

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement
 Definitive Information Statement

2. Name of Registrant as specified in its charter

PACIFIC ONLINE SYSTEMS CORPORATION

3. Province, country or other jurisdiction of incorporation or organization

Metro Manila

4. SEC Identification Number

ASO93-008809

5. BIR Tax Identification Code

003-865-392-000

6. Address of principal office

28/F EAST TOWER, PHILIPPINE STOCK EXCHANGE CENTRE, EXCHANGE ROAD,
ORTIGAS CENTER, PASIG CITY

Postal Code

1605

7. Registrant's telephone number, including area code

(632) 8584 1700

8. Date, time and place of the meeting of security holders

June 22, 2020; 9:00AM; in virtual format through videoconferencing

9. Approximate date on which the Information Statement is first to be sent or given to security holders

May 25, 2020

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

Not Applicable

Address and Telephone No.

Not Applicable

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding

Common Shares

895,330,946

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

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

Philippine Stock Exchange; Common Shares

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



Pacific Online Systems Corporation LOTO

**PSE Disclosure Form 17-5 - Information Statement for Annual or
Special Stockholders' Meeting
References: SRC Rule 20 and
Section 17.10 of the Revised Disclosure Rules**

Date of Stockholders' Meeting	Jun 22, 2020
Type (Annual or Special)	Annual
Time	9:00 A.M.
Venue	In virtual format via videoconferencing
Record Date	Apr 30, 2020

Inclusive Dates of Closing of Stock Transfer Books

Start Date	N/A
End date	N/A

Other Relevant Information

Please see attached Definitive Information Statement.

Filed on behalf by:

Name	JASON NALUPTA
Designation	ASSISTANT CORPORATE SECRETARY

COVER SHEET

AS093-008809

SEC Registration Number

PACIFIC ONLINE SYSTEMS
CORPORATION

(Company's Full Name)

28th Floor, East Tower, Philippine
Stock Exchange Centre, Exchange
Road, Ortigas Center, Pasig City

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

Ma. Virginia V. Abo-Hamda

(Contact Person)

8584-1700

(Company Telephone Number)

12 31
 Month Day
 (Fiscal Year)

17-A
 (Form Type)

Month Day
 (Annual Meeting)

(Secondary License Type, if Applicable)

CFD
 Dept. Requiring this Doc.

Amended Articles Number/Section

56
 Total No. of Stockholders

Total Amount of Borrowings
 Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

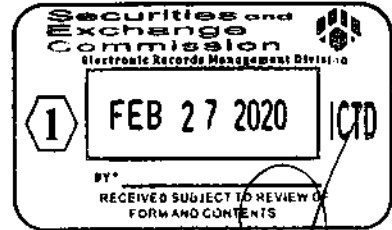
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SECURITIES AND EXCHANGE COMMISSION



SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2019**
2. SEC Identification Number: **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**
4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**
5. **Metro Manila, Philippines**
Province, Country or other jurisdiction of
Incorporation or organization
6. _____ (SEC Use Only)
Industry Classification Code
7. **28/F, East Tower, Philippine Stock Exchange, Exchange Road, Ortigas Center, Pasig City,
Metro Manila**
Address of principal office
1605
Postal Code
8. **632/8584-1700**
Registrant's telephone number, including area code
9. **Not applicable**
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 par value	895,330,943
11. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes [] No []
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [] No []
 - (b) has been subject to such filing requirements for the past 90 days.
Yes [] No []
13. Aggregate market value of voting stock held by non-affiliates : **₱ 650.7 million**
This was computed by multiplying the number of voting stocks held by non-affiliates by the stock's closing price on February 26, 2020.

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Pacific Online Systems Corporation ("Company") was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission ("SEC") on November 11, 1993. The Company is primarily engaged in the development, design and management of online computer systems, terminals and software for the Philippine gaming industry. It sources technology from leading global suppliers of integrated gaming systems and leases equipment to the Philippine Charity Sweepstakes Office (PCSO) for its online lotto operations in the Visayas and Mindanao (VISMIND) regions under the terms of an Equipment Lease Agreement (ELA), which was initially entered into on November 25, 1995. It also provides the necessary technical support through a Maintenance Repair Agreement (MRA) that is co-terminus with the ELA. The Company's ELA with the PCSO was amended in 2004, 2012, 2013, 2015, 2018, and 2019, principally to amend the term thereof, in response to PCSO's requirements to ensure integrity, sustainability and efficiency in its online lotto operations. In 2019, the ELA was amended to allow the use of the Company's terminals for PCSO's lotto operations in Luzon. The latest amendment to the ELA was made wherein the ELA's term was extended up to July 31, 2020. The equipment rental revenue earned by the Company with this ELA is based on a percentage of lotto sales generated by the Company's terminals.

In 2004, the Company acquired 50% of Total Gaming Technologies Inc. (TGTI), which has its own ELA with the PCSO for the latter's online keno operations nationwide. TGTI's ELA with PCSO provides for a lease period of ten (10) years commencing on the date of actual commercial operations of at least 200 online keno agents. With October 2010 established as the start of commercial operations for online keno, TGTI's ELA will expire on September 30, 2020. TGTI's equipment rental revenue is based on a percentage of keno ticket sales or a fixed annual rental of P40,000 per terminal, whichever is higher. By 2013, the Company already owns 98.92% of TGTI.

