DFNN

2019 ANNUAL REPORT

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DFNN
AT GLANCE

DFNN, Inc. is a leading I.T. solutions provider and systems integrator, enabling its clients to compete in an increasingly technology dependent environment. Backed by its domain expertise in the financial sector, DFNN has competencies in: high volume and secure financial transactions, software/ middleware development, I.T. support services, secure platform development, and turnkey implementations.

Through its subsidiaries and affiliates, DFNN also possesses licenses for Electronic Gaming Machines (EGMs), a sports betting exchange, and digit and pari-mutuel games with the Philippine Amusement and Gaming Corporation (PAGCOR). DFNN believes that its unique background as an I.T. company with a strong success and track record puts it in a unique position to explore and maximize opportunities in various sectors.

"TECHNOLOGY AT PLAY".

OUR MISSION

Provide technology at the highest standards that enrich the businesses of our clients and the industries they build.

VISION

Utilize our unlimited passion for technology to deliver the most efficient and groundbreaking solutions for the gaming and financial services sectors in the Asia Pacific region.

CORE VALUES

Malasakit

A Filipino word most closely translated as "empathy", malasakit means attuning to and understanding the various needs of our stakeholders. It is taking their best interests are ours and working together to build a community-centric company. The value of malasakit ensures that DFNN is committed to addressing and incorporating the concerns of its stakeholders.

Integrity

Integrity means consistency of action and remaining accountable to commitments made. DFNN is dedicated to maintaining a principled environment on every level of the organization. We aim to integrate this core value in the actions, methods and measures of every individual within the company. It is with continued integrity that trust among stakeholders is achieved.

Teamwork and Service

DFNN strives to uphold a collaborative and open corporate culture that nurtures the unique talents of its employees. Aligning individual expertise with the combined efforts of DFNN's diligent, driven, and inspired teams makes for sustained progress. More than this, we at DFNN share a collective vision to consistently deliver innovative technology solutions and services to all our customers.

President's Letter to Shareholders

"I would like to thank you and call on you again, not only our shareholders but every stakeholder, for your continued support and encouragement. Let us do what we can to strengthen our exceptional union."

Dear fellow Shareholders,

We started off the year with great fervor, creating a more focused business strategy built on a sustainable model to grow our market leadership and at the same time exploring new business streams that will add value to the group.

In 2019, we have gone through great challenges and achieved remarkable milestones along the way. Our efforts were recognized as we were awarded the 'Most Innovative IT Solutions Provider' for the year by the prestigious International Finance Awards.

Although we posted less than favorable net income, this is attributable to non-cash items which are mainly provisions, such as input VAT that may be eventually reversed. Both our main subsidiaries; Interactive Entertainment Solutions Technology Inc. (IEST) and iWave Inc. posted a P929.9M and P182M revenue. A phenomenal achievement given the economic conditions we are in. We also achieved another remarkable feat when IEST recorded the highest ever Gross Gaming Revenue (GGR) in December posting P342M GGR, a clear indication that our efforts are paying off.

Besides revenue success, we also take pride in making sure that the company and its employees take part in ensuring that our resources, both economic and environmental, are nurtured and preserved not just for our current needs but also for the generations that will come after us. Thus, Sustainability Vanguards was constituted to lead our corporate sustainability program development with the goal to empower employees to directly contribute to the company's sustainability efforts. In 2019, we have contributed a total of ten (10) initiatives to the United Nations Sustainable Development Goals.

All this success is due to the employees of the DFNN Group showing tremendous character and capabilities over this period.

While we entered 2020 with a solid momentum, we saw an emergence in the tail end of 2019 which we now know as the COVID-19 pandemic. The challenges posed by the pandemic are significant and we cannot assume that it will resolve by itself. Thus, I would like to thank you and call on you again, not only our shareholders but every stakeholder, for your continued support and encouragement. Let us do what we can to strengthen our exceptional union.

In closing, I would like to express my deep gratitude and appreciation to our employees; and with this letter, I hope shareholders and readers gain an appreciation for them. My intention for calling them out is that you may be as proud of them as I am.

Calvin Lim
President and CEO

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

Antonio A. Lopa, 81
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., 52
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, 39
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.

James Beltran, 54
Independent Director of DFNN (Malaysian)

Mr. Beltran currently serves as the Chairman of the Malaysia Russia Business Council. He is a founding member of the governance and licensing body for Certified Financial Planners (CFPs) of the Financial Planners Association of Malaysia and holds directorships in Agrostan Farms of Kazakhstan, United Helicopters SEA of Hong Kong, and The Royal Langkawi Yacht Club of Malaysia. He has extensive experience in working with commercial and government entities of the Russian Federation across multiple industries and in managing micro and macro aspects of international multi-subsidiary entities.

Previously, Mr. Beltran was involved in several organizations in various capacities. A Board and Global Advisory Board Member of Arshiya International, an Indian-listed integrated logistics company; Country Head of MAA General Insurance Philippines and Advisor of the Malaysian Reserve.

He graduated with a Bachelor of Laws degree at the University of West London and completed his Certificate of Legal Practice from the University of Malaya. Mr. Beltran has a decade-long experience practicing law in London and Kuala Lumpur.

Jean Henri D. Lhuillier, 51
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, 53
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 center 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, 69
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, 51
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.

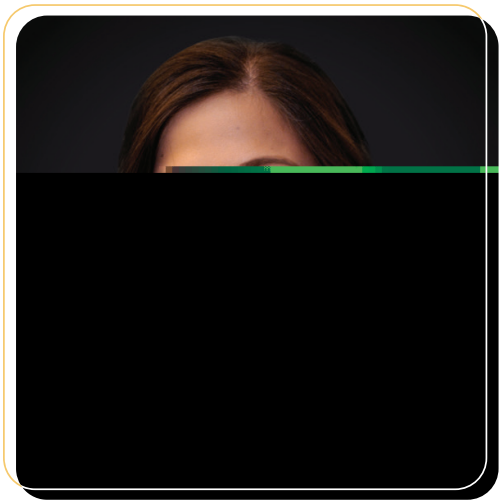
Mr. Ongkauko graduated with a Bachelor of Science degree in Business Management from the De La Salle University.

Brandon C. Chan, 56
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, *47*
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, *52*
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 cofounder 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.

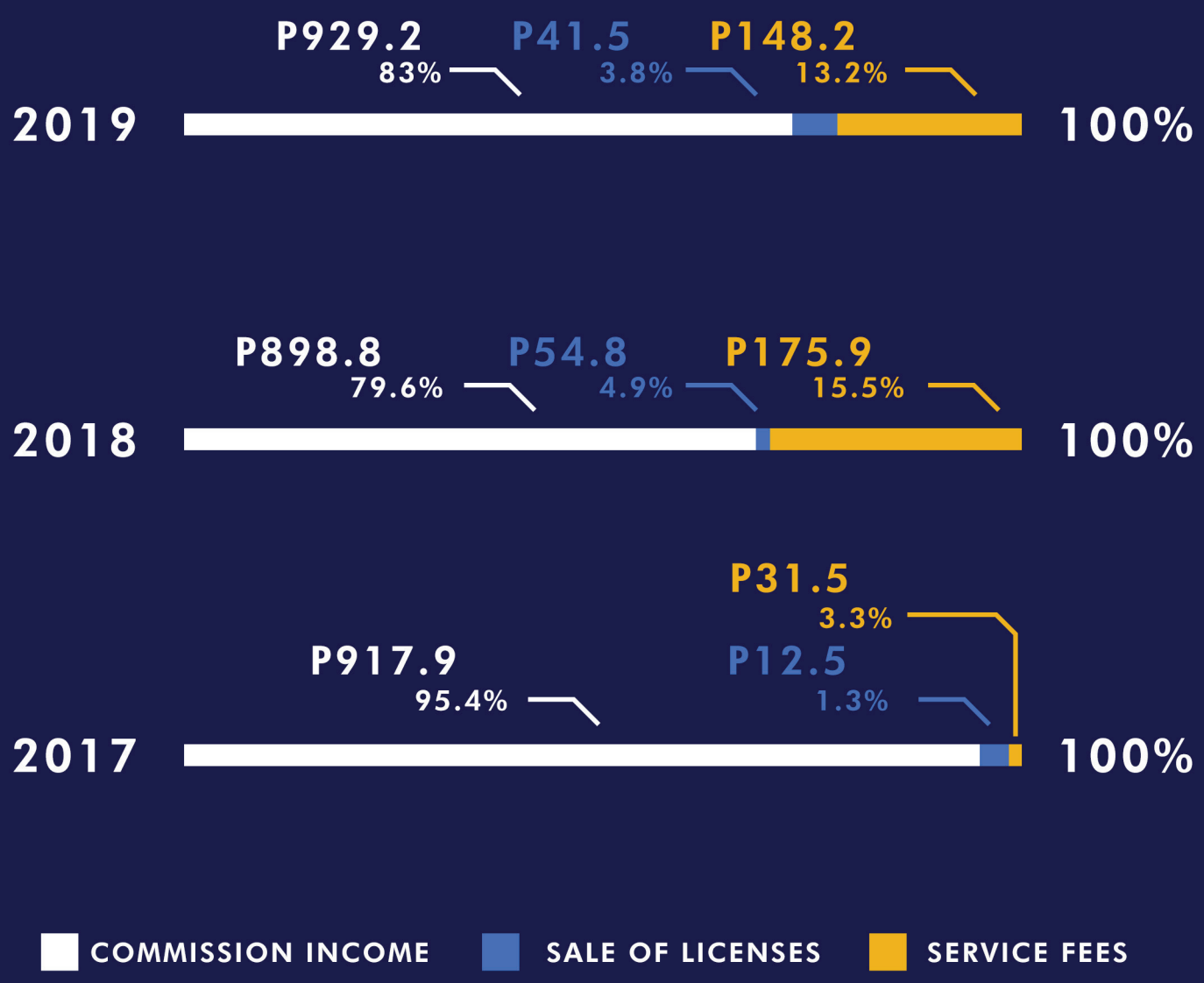
Mr. Serrano is a Certified Associate Treasury Professional (2017) and was among the top graduates of the Trust Institute of the Philippines in 2001. Mr. Serrano holds a Juris Doctor degree from the Ateneo Law School and a BS Legal Management degree from Ateneo de Manila University.

REVENUE BREAKDOWN

For the year ended on December 31, 2019, the DFNN Group posted consolidated revenues of approximately **Php1,118.9 million.** This is consisted mainly of:

PERCENTAGE SALES BY PRODUCT

(IN MILLIONS PESOS)

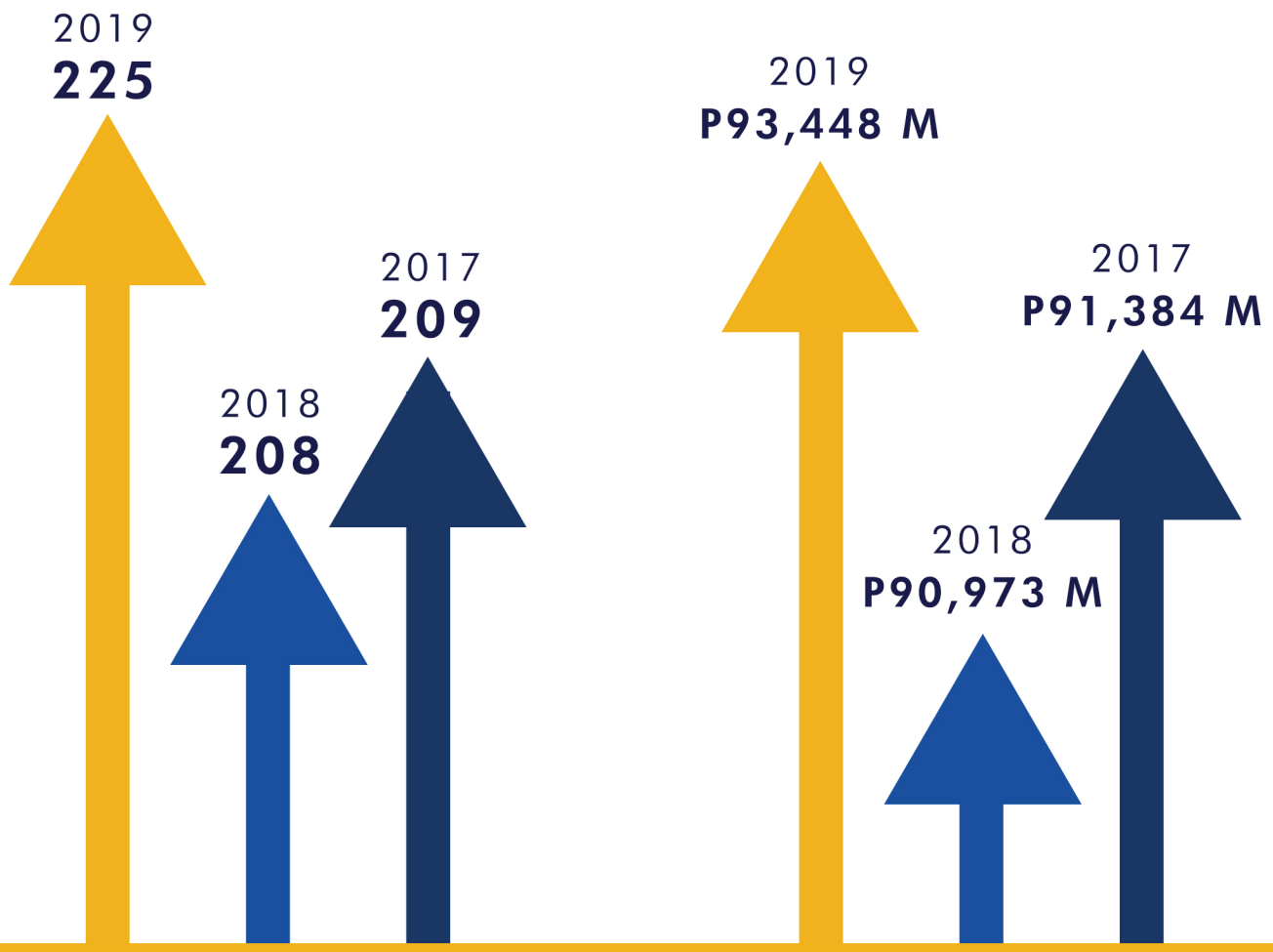


OPERATIONAL HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

GROSS TURNOVER	P93,448 M
NUMBER OF SITES	225
NUMBER OF EGMs	6,313

GROWTH IN TECHNOLOGY PLATFORM FOR AFFILIATES



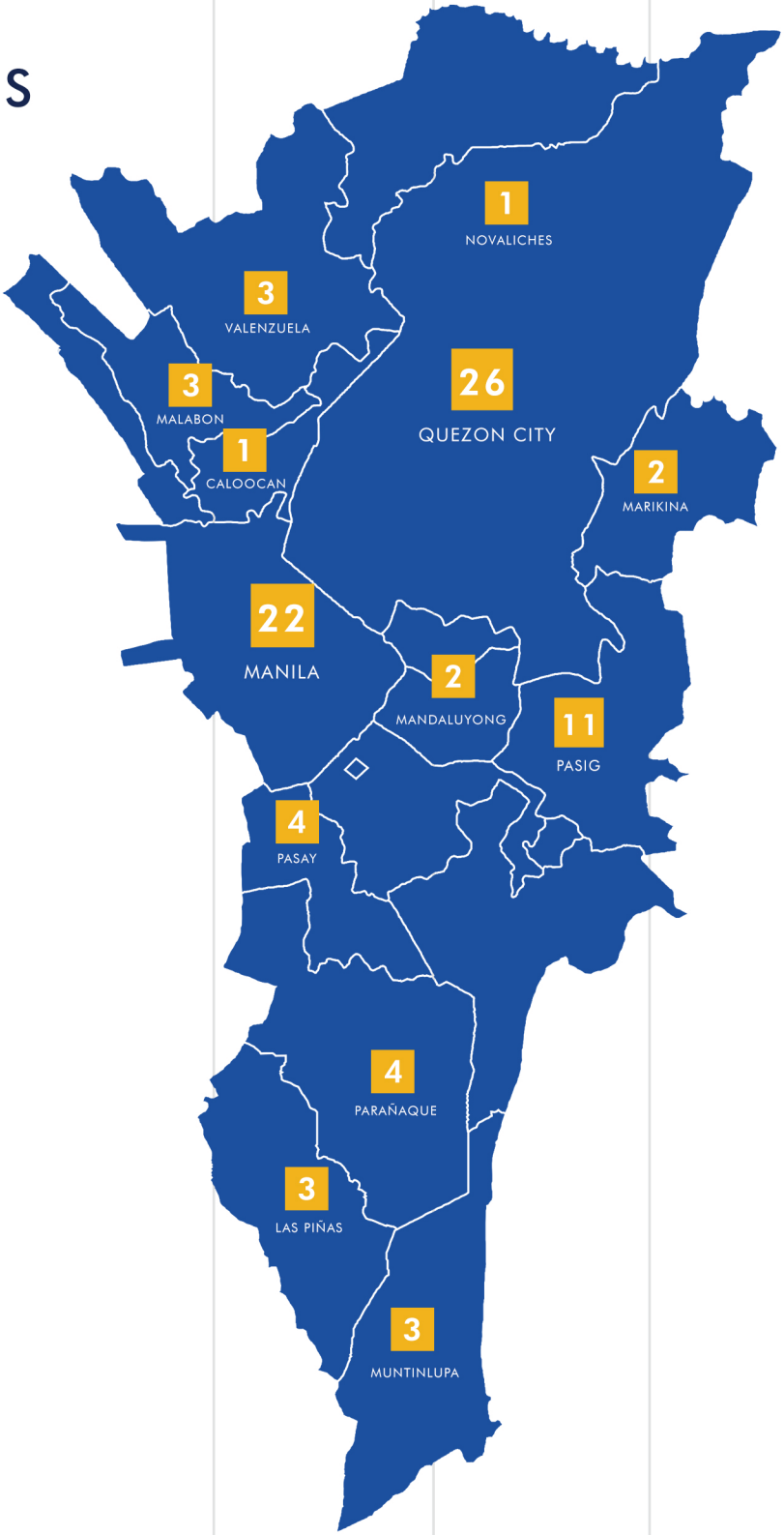
NUMBER OF AFFILIATE SITES

GROSS TURNOVER

SITEMAP OF AFFILIATES

NUMBER OF EMG TERMINALS

- **2019**
  6,313
- **2018**
  5,826
- **2017**
  6,640



1
CAR
5
REGION I
1
REGION II
29
REGION III
90
NCR
40
REGION IV-A
4
REGION V
4
REGION IV-B
6
REGION VI
12
REGION VII
10
REGION X
1
BARMM
1
REGION XII
3
REGION XI

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

1. Revised the Revised Manual of Corporate Governance Manual filed on 26 December 2020 with the Securities and Exchange

- New DFNN logo;
- A new provision stating that the Board will ensure an effective succession program is in place;
- A new provision providing for the optional retirement age; and
- A new section on Alternative Dispute Resolution mechanism.

2. Board of Directors appointment of Atty. Cyrus R. Montesa as the company's Data Protection Officer on 18 January 2020;

3. Corporate Governance seminar for directors and key officers was held on 20 September 2020.

HUMAN RESOURCES AND ADMINISTRATION

I. Learning and Development

a. Strategic Planning – January 22, 2019
b. Financial Literacy - April 24, 2019
c. Personal Effectiveness Workshop – September 23, 2019
d. Executive Driving Training – August 17, 2019
e. Personality Dev't Training (8 Essentials to a Winning Persona) – August 16, 2019
f. Personality Dev't Training (8 Essentials to a Winning Persona) – August 30, 2019
g. Customer Service Training – May 22, 2019
h. Occupational First Aid w/ CPR Training – April 24-25, 2019
i. Strategic

II. Health and Wellness

a. Optical Check-Up – July 15 & 16, 2019
b. Annual Physical Examination – August 2, 2019
c. Hiking (Mt. Buntot Palos & Ambon Ambon Falls) – May 25, 2019
d. Hiking (Mt. Maynuba) – September 21, 2019

III. Corporate Social Responsibility

a. Blood Donation – February 28 & November 6, 2019
b. Outreach Program (Education Under the Bridge) – December 7, 2019
c. Tree Planting & Nurturing (Mt. Balagbag) – November 16, 2019

IV. Employee Engagement

a. Town Hall
   i. January 2019
   ii. February 2019
   iii. April 2019
   iv. June 2019
   v. November 2019
b. Color Manila Run 2019 – August 18, 2019
c. Company Christmas Party – December 17, 2019

V. Administration

a. PSE Office Opening – February 27, 019
b. IEST Clark Office – July 26, 2019

TECHNOLOGY

DCG and IEST PLATFORM UPDATES

DCG was formed in 2019 to streamline all I.T related services and provide assistance to the entire DFNN Group including but not limited to software development, server, networking & internet security, and technical support services.

As part of DCG's continuous improvement process, there are ongoing efforts to review DFNN Group's current platforms to fix inefficiencies and bring software improvements in-line with the latest technology trends.

DCG rolled out a new Unified POS and Gaming Lobby which aims to improve the functionality and stability of the cash management system. This includes:

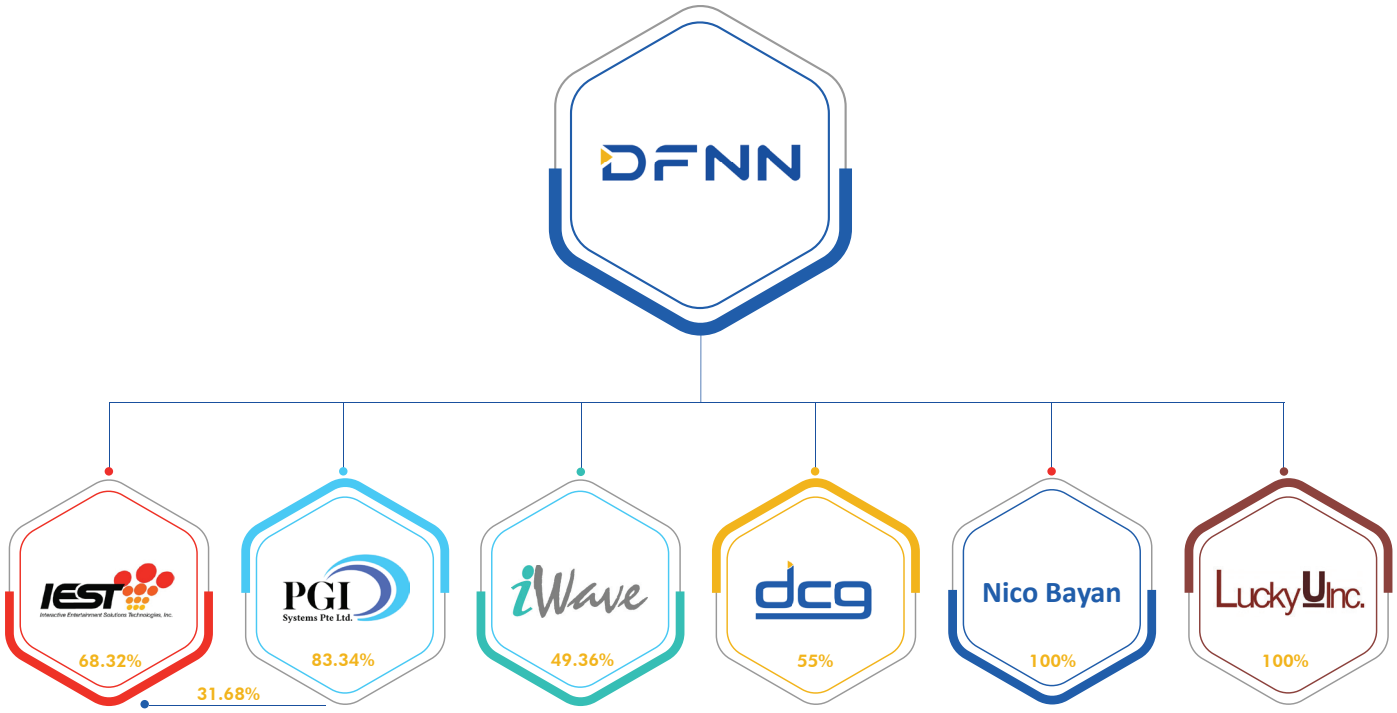
- Full screen Game Lobby to enhance the layer's user experience as well as to provide further security for the gaming terminal;
- Improved Member Search Functionality along with shortcuts to allow quicker cash deposit and withdrawals;
- Quicker automated balance transfers between game providers;
- Easier-to-access betting history for players; and
- View a list of players registered at your own outlets.

