 3, 2019, Makati City

April 25, 2019

DFNN, INC.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

DFNN, INC.

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

AS OF DECEMBER 31, 2018

Unappropriated retained earnings, as at December 31, 2017		₱106,164,458
Add (deduct) reconciling items:		
Deferred tax assets	(₱10,569,640)	
Effect of adoption of PFRS 9	(4,983,186)	
Adjustment on exercised stock option	(4,343,272)	(19,896,098)
Unappropriated retained earnings, as at beginning of year		86,268,360
Add (deduct) reconciling items:		
Total income for the year	18,596,642	
Property dividends declared	(48,228,503)	
Increase in deferred tax assets	1,227,720	(28,404,141)
Unappropriated retained earnings, as at December 31, 2018		₱57,864,219

DFNN INC.

SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2018**		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	X		
PFRS 2	Share-based Payment	X		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			X
PFRS 3	Business Combinations	X		
PFRS 4	Insurance Contracts			X
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts	X		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			X
PFRS 6	Exploration for and Evaluation of Mineral Resources			X
PFRS 7	Financial Instruments: Disclosures	X		
PFRS 8	Operating Segments	X		
PFRS 9	Financial Instruments	X		
PFRS 10	Consolidated Financial Statements	X		
PFRS 11	Joint Arrangements			X
PFRS 12	Disclosure of Interests in Other Entities	X		
PFRS 13	Fair Value Measurement	X		
PFRS 14	Regulatory Deferral Accounts			X
PFRS 15	Revenue from Contracts with Customers	X		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	X		
PAS 2	Inventories			X
PAS 7	Statement of Cash Flows	X		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	X		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**
PAS 10	Events after the Reporting Period	**X**		
PAS 12	Income Taxes	**X**		
PAS 16	Property, Plant and Equipment	**X**		
PAS 17	Leases	**X**		
PAS 19	Employee Benefits	**X**		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			**X**
PAS 21	The Effects of Changes in Foreign Exchange Rates	**X**		
PAS 23	Borrowing Costs			**X**
PAS 24	Related Party Disclosures	**X**		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			**X**
PAS 27	Separate Financial Statements	**X**		
PAS 28	Investments in Associates and Joint Ventures	**X**		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	**X**		
PAS 29	Financial Reporting in Hyperinflationary Economies			**X**
PAS 32	Financial Instruments: Presentation	**X**		
PAS 33	Earnings per Share	**X**		
PAS 34	Interim Financial Reporting			**X**
PAS 36	Impairment of Assets	**X**		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	**X**		
PAS 38	Intangible Assets	**X**		
PAS 39	Financial Instruments: Recognition and Measurement	**X**		
PAS 40	Investment Property			**X**
	Amendments to PAS 40, Transfers of Investment Property	**X**		
PAS 41	Agriculture			**X**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			X
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			X
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			X
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			X
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			X
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			X
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			X
Philippine Interpretation IFRIC-12	Service Concession Arrangements			X
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			X
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			X
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			X
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			X
Philippine Interpretation IFRIC-21	Levies			X
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	X		
Philippine Interpretation SIC-7	Introduction of the Euro			X
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			X
Philippine Interpretation SIC-15	Operating Leases—Incentives			X
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			X
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			X
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			X
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			X

DFNN, INC. AND SUBSIDIARIES
FINANCIAL ASSETS
DECEMBER 31, 2018

ANNEX A

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotation at balance sheet date	Income received and acrued
Fair value through profit or loss				
Chelsea Logistics IPO	30,000	193,800	193,800	0
Cebu Landmasters IPO	20,000	82,800	82,800	0
Eagle Cement Corp IPO	15,000	231,900	231,900	0
Cosco Capital Inc	90,000	603,900	603,900	0
Petron Corp	429,700	3,312,987	3,312,987	0
Manila Electric Co.	3,000	1,140,000	1,140,000	0
Ayala Land Inc	75,000	3,045,000	3,045,000	0
Italpinas Dev. Corp.	3,628	17,596	17,596	0
Metro Retail Store Corp	10,000	24,900	24,900	0
Alliance Global	250,000	2,975,000	2,975,000	0
Megaworld Corporation	1,860,000	8,835,000	8,835,000	0
San Miguel Corp	21,000	3,087,000	3,087,000	0
Pacific Online System Corp	50	500	500	0
Philippine Business	113	1,354	1,354	0
Travellers IPO	82,600	438,606	438,606	0
Leisure & Resorts Corp	338,000	1,101,880	1,101,880	0
Max's Group, Inc.	11,200	114,912	114,912	0
Total		25,207,135	25,207,135	
Derivative Asset		44,382,404		
Loan and Receivables				
Cash		96,410,210		
Receivables:				
Advances to KGI		0		
Trade receivables		264,005,452		
Loans receivable		67,622,667		
Advances to officers and employees		25,872,231		
Due from related parties		299,408,876		
Accrued interest receivable		23,502,846		
Other receivables		21,754,740		
Total		702,166,812		
Less allowance for impairment		26,674,747		
		675,492,065		
		841,491,814		

DFNN, INC. AND SUBSIDIARIES
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2018