In 2007, the Company set up Loto Pacific Leisure Corporation (LotoPac) primarily to acquire, establish, own, hold, lease, sell, conduct, operate, and manage amusement, recreational and gaming equipment facilities, and enterprise of every kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business. LotoPac subsequently acquired Lucky Circle Corporation (LCC) in August 2007. LCC is an authorized PCSO agent operating online betting stations that sell sweepstakes, lotto, keno and instant tickets in outlets located in major shopping malls like SM Supermall, Robinsons, and Gaisano nationwide. LCC earns a certain percentage of the sales of lotto, keno, sweepstakes and instant scratch as tickets as commission income. In 2010, the Company subscribed to additional 124 million shares of LCC, after the SEC's approval of the increase in the latter's authorized capital stock, which increased the Company's interest in LCC to 97.64%.

In 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO, for a period of seven years to undertake the printing, distribution and sale of instant scratch tickets nationwide. The instant scratch ticket, branded as Scratchit™, provided a steady stream of revenues for PCSO and its agents. It also expanded the Company's experience in the lottery business. On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) to be the exclusive marketing, distribution, selling and collecting agent of the Company for Scratchit™ tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

On June 16, 2014, TGTI and the shareholders of Falcon Resources, Inc. (FRI) entered into a Memorandum of Understanding (MOU) for the former's intention to acquire the latter's interest in FRI representing 100% ownership. On December 11, 2014, the deed of sale for the transfer of shares of stocks was executed. FRI is a company engaged in consultancy services for TGTI and a sub-distributor of instant scratch tickets. FRI is a company incorporated in the Philippines.

On July 1, 2017, LCC and the stockholders of the following entities entered into a Deed of Sale Agreement for the transfer of shares of stock representing 100% ownership.

- a) Athena Ventures, Inc.
- b) Avery Integrated Hub Inc.
- c) Circle 8 Gaming Ventures Inc.
- d) Lucky Deal Leisure Inc.
- e) Lucky Fortune Business Ventures Inc.
- f) Lucky Pick Leisure Club Corp.
- g) Lucky Ventures Leisure Corp.
- h) Lucky Games Entertainment Ventures Inc.
- i) Orbis Valley Corporation

These entities are engaged in the trading and selling of goods such as lotto, keno, sweepstakes and scratch tickets, on retail basis. The acquisition is in line with the Company's business strategy of expanding its market reach nationwide.

Summarized below are the subsidiaries of the Company and the corresponding percentage of its ownership.

	Percentage of Ownership	
	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	100.00	-
Lucky Circle Corporation ("LCC")*	97.64	2.36
Total Gaming Technologies, Inc. ("TGTI")	98.92	-
Falcon Resources, Inc. ("FRI")**		100.00
TGTI Services, Inc. (TGTISI)**		100.00
Athena Ventures Inc. (AVI)***	-	100.00
Avery Integrated Hub Inc. (AHI)***	-	100.00
Circle 8 Gaming Venture, Inc. (C8)***	-	100.00
Lucky Deal Leisure Inc. (LLI)***	-	100.00
Lucky Fortune Business Ventures, Inc. (LBVI)***	-	100.00
Lucky Pick Leisure Club Corp. (LLCC)***	-	100.00
Lucky Ventures Leisure Corp. (LLC)***	-	100.00
Lucky Games Entertainment Ventures Inc.(LGEVI)***	-	100.00
Orbis Valley Corporation (OVC)***	-	100.00

* With indirect ownership through LotoPac

** Indirectly owned through TGTI

*** Indirectly owned through LCC (collectively referred to as "nine entities starting July 1, 2017)

For the year ended December 31, 2019, the Company together with its subsidiaries ("Group") generated P989.87 million gross revenues, primarily through lottery equipment rentals billed to PCSO, and posted a P317.61 million net loss. As of December 31, 2019, the Group had total assets of P1.7 billion and liabilities and shareholders' equity of P1.3 billion.

Background on the TGTI Investment

On April 13, 2004, the Company purchased 50% of the outstanding capital stock of Innovative Solutions Consultancy Group, Corp. (Innovative), which is a joint stock company incorporated to manage enterprises engaged in the gaming business. On May 31, 2004, Innovative, in turn, acquired 80% of the outstanding capital stock of Total Gaming Technologies, Inc. (TGTI), a domestic corporation founded in October 2002 to develop new games for the Philippine gaming industry and to provide consultancy service and state-of-the-art equipment to the local gaming operators through its strategic partnership with Intralot. TGTI has

entered into an Equipment Lease Agreement (ELA) with the PCSO for the nationwide operation of the Online Keno (initially referred to as Fast Keno) game. A Shareholders' Agreement was executed whereby Innovative shall provide management counsel and expertise to TGTI to ensure proper execution of the Online Keno game, among others. In April 2008, the Company acquired from Intralot additional 574,885 shares of Innovative for a contract price of P4.3 million. This increased the Company's interest in Innovative from 50% in 2007 to 87.38% in 2008. In August 2010, the minority shareholders of TGTI and Innovative entered into a contract wherein the minority shareholders sold all of their 2,650,000 common stock to the Company, part of the consideration of which is that the Company, as controlling shareholder of TGTI, will cause the creation of preferred stock, of which 3,312,500 preferred shares will be issued to the minority shareholders of TGTI. The total preferred stock of 3,312,500 has been fully subscribed, and of the said subscription, the amount of P331,250 has been paid. Preferred stock will have a par value of P1.00 per share, non-voting and will have preference in the distribution of assets in the event of dissolution. On December 20, 2012, the majority of TGTI's stockholders and its Board of Directors (BOD) approved the Company's application for increase in its authorized capital stock with the SEC from Fifty Million Pesos (P50,000,000.00) divided into Forty Million (40,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P1.00) per share, to Seven Hundred Million Pesos (P700,000,000.00), divided into Six Hundred Ninety Million (690,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