NATIONAL DATABASE OF RESTRICTED PERSONS (NDRP)

Under Regulation 20 of the PAGCOR Gaming Site Regulatory Manual (GSRM) Version 3.0, banned personalities including those registered on the National Database of Restricted Persons are prohibited from entry and play at any of the Instawin gaming sites. Any Operator found by PAGCOR to be allowing banned individuals to enter of place bets will be subject to a penalty and demerit points.

We introduced a new system functionality that will help our Operator Partners identify banned players. In order to assist with the NDRP check, an automated check was implemented based on a player's name and dates of birth will be matched against PAGCOR's NDRP Exclusion List. The system can identify players who have been banned based on the correct spelling of the individual's name and correct date of birth entered during registration. When a player is identified as banned, the person will no longer be able to play.

CORPORATE STRUCTURE



TOP 10 Stockholders

	Name	Holdings	Rank
1	PCD Nominee Corporation (Filipino)	213,890,174	65.89%
2	PCD Nominee Corporation (Non-Filipino)	51,927,765	16.00%
3	Douglas Hup Min Wong	13,668,356	04.21%
4	Kok Xan Gan	13,668,355	04.21%
5	Jean Henri D. Lhuillier	6,924,444	02.13%
6	Ramon C. Garcia Jr.	4,888,666	1.51%
7	Clarex Limited	4,244,344	1.31%
8	OCU Group, Inc.	2,800,000	00.86%
9	Bridge Information Systems (Int'l) Inc.	2,223,993	0.69%
10	P. J. Lhuillier, Inc.	1,000,000	00.31%
	Uno Primera Holdings & Property, Inc.	1,000,000	00.31%

(As of December 31, 2019)

SUBSIDIARIES

SUBSIDIARIES

INTER-ACTIVE ENTERTAINMENT SOLUTIONS TECHNOLOGIES (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 licenses are valid until 2033 and allow provisions for multiple platforms.

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

LICENSED PLATFORMS

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 (black jack, 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: CYGames, Max Fair, Play'nGO, 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

Wave, 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.

DGC, INC.

DCG Inc. hosts DFNN's 24/7 support team which provides technical support for all our partner operators. The development team and network operations control center monitors the entire technology platform. This includes end-to-end services from registration, point of sale systems, up to back-end reporting processes to the regulator.

The development team also provides continuous enhancements and integration with our game partners.

LUCKYU, INC.

LUCKYU INC. was incorporated on September 29, 2008, engages in the business of managing, operating and maintaining an internet cafe, gaming outlet, and/or establishments/facilities that host delivery and storage of computer systems.

NICO BAYAN

NICO BAYAN

Incorporated in 2019, Nico Bayan is a wholly-owned subsidiary of DFNN Group established as a vehicle for the expansion of its offshore gaming operations.

AFFILIATES AND TECHNOLOGY PARTNERS

AFFILIATES AND TECHNOLOGY PARTNERS

HATCHASIA, INC.

Hatchasia, Inc., founded in 2000, was originally organized as an incubation business for fledgling startup ".com" companies. Since being recapitalized in 2014, HAI aims to shape the digital landscape and build a veritable ecosystem of solutions for various industries through innovative technology and business process management services.

Currently, HAI is engaged in four (4) business segments namely:

- Business Management Outsourcing Services (BMO);
- Gaming Outlet Operations (GOO);
- Finance Technology (FinTech); and
- Office Space Leasing

KIRSCHNER GAMES INTERNATIONAL, INC.

Kirschner Games International Inc. (KGI) provides gaming products and opportunities that cover both the local and international gaming markets Its local products run the gamut of RNG Games, Virtuals, and Live Dealer Content, focused on the "Single-Event, Multi-Player" Format. Games such as Bacarrat, Roulette, Virtual Races and Ball Games are offered in the local Gaming Outlets. Through its Philippine Offshore Gaming Operator (POGO) License, KGI and its partners have the opportunity to tap into overseas gaming markets.

TECHNOLOGY AND GAMING CONTENT PARTNERS

TECHNOLOGY PARTNERS

3I INFOTECH

Among its repertoire of IPR-based solutions, the flagship products of the company are Premia, MFund, Orion, Kastle ULS and Amlock. 3i Infotech also focuses on value-added services such as Business Intelligence & Analytics, Infrastructure Management, Testing & Compliance, Application Development & Maintenance, Consulting and its BPO offerings.

BANK GENIE PTE. LTD.

Bank-Genie Pte. Limited is a Singapore-based company incorporated in 2016. With its business solutions in the financial services industry, it supports banks, financial institutions, loan companies and micro finance institutions.

DIRECTFN

DirectFN specializes in providing solutions ranging from Desktop Information Workstations, Transaction Systems and Order Management Systems through total end-to-end solutions. The Company is also a provider of exchange information to institutions via direct feeds or its DirectFNTM workstation, which includes reference data, charting tools and other content required by both the professional and retail investment community.

INFOBIP

Infobip is an international IT and telecommunications company. It creates seamless mobile interactions of the application-to-person (A2P) messaging evolution. Its platform provides an end-to-end footprint, powering both sides of the mobile ecosystem.

SMARTDOCS

SmartDocs is an enterprise class document management solution from Teknowmics. It is a simple, efficient and secure document management platform that will revolutionize the way knowledge is shared across the business enterprise. SmartDocs is a fully integrated, patent pending technology platform that makes manual document management obsolete.

GAMING CONTENT PARTNERS

SILVER GOOSE 8

Silver Goose 8 is an online integrated gaming platform that specializes in online casino, slots, live dealer, poker, Keno, binary financial betting and sports betting.

REALTIME GAMING

Realtime Gaming (RTG) provides Internet casino software for gaming operations. It offers software for multicasino progressive jackpot operations. RTG also provides hosting, customer service, hardware selection, technical support and training and continuing education services. RTG was founded in 1998 and is based in Willemstad, Curaçao.

SPADEGAMING

Established in 2007, Spadegaming is among Asia's foremost gaming software developers based in Philippines, with multiple sales offices located in Malaysia, Thailand, Vietnam, Cambodia, China and Indonesia. Its gaming creations feature global culture and elements, most prominently their signature Asian-themed games. With its products highly recognized and distributed across the globe, Spadegaming aims to extend its products and services to the gamingentertainment industry in Europe and America.

PLAYTECH

Playtech is one of the world's largest online gaming software suppliers. Traded on the London Stock Exchange, Playtech offers cutting-edge valueadded solutions to the industry's leading operators. Since Playtech's inception in 1999, its approach has been centered on the continual development of best-of-breed gaming products and content.

CY GAMES

Operated under CYG Pte. Ltd., CY Games is part of a group of companies with over a decade of experience in the global gaming business. Headquartered in Singapore, CYG Pte Ltd. was incorporated in 2014 as a software development company focusing on gaming products, with their core product being the Information Management System (IMS).

JDB GAMING

JDB (originally named JDB168 and Jiadoubao) holds the exclusive authorization granted by the most dominant land-based slot machine manufacturer in Asia, especially pioneering in "integrating offline slot and fishing casino games to online".

RED TIGER GAMING

Founded in 2014 by a group of industry experts, Red Tiger Gaming has a proven track record of casino game development in Europe & Asia. Red Tiger offers a portfolio of top performing original video slots and a flexible operator toolkit offering outstanding profit and retention driving capabilities.

CQ9 GAMING

Listed and headquartered in Asia, CQ9 has become one of the most competitive online game developers in the region. CQ9's range of products consists of a wide selection of themed online and mobile optimised slot machines, which are designed to appeal to the regional market and come with exciting styles, designs, bonus rounds and features.

HABANERO

Habanero is a leading supplier of quality gaming software for the online and land-based casino industries. It offers multi-language and multi-currency solutions tailored to suit the individual requirements of its operating partners which are administered through a single back office.

Habanero also provides payment solutions and an end-to-end casino management system with all industry options supported.

GAME MEDIA WORKS (GMW)

Since 2002, Game Media Works (GMW) has been creating unique slot games and platforms for the gaming industry. GMW has produced over 300 slot titles enjoyed by players and have proved to be top earners for operators. It has also developed robust gaming platforms that have tested at the highest quality, performance and industry standards.

ALFASTREET

Alfastreet continues to affirm its uncontested position of leadership in the creation of exceptional, highprofile, multi-player electronic gaming instruments. Alfastreet multi-player series of products include automated electronic Roulette, Alfastreet Live Roulette and Automated Electronic Dice in various models and configurations. Alfastreet products are a synonym for top-quality, technologically advanced, carefully designed, crafter and built gaming instruments.

ORTIZ GAMING

Headquartered in the US, Ortiz Gaming is multinational company specializing in Class II and Class III video bingo slot machines. It provides gaming products ranging from physical machines to mobile platforms. Currently active in North and South America, Europe, and Asia, it has been operational in the Philippines since 2013.

MAX FAIR GROUP

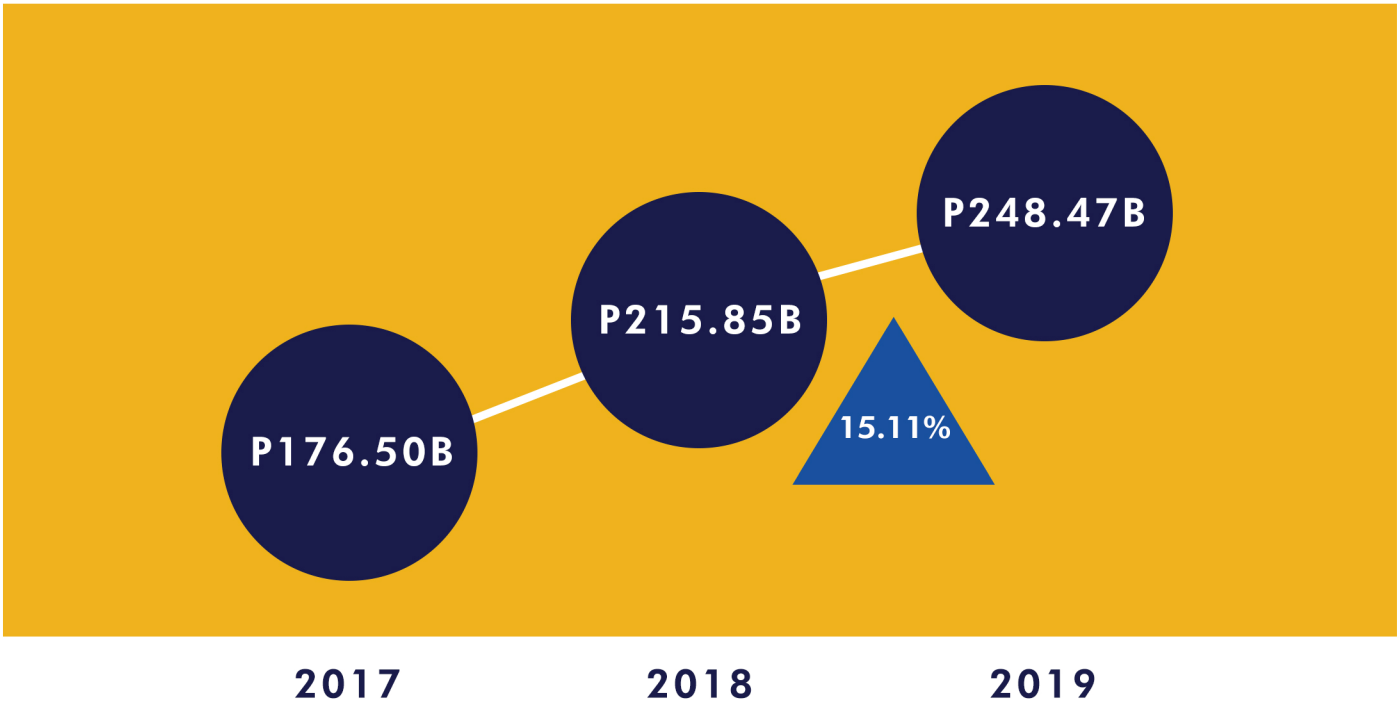
Max Fair Group Phils, Inc. (formerly known as BG Global Phils, Inc.) is a wholly-owned subsidiary of Hong Kongbased gaming technology company, Max Fair Group. Since its incorporation in 2008, Max Fair Philippines has been continuously approved by Pagcor (Philippine Amusement Gaming Corporation) as an accredited supplier of electronic bingo machines in the Philippines. Presently, Max Fair has 500 terminals operating at nearly 30 different bingo venues across the Philippines.

BETCRIS

Costa Rica International Sports (CRIS or BETCRIS) is a recognized sports betting industry leader since 1985. BETCRIS sportsbook provides safe, legal and secure sports betting on sports events, as well as horse racing, online casino games, poker and bingo from any location in the world, 24 hours a day 7 days a week.

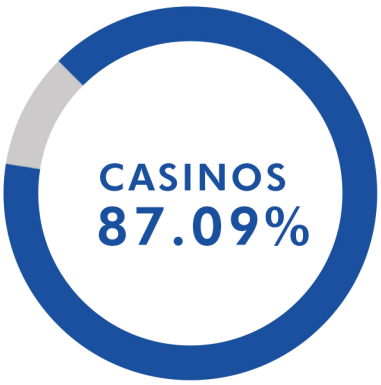
THE PHILIPPINE GAMING INDUSTRY
(DATA FROM PAGCOR AS OF DEC 2019)

1. 2019 TOTAL INDUSTRY GROSS GAMING REVENUES



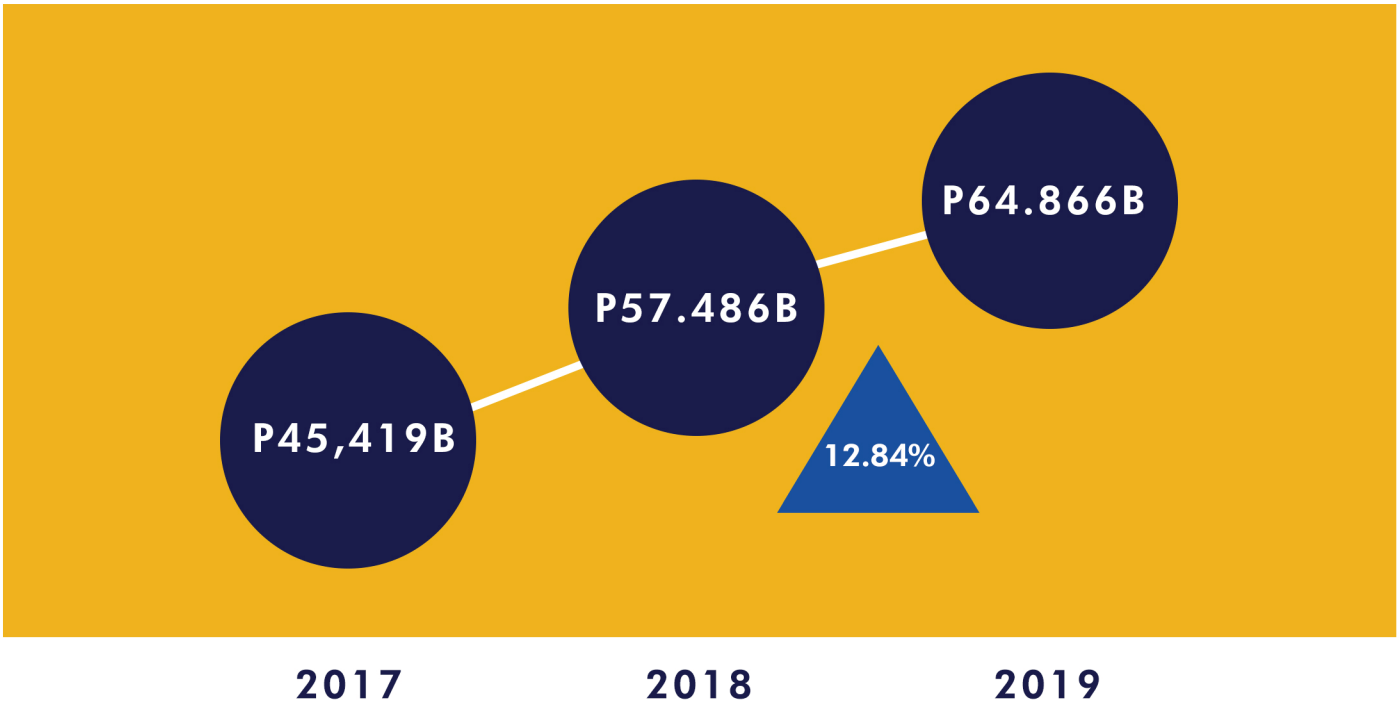
2019 total industry gross gaming revenue is reported **P248.468, a 15.11%** increase from the **P215.848 billion** recorded last year.

2019 GAMING REVENUE DISTRIBUTION



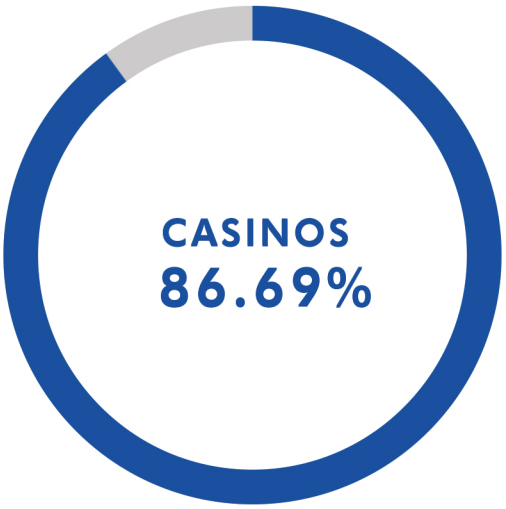
The **P248.468 billion** 2019 gross gaming revenue is comprised of revenues from licensed gaming sites of **P32.079 (12.91%)**, and casinos contributing **P216.389 billion (87.09%).**

2. 2019 TOTAL INDUSTRY GROSS GAMING REVENUES



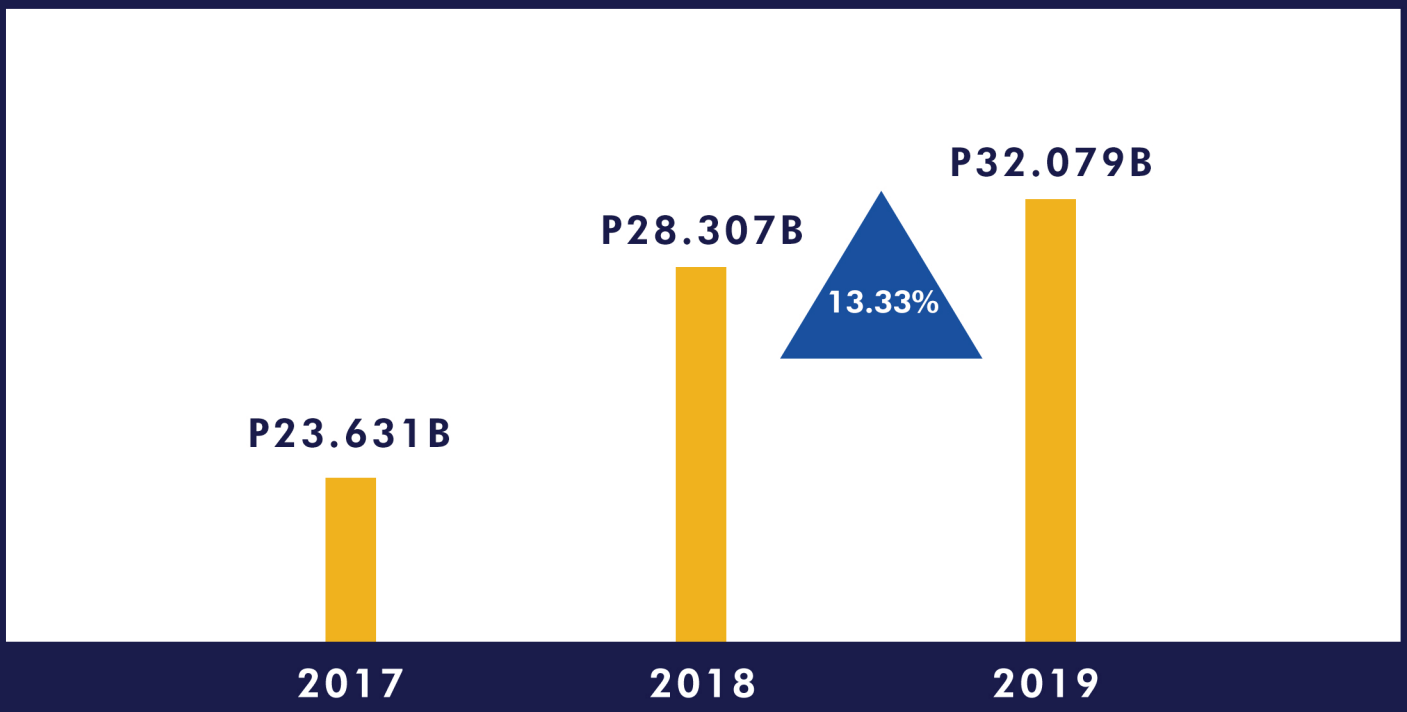
The Philippines reported total gross gaming revenues of **P64.866 billion**, a **12.84%** jump from the **P57.486 billion** disclosed in the same period last year.

2019 TOTAL GROSS GAMING REVENUE



The Philippines' total gross gaming revenue for 2019 is consisted of **P8.634 billion (13.31%)** revenues from licensed gaming sites and **P56.232 billion (86.69%)** from casinos.