ANNEX B

Name	Beginning Balance	Additions	Amt. Collected	Writen Off	Current	Non-current	Ending Balance
IWAVE							
Miguel Manzano	6,051,498	0	0				6,051,498
Sanchez Arcelli	36,093	37,175	36,093				37,175
Ramon C. Garcia, Jr.	33,960	0	0				33,960
Hirotsugo Kobayashi	27,441	30,160	27,441				30,160
Bryan Adams Manigbas	3,283	22,133	3,283				22,133
Joan de los Santos	30,000	15,250	30,000				15,250
Sharmaine Kho	0	34	0				34
Mario Tamayo	7,422	0	7,422				0
Felynor Taniegra	1,071	0	1,071				0
	6,190,768						6,190,210
IEST							
Maria Theresa Rojas		372,000	80,399				291,601
Rose Ann Doria		70000					70,000
Jay Martin Pajarin	0	50,378					50,378
Trixie Ledonio	0	37,100					37,100
Reyanna Carla de Castro	10,809						10,809
Eldefonso Minion	-871						-871
	9,938						459,017
DFNN							
Ramon C. Garcia, Jr.	7,246,400	1,849,081					9,095,481
Jean Henri D. Lhuillier	1,882,612	1,200,441					3,083,053
Raul Daza	1,387,924	354,160					1,742,084
James Beltran	1,035,812	264,311					1,300,123
Edwin B. Villanueva	615,277	157,002					772,279
Stephen Kyle Bendijo	0	605,026					605,026
Paul Bradley	475,060	121,222					596,282
Paulo Coppola	420,602	107,326					527,928
Antonio Lopa	333,671	85,144					418,815
Marco Urera	217,261	55,439					272,700
Roberto de Ocampo	156,941	40,047					196,988
Shun Wei Holdings Ltd.	153,601	39,195					192,796
Niseko Holdings Corporation	134,229	34,251					168,480
Uno Primera Holdings and Prop	66,700	17,020					83,720
Diversified Securities, Inc.	66,700	17,020					83,720
ADAC	37,572	9,587					47,159
Monico V. Jacob	15,392	3,928					19,320
Westdale Limited	10,928	2,788					13,716
Erika Manalili	0	3,333					3,333
	14,256,682	4,966,322					19,223,004
TOTAL	**20,457,388**						**25,872,231**

DFNN, INC. AND SUBSIDIARIES
AMOUNTS RECEIVABLE FROM RELATED PARTIES ELIMINATED UPON CONSOLIDATION
DECEMBER 31, 2018

ANNEX C

Name and designation of debtor	Balance at beginning of period	Additions	Amount Collected	Amounts Written Off	Current	Non-current	Balance at end of the period
IEST	34,790,198	44,011,530	12,278,660				66,523,068
iWave	0	2,598,400	1,657,600				940,800
PGI	13,360,892	0	-0				13,360,892
	48,151,090	46,609,930	13,936,260	0	0	0	80,824,760

DFNN, INC. AND SUBSIDIARIES **ANNEX D**

INTANGIBE ASSETS - OTHER ASSETS

DECEMBER 31, 2018

Description	Balance at beginning of period	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges - additions (deductions)	Balance at end of period
License with PAGCOR	296,781,071	1,121,227	(19,785,405)	-	-	278,116,893
	296,781,071	**1,121,227**	**- 19,785,405**	**-**	**-**	**278,116,893**

DFNN, INC. AND SUBSIDIARIES

ANNEX E

INTANGIBE ASSETS - OTHER ASSETS

DECEMBER 31, 2018

Title of issue and type of obligation	Amount authorized by indenture	Amount shown uder caption "Current portion of long-term debt" in related balance sheet	Amount shown uder caption "Long-term debt" in related balance sheet
NONE	NONE	NONE	NONE

DFNN, INC. AND SUBSIDIARIES **ANNEX F**

INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2018

Name of Related Parties	Balance at beginning of period	Balance at end of period
NONE	NONE	NONE

DFNN, INC. AND SUBSIDIARIES **ANNEX H**

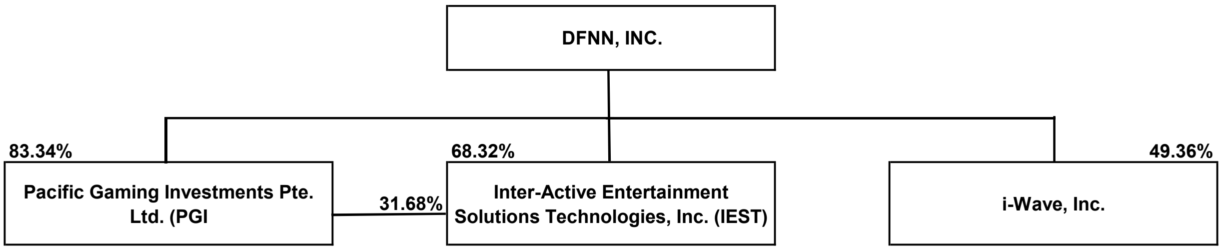
CAPITAL STOCK

DECEMBER 31, 2018

Title of Issue	Number of shares authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversion, and other rights	Number of shares held by related parties	Directors, officers, and employees	Shares held by subsidiaries
Common Stock	400,000,000	324,620,008	3,500,000	3,695,938	36,699,830	3,669,434
Preferred Stock	100,000,000	-				

DFNN, INC. AND SUBSIDIARIES
MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG THE COMPANY AND ITS SUBSIDIARIES AND ASSOCIATES
DECEMBER 31, 2018

ANNEX H



ANNEX J

DFNN, INC.
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2018

Unappropriated retained earnings, as at December 31, 2017		106,164,458
Add (deduct) reconciling items:		
Deferred Tax Asset	-10,569,640	
Effect of adoption of PFRS 9	-4,983,186	
Adjustment on exercised stock option	-4,343,272	-19,896,098
Unappropriated retained earnings as at beginning of year		86,268,360
Add (deduct) reconciling items:		
Total income for the year	18,596,642	
Property dividends declared	-48,228,503	
Increase in deferred tax asset	1,227,720	-28,404,141
Unappropriated retained earnings, as at December 31, 2018		57,864,219