Recent Developments

In July 2019, the Company passed its yearly surveillance audit for ISO 2700:2013 and ISO 9001:2015 conducted by Societe Generale de Surveillance (SGS), the world's leading inspection, verification, testing and certification company. On November 16, 2015, the Company obtained an ISO accreditation through SGS for ISO 9001:2008 Quality Management Systems and ISO/IEC 27001:2013 Information Security Management. In 2018, the certification for ISO 9001:2008 was updated to the 2015 version. SGS was contracted by the Company to provide another surveillance audit in 2020.

On August 1, 2019, the Company's ELA with PCSO was amended to extend the term from August 1, 2019 up to July 31, 2020. The ELA may, however, be subject to another extension should the bidding for the lease of a new lotto system not be held before the termination date.

On July 27, 2019, the President of the Philippines, suspended the sale of PCSO games - lotto, keno, instant scratch tickets and Small-Town Lottery (STL). The suspension was eventually lifted on July 31 for lotto, September 1 for STL and September 27 for keno and instant scratch tickets.

On February 13, 2020, the Company and LotoPac sold 100% of LCC in light of the need for the Company to focus on its core business.

Agreements with the Philippine Charity Sweepstakes Office (PCSO)

PCSO is the principal government agency for "raising and providing funds for health programs, medical assistance and services, and charities of national character" by means of holding and conducting charity sweepstakes, races, and lotteries. It also engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs.

Pacific Online's Agreements with PCSO

The Equipment Lease Agreement (ELA) was awarded to Pacific Online on November 25, 1995 whereby the PCSO leases online lottery equipment from the Company for its VISMIN lotto operations.

2004 ELA. The initial ELA as amended on February 13, 2004, allows the Company to continue to deploy online lotto terminals in its covered regions. General terms of the amended ELA and MRA stipulate a certain percent share by the Company of all PCSO sales from the conduct of online lotto games in the VISMIN area and a term of eight (8) years commencing from the date of commercial operations of the Company. Commercial operation, as amended, was defined to be the operation of not less than 800 lotto terminals. However, commercial operation was formally effected on April 1, 2005, setting the term of the Company's ELA up to 2013, even if the PCSO had actually begun operations of the Company's online lotto terminals since 1996. The delay in the deployment of the required number of terminals to constitute commercial operation was mainly due to strong opposition from religious sector leaders and certain Local Government Unit (LGU) officials during the introductory phase and due to the absence of telecommunications service in many areas in VISMIN. Thus, this ELA covers the lease of not less than 800 lotto terminals, central computer system, communications and draw equipment, and the right to use the application software and manuals for the central computer system of PCSO for its VISMIN operations for a period of eight years from April 1, 2005 to March 31, 2013.

2012 Amended ELA. On May 22, 2012, the Company and PCSO amended certain provisions of the ELA to lower rental fee on the lotto terminals for VISMIN operations and for the lease of lotto terminals for Luzon operations effective June 1, 2012. The ELA provides PCSO an option to purchase the equipment related to its VISMIN operations at the end of the lease period for a sum of P15.0 million. Lotto terminals for PCSO's Luzon operations are not included in the "Option to Purchase" provision of the amended ELA. In accordance with the terms of the ELA, the Company also provides maintenance and repair services fee which were incorporated in the rental fee as part of the lowered rental rate provision of the amended ELA.

2013 Amended ELA. On March 26, 2013, the Company and PCSO further amended some provisions of the ELA, which extended it from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Company agreed to reduce the rental fees for VISMIN and with the approval to service PCSO's Luzon lotto operations. The amendment also incorporated the fee for the supply of bet slips and ticket paper rolls for the PCSO's VISMIN and Luzon operations as part of the rental fee.

2015 Amended ELA. On July 15, 2015, the Company and PCSO further amended some provisions of the ELA, which extended it from August 1, 2015 to July 31, 2018. The amendment also required the Company to deposit an additional P5 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

2018 Amended ELA. On September 12, 2018, the ELA was further amended to extend the term from July 31, 2018 to August 1, 2019 at a reduced rate. The amendment also required the Company to increase its initial cash bond from P5 million to P12 million, to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

2019 Amended ELA. On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals,

central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

Instant Scratch Tickets. On March 25, 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of instant scratch tickets effective December 1, 2009. The share of PCSO is guaranteed for every 500 million tickets sold for a period of seven years from the date of the MOA's effectivity. The MOA required a P10 million cash bond to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. Said cash bond is in an escrow account with BDO since January 2010 and was authorized by PCSO for release in November 2018.