3. 2019 LICENSED GAMING SITES GROSS GAMING REVENUE

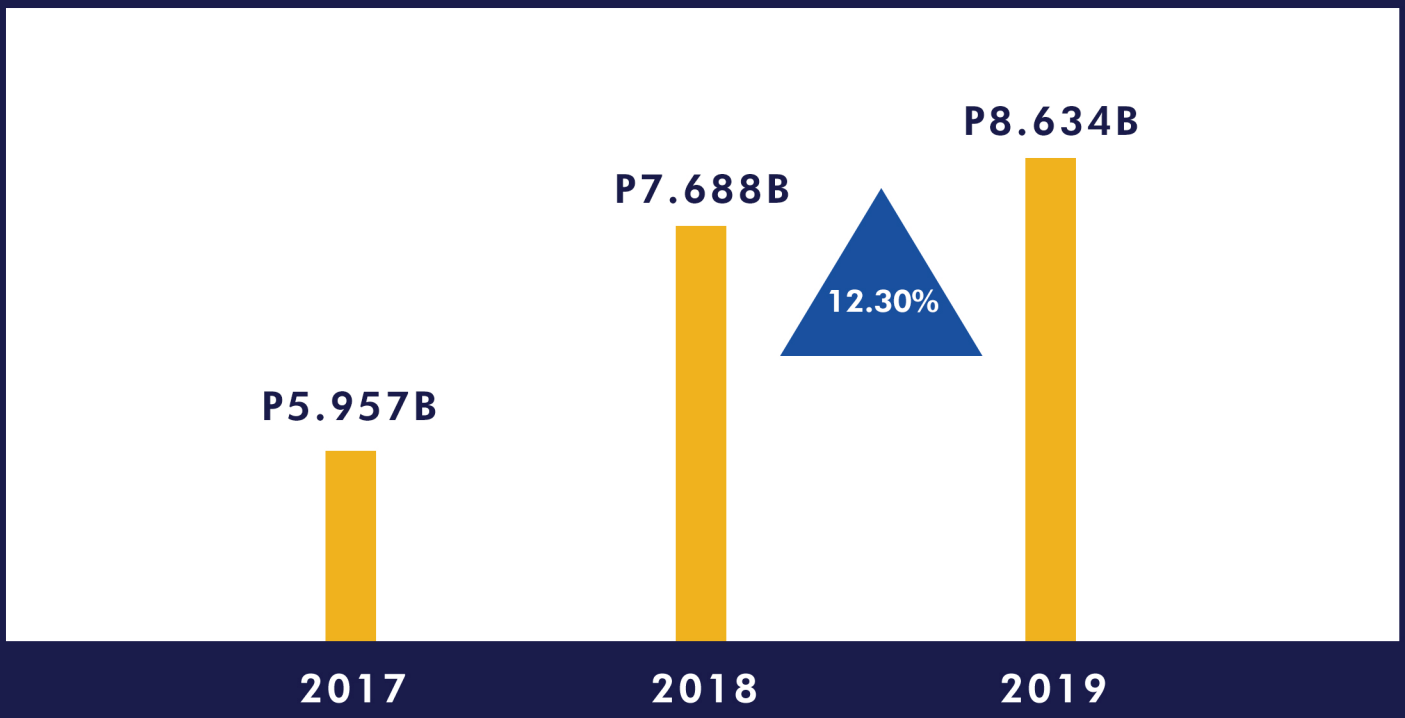


2019 gross gaming revenue produced by licensed gaming sites amounted to **P32.079 billion**, a **13.33%** surge from the **P28.307 billion** recorded in the same period last year.

2019 LICENSED GAMING SITES REVENUE DISTRIBUTION

The **P32.079 billion** 2019 licensed gaming sites gross gaming revenues is comprised of **P26.068 billion (81.26%)** from bingo games (including traditional bingo), **P5.017 billion (15.64%)** from electronic games, and lastly, **P994 million (3.10%)** from sports betting.

4. LICENSED GAMING SITES GROSS GAMING REVENUE

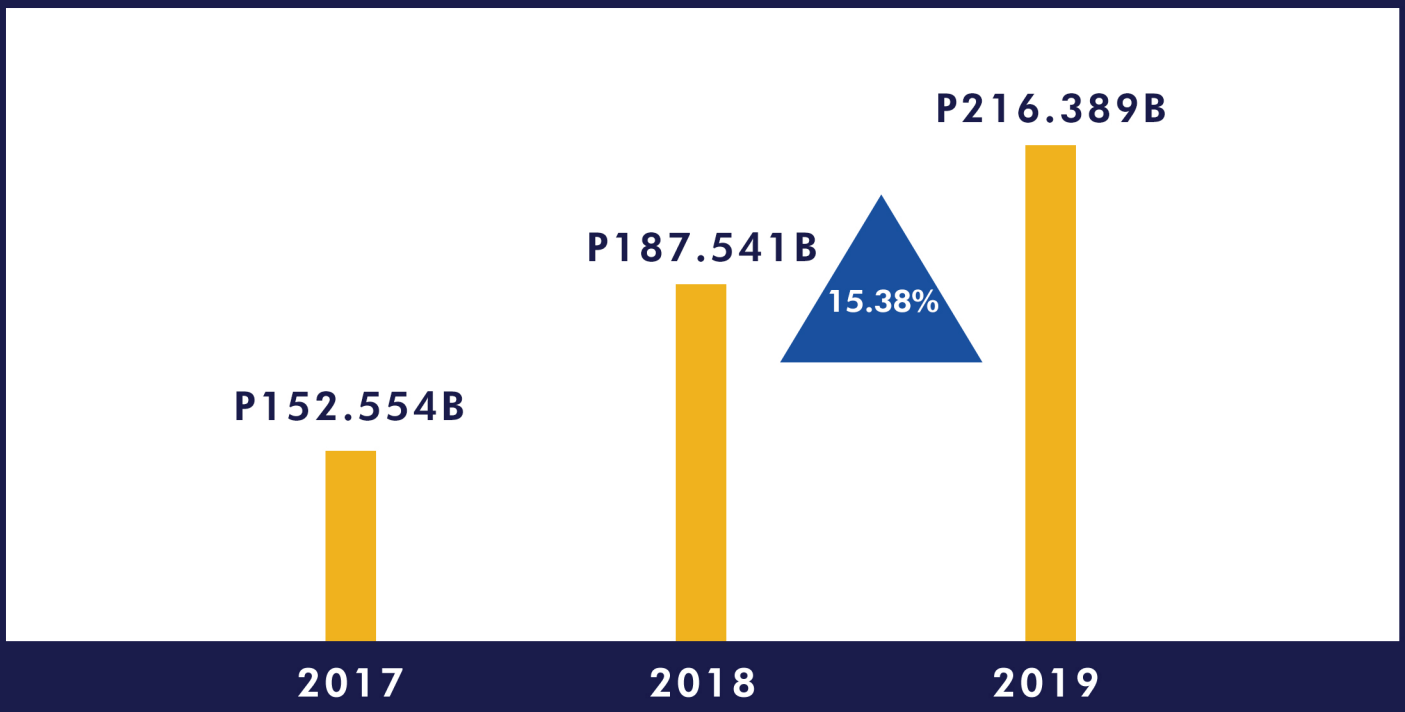


The total gross gaming revenue contributed by Philippine licensed gaming sites totalled to **P8.634 billion**, a **12.30%** increase from the **P7.688 billion** recorded in the same period last year.

2019 LICENSED GAMING SITES REVENUE DISTRIBUTION

The total gross gaming revenue earned by licensed gaming sites were distributed as follows: **P7.060 billion (81.77%)** from bingo games (including traditional bingo); **P1.317 billion (15.25%)** from electronic games; and **P257 million (2.98%)** from sports betting.

5. 2019 TOTAL CASINO GROSS GAMING REVENUE



2019 gross gaming revenues earned by Philippine casinos amounted to **P216.389 billion**, a **15.38%** jump from the **P187.541 billion** disclosed in the same period last year.

2019 CASINO GGR DISTRIBUTION

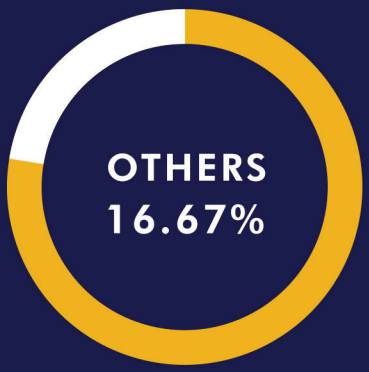
Pagcor casinos contributed **P36.934 billion (17.07%)** while other Philippine-licensed casinos brought in **P179.455 billion (82.93%)** to the total Philippine casino gross gaming revenues as of December 2019.

6. INSTALLED CAPACITY

NUMBER OF LICENSED GAMING SITES BREAKDOWN

As of December 2019, the total number of licensed gaming sites in the Philippines totalled **993**. This is consisted of **617** eBingo sites **(62.14%)**; **270** electronic games sites **(27.19%)**; and **106** sports betting sites **(10.67%)**.

7. Q2 2019 ELECTRONIC SERVICE PROVIDER BREAKDOWN



Out of the 270 licensed gaming sites, Instawin accounts for 225 or 83.33% of all electronic games in the Philippines.

8. PHILIPPINES VS MACAU
TOTAL INDUSTRY GROSS GAMING REVENUE 2019

For 2019, the Philippines disclosed a total industry gross gaming revenue of **P248.468 billion (US$4.87billion)***. On the other hand, Macau reported gross gaming revenue of **MOP292.455 billion (US$36.460 billion)****.

***1PHP = 0.020USD **1MOP = 0.12USD**

DFNN

WAS RECOGNIZED AS

"MOST INNOVATIVE IT SOLUTIONS PROVIDER - PHILIPPINES"

BY INTERNATIONAL FINANCE, A PRESTIGIOUS UK-BASED FINANCIAL AND BUSINESS ANALYSIS MAGAZINE.

DRIVING SUSTAINABILITY

SUSTAINABILITY REPORT

OUR COMPANY

DFNN Inc. (DFNN) is a publicly listed holding company listed in the Philippine Stock Exchange. It is headquartered in Taguig City at the 14th Floor of the PSE Tower. It is a leading I.T. solutions provider and systems integrator, enabling its clients to compete in a highly technology dependent environment. Through its subsidiaries, IEST, DCG, iWave and affiliates, DFNN also possesses licenses for Electronic Gaming Machines (EGMs), a sports betting exchange, and digit and pari-mutuel games with the Philippine Amusement and Gaming Corporation (PAGCOR). The Group operates various sites in Cavite, Clark and Cebu.

The Management and Board of Directors have oversight in the preparation of this report. This is the first Sustainability Report of DFNN, which will be published annually and submitted to the Securities and Exchange Commission every 15th of April together with the Annual Report (SEC Form 17-A).

This is a GRI-referenced Sustainability Report using the GRI Standards Disclosure. This is the digital version. No external assurance provider was engaged for this report.

CREATING SHARED VALUE THROUGH ESG INTEGRATION

Recognizing the business imperative of contributing to the global effort to minimize the negative impact of environmental degradation, the company strives to integrate sustainable business development principles as well as global best practices in its value chain through the establishment and institutionalization of the five (5) goals it identified, to wit:

1. Plan, manage, evaluate business processes in order to maintain or improve on our identified environmental, social and governance (ESG) risks;

2. Develop strategy and programs based on the triple bottom-line (Profit, People, Planet) thus contributing to help manage our environmental and social impact in collaboration with employees and stakeholders;

3. Mentor and holistically develop future leaders serving as role models in exemplifying the company's core values of *INTEGRITY, TEAMWORK & SERVICE and MALASAKIT;*

4. Help drive the company's continued growth through collaboration to achieve professional and personal growth; and

5. Advocate for a sustainable lifestyle by involving employees and stakeholders.

DFNN

"CREATING SHARED VALUE THROUGH ESG INTEGRATION"

This framework effectively integrates the current CSR and employee engagement program with sustainability. As such, Management has re-establish the DFNN Vanguards from a purely employee engagement program to a sustainability-centric employee-driven framework.

To empower employees to directly contribute to the company's sustainability efforts, a Sustainability Vanguards Committee was constituted to lead sustainability program development and implementation to be composed of volunteer employees. This team of volunteers will be mentored by the Management Sustainability Team to develop future role models in exemplifying the company's core values of *INTEGRITY, TEAMWORK & SERVICE and MALASAKIT.*

Members of the Management Committee exercises oversight on the strategic direction and implementation of programs. The DFNN Group Sustainability Team is lead by the Chief Technology Officer, Chief Finance Officer, Chief Compliance Officer, Chief HRAD Officer and Investor Relations Officer.

OUR STAKEHOLDERS

DFNN's stakeholders are our technology partners and clients, site operators, regulators, local government units, investors, supply chain partners and employees.

STAKEHOLDER ENGAGEMENT

A quarterly Partner's Meeting is held attended by electronic gaming site owners. During this meeting, DFNN's gaming subsidiary IEST reports on its deliverables for the quarter, product updates and developments in the business.

To keep abreast of the dynamic IT space, members of management periodically attend various local and international investor fora, finance conferences as well as gaming expos. True to its commitment to use technology in identifying opportunities from market inefficiencies and challenges, the company tracks developments in the areas of electronic gaming and fintech to produce applications that create growth opportunities for its various business to increase shareholder value.

OUR ECONOMIC PERFORMANCE (PROFIT)

OUR ECONOMIC PERFORMANCE (PROFIT)

DIRECT ECONOMIC IMPACT

Total Revenue - Php 1,118,950,487

Income Tax Benefit - Php 18,943,040

Total Expenses - Php 1,271,711,341

Pre-Tax Income - (Php 148,840,866)

OUR BUSINESS

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

We customize solutions to fit our 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 SOLUTIONS & DEVELOPMENT

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. The Company also designs and customizes various gaming platform solutions and products.

OUR CONTRIBUTIONS TO ENVIRONMENTAL PRESERVATION (PLANET)

SUSTAINABILITY VANGUARDS

Management has re-established the DFNN Vanguards from a purely employee engagement program to a sustainability-centric employee-driven framework. This new group is known as the DFNN Group Sustainability Vanguards or simply "Sustainability Vanguards".

To empower DFNN's employees to directly contribute to the company's sustainability efforts, a Sustainability Vanguards Committee was constituted in September to lead sustainability program development and implementation to be composed of volunteer employees. This team of volunteers is mentored by the Management Sustainability Team to develop future role models in exemplifying the company's core values of INTEGRITY, TEAMWORK & SERVICE, and MALASAKIT.

DFNN

SUSTAINABILITY VANGUARDS

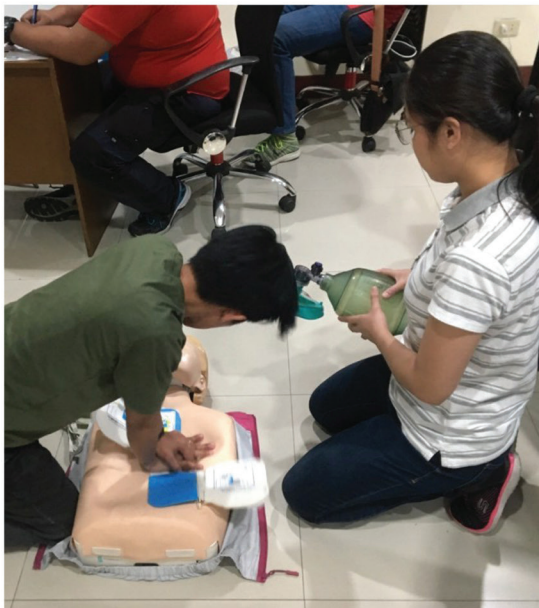
CLASS UNDER THE BRIDGE

BLOOD DONATION

HIKE AND TREE NURTURING ACTIVITIES

PHILIPPINE RED CROSS TRAINNG

DRIVING SUSTAINABILITY

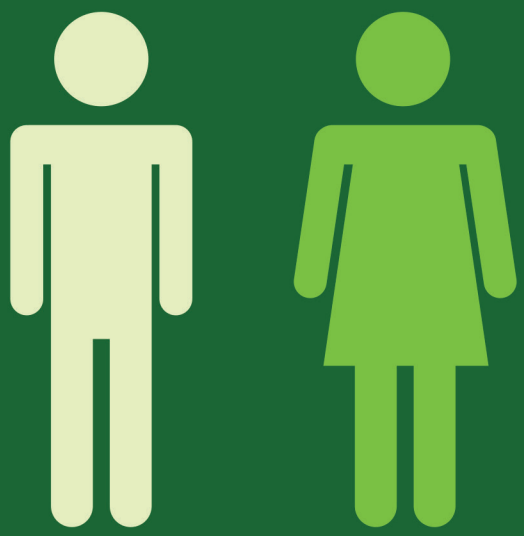


EMPLOYEE ENGAGEMENT AND SOCIAL IMPACT (PEOPLE)