On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEN) to be the exclusive marketing, distribution, selling and collecting agent of the Company for its instant scratch tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

In January 2018, the Company entered into a Brand and Trademark License Agreement with Powerball Marketing & Logistics Corp. (PMLC) granting the latter a non-assignable, non-transferable and exclusive right to use of the Parent Company's instant scratch tickets' Brands and Trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with the term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. The consideration is a guaranteed fixed monthly fee. PMLC is not restricted to develop its own brand.

TGTI's Equipment Lease Agreement (ELA)

2004 ELA. TGTI entered into an ELA with PCSO on April 6, 2004, which provides for the lease of the equipment for PCSO's online keno games. The lease is for a period of ten (10) years commencing on the date of actual commercial operation of at least 200 online keno outlets. The rental fee is based on a percentage of the gross sales of the online keno terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher.

2008 Amended ELA. On July 15, 2008, TGTI and PCSO agreed on some amendments to the ELA. Under the terms of the Amended ELA, TGTI shall provide the services of telecommunications integrator and procure supplies for the online keno operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all online keno terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly. Commercial operations for online keno commenced on October 1, 2010 and ELA term ends on September 30, 2020.

2019 Amended ELA. On October 1, 2019, the ELA was amended to a lower lease rate, inclusive of VAT. The minimum price per Keno bet was reduced from Twelve Pesos (P12.00) to Ten Pesos (P10.00), inclusive of DST.

LCC Agency Agreement

LCC enters into a two-year agency agreement with PCSO for every retail outlet it opens to operate. Agency agreements for lotto and keno terminals are executed separately at different times. These agreements are renewed by PCSO pending payment of the required surety bond and compliance with the terms and conditions of the Agency Agreement. The same type of agency agreement with PCSO is entered into by the 9 companies that LCC acquired in 2017.

Government Regulation and Environmental Compliance

The Company does not need any government approval for its principal products or services since its business is in the development, design and management of online computer systems, terminals and software for the PCSO and not in the operation of the lottery business.

The Company has been fully compliant with environmental regulations and ordinances issued by the concerned Local Government Units (LGU) and by the Department of Natural Resources (DENR) in so far as disposal of used computer hardware, office equipment and other bulky operating supplies are concerned, pursuant to the Republic Act 9003: Ecological Solid Waste Management Act of 2000.

Technology Development, Supply and Service Contracts

From 1995 to 2005, the Company had provided the PCSO a single integrated system for its online lottery operations using the GTECH Legacy system. In 2005, the Company decided to contract Scientific Games to provide its new AEGIS™ system, after having assessed the obsolescence of GTECH's lottery system infrastructure. On November 21, 2005, the Company implemented the migration from the Legacy lottery system into the new AEGIS™ System. In 2006, the Company entered into another contract with Intralot, for the provision of another new system using the LOTOS® application software. Since December 2006, therefore, the Company has been providing the PCSO a two-network system for its VISMIN online lotto operations.

Having two (2) online lottery systems running in parallel has expanded the availability of lottery terminals nationwide and provides a safety net for PCSO's operations. The new technology also helps provide versatility in connectivity given the country's hybrid telecommunications network. These systems are capable of operating nationwide through GPRS, LTE, VSAT and DSL technology which offer diversity in providing options to sites unserviceable by specific telecommunication providers. Terminal connectivity is now a lot easier due to compatibility of the lottery terminals with widespread mobile phone cell sites in VISMIN. Online connectivity in VISMIN is now available wherever there is a cell site of Globe and Smart Telecoms, as well as VSAT providers for sites unreachable by Globe and Smart.

Scientific Games

Scientific Games (SG) is a top provider in the global lottery and regulated gaming industries. It has over 40 years of gaming and lottery experience in over six continents. On February 15, 2005, the Company, entered into a Supply and Service Contract with SG for the provision of a new system, AEGIS™. On November 20, 2005, the Company migrated into the new AEGIS™ System. Under the terms of the Contract, Scientific Games will provide the Company with Extrema® terminals as well as the required training necessary for its operation. In consideration of the foregoing, The Company shall pay Scientific Games a pre-agreed rate of its revenue from the conduct of online lottery games running under the system provided by Scientific Games. This Contract was amended in 2012 to extend the period to August 31, 2015 and provide for its supply of additional lotto terminals. In November 2015, the Company and SG further amended the contract to extend the period thru July 31, 2018. In October 2018, the contract was again amended to extend the period thru July 31, 2019. The same contract was extended through July 31, 2020.

SG was also contracted by the Company to print the instant scratch tickets under its MOA with PCSO for its nationwide instant ticket program from 2009 thru 2016.

Intralot

Intralot S.A. (Intralot) is a company incorporated under the laws of Greece and is one of the top gaming systems provider globally and operator in over 55 jurisdictions. On March 13, 2006, the Company entered into a contract with Intralot for the supply of equipment necessary for the operation of a new online lotto system effective December 8, 2006. Under the terms of the contract, Intralot will provide the Company with the computer hardware, the license to use Intralot's Lottery Application Software consisting of the software platform, LOTOS® Application Software, and the Games Application Software, the terminals as well as the

required training necessary to operate the system. Based on the amended contract signed on July 7, 2006, Intralot will provide the Company with Coronis HEE terminals. In consideration of the foregoing, the Company shall pay Intralot a pre-agreed rate of the revenue generated by the terminals from the conduct of online lotto and digit games running on its system or a fixed fee per terminal per month, whichever is higher. In April 2016, the Company and Intralot agreed to amend the contract for the latter to supply additional lotto terminals to the former and extend the term of the contract until August 31, 2018. In September 2018, the contract with Intralot was again amended to extend the term until August 31, 2019. The same contract was extended through July 31, 2020.

On July 10, 2006, Intralot entered into an agreement with its subsidiary, Intralot Inc., a company domiciled in Atlanta, Georgia, through which Intralot assigned whole of the contract, including all its rights and obligations arising from its said subsidiary. This contract is co-terminus with the Company's ELA with the PCSO

Intralot is also the systems and equipment provider for TGTI, the Company's subsidiary that has the ELA with PCSO for its online keno operations. On April 1, 2004, TGTI entered into a contract with Intralot for the supply of the system and equipment for PCSO's online keno lottery operations. Intralot shall be paid based on a pre-agreed percentage of revenues generated by the keno terminals. In 2008, the contract was amended to change the calculation of amounts due Intralot to be based on a percentage of gross receipts of PCSO from its online keno games. On March 22, 2011, the contract was further amended for Intralot to supply additional keno terminals to TGTI through year 2020 and reduce the percentage charged to TGTI or a fixed fee per terminal per month, on an average basis, whichever is higher.

The Philippine Lottery Sector

The Philippine lottery sector is regulated by the PCSO, a government-owned and controlled corporation that was created primarily to raise funds for health and charity programs of the government. It regulates the lottery and other games of chance in order to protect certain sectors of society, especially the youth. It is estimated that the gaming market in the Philippines is worth over P100 billion per year, and illegal gaming accounts for half of the country's gaming industry revenues.

For over 60 years, since the inception of PCSO, the traditional Sweepstakes had been the lone source of funds for the PCSO. This changed in 1995, when PCSO launched the very first online lotto in the Philippines. This innovation brought in a new dimension of fun and excitement for the betting public.

Although there are many types of lottery games worldwide, the Philippine government-authorized lotteries can generally be categorized into these groups: traditional sweepstakes, instant scratch tickets, online lotto, online keno (Lotto Express) and Small Town Lottery (STL). The Company has partnered with PCSO in all its lottery products except for STL.

The PCSO online lotto games are basically two (2) types; i.e., jackpot draw and digit games. The winning numbers for jackpot draw and digit games are determined by a draw machine. For these lotto games, players purchase tickets from PCSO authorized retail outlets and wait for the future drawing of prizes. The jackpot draw games have three draws a week, while digit games have three draws daily. Draw lotto jackpot prizes are generally pari-mutuel or based on the number of winners and amount of total sales generated per game at the time of draw. Lotto digit games and keno prizes are based on a fixed odds payout structure, which does not rely on the number of players and winners per draw. For online keno, winning numbers are drawn via an Random Number Generator (RNG) program and has draws every ten (10) minutes on a daily basis.

Currently, the PCSO online lotto portfolio consists of five (5) jackpot draw games and four (4) digit games. The jackpot draw games are: 6/42 Lotto, 6/45 Mega Lotto, 6/49 Super Lotto, 6/55 Grand Lotto and 6/58 Ultra Lotto; while the digit games are: 2D or EZ2, 3D or Suertres Lotto, 4D and 6D. All of the nine (9) lotto games operated by the PCSO are played in Luzon, while only eight (8) games are being played in VISMIN.

The 6-digit game is played in Luzon only, but will be available in VISMIN in 2020. Modifications and enhancements of existing games and/or the introduction of new games are directed by the PCSO.

Instant scratch tickets, on the other hand, are typically played by scratching off the surface of a latex coated ticket to reveal a specific pattern of numbers, characters, pictures, or symbols that correspond to a prize amount if ticket is a winner. The player will know immediately if the ticket wins a prize or not. Instant scratch tickets like the Traditional Sweepstakes have a fixed-odds prize structure.

The Group's Online Lottery Operations and Products

As of December 31, 2019, the Company together with its subsidiary TGTI, had over 5,600 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

Aside from the number of lottery terminals deployed, total PCSO online lottery sales depend highly on the average sales generated by the various online lottery games launched. The table below shows the minimum jackpot amounts and the draw frequencies of the different lotto games supported by the Company.

<u>Lotto Game</u>	<u>Minimum Jackpot</u>	<u>Draw Frequency</u>
6/42 Lotto	P 6,000,000	3x a week - Mondays, Wednesdays and Saturdays
6/45 Mega Lotto ...	P 9,000,000	3x a week - Mondays, Wednesdays, and Fridays
6/49 Super Lotto ...	P 16,000,000	3x a week - Tuesdays, Thursdays, and Sundays
6/55 Grand Lotto...	P 30,000,000	3x a week - Mondays, Wednesdays and Saturdays
6/58 Ultra Lotto.....	P 50,000,000	3x a week - Tuesdays, Fridays and Sundays
4D Lotto.....	P 10,000	3x a week - Mondays, Wednesdays, and Fridays
3D Lotto	P 4,500	Thrice daily
2D Lotto	P 4,000	Thrice daily

In its commitment to support PCSO's efforts to effectively meet the demands of its changing market, the Company spent a total of P463.7 million from 2017 to 2019 for its development activities broken down as follows:

<u>(in Million Pesos)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Development Activities	204.0	34.2	225.5
Revenues	989.9	1,935.9	2,320.0
% of Revenues	20.6%	1.8%	10.0%

Market Profile

Approximately 72% of PCSO lotto sales nationwide was generated by Luzon operations, and about 28% of sales is contributed by the VISMIN regions for the year ended 2019. This may be due to Luzon's higher population density, and higher average disposable income of residents. On the other hand, the VISMIN area faces some challenges due to its geography, more frequent power failures and intermittent telco connectivity.