TOTAL NUMBER OF EMPLOYEES

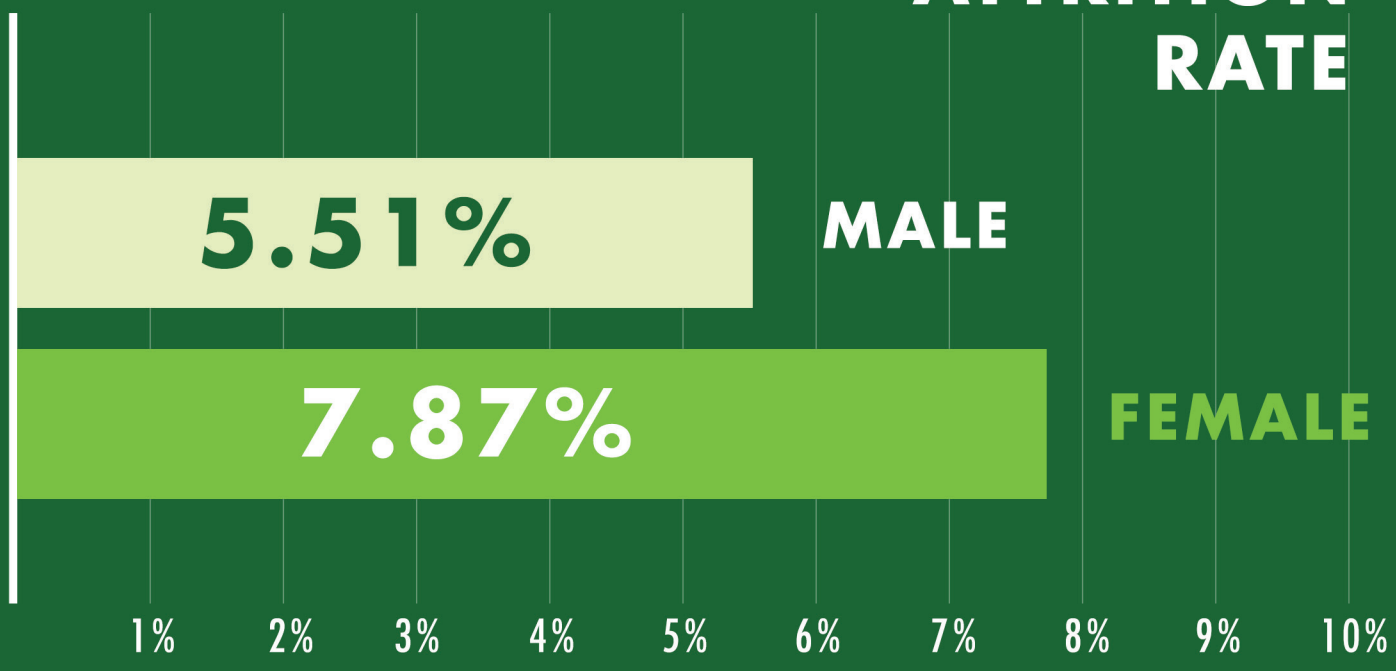
127

67 MALE
52.76%



60 FEMALE
47.24%

ATTRITION RATE

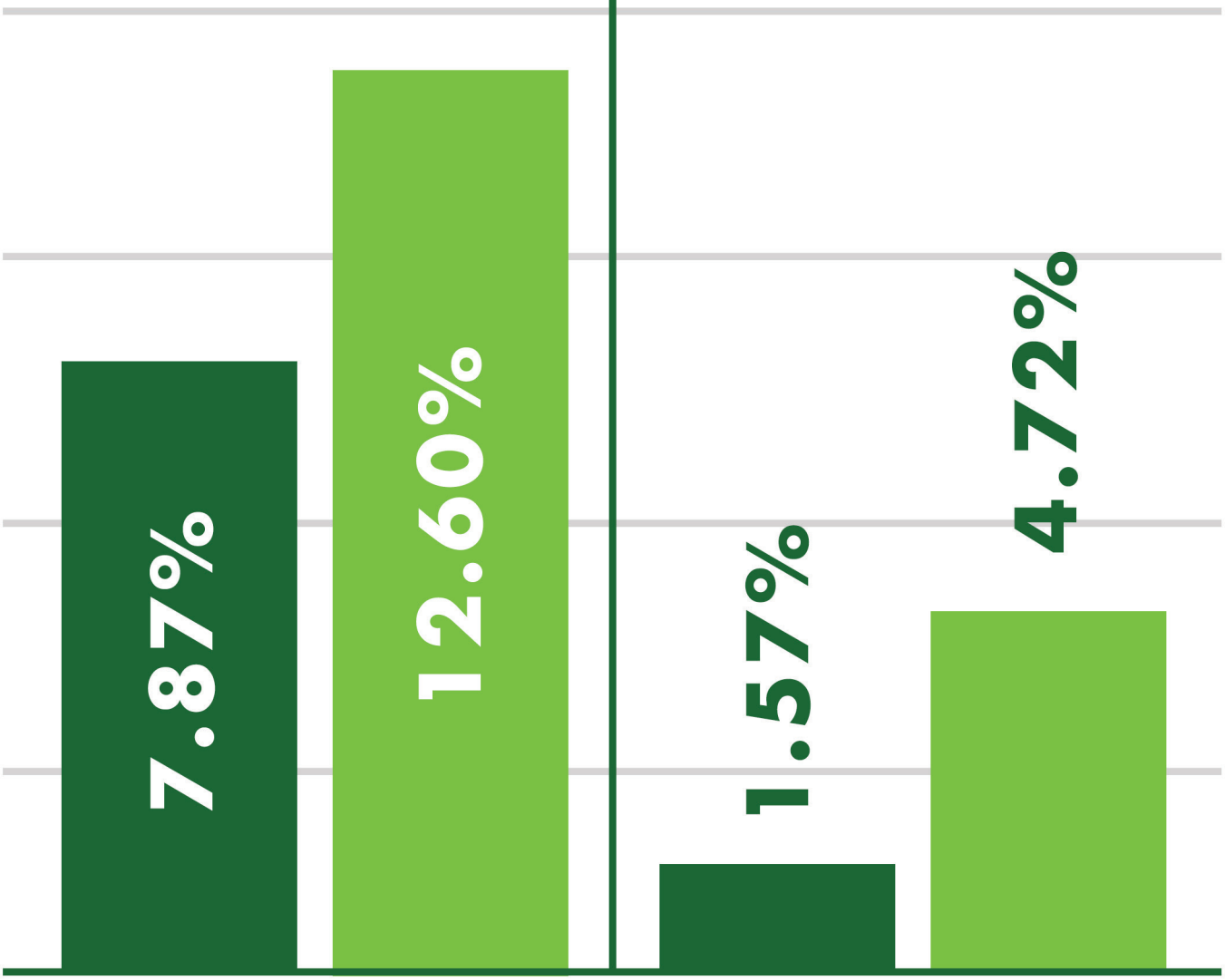


AVAILMENT OF SSS BENEFITS

20.47%

AVAILMENT OF PHILHEALTH BENEFITS

6.29%



■ MALE ■ FEMALE

AVAILMENT OF PARENTAL LEAVES

3.14%

1.57% MALE

1.57% FEMALE

AVAILMENT OF PAG-IBIG BENEFITS

11.02%

6.30% MALE

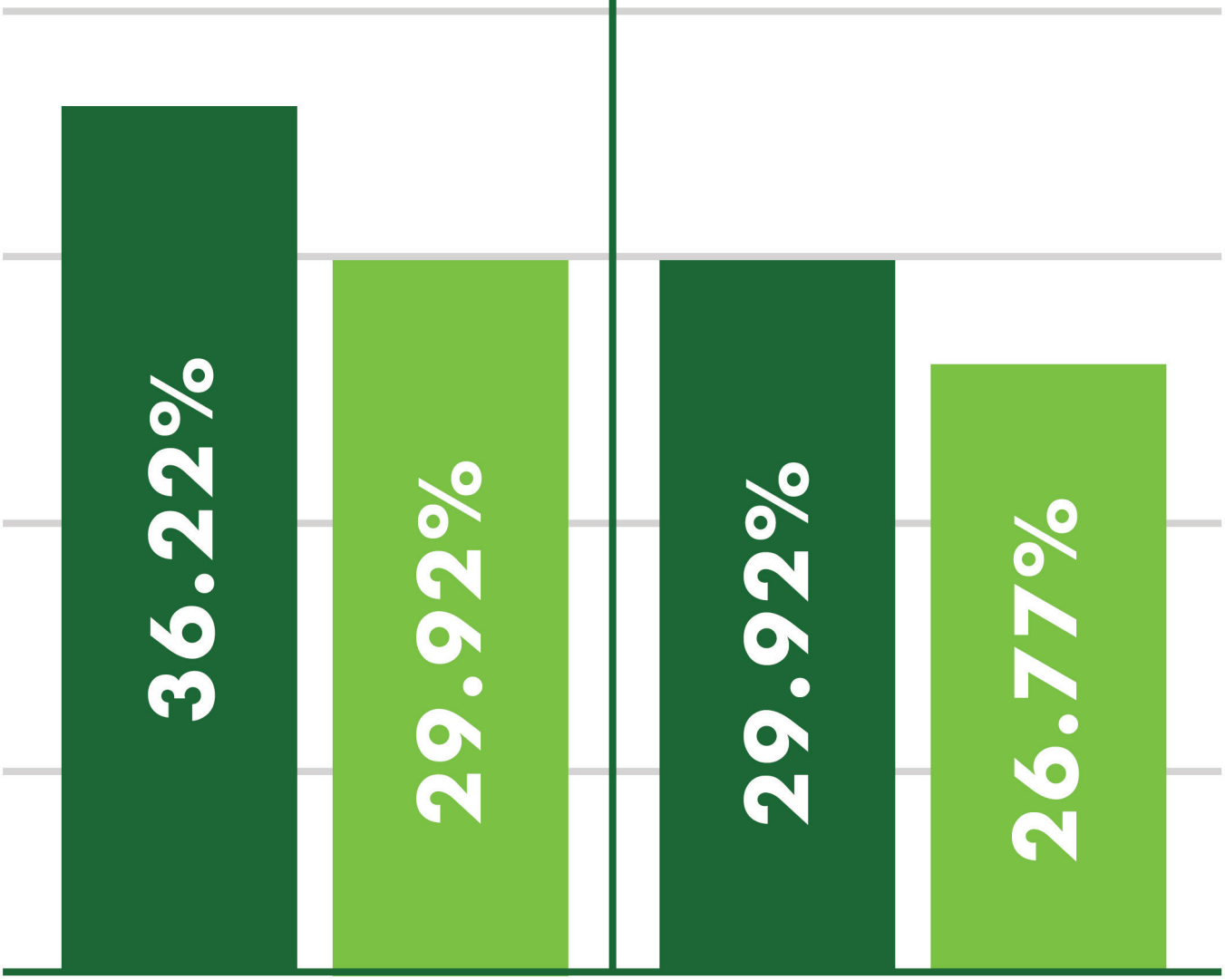
4.72% FEMALE

AVAILMENT OF VACATION LEAVES

66.14%

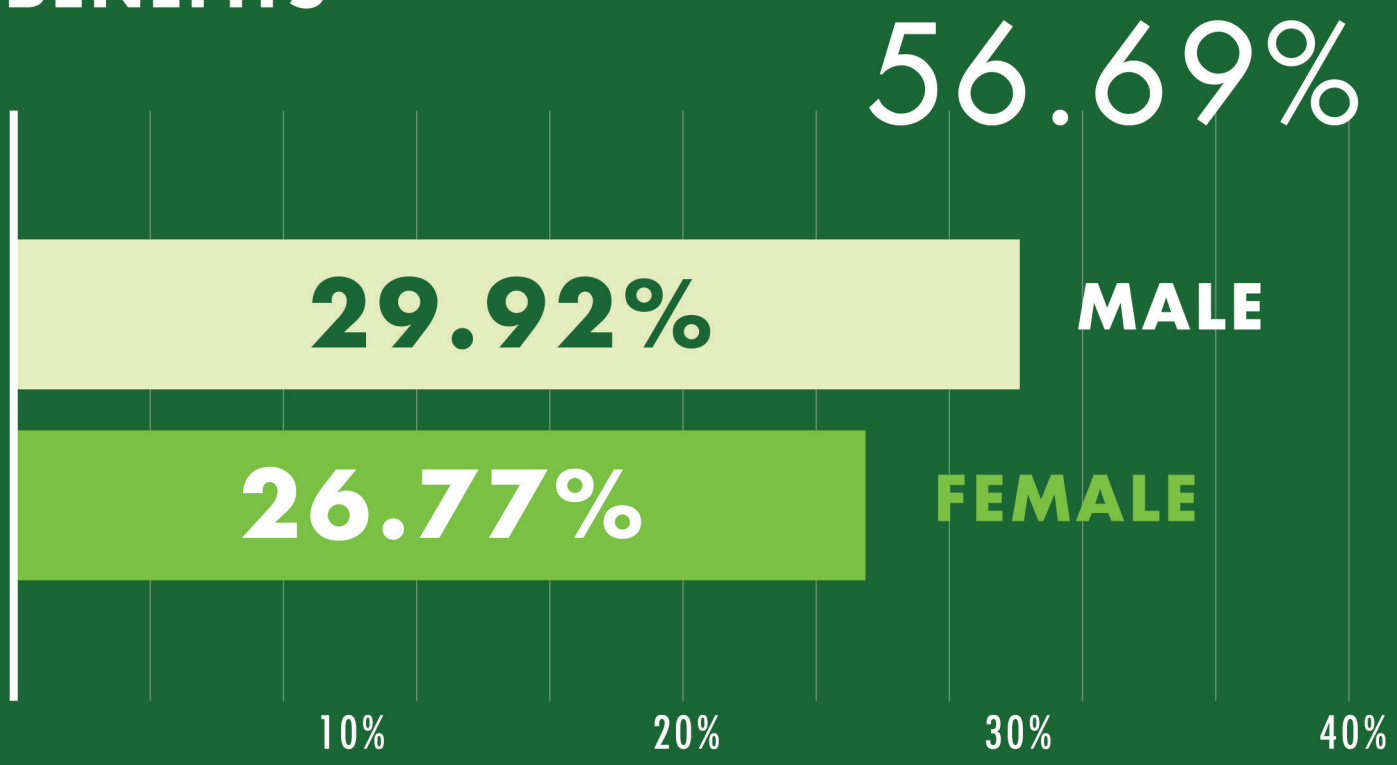
AVAILMENT OF SICK LEAVES

56.69%

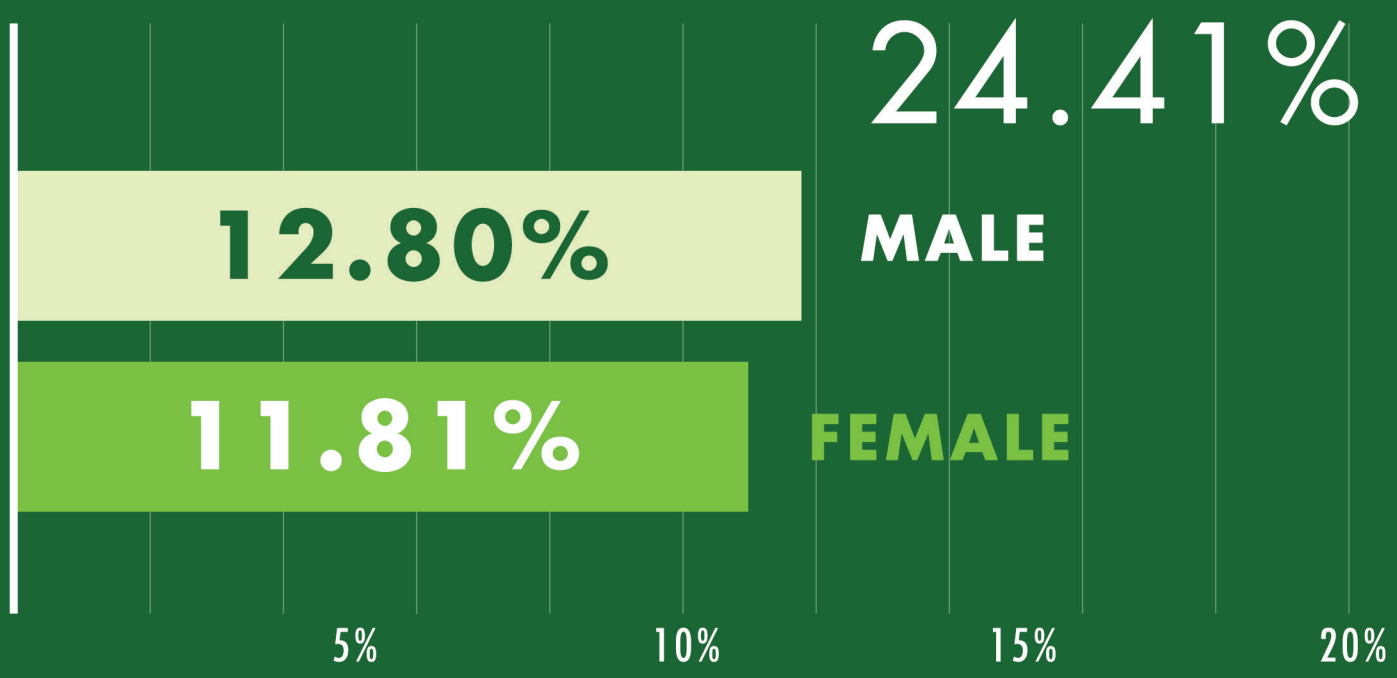


MALE FEMALE

AVAILMENT OF OTHER MEDICAL BENEFITS



AVAILMENT OF FLEXIBLE WORKING HOURS



EMPLOYEE TRAINING AND DEVELOPMENT

TOTAL TRAINING HOURS

MALE	FEMALE	MALE	FEMALE
35 HOURS	35 HOURS	5.83 HOURS	5.83 HOURS

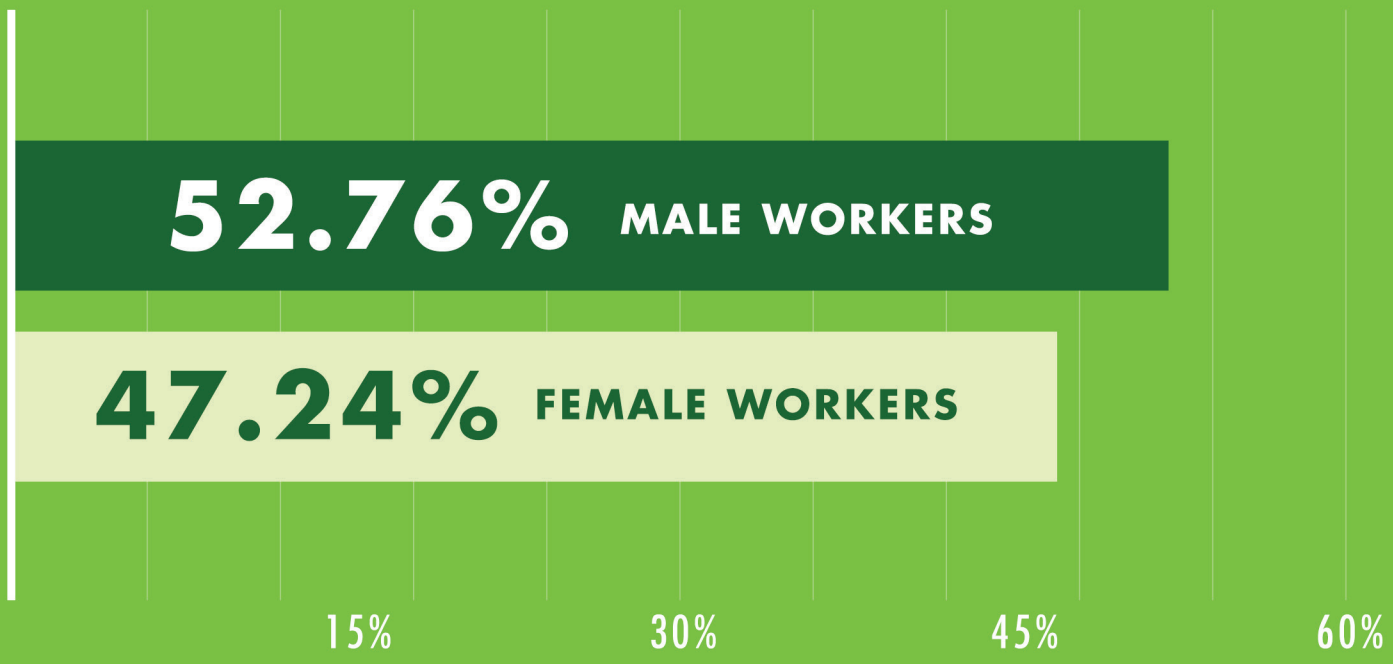
TRAINING SESSION	HRAD LEARNINGS 8 ESSENTIALS TO A WINNING PERSONA 1.0	HRAD LEARNINGS 8 ESSENTIALS TO A WINNING PERSONA 2.0	PERSONAL EFFECTIVENESS WORKSHOP	CUSTOMER SERVICE TRAINING	PHILIPPINE RED CROSS TRAINING
NO. OF PARTICIPANTS	11	12	30	71	20

NUMBER OF CONSULTATIONS CONDUCTED WITH EMPLOYEES CONCERNING EMPLOYEE-RELATED POLICIES FOR 2019: 8 SESSIONS

TOWN HALLS: **5** 1-ON-1 CONSULTATIONS: **3**

TYPE OF SESSION	DATE
TOWN HALL	JANUARY 22 FEBRUARY 27 APRIL 24 JUNE 26 NOVEMBER 13
1-ON-1 CONSULTATIONS	DECEMBER 9 DECEMBER 10 DECEMBER 13

DIVERSITY AND EQUAL OPPOTUNITY



NUMBER OF SAFETY DRILLS: 2

SAFETY DRILL	DATE
NATIONWIDE EARTHQUAKE DRILL	NOVEMBER 14
BUREAU OF FIRE PROTECTION FIRE DRILL	MAY 21

DATA SECURITY

There has been no incidence of security breach, data leak, theft or loss. The Company has appointed Atty. Cyrus R. Montesa as Data Privacy Officer to manage and monitor the proper handling of information in conformity with the Data Privacy Act.

Contributions to the UN Sustainable Development Goals

Blood Donation Drive in partnership with The Philippine Red Cross Dates: March 14 – 16, 2019 November 6, 2019 Impact: Total number of Volunteers – 138 volunteers composed of 50 volunteers from February 28, and 88 volunteers from November 6 Total blood donated – 22,500mL composed of 9,000mL from the February 28 drive, and 13,500mL from the November 6 drive.	3 GOOD HEALTH AND WELL-BEING
Occupational First Aid Training in partnership with The Philippine Red Cross Dates: April 24 – 25, 2019 Impact: Total Number of Attendees – 23 attendees Topics covered – • Occupational First Aid • Cardiopulmonary Resuscitation (CPR) • Automated External Defibrillator (AED)	3 GOOD HEALTH AND WELL-BEING
Hike & Tree Nurturing in partnership with Balagbag Environmental Society Inc. Date: November 16, 2019 Impact: Total Number of Volunteers – 16 employee-volunteers Total Number of Seedlings Nurtured – Over 50 seedlings located in Mt. Balagbag Other notable contribution/s – DFNN also donated basic food items and tools to the Bantay Gubat forest rangers.	6 CLEAN WATER AND SANITATION 13 CLIMATE ACTION 15 LIFE ON LAND
Outreach Program in partnership with Education Under the Bridge Date: December 6, 2019 Impact: Total Number of Volunteers – 24 employee-volunteers Total Number of Recipients – 105 children of the Bulongan community Other notable contribution/s – DFNN distributed hygiene kits and sets of school supplies to the 105 underprivileged children of the Bulongan community.	1 NO POVERTY 4 QUALITY EDUCATION 10 REDUCED INEQUALITIES
Sustainability Vanguards Established: September 2019 Impact: Through the Sustainability Vanguards, the above activities were made possible producing a number of employees that has been identified with leadership and other valuable soft skills.	4 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Explanations		
	Category	**Remarks**
I.	Anti-Corruption	
	a. Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	Company will start to track data in 2020.
	b. Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	
	c. Percentage of directors and management that have received anti-corruption training	
	d. Percentage of employees that have received anti-corruption training	
II.	Incidents of Corruption	
	a. Number of incidents in which directors were removed or disciplined for corruption	Company will start to track data in 2020.
	b. Number of incidents in which employees were dismissed or disciplined for corruption	
	c. Number of incidents when contracts with business partners were terminated due to incidents of corruption	
III.	Environment	
	Energy consumption (LPG) in GJ	Not Applicable
	Energy reduction (gasoline) in GJ	Comparative data available for 2020 report.
	Energy reduction (LPG) in GJ	
	Energy reduction (diesel) in GJ	
	Energy reduction (electricity) in kwH	
	Energy reduction (gasoline) in GJ	
IV.	Environmental impact management	
	Air Emissions - Energy indirect (Scope 2) GHG Emissions in Tonnes CO2	Company will start to track data in 2020.
V.	Solid and Hazardous Wastes	
	Total solid waste generated	
	Reusable	Company will start to track data in 2020.
	Recyclable	
	Composted	
	Incinerated	
	Residuals/Landfilled	
VI.	Hazardous Waste	
	Total weight of hazardous waste generated	Company will start to track data in 2020.
	Total weight of hazardous waste transported	Company will start to track data in 2020.
VII.	Employee Data	
	Ratio of lowest paid employee against minimum wage	Data unavailable
VIII.	Employee Benefits	
	Housing assistance (aside from Pag-IBIG) - % of female employees who availed for the year	Currently, the Company does not provide additional housing assistance.
	Housing assistance (aside from Pag- IBIG) - % of male employees who availed for the year	
	Retirement fund (aside from SSS) - % of female employees who availed for the year	The Company follows the government mandated retirement program.
	Retirement fund (aside from SSS) - % of male employees who availed for the year	

	Further education support - % of female employees who availed for the year	Pending favorable financial conditions, the Company will look into providing additional employee benefits.
	Further education support - % of male employees who availed for the year	
	Company stock options - % of female employees who availed for the year	The Company is developing its employee stock options plan.
	Company stock options - % of male employees who availed for the year	
	Telecommuting - % of female employees who availed for the year	
	Telecommuting - % of male employees who availed for the year	The Company will develop a telecommuting policy.
	Flexible-working Hours - % of female employees who availed for the year	Company will start to track data in 2020.
	Flexible-working Hours - % of male employees who availed for the year	
	Others - % of female employees who availed for the year	Company will start to track data in 2020.
	Others - % of male employees who availed for the year	Company will start to track data in 2020.
IX.	Labor Management Relations	
	Percentage of employees covered with Collective Bargaining Agreements	There is no Collective Bargaining Agreement entered into by the Company and its employees.
X.	Supplier Chain Management	
	Do you have a supplier accreditation policy?	The Company will develop a supplier accreditation policy.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DFNN Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018
and 2017

and

Independent Auditor's Report

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A member firm of Ernst & Young Global Limited

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Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
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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

The Stockholders and the Board of Directors
DFNN Inc.

Opinion

We have audited the consolidated financial statements of DFNN Inc. and Subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, 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, 2019, 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 Group as at December 31, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2019 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 Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to 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.

Emphasis of Matter: Subsequent Events - Impact of Coronavirus Outbreak (COVID-19)

We draw attention to Note 35 of the financial statements which discusses the World Health Organization's declaration of the outbreak of COVID-19 as a global pandemic and the measures taken by the Philippine Government in order to contain the effect of COVID-19. These events resulted in disruptions to businesses and economic activities causing temporary closure of gaming outlets and operations. As set out in Note 34, no adjustments have been made to the financial statements as at and for the year ended December 31, 2019 for the impact of COVID-19. Our opinion is not modified in respect of this matter.

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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.

Valuation of Financial Assets at Fair Value through Profit or Loss

The Group, through PGI Systems PTE Ltd. (PGI) entered into a Share Purchase Agreement wherein PGI has the option to convert Kirschner Games International, Inc.'s (KGI) debt amounting to $3.3 million 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. As at December 31, 2019, the advances to KGI amounting to ₱241.6 million are classified as financial assets at fair value through profit or loss (FVPL). 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 Group's disclosures about financial assets at FVPL are included in Note 7 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.

Realizability of Deferred Tax Assets

As at December 31, 2019, the Group recognized deferred tax assets amounting to ₱121.0 million and unrecognized deferred tax assets on deductible temporary differences amounting to ₱29.5 million. The analysis of the recognition and recoverability of the deferred tax assets is 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 27.

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Audit response

We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast. We evaluated management's assumptions on the projected profit forecasts by comparing them against recent profit trends and externally available information. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

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

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

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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 Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Group to cease to continue as a going concern.

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

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

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

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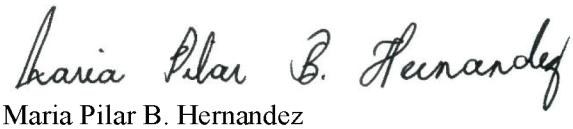
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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
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. 8125244, January 7, 2020, Makati City

June 30, 2020

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, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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.

Ramon C. Garcia Jr.
Chairman of the Board

Ricardo F. Banaag *
Chief Operating Officer

Raymundo Martin M. Escalona
Chief Financial & Investments Officer

**The original signature of President / CEO, Mr. Calvin Lim cannot be obtained. A board resolution was obtained designating Chief Operating Officer Mr. Ricardo F. Banaag to sign on his behalf.*

SUBSCRIBED AND SWORN to before me this _____ day of JUN 26 2020 affiants exhibiting to me their TIN, as follows:

NAMES	TIN	PLACE OF ISSUE
Ramon C. Garcia Jr.	133-017-329-000	
Ricardo F. Banaag	129-455-400-000	
Raymundo Martin M. Escalona	128-421-032-000	

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Page No. 25
Book No. 43
Series of 2020

RUBEN T.M. RAMIREZ
Notary Public for Makati City
Until December 31,2021
2080 E. Pasaje St., Makati City
IBP O R No. 097071/ December 10,2019
Roll No. 28947/ MCLE No. VI-0020246
PTR No. MKT 8117044/1-02-2020
Appointment No. M-158

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 29)	**₱114,487,332**	₱96,410,210
Receivables - net of noncurrent portion (Notes 6, 18 and 29)	**913,567,546**	656,857,442
Financial assets at fair value through profit or loss (Notes 2, 7, 29 and 30)	**269,431,712**	386,423,829
Other current assets (Note 8)	**115,116,077**	202,614,941
Total Current Assets	**1,412,602,667**	1,342,306,422
Noncurrent Assets		
Goodwill and intangible assets (Notes 4 and 9)	**283,491,748**	315,248,197
Right-of-use assets (Note 11)	**192,950,078**	–
Financial asset at fair value through other comprehensive income (Note 13)	**27,655,084**	–
Property and equipment (Note 10)	**58,179,044**	69,319,387
Deferred tax assets (Note 27)	**58,965,003**	36,912,915
Investment in associates (Notes 12 and 31)	**8,271,423**	75,014,329
Noncurrent portion of financial assets (Notes 6, 8, 18 and 29)	**13,935,452**	18,634,586
Other noncurrent assets (Notes 8 and 14)	**163,800,867**	100,939,184
Total Noncurrent Assets	**807,248,699**	616,068,598
TOTAL ASSETS	**₱2,219,851,366**	₱1,958,375,020
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15, 18 and 29)	**₱676,179,041**	₱576,079,888
Short-term loans payable (Notes 16 and 29)	**101,858,236**	38,099,439
Lease liabilities (Note 11)	**32,907,873**	–
Income tax payable	**4,965,545**	8,127,171
Total Current Liabilities	**815,910,695**	622,306,498
Noncurrent Liabilities		
Deferred tax liabilities (Note 27)	**72,224,373**	83,098,699
Deposits for future stock subscriptions (Note 17)	**39,750,000**	36,750,000
Retirement benefits liability (Note 24)	**27,594,975**	11,502,653
Loans payable - net of current portion (Note 16)	**4,239,685**	6,505,437
Lease liabilities - net of current portion (Note 11)	**210,544,759**	–
Accrued rent and rental deposits (Note 11)	**–**	12,768,998
Other noncurrent liabilities (Note 16)	**30,702,426**	20,702,431
Total Noncurrent Liabilities	**385,056,218**	171,328,218
Total Liabilities	**1,200,966,913**	793,634,716
Equity		
Capital stock (Note 17)	**324,620,008**	324,620,008
Additional paid-in capital (Note 17)	**583,036,164**	583,036,164
Stock options outstanding (Note 18)	**57,233,922**	62,264,707
Equity reserve (Note 17)	**(49,230,618)**	(49,230,618)
Cumulative translation adjustments (Note 17)	**(31,253,660)**	(37,374,521)
Other comprehensive income (Note 24)	**(11,206,475)**	(2,602,463)
Retained earnings (Note 17)	**91,327,661**	213,823,935
Treasury stock (Note 17)	**(44,880,477)**	(26,677,255)
Equity attributable to equity holders of the Parent Company	**919,646,525**	1,067,859,957
Non-controlling interests (Note 17)	**99,237,928**	96,880,347
Total Equity	**1,018,884,453**	1,164,740,304
TOTAL LIABILITIES AND EQUITY	**₱2,219,851,366**	₱1,958,375,020

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUES (Note 19)	**₱1,118,950,487**	₱1,129,600,788	₱961,948,174
COST OF SERVICES (Note 20)	**(768,000,086)**	(702,880,193)	(639,489,735)
GROSS INCOME	**350,950,401**	426,720,595	322,458,439
GENERAL AND ADMINISTRATIVE EXPENSES (Note 21)	**(458,610,837)**	(367,958,006)	(260,050,261)
INTEREST EXPENSE (Notes 16, 24 and 25)	**(45,100,418)**	(10,278,052)	(12,972,515)
OTHER INCOME - Net (Note 26)	**3,919,988**	34,426,967	69,565,729
INCOME (LOSS) BEFORE INCOME TAX	**(148,840,866)**	82,911,504	119,001,392
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 27)	**18,943,040**	(20,573,730)	25,764,235
NET INCOME (LOSS)	**(₱129,897,826)**	₱62,337,774	₱144,765,627
Attributable To			
Equity holders of the Parent	**(₱131,221,469)**	₱33,283,676	₱131,899,068
Non-controlling Interests	**1,323,643**	29,054,098	12,866,559
	(₱129,897,826)	₱62,337,774	₱144,765,627
Earnings (loss) per share for net income attributable to the equity holders of the parent (Note 28)			
Basic	**(₱0.404)**	₱0.103	₱0.460
Diluted	**(0.404)**	0.099	0.440

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME (LOSS)	**(₱129,897,826)**	₱62,337,774	₱144,765,627
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement loss (gain) on defined benefit plans (Note 24)	**(12,562,405)**	2,819,314	(3,884,221)
Unrealized gain from changes in fair value of financial assets at fair value through other comprehensive income	**–**	782,000	–
Income tax effect	**3,768,722**	(845,794)	(202,612)
	(8,793,683)	2,755,520	(4,086,833)
Item to be reclassified to profit or loss in subsequent periods -			
Cumulative translation adjustment (Note 17)	**7,344,470**	(13,627,254)	(1,029,873)
Total other comprehensive loss	**(1,449,213)**	(10,871,734)	(5,116,706)
TOTAL COMPREHENSIVE INCOME	**(₱131,347,039)**	₱51,466,040	₱139,648,921
Attributable To			
Equity holders of the Parent Company	**(₱133,704,621)**	₱23,841,012	₱126,770,553
Non-controlling interests	**2,357,582**	27,625,028	12,878,368
	(₱131,347,039)	₱51,466,040	₱139,648,921

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Equity Attributable to Equity Holders of the Parent Company (Notes 2, 17 and 24)										
	Capital Stock (Note 17)	Additional Paid-in Capital (Note 1)	Stock Options Outstanding (Note 18)	Equity Reserve (Note 17)	Cumulative Translation Adjustment (Note 17)	Other Comprehensive Income (Loss) (Note 24)	Retained Earnings (Note 17)	Treasury Stock (Note 17)	Total	Non-controlling Interests	Total
Balances at January 1, 2019, as previously presented	**₱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**
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	–	**(4,144,679)**	–	**(4,144,679)**	–	**(4,144,679)**
Balances at January 1, 2019, as restated	**324,620,008**	**583,036,164**	**62,264,707**	**(49,230,618)**	**(37,374,521)**	**(2,602,463)**	**209,679,256**	**(26,677,255)**	**1,063,715,278**	**96,880,347**	**1,160,595,625**
Net loss for the year	–	–	–	–	–	–	**(131,221,469)**	–	**(131,221,469)**	**1,323,643**	**(129,897,826)**
Remeasurement of defined benefit plan	–	–	–	–	–	**(8,793,683)**	–	–	**(8,793,683)**	–	**(8,793,683)**
Unrealized gain from changes in fair value of financial assets at fair value through other comprehensive income (FVOCI)	–	–	–	–	–	**189,671**	–	–	**189,671**	**(189,671)**	–
Cumulative translation adjustment	–	–	–	–	**6,120,861**	–	–	–	**6,120,861**	**1,223,609**	**7,344,470**
Total comprehensive income (loss)	–	–	–	–	**6,120,861**	**(8,604,012)**	**(131,221,469)**	–	**(133,704,620)**	**2,357,581**	**(131,347,039)**
Adjustment on exercised stock option	–	–	**(5,030,785)**	–	–	–	–	–	**(5,030,785)**	–	**(5,030,785)**
Reissuance of treasury shares	–	–	–	–	–	–	–	**(18,203,222)**	**(18,203,222)**	–	**(18,203,222)**
Declaration of property dividend (Note 17)	–	–	–	–	–	–	**(10,000,000)**	–	**(10,000,000)**	–	**(10,000,000)**
Revaluation of property dividend (Note 12 and 18)	–	–	–	–	–	–	**22,869,874**	–	**22,869,874**	–	**22,869,874**
Balances at December 31, 2019	**₱324,620,008**	**₱583,036,164**	**₱57,233,922**	**(₱49,230,618)**	**(₱31,253,660)**	**(₱11,206,475)**	**₱91,327,661**	**(₱44,880,477)**	**₱919,646,525**	**₱99,237,928**	**₱1,018,884,453**
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	–	–	–	–	–	–	(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	–	–	5,030,785	–	–	–	(4,343,272)	–	687,513	–	687,513
Property dividend declaration (Note 12 and 18)	–	–	–	–	–	–	(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

- 2 -

	Equity Attributable to Equity Holders of the Parent Company (Notes 2, 17 and 24)										
	Capital Stock (Note 17)	Additional Paid-in Capital (Note 1)	Stock Options Outstanding (Note 18)	Equity Reserve (Note 17)	Cumulative Translation Adjustment (Note 17)	Other Comprehensive Income (Loss) (Note 24)	Retained Earnings (Note 17)	Treasury Stock (Note 17)	Total	Non-controlling Interests	Total
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 17)	–	(691,343,639)	–	–	–	–	691,404,838	–	61,199	–	61,199
Issuance of:											
Capital Stock (Note 17)	74,877,695	546,607,165	–	–	–	–	–	–	621,484,860	7,696,339	629,181,199
Stock options (Note 18)	150,000	409,500	(34,500)	–	–	–	–	–	525,000	–	525,000
Stock options granted (Note 18)	–	–	21,650,000	–	–	–	–	–	21,650,000	–	21,650,000
Reissuance of treasury stock (Note 17)	–	–	–	–	–	–	–	(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

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax from continuing operations	**(₱148,840,866)**	₱82,911,504	₱119,001,392
Adjustments for:			
Provision for impairment of assets (Notes 6, 8 and 21)	**108,398,577**	26,791,388	2,009,546
Depreciation and amortization (Notes 9, 10, 11, 20, 21 and 23)	**105,373,290**	81,528,747	59,115,439
Revaluation loss on property dividend	**43,428,433**	–	–
Interest expense (Notes 11, 16 and 25)	**45,100,418**	10,278,052	12,972,515
Interest income and dividend income (Note 26)	**(19,527,418)**	(14,565,402)	(10,270,847)
Fair value gain (loss) on financial assets at FVPL (Note 7)	**(14,458,843)**	15,124,736	907,315
Share in profit of joint venture (Note 12)	**(1,661,428)**	(432,739)	(5,972,141)
Movement in retirement benefits liability (Note 24)	**2,645,934**	2,863,752	223,774
Accrued rent and rental deposits	**–**	10,196,780	2,572,218
Unrealized foreign exchange loss (gain) – net	**1,798,866**	(14,946,655)	20,706
Derivative loss (gain) (Notes 12, 29 and 30)	**–**	13,275,215	(47,650,584)
Working capital adjustments:			
Decrease (increase) in:			
Receivables and due from related parties	**(171,465,538)**	(469,192,266)	(118,356,267)
Other current assets	**37,606,706**	(52,346,837)	(94,172,114)
Increase (decrease) in:			
Accounts payable and other current liabilities	**87,334,714**	232,941,491	75,687,836
Cash from (used in) operations	**75,732,845**	(75,572,234)	(3,911,212)
Income taxes paid	**(16,630,772)**	(21,581,853)	(10,815,142)
Interest received	**4,954,758**	911,307	3,943,224
Net cash flows provided by (used in) operating activities	**64,056,831**	(96,242,780)	(10,783,130)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Note 10)	**(29,676,319)**	(18,582,931)	(174,678,168)
Business – net of cash received (Note 4)	**(7,618,538)**	–	–
Software (Note 9)	**(372,300)**	(1,661,164)	–
Patent (Note 9)	**–**	(1,121,227)	–
Investment in:			
Financial assets at FVPL (Note 7)	**(8,465,007)**	(85,283,663)	(15,722,589)
Associate and joint venture	**(2,309,995)**	–	–
Proceeds from:			
Financial assets at FVPL	**864,114**	2,564,938	–
Decrease (increase) in:			
Other noncurrent assets	**(62,306,360)**	(14,075,396)	(130,074,348)
Other noncurrent liabilities	**9,999,995**	(20,702,431)	–
Net cash flows used in investing activities	**(99,884,410)**	(138,861,874)	(320,475,105)

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	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of stocks	**–**	**–**	629,740,699
Availment of short term loans (Note 16)	**63,758,797**	782,339	4,442,288
Deposits for future stock subscription (Note 17)	**3,000,000**	–	–
Stock options granted (Note 18)	–	–	21,615,500
Payments of:			
Interest (Note 16)	**(10,499,569)**	(1,005,515)	(4,146,636)
Loans payable (Note 16)	**(2,678,036)**	–	(13,253,338)
Acquisition of treasury shares (Note 17)	–	–	(4,790,734)
Net cash flows from financing activities	**53,581,192**	(223,176)	633,607,779
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**17,753,613**	(235,327,830)	302,349,544
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**323,509**	–	106,176
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**96,410,210**	331,738,040	29,282,320
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱114,487,332**	₱96,410,210	₱331,738,040

See accompanying Notes to Consolidated Financial Statements.

DFNN INC. AND SUBSIDIARIES
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. The Parent Company and its subsidiaries (collectively referred to as "Group") 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 Parent 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 Parent 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. Businesses 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 Parent 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.

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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 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.

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.

DFNN, Inc. and its subsidiaries are collectively referred to as "the Group".

Status of Operations of DFNN

The Parent Company has incurred significant costs and invested substantial funds towards the acquisition of a signed 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 Parent Company had already fulfilled all of its deliverables under the contract.

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" and PCSO filed with the Regional Trial Court (RTC) its Notice of Appeal. On March 21, 2013, the Parent Company received a resolution from the Court of Appeals (CA) granting the Parent Company'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 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 RTC 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 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 PCSO in accordance with computation for liquidated damages provided under Section 13.2 of the ELA (see Note 31).

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."

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. ₱310,095,150 plus 6% interest) considering the immediate executory nature of the RTC Makati Decision. However, to date, the COA has yet to resolve the Petition.

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.

The Court of Appeals rendered a decision dated 31 May 2019 resolving the Petition for Certioriari filed by PSCO assailing the Order of the Regional Trial Court granting DFNN Inc.'s Motion for the Issuance of a Writ of Execution of the award granted to the Company the amount of ₱310,095,150 plus 6% interest from date of finality until payment by PCSO.

On September 27, 2019, the Court of Appeals promulgated a Resolution denying the Motion for Reconsideration filed by Philippine Charity Sweepstakes Office (PCSO). In the Motion for Reconsideration, PCSO prayed for the reconsideration of the Decision of the Court of Appeals which denied the Petition for Certiorari filed by the former and affirmed the Order of the Regional Trial Court of Makati City (RTC Order) granting the Motion for Issuance of Writ of Execution filed by DFNN. As at December 31, 2019, there has been no order from the courts regarding this 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 17).

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 17).

Approval and Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on June 30, 2020.

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), financial assets at fair value through other comprehensive income (FVOCI) and derivative asset which has been measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Group'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 Group) as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017. The financial statements of the subsidiaries are prepared for the same period reporting period as the Parent Company using consistent accounting policies.

The Group controls an investee if and only if the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential rights

The Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date the Group 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 Group's accounting policies. All intra-company assets and liabilities, equity income, expenses and cash flows relating to transactions between members of the Group 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	**2019**	2018	2017
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% (68.32% direct ownership and 26.4% indirect ownership through PGI)	94.72% (68.32% direct ownership and 26.4% indirect ownership through PGI)

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Subsidiaries	Nature of Business	Percentage of Ownership 2019	2018	2017
PGI Systems PTE Ltd.	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%**	49.36%	58.07%
Nico Bayan Inc	Incorporated in the Philippines to engage in offshore gaming and outsourcing operations, gaming operations within the territorial jurisdiction of the Philippines, establishing and operating online gaming and data streaming studios and facilities, developing software solutions, gaming products and other related paraphernalia, and to provide other gaming support services and logistics services to third parties	**100.00%**	–	–
Lucky U. Inc	Incorporated in the Philippines to engage in the business of managing, operating and maintaining an internet café, gaming outlet and/or establishments/facilities that host delivery and storage of computer software.	**100%**	–	–

Accounting for loss of significant influence on investment in associate

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

a. If the investment becomes a subsidiary, the entity shall account for its investment in accordance with PFRS 3, Business Combinations and PFRS 10.
b. If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with PFRS 9. The entity shall recognise in profit or loss any difference between:
   (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
   (ii)the carrying amount of the investment at the date the equity method was discontinued.
c. When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

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, 2019. Adoption of these pronouncements did not have any significant impact on the Group's consolidated financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

PFRS 16 supersedes Philippine Accounting Standards (PAS) 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives and Philippine Interpretation SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

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. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 effective January 1, 2019 using the modified retrospective approach and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of adoption PFRS 16 in the consolidated statement of financial position as at January 1, 2019 are as follows:

	Increase (decrease)
Right-of-use assets	₱202,302,910
Deferred tax asset	1,776,291
Lease liabilities	217,457,168
Accrued rent	(9,233,288)
Retained earnings	(4,144,679)

Before the adoption of PFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Leases previously accounted for as operating leases. The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use asset for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein, it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets and lease liabilities amounting to ₱202,302,910 and ₱217,457,168, respectively, were recognized and presented separately in the consolidated statement of financial position.
- Accrued rent of ₱9,233,288 related to previous operating leases arising from straight-line recognition under PAS 17 was derecognized.
- Deferred tax assets increased by ₱1,776,291 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments amounting to ₱4,144,679 had been adjusted to retained earnings.

Due to the adoption of PFRS 16, the Group's operating profit in 2019 improved, while its interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

- 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.

Upon adoption of the Interpretation, the Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. The Group applied significant judgement in identifying uncertainties over income tax treatments and assessed whether the Interpretation had an impact on its financial statements.

Based on the Group's assessment, it is probable that its tax treatments will be accepted by the taxation authorities.

- 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.

The amendments are not applicable to the Group since the Group does not have debt instruments with negative prepayment features.

- 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 the consolidated statement of comprehensive income. 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 had no impact on the financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- 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 are not applicable to the Group since the Group has interests in joint venture under equity method.

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.

  These amendments are currently not applicable to the Group but may apply to future transactions.

- 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 the statements of 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 Group because dividends declared by the Group 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 Group's has no borrowing cost, the Group does not expect any effect on its financial statements upon adoption.

Standards Issued But Not Yet Effective

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

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 Group.

- 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.

Current versus Noncurrent Classification
The Group 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 Group classifies all other liabilities as noncurrent.

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

Financial Instruments
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 Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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 Group'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 Group'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 Group 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 Group. The Group 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 Group's financial assets at amortized cost includes cash and cash equivalents, receivables, rental and other deposits.

- *Financial assets at FVOCI (debt instruments).* The Group 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 Group has no financial assets classified as FVOCI with recycling to profit or loss.

- *Financial assets designated at FVOCI (equity instruments).* Upon initial recognition, the Group 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 Group 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 designated at FVOCI are not subject to impairment assessment.

- *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 financial position at fair value with net changes in fair value recognized in consolidated 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, 2019, the Group has financial assets at FVPL (see Note 30).

Impairment of Financial Assets. The Group 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 Group 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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 Group's financial liabilities include accounts payable and other current liabilities (excluding statutory payables), loans payable which are classified under loans and borrowings. The Group has no financial liabilities at FVPL as at December 31, 2019 and 2018.

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.

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 financial position) when:

- The Group's rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset 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 Group continues to recognize the transferred asset to

the extent of the Group's continuing involvement. In that case, the Group 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 Group 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 comprehensive income.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in consolidated 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 Group 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 Group and all of the counterparties.

Derivative Financial Instrument

The Group 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 Group measures financial instruments such as financial asset at FVPL and derivative at fair value at each reporting date. The Group 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 Group.

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

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

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

For assets and liabilities that are recognized in consolidated financial statements on a recurring basis, the Group 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. 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.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of comprehensive income.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because the fair values to be assigned to the acquiree's identifiable assets and liabilities can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to those provisional values as a result of completing the initial accounting shall be made within twelve (12) months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions in PAS 37, Provisions, Contingent Liabilities and Contingent Assets, or the amount initially recognized less (when appropriate) cumulative amortization recognized in accordance with the requirements for revenue recognition.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs), to which the goodwill relates. When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognized. When goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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, the Group filed an application for registration of a patent with the Intellectual Property Office (IP Office). The IP Office has approved the application of the Group and issued the certificate of registration on June 19, 2019. Amortization of patent is are computed using the straight-line method over the estimated useful life of 7 years.

Investment in Associates

An associate is an entity over which the Group 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 Group'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 Group'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 Group's share of the results of operations of the associates. Any change in OCI of the associates is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associates, the Group

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 Group 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 comprehensive 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.

Investment in Joint Arrangements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in joint venture are accounted for using the equity method.

Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share in net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, 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 Group and the joint venture are eliminated to the extent of the Group's interest in the joint

venture. The aggregate of the Group's share in profit or loss of a joint venture is computed based on profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within 'Profit distribution from joint venture' in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of comprehensive income.

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 Group 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 and software	5 years
Furniture, fixtures and office equipment	5 years
Transportation 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 Group 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 Group 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 Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group'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.

Intangible Assets with Indefinite Life and Goodwill. Goodwill and trademarks are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill and trademarks by assessing the recoverable amount of the CGU, to which the goodwill and trademarks relates. Where the recoverable amount of the cash-generating unit (or group of CGUs) is less than the carrying amount of the cash-generating unit (or group of CGUs) to which the goodwill and trademarks has been allocated, an impairment loss is recognized in the consolidated statement of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill and trademarks on December 31 of each year.

Deposits for Future Stock Subscription
The deposits for future stock subscription account represents funds received by the Group 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 changes in equity and as a separate item in the equity section of consolidated 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 Group);
- 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.

Equity

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 Group 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 Group, 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 Group'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 Group'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. Retained earnings includes income attributable to the Group's equity holders. Retained earnings may also include effect of changes in accounting policies as may be required by the standard's transitional provisions.

Dividends on Capital Stock

Cash dividends on common shares are recognized as liability and deducted from retained earnings upon declaration by the BOD.

Stock dividends on common shares are measured based on the total par value of declared stock dividend. Stock dividends are deducted from retained earnings when the BOD's declaration is ratified by the shareholders.

Cash dividends are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital. The Group may declare dividends only out of its unrestricted retained earnings.

Property dividends payable are recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognized in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognize the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Share-based Payment

Certain officers, directors, employees and consultants of the Group 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 Group'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 Recognition

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 Parent 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 Group 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. Revenue is recognized upon monthly billing.

Service income from software development. Revenue from developing software solutions is recognized by reference to the percentage of completion when it can be reliably measured using the output method.

Service income from maintenance. Revenue from providing maintenance services is recognized when the service is performed with a reference to the maintenance agreement for the period covered. Revenue is recognized upon performing the maintenance service.

Service income from OVCE licensees. Revenue from providing processing and integration fees to licensees is recognized at the point when the license is issued while revenue from monthly recurring fees are recognized over the period of time services are rendered which are based on the number of transactions of the licensees.

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 Group 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 Group 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 Group, nor can they be paid directly to the Group. 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 (effective January 1, 2019)
The Company assesses at contract inception whether a contract is, or contains, a lease. That is if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration;

Right-of-use assets. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term between 3 to 15 years.

Right-of-use assets are subject to impairment. Refer to the accounting policies in impairment section of non-financial assets.

Lease liabilities. At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets. The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases (effective prior to January 1, 2019)
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 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 Group's functional and presentation currency. Each entity in the Group 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 Group, 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 Company
Basic earnings (loss) per share is computed by dividing net income (loss) for the year attributable to ordinary equity holders of the Group and total comprehensive income (loss) for the year attributable to ordinary equity holders of the 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 Group and total comprehensive income (loss) for the year attributable to ordinary equity holders of the Group 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 Group operates and generates taxable income. The Group's current tax expense is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax (MCIT)

rate, whichever is higher. As a Cagayan Economic Zone Authority (CEZA) enterprise, iWave is entitled to 5% gross income tax (GIT) incentives for the CEZA registered activities.

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 financial position.

Provisions

Provisions are recognized when the Group 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 Group 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 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 comprehensive income.

Contingencies

Contingent liabilities are not recognized in consolidated 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 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 Group 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 financial statements.

Group 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 Group's financial position at the reporting date (adjusting events) are reflected in consolidated 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 Group'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:

Acquisition of Investments Qualified as a Business Combination. In applying the requirements of PFRS 3, *Business Combinations*, an entity or an asset being acquired has to be assessed whether it constitutes a business. The assessment requires identification of inputs and processes applied to these inputs to generate outputs or economic benefits. As discussed in Note 4, the acquisition of LuckyU, Inc. in 2019 was considered a business and was accounted for as a business combination.

The fair values of the identifiable net assets acquired of LuckyU, Inc, amounted to ₱5,066,242. The acquisition of LuckyU, Inc. resulted in the recognition of goodwill amounting to ₱13,933,695 (see Note 4).

Consolidation of iWave. An investee is included in consolidation even in cases where the Parent 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 Parent Company. Control is achieved when the Parent 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 49.36% equity interest in iWave, the Parent Company has majority representation in iWave's BOD. The Parent 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 Parent Company controls iWave and, therefore, included iWave in the consolidated financial statements of the Parent 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 17). 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 Group;
- The profit or loss or other comprehensive income of the subsidiary attributable to the non- controlling interest relative to the Group's net income or other comprehensive income for the year;
- Total revenues and total expenses included in the Group's consolidated statement of income relative to the Group'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 Group; and
- Nature of the activities and their significance to the Group's activities.