As of the end of 2019, the Company's total terminal deployment in VISMIN territory covered 67 cities out of 72 total cities and 562 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment, covered 52 cities and 74 municipalities. The Company covers 100% of the VISMIN sales and only 7% in Luzon due to its restricted entry since 2012.

Competition

The Company expects the aggressive push for Small Town Lottery (STL) and the prevalence of illegal gambling particularly in interior towns and remote areas to continue to provide competition to its online lotto revenues. This mostly affects the VisMin region due to the popularity of the digit games. With the removal of the legal impediment for the Company to provide lotto equipment in Luzon, the Company expects to expand its operations in Luzon, where the additional revenues can offset the lost sales in VisMin due to STL.

Organization and Manpower

As of December 31, 2019, the Group had a total of 781 employees, of which, 574 belong to Operations and 207 were administrative and other support personnel. None of the employees of the Company have organized themselves into any labor union. The Company also provides its employees additional benefits such as health card, life and accident insurance, retirement plan, training and development programs, and wellness programs, among others.

The Company believes that it has maintained balanced relationships with the rank and file and does not anticipate any labor-management issues to arise in the near term. The Company believes that its relationships with its employees have been consistently good and productive.

Risks

Some of the risks that the Company and its subsidiaries may be exposed to are the following:

1. General Risks

Changes in the government and PCSO administration may result to changes in policies and the way that such policies are implemented, which may be favorable or unfavorable to the Company. New legislation rules regarding taxes on lottery products have an impact in sales as well.

Environmental and natural disasters can also affect the operations in a particular area.

2. Risks Relating to the Equipment Lease Agreement (ELA) with PCSO

The Company's ELA with PCSO is currently on an annual basis because of the failed bidding in 2019 of its national online lottery system (NOLS). This means that the Company will have to continue to operate under the current ELA terms beyond July 2020; i.e., when PCSO is able to hold its bidding, award the new ELA contract and undertake a transition from the current lottery system to the new system. Should the PCSO bidding for NOLS be held in 2020, the Company is well positioned to be a front runner in said bidding due to its credentials and track record. But should POSC not win the bid, it is most likely that the Company's contract with PCSO will be extended for another 2 years due to the transition period required for a new service provider to take over the NOLS.

3. Risks Relating to the Company and its Subsidiaries

a. Dependence on Suppliers

The Company's lottery operations is anchored on a two-system network. The Company has existing contracts, each distinct and entered into separately, with two global leaders in the lottery industry, namely Scientific Games and Intralot, for the supply of computer supported lottery gaming systems. In the event that the contracts, whether collectively or individually, are terminated or suspended, operations and business of the Company may be impaired.

b. Business Interruption Risk

The operations of the Company and its subsidiaries are dependent on the reliability of its central computer system and the communications infrastructure needed to run it. Any breakdown or failure in the system provided by its suppliers, or failure in the communication infrastructure may negatively affect the Company's financial performance. However, this risk of business interruption is unlikely to happen due to the redundancy offered by the two suppliers. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe. The Company also contracted VSAT to provide connectivity to sites where Smart and Globe are not available.

Item 2. Properties

The Company's online lottery operations are conducted mainly in Cebu, where its central system data center and logistics center are located. It also has set up 7 logistics hubs in 7 major VisMin cities to ensure efficient service delivery to the PCSO lottery agents. The Company Head Office is located in Pasig City.

There are no real properties owned and there are no plans to acquire them in the next twelve (12) months. The Company, together with its subsidiaries, lease all of its data center, logistics centers and hubs, and business offices. These properties are not mortgaged nor are there any liens and encumbrances that limit ownership or usage of the same.

The leased properties for business offices, data center, logistics facilities, and retail outlets reached about 8,072 sqm by year end 2019. About 67% of these properties are located in Luzon, and 33% in VisMin. Majority of the properties in Luzon are found in Metro Manila while those in VisMin are in Cebu. The logistics centers' areas are about 3,491 sqm in total, with 1,533 sqm in Cebu and 1,958 sqm in Metro Manila. Lease terms for most office and warehouse spaces range from two (2) to seven (7) years. Majority of leased spaces pertaining to retail outlets have one (1) year lease term only as dictated by mall leasing policies. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates ranging from 3% to 10%. Rent expense charged to operation amounted to P88.1 million in 2019, P126.6 million in 2018 and P87.1 million in 2017.

The Company's major assets are lottery equipment, which consists mainly of lottery terminals, data center equipment, software and operating systems. The equipment provided by the Company to PCSO for its lottery operations are described under the "Business" section.