Determination of lease term of contracts with renewal and termination options – Company as a Lessee (Effective January 1, 2019). The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

As at December 31, 2019, the Group's right-of-use assets and lease liabilities amounted to ₱192,950,078 and ₱243,452,632, respectively. For the year ended December 31, 2019, the Group recognized amortization of right-of use assets and interest expense on lease liabilities amounting to ₱18,079,384 and ₱18,459,797, respectively (see Note 11).

Evaluation of Lease Commitments – Company as Lessee (Effective prior to January 1, 2019). 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 Group 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 and ₱18,488,632 in 2017 (see Notes 20 and 21).

Contingent Assets. The Group 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 31).

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:

Leases - Estimating the incremental borrowing rate (Effective January 1, 2019). The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liability. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

As at December 31, 2019, the Group's lease liabilities amounted to ₱243,452,632. (see Note 11).

Determination of Fair Value of Financial Instruments. Where the fair value of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include

considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of financial assets and financial liabilities are disclosed in Note 30.

Provision for expected credit losses on receivables. The Group 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 Group's historical observed default rates. The Group 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 Group'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 Group's receivables is disclosed in Note 6.

As at December 31, 2019 and 2018, the carrying value of receivables amounted to ₱927,502,998 and ₱675,492,028, respectively. Allowance for impairment of receivables amounted to ₱85,181,168 and ₱26,674,747 as at December 31, 2019 and 2018, respectively. Provision for doubtful accounts amounted ₱58,509,988 in 2019, ₱8,802,033 in 2018 and nil in 2017 (see Note 6).

Estimation of Useful Lives of Property and Equipment. The useful lives of property and equipment are estimated based on the economic lives of the property and equipment and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of the property and equipment are reviewed at reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There are no changes in the estimation of useful lives of property and equipment in 2019 and 2018. The carrying value of property and equipment amounted to ₱58,179,044 and ₱69,319,387 as at December 31, 2019 and 2018, respectively (see Note 10).

Impairment of Nonfinancial Assets. The Group 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:

	2019	2018
Intangible assets (see Note 9)	**₱269,558,053**	₱315,248,197
Right-of-use assets (see Note 11)	**192,950,078**	–
Investment in associates (see Note 12)	**8,271,423**	75,014,329

(forward)

	2019	2018
Property and equipment (see Note 10)	**₱58,179,044**	₱69,319,387
Other current assets (see Note 8)*	**42,184,530**	40,135,192
Other noncurrent assets (see Note 14) ***	**163,800,867**	100,939,184
	₱734,943,995	₱600,656,289

*excluding Input Value Added Tax
***includes prepaid expenses and others

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 ₱27,594,975 and ₱11,502,653 as at December 31, 2019 and 2018, respectively (see Note 24).

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.

Recoverability of Goodwill. The Group performs recoverability testing annually or more frequently when there are indications of impairment for goodwill with indefinite lives. Goodwill acquired through business combination has been allocated to one CGU which is also the operating entity acquired through business combination and to which the goodwill relates. Recoverability testing requires an estimation of the value in use or fair value less cost of disposal of the CGU to which goodwill are allocated. Estimating the recoverable amount of the CGU involves significant assumptions about the future results of the business such as revenue growth and gross margins in its manufacturing business, and discount rates which were applied to cash flow forecasts. The cash flow forecasts were based on financial budgets approved by the BOD covering a five-year period.

The impairment on goodwill is determined by comparing: (a) the carrying amount of the cash-generating unit; and (b) the present value of the annual projected cash flows for five years and the present value of the terminal value computed under the discounted cash flow method.

The key assumptions used in the impairment test of goodwill are as follows:

a. Gross Revenue

On the average, gross revenue of the CGU over the next five years were projected to grow in line with the economy or with nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective industries will be flat on the assumption that the industries also grow at par with the economy. Historically, the business growth had a direct correlation with economic growth. A 0% perpetuity growth rate was assumed at the end of the five-year forecast period.

b. Operating Expenses

On the average, operating expenses were projected to increase in relation to revenue growth.

c. Gross Margins

Increased efficiencies over the next five years are expected to result in margin improvements.

d. Discount Rate

The discount rate used to arrive at the present value of future cash flows was the Group's Weighted Average Cost of Capital (WACC). WACC was based on the appropriate weights of debt and equity, which were multiplied with the assumed costs of debt and equity. The discount rates applied to the cash flow projections range from 9%-12% in 2019.

The carrying amount of goodwill amounted to ₱13,933,695 as of December 31, 2019 (see Notes 4 and 9). The recoverable amount of the CGUs to which the goodwill and trademarks with indefinite lives are allocated is greater than its carrying amount. No impairment loss was recognized on goodwill and licenses for the year ended December 31, 2019.

Realizability of Deferred Tax Assets. The Group 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 Group recognized deferred tax assets amounting to ₱120,983,304 and ₱36,912,915 as at December 31, 2019 and 2018, respectively. Unrecognized deferred tax assets amounted to ₱29,509,670 as at December 31, 2019 and 2018, respectively (see Note 27). Deferred tax assets were not recognized because the Group believes that it is not possible that sufficient future taxable income will be available against which these deferred tax assets can be utilized.

4. Business Combination

Acquisition of LuckyU, Inc.

On December 31, 2019, DFNN and LuckyU's stockholders executed an absolute Deed of Sale of Shares of Stock acquiring LuckyU's 302,499 shares (100%) for a total consideration of ₱18,999,999 or ₱62.81 per share.

LuckyU is engaged in the business of managing, operating and maintaining an internet café, gaming outlet, and/or establishment/facilities that host delivery and storage of computer software.

As allowed by PFRS 3, the purchase price consideration has been allocated based on relative fair values at date of acquisition using the provisional accounting as follows:

	Carrying Values	Fair Values Recognized
Current Assets:		
Cash on hand and in banks	₱4,817,356	₱4,817,356
Trade and other receivables	6,564,043	6,564,043
Other current assets	141,442	141,442
Total Current Assets	11,522,841	11,522,841

(Forward)

	Carrying Values	Fair Values Recognized
Noncurrent Assets		
Property and equipment	₱414,801	₱414,801
Investment	5,750,000	5,750,000
Other non-current asset	555,323	555,323
Total Noncurrent Assets	6,720,124	6,720,124
Current Liabilities		
Trade and other payables	12,069,898	12,069,898
Loans payable - current	145,512	145,512
Income tax withheld	474,992	474,992
Other current liabilities	219,549	219,549
Total current liabilities	12,909,951	12,909,951
Noncurrent liability		
Loans payable	266,772	266,772
Identifiable Net Assets Acquired	₱5,066,242	₱5,066,242
Identifiable Net Assets Acquired		₱5,066,242
Goodwill from the acquisition (Note 9)		13,933,695
Purchase consideration transferred		₱18,999,937

The goodwill is not deductible for tax purposes.

The revenue from contracts with customer and net profit included in the consolidated statement of comprehensive income since December 31, 2019, contributed by the acquisition of LuckyU is nil.

Had the acquisition taken place on January 1, 2019, the consolidated statement of comprehensive income of the Group would have included revenue from contracts with customers of ₱9,905,833 and net profit of ₱613,956.

5. Cash and Cash Equivalents

	2019	2018
Cash on hand	**₱7,356,865**	₱2,354,290
Cash in banks	**107,130,467**	83,499,190
Cash equivalents	–	10,556,730
	₱114,487,332	₱96,410,210

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 ₱268,196 in 2019, ₱178,325 in 2018 and ₱124,388 in 2017.

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6. Receivables

	2019	2018
Trade	**₱399,545,651**	₱264,005,452
Loans receivable (see Note 18)	**67,233,667**	67,622,667
Accrued interest (see Note 18)	**37,195,511**	23,502,846
Due from related parties (see Note 18)	**480,848,695**	299,408,876
Advances to officers, employees and shareholders (see Note 18)	**7,804,197**	25,927,217
Others	**20,056,445**	21,699,717
	1,012,684,166	702,166,775
Less allowance for expected credit loss	**85,181,168**	26,674,747
	927,502,998	675,492,028
Less noncurrent portion	**13,935,452**	18,634,586
Current portion	**₱913,567,546**	₱656,857,442

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.

Noncurrent receivables are interest-bearing and are to be settled in 3 to 5 years.

Movements in the allowance for expected credit loss are as follows:

	2019					
	Trade	**Due from related party (see Note 18)**	**Advances to Officers and Employees**	**Advances to Affiliates (see Note 18)**	**Others**	**Total**
Beginning balance	**₱10,343,848**	**₱–**	**₱6,051,498**	**₱7,605,123**	**₱2,674,278**	**₱26,674,747**
Provision for the year (see Note 21)	**509,985**	**58,000,003**	**–**	**–**	**–**	**58,509,988**
Translation adjustment	**–**	**–**	**–**	**–**	**(3,567)**	**(3,567)**
Ending balance	**₱10,853,833**	**₱58,000,003**	**₱6,051,498**	**₱7,605,123**	**₱2,670,711**	**₱85,181,168**

	2018					
	Trade	Due from related party (see Note 18)	Advances to Officers and Employees	Advances to Affiliates (see Note 18)	Others	Total
Beginning balance	₱2,028,302	₱–	₱6,051,498	₱7,118,636	₱2,669,887	₱17,868,323
Provision for the year (see Note 21)	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

For the years ended December 31, 2019 and 2018, the Company used the simplified provision matrix approach in estimating the expected credit losses on receivables.

7. Financial Assets at FVPL

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

	2019	2018
Balance at beginning of year	₱386,423,829	₱318,829,840
Acquisitions	8,465,007	85,283,663
Disposals	(864,114)	(2,564,938)
Reclassification	(139,051,853)	–
Fair value gain (loss) (Note 26)	14,458,843	(15,124,736)
Balance at end of year	₱269,431,712	₱386,423,829

8. Other Current Assets

	2019	2018
Input value-added tax (VAT)	₱146,955,108	₱97,423,828
Restricted cash	65,540,957	58,804,306
Prepaid expenses	37,386,610	35,925,428
Deposits	6,477,335	5,646,585
Revolving fund	5,000,000	5,500,000
Inventory	1,275,785	1,275,785
Dividend receivable (see Note 18)	879,996	–
Progressive fund receivable	10,860	21,886,693
Others	4,797,920	4,209,764
	268,324,571	230,672,389
Less allowance for impairment	77,809,887	28,057,448
	190,514,684	202,614,941
Less noncurrent portion (see Note 14)	75,398,607	–
	₱115,116,077	₱202,614,941

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 advance payments for insurance, rent and legal services.

Others include funds set aside for a specific purpose.

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

	2019		
	Input VAT	Prepaid expenses	Total
Beginning balance	₱16,238,938	₱11,818,510	₱28,057,448
Provision for the year (see Note 21)	49,888,589	–	49,888,589
Translation adjustment	–	(136,150)	(136,150)
Ending balance	₱66,127,527	₱11,682,360	₱77,809,887

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	2018		
	Input VAT	Prepaid expenses	Total
Beginning balance	₱3,223,155	₱11,406,998	₱14,630,153
Provision for the year (see Note 21)	20,486,207	226,012	20,712,219
Write-off	(7,470,424)	–	(7,470,424)
Translation adjustment	–	185,500	185,500
Ending balance	₱16,238,938	₱11,818,510	₱28,057,448

9. Goodwill and 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 27).

	2019				
	License with PAGCOR	**Patent**	**Computer Software**	**Goodwill** (Note 4)	**Total**
Cost					
Balance at beginning of year	**₱395,708,095**	**₱1,121,227**	**₱91,021,966**	**₱–**	**₱487,851,288**
Additions during the year	**–**	**–**	**372,300**	**13,933,695**	**14,305,995**
Balance at end of year	**395,708,095**	**1,121,227**	**91,394,266**	**13,933,695**	**502,157,283**
Accumulated amortization					
Balance at beginning of year	**118,712,429**	**–**	**53,890,662**	**–**	**172,603,091**
Amortization (see Notes 20, 21 and 23)	**19,785,405**	**165,289**	**26,111,750**	**–**	**46,062,444**
Balance at end of year	**138,497,834**	**165,289**	**80,002,412**	**–**	**218,665,535**
Net Book Value	**₱257,210,261**	**₱955,938**	**₱11,391,854**	**₱13,933,695**	**₱283,491,748**

	2018			
	License with PAGCOR	Patent	Computer Software	Total
Cost				
Balance at beginning of year	₱395,708,095	₱–	₱89,360,802	₱485,068,897
Additions during the year	–	1,121,227	1,661,164	2,782,391
Balance at end of year	395,708,095	1,121,227	91,021,966	487,851,288
Accumulated amortization				
Balance at beginning of year	98,927,024	–	28,113,889	127,040,913
Amortization (see Notes 20, 21 and 23)	19,785,405	–	25,776,773	45,562,178
Balance at end of year	118,712,429	–	53,890,662	172,603,091
Net Book Value	₱276,995,666	₱1,121,227	₱37,131,304	₱315,248,197

10. Property and Equipment

	2019				
	Computer Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱11,6914,008	₱7,132,479	₱21,860,429	₱52,559,850	₱198,466,766
Additions	4,275,371	4,071,448	2,543,099	18,786,401	29,676,319
Effect of business combination	–	2,731,509	–	584,973	3,316,482
Reclassification	(6,250)	6,250	–	–	–
Balance at end of year	121,183,129	13,941,686	24,403,528	71,931,224	231,459,567
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year	76,766,673	4,683,745	8,571,156	39,125,805	129,147,379
Depreciation and amortization (see Notes 20, 21 and 23)	28,731,131	1,741,524	3,637,704	7,121,103	41,231,462
Effect of business combination	–	2,316,709	–	584,973	2,901,682
Reclassification	(280)	280	–	–	–
Balance at end of year	105,497,524	8,742,258	12,208,860	46,831,881	173,280,523
Net Book Value	₱15,685,605	₱5,199,428	₱12,194,668	₱25,099,343	₱58,179,044

	2018				
	Computer Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱109,896,404	₱6,304,938	₱16,428,143	₱47,254,350	₱179,883,835
Additions	7,017,604	827,541	5,432,286	5,305,500	18,582,931
Balance at end of year	116,914,008	7,132,479	21,860,429	52,559,850	198,466,766
Accumulated Depreciation, Amortization and Impairment Loss					
Balance at beginning of year	49,353,165	3,585,066	5,761,656	34,480,922	93,180,809
Depreciation and amortization (see Notes 20,21 and 23)	27,413,508	1,098,679	2,809,500	4,644,883	35,966,570
Balance at end of year	76,766,673	4,683,745	8,571,156	39,125,805	129,147,379
Net Book Value	₱40,147,335	₱2,448,734	₱13,289,273	₱13,434,045	₱69,319,387

As at December 31, 2019 and 2018, 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, 2019 and 2018. The aggregate costs of fully depreciated property and equipment still being used in operations amounted to ₱49,090,795 and ₱61,616,103 as at December 31, 2019 and 2018, respectively.

IEST acquired transportation equipment amounting to nil in 2019 and ₱3,888,000 in 2018 through finance lease agreement with Universal LMS Finance and Leasing Corporation. As at December 31, 2019 and 2018, the carrying values of the transportation equipment pledged as collateral for its long-term loans payable amounted to ₱7,870,511 and ₱11,324,524 (see Note 16).

11. Right-of-Use Assets and Lease Liabilities

Company as a lessee

The Company has lease contracts for its office spaces which usually have terms of 3 to 15 years.

The rollforward analysis of right-of-use assets follows:

Cost	
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (see Note 2)	219,071,595
As at January 1, 2019, as restated	219,071,595
Additions	7,051,877
Change in accounting estimates	1,674,675
Balance at December 31, 2019	227,798,147
Accumulated Amortization	
As at January 1, 2019, as previously reported	–
Effect of adoption of PFRS 16 (see Note 2)	16,768,685
As at January 1, 2019, as restated	16,768,685
Amortization (see Notes 20, 21 and 23)	18,079,384
Balance at December 31, 2019	34,848,069
Net Book Value	₱192,950,078

The rollforward analysis of lease liabilities follows:

As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (see Note 2)	217,457,168
As at January 1, 2019, as restated	217,457,168
Additions	5,860,992
Interest expense (see Note 25)	18,459,797
Payments	1,674,675
Balance at December 31, 2019	243,452,632
Current portion of lease liabilities	32,907,873
Lease liabilities -net of current portion	₱210,544,759

The following are the amounts recognized in the consolidated statement of comprehensive income as of December 31, 2019:

Amortization expense of right-of-use assets	₱18,079,384
Interest expense on lease liabilities	18,459,797
Total amount recognized in consolidated statement of comprehensive income	₱36,539,181

The lease liabilities as at January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	₱387,628,421
Weighted average incremental borrowing rate at January 1, 2019	7.68%
Discounted operating lease commitments and lease liabilities recognized as at January 1, 2019	₱217,457,168

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2019:

1 year	₱25,358,754
more than 1 year to 2 years	26,609,006
more than 2 years to 3 years	25,989,663
more than 3 years to 4 years	285,772,450

Rent expense for short term and low value assets are 12,196,189 as at December 31, 2019.

Accrued rental arising from recording rent expense using the straight-line method of amortization under PAS 17 amounted to ₱12,768,998 as at December 31, 2018.

12. Investment in Associates and Joint Venture

	2019	2018
Cost		
Balance at beginning of year	**₱63,770,888**	₱63,770,888
Additions	**6,609,995**	–
Reclassification (see Note 13)	**(63,770,888)**	–
	6,609,995	63,770,888
Accumulated equity in net earnings		
Balance at beginning of year	**11,243,441**	10,810,702
Share in profit of associates and joint venture	**1,661,428**	432,739
Reclassification (see Note 13)	**(11,243,441)**	–
	1,661,428	11,243,441
Balance at end of year	**₱8,271,423**	₱75,014,329

The Company's associates and joint venture, all incorporated in the Philippines, consist of the following:

		Percentage of Ownership	
Associate	Principal Activity	**2019**	2018
DCG, Inc.	Information technology services	**55.00%**	–
Essence Asia Philippines, Inc. (EAP)	Management Travel agency	**40.00%**	40.00%
HatchAsia	Information technology services and business process	–	22.87%

Associate

On February 28, 2018, the Parent Company declared property dividend consisting of 8,000,00 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.

On March 31, 2019, date of distribution, HatchAsia is valued at ₱0.50 per share and the dividends payable amounted to ₱4,000,000. Dividend revaluation of ₱37,140,972 is recognized in equity. There are no recorded gain or loss upon distribution of shares.

After the issuance of shares, DFNN's percentage of ownership over Hatchasia was reduced to 19.98%. On December 31, 2019, DFNN disposed 1% ownership in HatchAsia, or 2,761,621 shares as a capital raising exercise to increase liquidity for capital expenditures thus, resulting in DFNN's reduced percentage of ownership to 18.98% and losing DFNN's significant influence over HatchAsia. Subsequently, the Parent Company accounted for its investment in HatchAsia as financial asset at FVOCI (see Note 13).

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, 2019 and 2018.

In 2019, the Company recognized impairment in investment in EAP amounting to P1,199,600.

Joint Venture

On September 20, 2018, the Group entered into a joint arrangement with CYG Pte. Ltd. ("CYG"), to establish an incorporated joint venture which will be engaged in the continued development, expansion and maintenance of the mobile gaming platform for electronic games in the Philippines. Under the agreement, the sharing shall be 55% and 45% for the Group and CYG, respectively. As at December 31, 2019, the Group recorded a ₱1,661,428 share in net income from the joint venture (see Note 26).

The following table illustrates the summarized financial information of the Company's investment in DCG, Inc. as at December 31, 2019:

Current assets	₱12,568,272
Noncurrent assets	6,271,099
Current liabilities	(10,694,538)
Noncurrent liabilities	(5,250,920)
Equity	₱2,893,913

Revenues	₱16,784,789
Cost of services	(9,702,239)
Gross income	7,082,550
General and administrative expenses	(2,636,738)
Other income (expenses)	(137,461)
Income before tax	4,308,351
Provision for income tax	(1,287,573)
Net income/ Total Comprehensive Income	₱3,020,778

13. Financial asset at FVOCI

At December 31, 2019, the investment in HatchAsia was designated as equity instruments at FVOCI as this represents investment that DFNN intends to hold for the long-term for strategic purposes.

In 2018, this investment was classified as an investment in an associate, however, upon declaration and issuance of property dividend and disposition of 1% ownership in shares of stocks in 2019, ownership to HatchAsia decreased from 22.87% to 18.98% (see Note 12).

Fair value of the financial asset at FVOCI as at December 31, 2019 is ₱27,655,084. The Group recognized loss of ₱24,782,394 from the change in classification of investment in associate to FVOCI (see Note 26). No dividend income was recognized during the year.

14. Other Noncurrent Assets

	2019	2018
Project advances	**₱81,976,707**	₱95,181,803
Input VAT – net of current portion (see note 8)	**75,398,607**	–
Rental deposits	**3,060,942**	5,181,604
Others	**3,364,611**	575,777
	₱163,800,867	₱100,939,184

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.

15. Accounts Payable and Other Current Liabilities

	2019	2018
Trade	**₱391,592,240**	₱323,622,081
Progressive fund payable	**114,970,637**	55,745,252
Accrual for:		
Interest (see Note 16)	**49,561,433**	27,740,321
Taxes	**15,327,171**	14,421,116
Professional fees	**3,159,021**	1,446,770
Rent	**–**	19,396,983
Others	**31,256,193**	41,405,802
Due to related parties (see Note 18)	**34,655,126**	32,649,658
Dividend payable (see Note 12 and 18)	**20,259,600**	47,129,475
Deferred output VAT	**10,350,187**	7,689,642
Withholding tax payable	**5,047,433**	4,832,788
	₱676,179,041	₱576,079,888

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.

16. Loans Payable and Other Noncurrent Liabilities

Short-term loans

Short-term loans pertain to the Company's peso-denominated and 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, 2019 and 2018, short-term loans amounted to ₱ 101,858,236 and ₱38,099,439, respectively.

Interest expense on short-term loans amounted to ₱21,821,111 in 2019, ₱9,220,299 in 2018 and ₱11,727,507 in 2017 (Note 25).

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 nil in 2019 and ₱4,386,000 in 2018. 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 10). As at December 31, 2019 and 2018, long-term loans amounted to ₱6,490,702 and ₱9,046,305, respectively.

	2019	2018
Current portion of loans	**₱2,503,054**	₱2,540,868
Noncurrent portion of loans	**3,987,648**	6,505,437
	₱6,490,702	₱9,046,305

Schedule payments of principal are as follows:

Year	**2019**	2018
2020	**₱2,251,017**	₱2,517,789
2021	**2,400,055**	2,400,055
2022	**1,713,871**	1,461,834
2023	**125,759**	125,759
	₱6,490,702	₱6,505,437

Interest expense on long-term loans amounted to ₱706,659 in 2019, ₱730,734 in 2018, and ₱411,275 in 2017 (Note 25).

Principal payment scheduled in 2020 is included in the short-term loans payable.

Other Noncurrent Liabilities

Other noncurrent liabilities amounting to ₱20,702,426 includes accrual for marketing fee which is payable in three (3) years from the date of agreement in 2018 and ₱10,000,000 dividends payable.

17. Equity

Capital Stock

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

	2019		2018		2017	
	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**	324,620,008	₱324,620,008	249,592,313	₱249,592,313
Issued during the year	–	–	–	–	–	–
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	**(6,708,776)**	**(44,880,477)**	(3,658,934)	(26,677,255)	(2,930,100)	(21,886,521)
	317,911,232	**₱279,739,531**	320,961,074	₱297,942,753	246,662,213	₱227,705,792

In 2017, Excel Century Investment Limited acquired 74,877,695 of the Company's shares 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	

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, 2019 and 2018, the number of total equity holders is 75 and 73, respectively.

Non-controlling Interests

The Company has the following significant non-controlling interests:

	2019		
Name	**NCI in Subsidiary**	**Total comprehensive income (loss) allocated to NCI**	**Accumulated NCI**
iWave	**50.64%**	**₱1,630,295**	**₱65,401,383**
IEST	**5.28%**	**3,629,904**	**32,799,679**
PGI	**16.66%**	**(2,902,617)**	**(1,949,068)**

	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

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

Deposits for Future Stock Subscriptions
In 2016, the Parent Company received ₱36,750,000 deposit for future stock subscription from stockholders. This was recorded as a liability since no subscription agreement has been executed as at December 31, 2019. On December 17, 2019, the Group received additional deposit for future stock subscriptions from stockholders of ₱3,000,000.

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

	2019	2018
Balance at beginning of year	**₱26,677,255**	₱26,677,255
Parent Company shares acquired by a subsidiary during the year	**18,203,222**	–
Balance at end of year	**₱44,880,477**	₱26,677,255

IEST and iWave acquired 4,414,242 and 2,294,534 shares of the Parent Company, respectively. The Parent Company shares held by a subsidiary is presented as part of Treasury Stock.

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.

Dividend declaration
On July 18, 2019, the BOD of iWave approved the declaration of the ₱10,000,000 dividends. Dividend payment date will be fixed once collection on certain project has reached its target which is expected to take place beyond one year.

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:

	2019	2018
Balance at beginning of year	**(₱37,374,521)**	(₱26,426,385)
Amount recognized in OCI during the year	**6,120,861**	(10,948,136)
Balance at end of year	**(₱31,253,660)**	(₱37,374,521)

18. 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.

Approval requirements and limits on the amount and extent of related party transactions

Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of DFNN's total consolidated assets based on its latest audited financial statements.

All individual MRPT shall be approved by at least two-thirds (2/3) vote of the Board, with the majority of the Company's independent directors voting to approve the MRPT. Should there be no majority of the Company's independent directors obtained, the MRPT shall be ratified by 2/3 of the Company's outstanding capital stock.

Aggregate RPT transactions within a 12-month period covering the same related part, that breaches the materiality threshold of ten percent (10%) of the Company's total assets shall be approved by the same manner as individual MRPT.

Directors with personal interest in the transaction shall not participate in the discussions and voting on any RPTs.

Outstanding balances at year-end are unsecured and settlement occurs in cash, except the financial asset at FVPL on KGI, throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2019 and 2018, the Group has recorded impairment of receivables on amounts owed by the related parties amounting to ₱58,000,003 and ₱486,488, respectively. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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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	**2019**	**₱687,333**	**₱–**	Noninterest-bearing; not impaired; due and demandable
	2018	9,908,337	–	
Due from related parties	**2019**	–	**5,000,000**	Noninterest-bearing; not impaired; due and demandable
	2018	–	5,000,000	
Due to related parties	**2019**	**2,432,312**	**(4,540,854)**	Noninterest-bearing; not impaired; due and demandable
	2018	454,832	(2,108,542)	
CY Techlabs, Inc.				
Due from related parties	**2019**	**–**	**615**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	
DCG, Inc.				
Due from related parties	**2019**	–	**285,523**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	
Dividend income (see Note 8)	**2019**	**879,996**	**879,996**	Noninterest-bearing
	2018	–	–	
EAP				
Due from related parties	**2019**	**–**	**666,989**	Noninterest-bearing; not impaired; due and demandable
	2018	–	666,989	
Stockholder				
Common Stockholders				
ADAC				
Due from related parties	**2019**	**655,897**	**823,803**	Noninterest-bearing; not impaired; due and demandable
	2018	655,897	823,803	
Westdale				
Due to related parties	**2019**	**–**	**(272,429)**	Noninterest-bearing; not impaired; due and demandable
	2018	–	(272,429)	
DFNN Technology Services				
Due from related parties	**2019**	**–**	**–**	Noninterest-bearing; not impaired; due and demandable
	2018	8,780	8,780	
LuckyU, Inc.				
Due from related parties	**2019**	**61,263**	**2,970,566**	Noninterest-bearing; not impaired; due and demandable
	2018	2,909,303	2,909,303	
Nico Bayan				
Due from related parties	**2019**	**5,032,333**	**5,032,333**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	

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Category	Year	Volume of Transactions	Outstanding Balance	Terms and Conditions
Due to related parties	**2019**	**₱–**	**(₱32,338)**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	
iWave				
Due from related parties	**2019**	**138,070**	**138,070**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	
Other related parties				
KGI				
Financial asset at FVPL	**2019**	**75,205,691**	**241,628,582**	Noninterest-bearing; not impaired; due and demandable
	2018	80,228,021	316,834,294	
Due from related parties	**2019**	**175,931,411**	**175,931,411**	Noninterest-bearing; not impaired; due and demandable
	2018	–	–	
Accounts Receivable	**2019**	**–**	**–**	Noninterest-bearing; not impaired; due and demandable
	2018	18,134,550	18,134,550	
Loans receivable	**2019**	**-**	**67,233,667**	Interest-bearing; not impaired; due and demandable
	2018	-	67,622,667	
Accrued interest receivable	**2019**	**13,692,665**	**37,195,511**	Due and demandable; not impaired
	2018	13,654,095	23,502,846	
Stockholders				
Due to related parties	**2019**	**5,339,891**	**(20,510,611)**	Noninterest-bearing; not impaired; due and demandable
	2018	13,333,934	(16,624,481)	
Due from related parties	**2019**	**–**	**231,999,997**	Noninterest-bearing; impairment loss on 2019; due and demandable
	2018	290,000,000	290,000,000	
LCG				
Due to related parties	**2019**	**–**	**(705,631)**	Noninterest-bearing; not impaired; due and demandable
	2018	–	(705,631)	
DSI				
Due to related parties	**2019**	**–**	**–**	Noninterest-bearing; not impaired; due and demandable
	2018	242,753	(242,753)	
Officers and Employees				
Due from related parties	**2019**	**–**	**–**	Noninterest-bearing; not impaired; due and demandable
	2018	245,909	608,360	
Due to related parties	**2019**	**16,665,680**	**(8,593,264)**	Noninterest-bearing; not impaired; due and demandable
	2018	1,453,043	(12,695,822)	
Advances to officers and employees	**2019**	16,693,761	**7,804,197**	Noninterest-bearing; not impaired; due and demandable
	2018	19,961,196	25,927,217	
Total:				
Financial asset at FVPL (see Note 7)	**2019**	–	**₱241,628,582**	
	2018	–	316,834,294	
Loans receivable (see Note 6)	**2019**	–	**67,233,667**	
	2018	–	67,622,667	
Advances to officers and employees (see Note 6)	**2019**	–	**7,804,197**	
	2018	–	25,927,217	
Accrued interest receivable (see Note 6)	**2019**	–	**37,195,511**	
	2018	–	23,502,846	
Due from related parties (see Note 6)	**2019**	–	**₱422,848,692**	
	2018	–	300,017,236	
Due to related parties (see Note 15)	**2019**	–	**(34,655,126)**	
	2018	–	(32,649,658)	

Category	Year	Volume of Transactions	Outstanding Balance	Terms and Conditions
Dividends payable	**2019**	**₱–**	**₱20,259,600**	
(see Note 15)	2018	–	47,129,475	
Dividend receivable	**2019**	–	**879,996**	
(see Note 8)	2018	–	–	

Outstanding balances as at December 31, 2019 and 2018 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 6).

Compensation of key management personnel consists of the following:

	2019	2018	2017
Salaries and wages	**₱45,249,211**	₱49,393,229	₱22,720,029
Director's fees (see Note 21)	**2,973,456**	10,384,200	9,212,999
Management fees (see Note 21)	**6,280,365**	5,379,363	4,550,000
Retirement benefits	**1,888,039**	1,538,825	1,077,888
	₱56,391,071	₱66,695,617	₱37,560,916

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		
	2019	2018	2017	**2019**	2018	2017
January 1	**12,451,711**	12,451,711	10,101,711	**₱3.33**	₱2.81	₱2.81
Granted	**–**	–	2,500,000	**–**	3.50	3.50
Reassigned	**–**	–	–	**–**	3.50	3.50
Exercised	**–**	–	(150,000)	**–**	3.50	3.50
December 31	**12,451,711**	12,451,711	12,451,711	**₱3.33**	₱3.15	₱3.15

All outstanding options as at December 31, 2019 and 2018 are exercisable.

As at December 31, 2019 and 2018, outstanding stock options pertaining to the ESOP amounted to ₱57,233,922 and ₱62,264,707, respectively. Movement is as follows:

	2019	2018
Balance at beginning of year	**₱62,264,707**	₱57,233,922
Adjustment to deferred tax	**(5,030,785)**	5,030,785
Balance at end of year	**₱57,233,922**	₱62,264,707

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, the Company granted 3,500,000 stock options to stockholders. The employee benefits expense recognized pertaining to ESOP amounted to ₱12,900,000 in 2017(see Note 22).

In 2018, the Company recognized deferred tax asset on stock options 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 dividends payable to ₱5,988,502.

On December 31, 2019, the property dividend was revalued at ₱506.49 per share with a total amount of ₱20,259,600. Dividend revaluation of ₱14,271,098 is recognized in equity.

19. Revenue from Contracts with Customers

	2019	2018	2017
Revenue source:			
Commission income (Note 31)	**₱929,192,656**	₱898,944,610	₱917,911,475
Sale of licenses	**41,532,628**	54,793,701	12,533,685
Service fees and software solutions (Note 31)	**148,225,203**	175,862,477	31,503,014
	₱1,118,950,487	₱1,129,600,788	₱961,948,174

20. Cost of Services

	2019	2018	2017
Outside services (see Note 31)	**₱454,722,151**	₱408,302,307	₱371,317,530
Software licensing fee	**113,539,227**	116,004,858	112,438,898
Marketing	**106,292,473**	108,840,501	95,319,403
Personnel costs (see Note 22)	**45,828,203**	38,029,081	38,559,132
Depreciation and amortization (see Notes 9, 10, 11 and 23)	**13,831,246**	1,037,288	1,187,095
Rent (see Note 11)	**7,600,209**	17,205,563	6,969,126
Utilities	**4,897,523**	1,979,238	2,621,180
Transportation and travel	**4,443,007**	4,063,529	2,840,692
Software development costs	**1,310,181**	1,287,707	1,852,156
Dues and fees	**1,276,981**	501,135	435,350
Supplies	**1,048,445**	637,859	124,751
Others	**13,210,440**	4,991,127	5,824,422
	₱768,000,086	₱702,880,193	₱639,489,735

21. General and Administrative Expenses

	2019	2018	2017
Depreciation and amortization (see Notes 9, 10, 11 and 23)	**₱91,542,044**	₱80,491,459	₱57,928,344
Personnel costs (see Note 22)	**64,139,503**	52,983,758	35,504,225
Provision for impairment of:			
Receivables (see Note 6)	**58,509,988**	6,079,169	–
Other current assets (see Note 8)	**49,888,589**	20,712,219	2,308,892
Inventory	**–**	226,012	–
Sales and marketing	**42,819,058**	32,827,065	41,800,391
Outside services	**40,921,945**	44,388,663	22,197,923
Transportation and travel	**30,871,287**	24,710,697	45,007,185
Entertainment, amusement and representation	**22,440,374**	18,044,438	8,071,829
Taxes and licenses	**18,973,771**	12,361,747	1,811,502
Utilities	**11,549,182**	14,335,992	4,514,941
Management fees (see Note 18)	**6,280,365**	5,379,363	4,550,000
Rent (see Note 11)	**4,595,980**	23,655,359	11,519,506
Directors' fee (see Note 18)	**2,973,456**	10,384,200	9,212,999
Supplies	**2,181,395**	2,445,219	2,350,460
Dues, fees and subscriptions	**1,624,056**	1,435,639	466,068
Insurance	**1,177,070**	1,072,583	242,358
Repairs and maintenance	**579,665**	5,182,633	368,486
Professional fee	**30,000**	115,000	120,000
Others	**7,513,109**	11,126,791	12,075,152
	₱458,610,837	₱367,958,006	₱260,050,261

22. Personnel Costs

	2019	2018	2017
Salaries and wages			
Cost of Services (see Notes 20)	**₱41,615,199**	₱36,124,244	₱37,622,391
General and administrative expense (see Notes 21)	**54,679,802**	49,777,744	34,258,683
Employee benefits			
Cost of Services (see Note 20)	**3,183,088**	790,194	328,098
General and administrative expense (see Note 21)	**7,843,683**	1,456,905	820,915
Retirement cost (see Note 24)			
Cost of Services (see Note 20)	**1,029,916**	1,114,643	608,643
General and administrative expense (see Note 21)	**1,616,018**	1,749,109	424,627
	₱109,967,706	₱91,012,839	₱74,063,357

23. Depreciation and Amortization

	2019	2018	2017
Property and equipment (see Notes 10, 20 and 21)			
Cost of Services (see Note 20)	**₱3,345,203**	₱1,037,288	₱1,187,095
General and administrative expense (see Note 21)	**37,886,259**	34,929,281	20,849,831
Right-of-use assets (see Note 11, 20 and 21)			
Cost of Services (see Note 20)	**10,486,043**	–	–
General and administrative expense (see Note 21)	**7,593,341**	–	–
Intangible assets (see Notes 9, 20 and 21)			
Cost of Services (see Note 20)	–	–	–
General and administrative expense (see Note 21)	**46,062,444**	45,562,178	37,078,513
	₱105,373,290	₱81,528,747	₱59,115,439

24. Employee Benefits

iWave

iWave has a funded, noncontributory defined benefit 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 2019 and 2018 follows:

		Net Benefit Cost in Consolidated Statement of Income					Remeasurements in Other Comprehensive Income			
	January 1, 2019	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, 2019
Present value of defined benefit obligation										
benefit obligation	**₱13,979,666**	**₱2,645,934**	**₱1,057,374**	**₱–**	**₱3,703,308**	**₱–**	**₱12,638,804**	**₱–**	**₱12,638,804**	**₱30,321,778**
Fair value of plan asset	**(2,477,013)**	**–**	**(173,391)**	**–**	**(173,391)**	**–**	**–**	**(76,399)**	**76,399**	**(2,726,803)**
Net retirement benefits liability	**₱11,502,653**	**₱2,645,934**	**₱883,983**	**₱–**	**₱3,529,917**	**₱–**	**₱12,638,804**	**(₱76,399)**	**₱12,562,405**	**₱27,594,975**

		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

The plan assets of iWave are maintained by a trustee bank. The details of the fair value of the plan assets are shown below.

	2019	2018
Cash and cash equivalents	**₱196,179**	₱275,738
Investment held for trading	**2,514,922**	2,186,649
Receivables	**18,178**	16,946
Payables	**(2,476)**	(2,320)
Fair value of plan assets	**₱2,726,803**	₱2,477,013

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:

	2019	2018	2017
Discount rate	**5.18%**	7.47%	5.83%
Salary increase	**7.43%**	5.37%	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, 2019	Increase (decrease)	December 31, 2018
Discount rates	(5.77%)	(₱2,936,000)	+1%	(₱1,173,864)
	6.77%	3,433,316	-1%	1,337,262
Future salary increases	6.43%	3,276,991	+1%	1,375,122
	(5.60%)	(2,253,888)	-1%	(799,634)

The average duration of the defined benefit obligation is 9.0 years and 8.1 years as at December 31, 2019 and 2018, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

Plan Year	Expected Benefit Payments
2020	₱3,838,563
2021	26,069
2022	31,940
2023	38,933
2024	46,037
2025-2029	33,157,318

25. Interest Expense

	2019	2018	2017
Short-term loan payables (see Note 16)	**₱21,821,111**	₱9,220,299	₱11,727,507
Lease liabilities (see Note 11)	**18,459,797**	–	–
Long-term loan payables (see Note 16)	**706,659**	730,734	411,275
Others	**4,112,851**	327,019	833,733
	₱45,100,418	₱10,278,052	₱12,972,515

26. Other Income (Expenses) – Net

	2019	2018	2017
Interest and dividend income (see Notes 5 and 18)	**₱19,527,418**	₱14,565,402	₱10,270,847
Rent income	**13,834,967**	18,614,460	–
Fair value gain (loss) of financial assets at FVPL (see Note 7)	**14,458,843**	(14,372,333)	50,724,927
Share in profit of associates and JV (see Note 12)	**1,661,428**	432,739	5,972,141
Foreign exchange gain (loss)	**(1,798,866)**	14,946,653	349,742
Loss on reclassification of investment in an associate (Note 13)	**(24,782,394)**	–	–
Revaluation loss on property dividend	**(18,646,039)**	–	–
Reversal of impairment of receivables and project advances (see Notes 6 and 14)	**–**	–	299,346
Others	**(335,369)**	240,046	1,948,726
	₱3,919,988	₱34,426,967	₱69,565,729

27. 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 2019, 2018 and 2017.

As a Cagayan Economic Zone Authority (CEZA) enterprise, iWave is entitled to 5% gross income tax (GIT) incentives for the CEZA registered activities.

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The following table shows the details of the Company's provision for (benefit from) income taxes:

	2019	2018	2017
Current:			
Regular corporate income tax	**₱10,067,421**	₱22,173,705	₱9,717,563
Gross income tax (GIT)	**2,457,951**	4,667,136	–
MCIT	**908,358**	375,601	2,187,473
Final tax	**35,416**	13,782	8,027
	13,469,146	27,230,224	11,913,063
Deferred	**(32,412,186)**	(6,656,494)	(37,677,298)
	(₱18,943,040)	₱20,573,730	(₱25,764,235)

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:

	2019	2018	2017
Provision for (benefit from) income tax	**(₱48,531,576)**	₱24,873,451	₱35,700,417
Nondeductible expenses	**37,023,038**	14,800,571	5,671,168
Tax difference of activities under 5% tax rate	**(12,289,755)**	(20,687,104)	–
Nontaxable income	**(1,042,550)**	(2,199,219)	(4,571,107)
Movement in unrecognized deferred tax assets	–	2,795,330	(53,161,688)
Other taxable income @ 5% GIT	–	529,716	–
Others	**5,897,803**	460,985	(9,403,025)
Benefit from income tax	**₱18,943,040)**	₱20,573,730	(₱25,764,235)

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

	2019	2018
Deferred tax assets:		
Lease liabilities	**₱65,363,823**	–
Accrued rent	–	3,830,700
Allowance for impairment	**23,326,203**	8,673,815
NOLCO	**13,650,993**	3,794,795
Retirement benefits	**7,018,134**	3,640,210
Employee stock options	**4,968,233**	16,510,906
MCIT	**1,320,588**	411,581
Unrealized loss on forex	**396,626**	50,908
	116,044,600	36,912,915
Deferred tax liability -		
Right-of-use assets	**57,079,597**	–
Net deferred tax assets	**₱58,965,003**	₱36,912,915

The components of the Group's net deferred tax liabilities are as follows:

	2019	2018
Deferred tax assets:		
Allowance for impairment	**₱3,512,611**	**₱–**
Retirement benefits	**1,426,094**	–
	4,938,705	–
Deferred tax liabilities:		
Intangible assets	**77,163,078**	83,098,699
Net deferred tax liabilities	**₱72,224,373**	₱83,098,699

Deferred tax assets amounting to ₱29,509,670 as at December 31, 2019 and 2018, 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:

	2019	2018
Allowance for impairment	**₱98,177,629**	₱98,177,629
Input VAT	**187,937**	187,937
	₱98,365,566	₱98,365,566

As at December 31, 2019, the Group's NOLCO and MCIT will expire as follows:

Year Incurred	Expiry Date	MCIT	NOLCO
2019	2022	₱909,007	₱32,853,994
2018	2021	375,601	1,743,306
2017	2020	35,980	10,906,011
		₱1,320,588	₱45,503,311

28. 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:

	2019	2018	2017
(a) Net income (loss) attributable to equity holders of the Parent Company	**(₱131,221,469)**	₱33,283,676	₱131,899,068
Number of shares:			
Common shares outstanding at beginning of year	**324,620,008**	324,620,008	249,592,313
(b) Adjusted weighted average number of common shares outstanding - basic	**324,620,008**	324,620,008	287,031,160
Effect of potential common shares under the ESOP and treasury shares (see Note 18)	**₱12,451,711**	₱12,451,711	₱12,451,711
(c) Adjusted weighted average number of common shares outstanding – diluted to equity holders of the parent:	**337,071,719**	337,071,719	299,482,871

EPS, net income (loss) attributable to equity holders of the parent:

	2019*	2018	2017
Basic (a/b)	**(₱0.404)**	₱0.103	₱0.460
Diluted (a/c)	**(₱0.404)**	0.099	0.440

**Basic EPS is equal to diluted EPS and does not account for any dilutive effects.*

In addition, as at December 31, 2019, the Parent 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 2019 and 2018 takes into account the weighted average effect of shares issued during the year related to treasury shares, stock options and convertible loans (see Notes 17 and 18).

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.