Item 3. Legal Proceedings

**1. "TMA Group of Companies, et al. vs. Philippine Charity Sweepstakes Office (PCSO), et al."
RTC 66, Makati City- Civil Case No. 11-310/569 [321-106]**

This is a complaint for specific performance and damages filed by TMA Australia Pty. Ltd. and its local subsidiary, TMA Group Philippines, Inc. (TMAP), against PCSO as regards their contract for the supply of lotto paper. The complainants subsequently amended their complaint to include Pacific Online and Philippine Gaming Management Corporation (PGMC) as defendants. They prayed for a temporary restraining order and/or writ of preliminary injunction to enjoin all defendants from doing anything in violation or derogation of the contractual terms of the Joint Venture Agreement (JVA) dated December 4, 2009 for the supply of lotto paper. No damages were prayed for against Pacific Online. On June 22, 2017, a Notice of Dismissal dated June 15, 2017 was received from TMAP praying for the dismissal of the Supplemental Complaint against Pacific Online pursuant to Section 1 of Rule 17. No objection was interposed to and/or comment on the Notice of Dismissal. Thus, in an Order dated June 28, 2017, the court dismissed the case against Pacific Online.

**2. "TMA Australia Pty. Ltd. And TMA Group Philippines, Inc. v. Pacific Online."
RTC 66, Pasig City-Civil Case No. R-PSG-17-02130 [321-108]**

This refers to a complaint for Tortious Interference and payment of Damages filed by TMA Australia Pty. Ltd. and TMA Philippines (the "TMA Group") against Pacific Online in August 2017. The TMA Group alleged that Pacific Online wrongfully interfered with the implementation of the Contractual Joint Venture Agreement (CJVA) between the TMA Group and PCSO when it entered into several equipment lease agreements with the latter that included a supply of paper provision. The TMA Group also applied for a writ of preliminary injunction (WPI) against Pacific Online and prayed for damages in the amount of at least One Million Pesos (P1,000,000.00).

On 21 March 2018, the RTC granted the TMA Group's application for WPI, enjoining Pacific Online from continuing to deliver lotto paper to PCSO. Prior to the issuance of the WPI, however, Pacific Online already completed delivery of all remaining lotto paper requirements under its ELA with PCSO. Thus, the WPI obtained by the TMA Group did not really have any adverse effect on Pacific Online. Nevertheless, Pacific Online still moved for the reconsideration of the RTC's Order granting the WPI. The RTC has yet to resolve this Motion.

During the mediation proceedings on the case, Pacific Online and the TMA Group agreed, in principle, to an amicable settlement and are now in the process of drafting a Compromise Agreement.

**3. "Philippine Charity Sweepstakes Office, et al. v. Hon. Rommel C. Baybay et al."
CA GR SP No. 128259 [321-105]**

This case arose when Judge Rommel Baybay of RTC-Makati, Br. 143, in Civil Case 12-530, granted PGMC's application for injunction enjoining Pacific Online from leasing its equipment for PCSO's online lottery operations in Luzon. On September 5, 2012, a Writ of Preliminary Injunction (Injunction) was issued by Branch 143 of the Regional Trial Court (RTC) of Makati. The Injunction orders PCSO to refrain from 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the Pacific Online and PCSO 2) ordering or allowing the Pacific Online, or any third party, to install or operate any equipment, computer or terminal relating to online lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. Pacific Online filed a case with the Supreme Court to nullify the Injunction. PCSO also filed a case with the Court of Appeals likewise questioning the Injunction. On July 17, 2013, the Supreme Court decided that the case brought by Pacific Online be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making Pacific Online a party to the case before the Court of Appeals.

Meanwhile, PGMC and PCSO entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the terminals already installed in Luzon by Pacific Online are concerned. In the same Interim Settlement, PGMC and PCSO also agreed to submit to arbitration before the International Court of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO's opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations. This matter was not resolved by the Court of Appeals.

On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC of Makati, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to said agreement, PCSO withdrew its Petition for Certiorari in the Court of Appeals, which was granted by virtue of the Resolution dated March 1,

2016. PCSO also prayed for the dismissal of the RTC case, but this was denied by the RTC Makati after PGMC opposed PCSO's motion to dismiss.

In the meantime, the Court of Appeals required the parties to file their respective Memoranda in the case. On September 13, 2017, Pacific Online filed its Memorandum. PCSO opted not to file its own Memorandum, but manifested instead that it was adopting the Memorandum of Pacific Online. On January 8, 2019, Pacific Online's counsel received a Decision by the Court of Appeals dated December 17, 2018 dismissing Pacific Online's Petition for Certiorari and Prohibition. Pacific Online decided to no longer pursue a Motion for Reconsideration because, to a certain extent, the Petition already served its purpose as after the same was filed, the RTC Makati put on hold the hasty implementation of the injunction. Subsequent events have likewise rendered moot the issues in the case, since, aside from the ICA arbitration decision, the ELA at issue in the case has also been amended and superseded several times. With these developments, the adverse effect against Pacific Online – the reason that this case was initiated in the first place – is no longer attendant.