29. 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, financial assets at FVOCI, 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:

	2019	2018
Financial assets at FVPL	**₱269,431,712**	₱386,423,829
Financial assets through FVOCI	**27,655,084**	–
Financial assets at amortized cost:		
Cash*	**107,130,467**	94,055,920
Receivables:		
Trade receivables	**374,756,366**	235,027,018
Loans receivable	**67,233,667**	67,622,667
Advances to officers and employees	**1,752,699**	12,270,596
Accrued interest receivable	**37,195,511**	23,502,846
Due from related parties	**422,848,692**	299,408,876
Other receivables	**9,780,611**	19,025,439
	₱1,317,784,809	₱1,137,337,191

**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:

	2019			
	High Grade	**Standard**	**ECL**	**Total**
Financial assets at FVPL	**₱27,803,130**	**₱241,628,582**	**₱–**	**₱269,431,712**
Financial assets through FVOCI	**27,655,084**	–	–	**27,655,084**
Financial assets at amortized cost:				
Cash*	**107,130,467**	–	–	**107,130,467**
Trade receivables	–	**374,756,366**	**10,853,833**	**385,610,199**
Loans receivable	–	**67,233,667**	–	**67,233,667**
Advances to officers and employees	–	**1,752,699**	**6,051,498**	**7,804,197**
Accrued interest receivable	–	**37,195,511**	–	**37,195,511**
Due from related parties	–	**422,848,692**	**58,000,003**	**480,848,695**
Other receivables	–	**9,780,611**	**10,275,834**	**20,056,445**
	₱162,588,681	**₱1,155,196,128**	**₱85,181,168**	**₱1,402,965,977**

**Excluding cash on hand.*

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	2018			
	High Grade	Standard	ECL	Total
Financial assets at FVPL	₱25,207,130	₱361,216,699	₱–	₱386,423,829
Financial assets through FVOCI	–	–	–	–
Loans and receivables:				
Cash*	94,055,920	–	–	94,055,920
Trade receivables	–	235,027,018	10,343,848	245,370,866
Loans receivable	–	67,622,667	–	67,622,667
Advances to officers and employees	–	12,270,596	13,656,621	37,159,467
Accrued interest receivable	–	23,502,846	–	299,408,876
Due from related parties	–	299,408,876	–	12,270,596
Other receivables	–	19,025,439	2,674,116	21,699,555
	₱119,353,050	₱1,018,074,141	₱26,674,585	₱1,164,101,776

**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.

	2019		
	Within One Year	**1–5 Years**	**Total**
Financial assets at FVPL	**₱27,803,130**	**₱241,628,582**	**₱269,431,712**
Financial assets through FVOCI	**27,655,084**	**–**	**27,655,084**
Financial assets at amortized cost:			
Cash*	**107,130,467**	**–**	**107,130,467**
Trade receivables	**374,756,366**	**–**	**374,756,366**
Loans receivable	**67,233,667**	**–**	**67,233,667**
Advances to officers and employees	**1,752,699**	**–**	**1,752,699**
Accrued interest receivable	**37,195,511**	**–**	**37,195,511**
Due from related parties	**422,848,692**	**–**	**422,848,692**
Other receivables	**9,780,611**	**–**	**9,780,611**
Total financial assets	**1,076,156,227**	**₱241,628,582**	**1,317,784,809**
Other financial liabilities:			
Accounts payable and other current liabilities:			
Trade	**391,592,240**	**–**	**391,592,240**
Progressive fund payable	**114,970,637**	**–**	**114,970,637**
Accrued expenses**	**99,303,820**	**–**	**99,303,820**
Due to related parties	**34,655,124**	**–**	**34,655,124**
Short-term loans payable	**101,858,236**	**–**	**101,858,236**
	742,380,057	**–**	**742,380,057**
Liquidity gap	**₱333,776,170**	**₱241,628,582**	**₱575,404,752**

	2018		
	Within One Year	1–5 Years	Total
Financial assets at FVPL	₱25,207,130	₱361,216,699	₱386,423,829
Financial assets through FVOCI	90,000	–	90,000
Financial assets at amortized cost:			
Cash*	94,055,920	–	94,055,920
Trade receivables	235,027,018	–	235,027,018
Loans receivable	67,622,667	–	67,622,667
Advances to officers and employees	12,270,596	–	12,270,596
Accrued interest receivable	23,502,846	–	23,502,846
Due from related parties	299,408,876	–	299,408,876
Other receivables	19,025,439	–	19,025,439
Total financial assets	776,210,492	361,216,699	1,137,427,191
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	₱219,246,555	₱361,216,699	₱580,463,254

**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:

	2019		2018	
	US$ Value	**Peso Equivalent**	US$ Value	Peso Equivalent
Assets:				
Cash	**$351,208**	**₱17,783,394**	$848,965	₱44,638,560
Receivables	**1,011,087**	**51,196,393**	93,089	4,894,595
Financial asset at FVPL	**–**	**–**	4,169,118	219,212,224
	1,362,295	**68,979,787**	5,111,172	268,745,379
Liabilities:				
Accounts payable and other current liabilities	**1,118,883**	**56,654,637**	503,813	26,490,503
	$243,412	**₱12,325,150**	$4,607,359	₱242,254,876

The closing functional currency exchange rates as at December 31 are as follows:

	2019	2018
U.S. dollar	**₱50.64**	₱52.58

The following table presents the impact on the Company's income before income tax and equity as at December 31, 2019 and 2018 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
2019	**Increase by 3.70%**	**₱1,986,426**
	Decrease by 3.70%	**(1,986,426)**
2018	Increase by 5.31%	₱4,387,863
	Decrease by 5.31%	(4,387,863)

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:

	2019	2018
Capital stock	**₱324,620,008**	₱324,620,008
Additional paid-in capital	**583,036,164**	583,036,164
Equity reserve	**(49,230,618)**	(49,230,618)
Retained earnings	**91,327,661**	213,823,935
Treasury stock	**(44,880,477)**	(26,677,255)
	₱904,872,738	₱1,045,572,234

30. Fair Value Measurements

Fair Value Measurement

The carrying value of the Company's financial assets and liabilities, except financial assets at FVPL and financial assets at FVOCI, approximate their fair values as at December 31, 2019 and 2018 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 7)	**2019**	**₱27,803,130**	**₱–**	**₱241,628,582**	**₱269,431,712**
	2018	25,207,130	–	361,216,699	386,423,829
Financial assets at FVOCI	**2019**	**27,655,084**	**–**	**–**	**27,655,084**
	2018	–	–	–	–
Liability for which fair value are disclosed:					
Loans payable - net of current portion	**2019**	**4,239,685**	**–**	**–**	**4,239,685**
	2018	6,505,437	–	–	6,505,437
Derivative Liabilities	**2019**	**–**	**–**	**–**	**–**
	2018	–	–	83,098,699	83,098,699

Equity Securities. The fair values of quoted equity securities are based on quoted market prices as at the financial reporting date.

Financial assets at FVPL. 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 14). It was computed based on the Black-Scholes Option pricing model. Inputs used in the valuation are risk-free interest rate of 3.40% and volatility rate of 48.00%.

On March 31, 2019, date of distribution, HatchAsia is valued at ₱0.50 per share and the dividends payable amounted to ₱4,000,000. Dividend revaluation of ₱37,140,972 is recognized in statement of comprehensive income.

The significant unobservable inputs used in the fair value measurement of the financial asset at FVPL, together with a quantitative sensitivity analysis are as shown below:

	2019		2018	
	Change in rate	**Effect on Equity**	Change in rate	Effect on Equity
Interest rate	**1%**	**1,652,946**	1%	298,482
	(1%)	**(1,295,215)**	(1%)	(281,662)
Volatility rate	**1%**	**680,843**	1%	1,059,005
	(1%)	**(686,745)**	(1%)	(1,059,003)

During the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 measurements.

31. 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.

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. ₱310,095,150 plus 6% interest) considering the immediate executory nature of the RTC Makati Decision. However, to date, the COA has yet to resolve the Petition.

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.

The Court of Appeals rendered a decision dated 31 May 2019 resolving the Petition for Certioriari filed by PSCO assailing the Order of the Regional Trial Court granting DFNN Inc.'s Motion for the Issuance of a Writ of Execution of the award granted to the Company the amount of ₱310,095,150 plus 6% interest from date of finality until payment by PCSO.

On September 27, 2019, the Court of Appeals promulgated a Resolution denying the Motion for Reconsideration filed by Philippine Charity Sweepstakes Office (PCSO). In the Motion for Reconsideration, PCSO prayed for the reconsideration of the Decision of the Court of Appeals which denied the Petition for Certiorari filed by the former and affirmed the Order of the Regional Trial Court of Makati City (RTC Order) granting the Motion for Issuance of Writ of Execution filed by DFNN. As at December 31, 2019, there has been no order from the courts regarding this case.

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 ₱929,192,656 in 2019, 898,944,610 in 2018, and ₱917,911,475 in 2017 (see Note 19).

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" under "Cost of services" in the consolidated statement of income. Service fee related to ABTSI's technical assistance amounted to ₱292,167,860 in 2019, ₱288,942,266 in 2018, and ₱341,435,393 in 2017 (see Note 20).

32. 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.

	Software solutions	Gaming software	Eliminating Entries	Consolidated Financial Statements
Revenue	₱248,228,045	₱981,792,422	(₱111,069,980)	₱1,118,950,487
Cost of services	194,918,782	685,167,930	(112,086,626)	768,000,086
Gross profit (loss)	53,309,263	296,624,492	1,016,646	350,950,401
General and administrative expenses	(147,126,231)	(299,392,300)	(12,092,306)	(458,610,837)
Segment results	(93,816,968)	(2,767,808)	(11,075,660)	(107,660,436)
Interest expense	(41,038,569)	(4,061,849)	–	(45,100,418)
Interest income	16,526,175	3,001,243	–	19,527,418
Foreign exchange gain (loss)	(1,798,866)	(5,391,705)	5,391,705	(1,798,866)
Share in profit	1,661,428	–	–	1,661,428
Others – net	(10,635,693)	(8,409,746)	3,575,447	(15,469,992)
Provision for income tax	23,855,174	(1,0847,756)	5,935,622	18,943,040
Net (loss) income	(₱105,247,319)	(₱28,477,621)	₱3,827,114	(₱129,897,826)
Segment assets	₱1,721,425,196	₱1,211,533,967	(₱713,107,797)	₱2,219,851,366
Segment liabilities	₱687,055,593	₱991,565,036	(₱477,653,716)	₱1,200,966,913
Depreciation and amortization	₱23,068,915	₱62,518,970	₱19,785,405	₱105,373,290
Capital expenditures for the year	₱235,004,975	₱4,398,430	₱–	₱239,403,405

	Software solutions	Gaming software	Eliminating Entries	Consolidated Financial Statements
Revenue	₱ 289,653,029	₱ 939,143,003	(₱99,195,244)	₱1,129,600,788
Cost of services	160,901,855	641,486,996	(99,508,658)	702,880,193
Gross profit (loss)	128,751,174	297,656,007	313,414	426,720,595
General and administrative expenses	(87,729,035)	(274,704,647)	(5,524,324)	(367,958,006)
Segment results	41,022,139	22,951,360	(5,210,910)	58,762,589
Interest income	13,893,513	300,655	371,234	14,565,402
Interest expense	(8,497,405)	(1,780,647)	20,556,104	10,278,052
Foreign exchange gain (loss)	(131,513)	6,829,657	8,248,509	14,946,653
Share in profit	–	–	432,739	432,739
Derivative gain (loss)	–	–	(13,275,215)	(13,275,215)
Others – net	36,000,190	2,217,807	(41,016,713)	(2,798,716)
Provision for income tax	(14,564,215)	(11,945,137)	5,935,622	(20,573,730)
Net (loss) income	₱67,722,709	₱18,573,695	(₱23,958,630)	₱62,337,774
Segment assets	₱1,552,838,808	₱ 885,592,649	(₱480,056,437)	₱1,958,375,020
Segment liabilities	₱408,948,074	₱ 899,676,635	(₱514,989,993)	₱793,634,716
Depreciation and amortization	₱ 1,755,740	₱ 59,987,601	₱19,785,408	₱81,528,749
Capital expenditures for the year	₱9,306,778	₱ 9,368,852	₱–	₱18,675,630

	Software solutions	Gaming software	Eliminating Entries	Consolidated Financial Statements
Revenue	₱180,328,871	₱92,8945,104	(₱147,325,801)	₱961,948,174
Cost of services	89,358,125	665,511,965	(115,380,355)	639,489,735
Gross profit (loss)	90,970,746	263,433,139	(31,945,446)	322,458,439
General and administrative expenses	(45,114,455)	(237,056,115)	22,120,309	(260,050,261)
Segment results	45,856,291	26,377,024	(9,825,137)	62,408,178
Interest income	30,681,203	4,000	(20,414,356)	10,270,847
Interest expense	(13,227,902)	(5,640,337)	5,895,724	(12,972,515)
Foreign exchange gain (loss)	305,030	(211,528)	256,240	349,742
Share in profit	–	–	5,972,141	5,972,141
Derivative gain	–	–	47,650,584	47,650,584
Others – net	12,075,234	(3,829,531)	(2,923,288)	5,322,415
Provision for income tax	27,063,219	(7,234,605)	5,935,621	25,764,235
Net (loss) income	₱102,753,075	₱9,465,023	₱32,547,529	₱144,765,627
Segment assets	₱1,411,173,316	₱695,313,890	(₱427,024,495)	₱1,679,462,711
Segment liabilities	₱282,096,560	₱720,491,035	(₱490,879,572)	₱511,708,023
Depreciation and amortization	₱2,254,818	₱37,075,215	₱19,785,406	₱59,115,439
Capital expenditures for the year	₱384,702	₱17,4678,168	₱–	₱175,062,870

33. Notes to the Consolidated Statement of Cash Flows

The following are the noncash activities for the years ended December 31, 2019 and 2018:

	January 1, 2019	Net cash flows	Noncash change	December 31, 2019
Accounts payable and other current liabilities (a)	₱576,079,888	₱87,334,714	₱12,764,439	₱676,179,041

	January 1, 2018	Net cash flows	Noncash change	December 31, 2018
Accounts payable and other current liabilities (b)	₱347,280,040	₱232,941,491	₱4,141,643)	₱576,079,888

a. Noncash change pertains to liabilities assumed through business acquisition.
b. Noncash change pertains to accrual of interest on short-term loans payable.

34. Other Matters

The prior period balances have been reclassified to conform with the 2019 presentation.

35. Events after the Reporting Date

Coronavirus Disease 2019 (COVID-19) is a pandemic that affects the worldwide economy as businesses, except those categorized as providers of basic and medical necessities, were forced to cease operations in compliance to social distancing and safety protocols of respective government bodies. In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. On May 14, 2020, the government relaxes the implementation of ECQ and has placed certain areas under the Modified ECQ until May 31, 2020 and General ECQ. On May 28, 2020 the government further eased the implementation of community quarantine and placed most of areas in the Philippines under the GCQ until June 15, 2020.

These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation.

SGV
Building a better working world

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ey.com/ph

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.
L2-L5, 14th Floor, Philippine Stock Exchange Tower
5th Avenue cor., 28th Street
Bonifacio Global City, Taguig City 1634

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of DFNN, Inc. and Subsidiaries (collectively referred to as the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 included in this Form 17-A and have issued our report thereon dated June 30, 2020. 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 Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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. 8125244, January 7, 2020, Makati City

June 30, 2020

DFNN INC. AND SUBSIDIARIES

ANNEX A

FINANCIAL ASSETS

DECEMBER 31, 2019

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 accrued
Fair value through profit or loss				
Chelsea Logistics IPO	30,000	165,000	165,000	-
Cebu Landmasters IPO	20,000	96,600	96,600	-
Eagle Cement Corp IPO	10,000	148,600	148,600	-
Cosco Capital Inc.	90,000	615,600	615,600	-
Petron Corp	429,700	1,658,642	1,658,642	-
Manila Electric Co.	3,000	951,000	951,000	-
Ayala Land Inc	75,000	3,412,500	3,412,500	-
Italpinas Dev. Corp.	37	140	140	-
Metro Retail Store Corp	10,000	21,100	21,100	-
Alliance Global	250,000	2,915,000	2,915,000	-
Megaworld Corporation	3,060,000	12,270,600	12,270,600	-
San Miguel Corp	21,000	3,444,000	3,444,000	-
Pacific Online System Corp	100	250	250	-
Philippine Business	113	1,358	1,358	-
Leisure & Resorts Corp	338,000	811,200	811,200	-
Axelum Resources, Inc.	290,000	756,900	756,900	
All Home Corp.	34,000	395,760	395,760	
Max's Group, Inc.	11,200	138,880	138,880	-
		27,803,130	27,803,130	-
Financial Assets at FVPL		241,628,582		
Fair value through OCI		27,655,084		
Loan and Receivables				
Cash		107,130,467		
Receivables:				
Trade receivables		399,545,651		
Loans receivable		67,233,667		
Advances to officers and employees		7,804,197		
Due from related parties		480,848,695		
Accrued interest receivable		37,195,511		
Other receivables		20,056,446		
Total		1,012,684,167		
Less allowance for impairment		85,181,168		
		927,502,999		
		1,331,720,262		

DFNN INC. AND SUBSIDIARIES

ANNEX B

AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2019

Name	Beginning Balance	Additions	Amt. Collected	Written Off	Current	Non Current	Ending Balance
IWAVE							
Miguel Manzano	6,051,498						6,051,498
Sanchez Arceili	37,175	28,018.78	27,881.24				37,313
Ramon C. Garcia Jr.	33,960						33,960
Hirotsugo Kobayashi	30,160		30,160.00				-
Bryan Adams Manigbas	22,133	5,032.50	22,133.00				5,033
Joan Delos Santos	15,250		15,250.00				-
Sharmaine Kho	34	18,519.00	34.00				18,519
Aleth C. de Roxas	-	5,271.00					5,271
Angelie D. Claver	-	137.50					138
Amel C. Talavera	-	30,000.00					30,000
Atty. Glenn Ceasar T. de Guzma	-	137.50					138
Carlito O. Olondriz	-	137.50					138
Dan Russell Y. Nacilla	-	85.25					85
Irene M. Tungcul	-	2,710.00					2,710
John Patrick V. Dadulla	-	137.50					138
Lizandro Caspe	-	6,195.84					6,196
Marco Antonio Urera	-	4,934.41					4,934
Miguella A. Salaya	-	137.50					138
Mondragon, Arnielito	-	137.50					138
	6,190,210	**101,592**	**95,458**	**-**	**-**	**-**	**6,196,344**
IEST							
Maria Theresa Rojas	291,601	200,000	291,601				200,000
Rose Ann Doria	70,000		70,000				-
Jay Martin Pajarin	50,378		127,547			-	77,169
Trixie Ledonio	37,100		37,100				-
Freshiela Maramot	-	60,000	-				60,000
Rayanna Carla de Castro	10,809		10,809				-
Antonio Lopa	-	1,000,000	-				1,000,000
Eldefonso Minion	- 871	-	871				-
	459,017	**1,260,000**	**536,186**	**-**	**-**	**-**	**1,182,831**
DFNN							
Ramon C. Garcia, Jr.	9,095,481.43	(9,095,481.43)	-				-
Jean Henri D. Lhuillier	3,083,053.41	(3,083,053.41)	-				-
Raul Daza	1,742,084.04	(1,742,084.04)	-				-
James Beltran	1,300,122.59	(1,300,122.59)	-				-
Edwin B. Villanueva	772,278.73	(772,278.73)	-				-
Paul Bradley	596,282.31	(596,282.31)	-				-
Paulo Coppola	527,928.12	(527,928.12)	-				-
Antonio Lopa	418,814.53	(418,814.53)	-				-
Marco Urera	272,700.06	(272,700.06)	-				-
Roberto de Ocampo	196,988.06	(196,988.06)	-				-
Shun Wei Holdings Ltd.	192,795.63	(192,795.63)	-				-
Niseko Holdings Corporation	168,480.43	(168,480.43)	-				-
Uno Primera Holdings and Prope	83,720.00	(83,720.00)	-				-
Diversified Securities, Inc.	83,720.00	(83,720.00)	-				-
ADAC	47,159.33	(47,159.33)	-				-
Monico V. Jacob	19,319.57	(19,319.57)	-				-
Westdale Limited	13,716.49	(13,716.49)	-				-
Abigail Garcia	-	150,000.00	-				150,000
STEPHEN KYLE BENDIJO	605,026.00	1,812,076.00	2,269,512.21				147,590
PATRICK PALMA	-	76,858.14	31,988.77				44,869
JACQUELYN LAZARO	-	60,049.02	19,043.64				41,005
MICHAEL ALMAZAN	-	35,316.96	8,829.25				26,488
Patricia Delas Cagigas	-	110,118.71	97,079.49				13,039
Calvin Eng Kiat Lim	-	2,198.22	-				2,198
JANET CAPIZ	-	16,000.00	14,500.80				1,499
Erika Manalili	3,333.31		5,000.01			-	1,667
	19,223,004	**- 16,352,028**	**2,445,954**	**-**	**-**	**-**	**425,022**
TOTAL	**25,872,231**	**- 14,990,436**	**3,077,598**	**-**	**-**	**-**	**7,804,197**

DFNN INC. AND SUBSIDIARIES

ANNEX C

AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2019

Name and designation of Debtor	Balance at beginning of period	Additions	Amount Collected	Amounts Written Off	Current	Noncurrent	Balance at end of the period
IEST	66,523,068	24,825,465	-				91,348,533
iWave	940,800	-	(940,800)				-
Nico Bayan	-	-	-				-
PGI	13,360,892	-	-				13,360,892
	80,824,760	**24,825,465**	**(940,800)**	**-**	**-**	**-**	**104,709,425**

DFNN INC. AND SUBSIDIARIES

ANNEX D

INTANGIBE ASSETS - OTHER ASSETS

DECEMBER 31, 2019

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	276,995,666	-	(19,785,405)	-	-	257,210,261
Patent	1,121,227	-	(165,289)	-	-	955,938
Computer Software	37,131,304	372,300	(26,111,750)			11,391,854
Goodwill	-	13,933,695	-	-	-	13,933,695
	315,248,197	**14,305,995**	**(46,062,444)**	**-**	**-**	**283,491,748**

DFNN INC. AND SUBSIDIARIES

LONG-TERM DEBT

DECEMBER 31, 2019

ANNEX E

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under 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, 2019

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

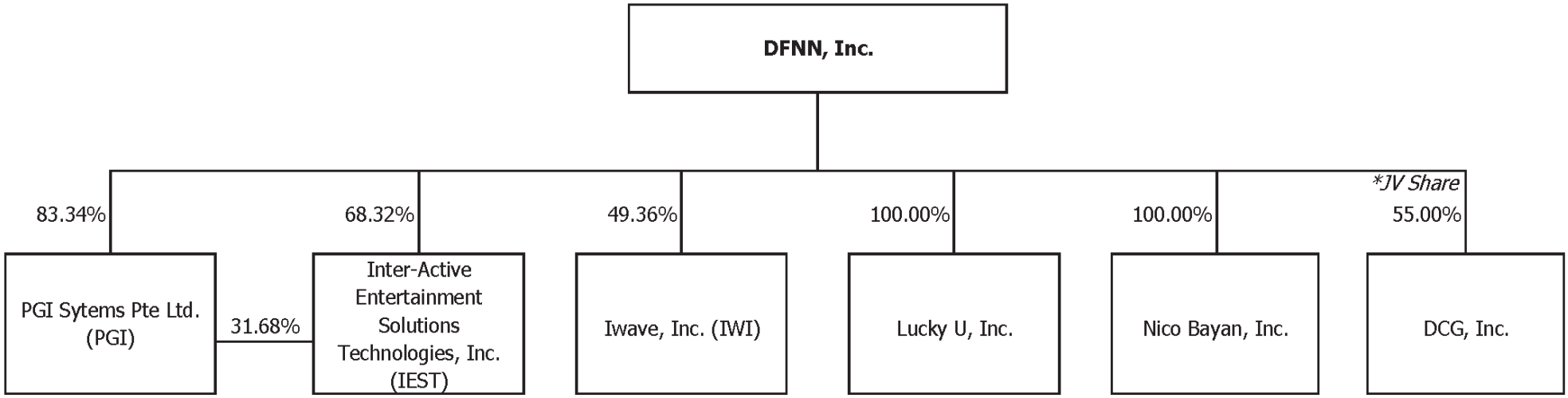
DECEMBER 31, 2019

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	37,393,023	3,669,434
Preferred Stock	100,000,000					

DFNN INC. AND SUBSIDIARIES

ANNEX I

MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG THE COMPANY AND ITS SUBSIDIARIES AND ASSOCIATES
DECEMBER 31, 2019



ANNEX J

DFNN, INC.
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Retained Earnings as at December 31, 2018		67,206,140
Adjustments:		
Deferred Tax Asset	1,776,291	
Effect of adoption of PFRS 16	(5,920,970)	
Revaluation of Dividend		(4,144,679)
Unappropriated retained earnings as at December 31, 2018		63,061,460
Net Income (Loss) on Face of AFS	(105,560,616)	
Less: Revaluation of Dividends Declared	22,869,875	
Equity in Net Income of Joint Venture	(1,661,428)	(84,352,169)
Retained earnings available for additional dividend distribution as at December 31, 2019		(21,290,708)

DFNN, INC. **ANNEX K**
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

RATIO	FORMULA	CURRENT YEAR	PRIOR YEAR
Current Ratio	Current Asset/Current Liability	1.73	2.16
Acid Test Ratio	Current Asset /Current Liability	1.73	2.16
Solvency Ratio	Total Assets / Total Liabilities	1.85	2.47
Debt-to equity ratio	Total Liabilities / Total Equity	1.18	0.68
Asset-to-equity ratio	Total Assets / Total Equity	2.18	1.68
Interest rate coverage ratio	EBIT / Interest Expense	(2.30)	9.06
Return on equity	Net Income / Total Equity	(0.13)	0.05
Return on assets	EBIT / Total Assets	(0.05)	0.05
Net profit margin	Net Income / Revenues	(0.12)	0.06
Other ratios			
Debt Ratio	Total Debt/Total Assets	0.54	0.41
Price/Earnings Ratio	Current Stock Price/Earnings Per share	(12.54)	78.15

CORPORATE INFORMATION

CONTACT US

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Bonifacio Global City, Taguig

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Email: info@dfnn.com

Stock Transfer Agent: Stock Transfer Service, Inc.
External Auditor: Sycip Gorres Velayo & Co
External Counsel: Martinez Vergara Gonzalez & Serrano Law

For inquiries about this report, please contact:

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