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

A special stockholders' meeting was convened last September 25, 2018, wherein the increase in capitalization to P2.288 billion and stock dividend of 422,431,981 shares to its shareholders were approved. Said special stockholders' meeting was approved by the BOD during its meeting on August 14, 2018. The increase in authorized capitalization was approved by the SEC on February 28, 2019. On March 15, 2019, the SEC approved the Record Date of March 29, 2019 and the Payment Date of on or before April 29, 2019 for LOTO's 100% stock dividends.

PART II - OPERATIONAL FINANCIAL INFORMATION

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

The Company became a listed company with the listing of its shares with the Philippine Stock Exchange on April 12, 2007.

As of December 31, 2006, the Company had an authorized capital stock of 500 million common shares (at P1.00 par value), of which 125.25 million shares have been issued and outstanding. On February 9, 2007, the Company issued an additional 54 million shares from its authorized capital stock, increasing the issued and outstanding shares to 179.25 million shares. On March 27, 2007, the Company offered its shares for sale to the public through an initial public offering (IPO) with a primary offer of 11.8 million common shares and a secondary offer of 28 million common shares. Prior to the Offer, there have been no public trading market for the Company's common shares. On November 19, 2007, the SEC approved the issuance of 8.048 million common shares from the Company's unissued authorized capital stock resulting from the valuation of the deposits for future subscription as consideration for the issuance of shares, at the total subscription price of P124.744 million. On May 6, 2008, the BOD approved the allocation of 2.174 million shares to its executives and employees and to the officers of Lucky Circle Corporation ("LCC"), which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The exercise price of the option was fixed at P8.88 per share. On May 19, 2008, grantees of the stock options exercised 617 thousand shares of the Company's stock at P8.88 per share. In 2011 and 2010, certain grantees of the stock options exercised 495 thousand shares and 455 thousand shares respectively, also at P8.88 per share.

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock. For the same reasons as above, the Company bought back 1,478,000 shares in 2018 and 18,771,546 shares in 2017. The Company did not buy back any treasury shares in 2019 but the number of treasury shares doubled as a result of the stock dividend.

The movements in treasury shares are as follows:

	December 31, 2019		December 31, 2018	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of the year	25,233,492	P285,267,558	23,755,492	P268,660,770
Effect of stock dividend	25,223,492	-		
Acquisitions	-	-	1,478,000	16,606,788
Balance at end of the year	50,466,984	P285,267,558	25,233,492	P285,267,558

Dividends

No cash or stock dividends were declared in 2019.

In 2018, the BOD, upon recommendation of management, declared the following cash dividends:

2018				
Declaration	Record Date	Payment	Per Share	Amount
April 26, 2018	May 14, 2018	May 31, 2018	P0.30	P126,762,110
April 26, 2018	August 3, 2018	August 31, 2018	0.30	126,709,115
				P253,471,225

On August 14, 2018, the BOD declared a 100% stock dividend to the Company's stockholders, which the record and payment dates will be set subject to the approval of the SEC of the increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock. The declaration of the stock dividend was approved at the special meeting of the stockholders held on September 25, 2018.

In 2017, the Company declared cash dividends as follows:

Declaration	Record Date	Payment	Per Share	Amount
May 2, 2017	May 17, 2017	May 31, 2017	P0.30	P130,101,926
May 2, 2017	August 11, 2017	August 31, 2017	0.30	130,101,926
December 6, 2017	January 5, 2018	January 31, 2018	0.20	86,734,617
				P346,938,469

On August 14, 2018, the BOD approved the amendment in the Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock is pending approval of the Securities and Exchange Commission (SEC) as at December 31, 2018

There is no provision in the Company's charter or by-laws that would delay, deter, or prevent a change in control of the Company.

Stock Prices

As of the trading date, January 31, 2020 the stocks of the Company closed at P2.12 per share. The Company's stock price was pegged at a high of P2.19 and at a low of P2.00 as of the same date. The stock prices as of quarter end date for 2019 are as follows:

2019	High	Low
First Quarter	4.91	4.50
Second Quarter	3.12	3.09
Third Quarter	2.96	2.82
Fourth Quarter	2.57	2.45

As of December 31, 2019, the Company's market capitalization amounted to P2,238,327,365 based on the closing price of P2.50 per share. Likewise, its market capitalization as of January 31, 2020 amounted to P1,898,101,606 based on the closing price of P2.12 per share.

Security Holders

As of December 31, 2019, Pacific Online had 56 shareholders, corresponding to total common shares outstanding of 895,330,946. The top 20 stockholders as of the same date are listed below:

Name	No. of Shares Held	% to Total
1. PREMIUM LEISURE CORP.	448,560,806	50.1000
2. PCD NOMINEE CORPORATION	327,381,777	39.5654
3. OCIER, WILLY N.	71,819,350	8.0215
4. ABACUS CONSOLIDATED RESOURCES & HOLDINGS, INC.	43,761,930	4.8878
5. OCIER WILLY &/OR GERALDINE E.Y. OCIER	1,439,000	0.1607
6. SY, HANS TAN	800,000	0.0894
7. WS FAMILY FOUNDATION, INC.	450,000	0.0503
8. OCIER, MISCHEL GABRIELLE E.Y.	390,000	0.0436
9. KILAYKO, GREGORIO U.	200,000	0.0223
10. LIM, MAURICE D.	100,000	0.0112
11. BENITEZ, ALFREDO B.	68,200	0.0076
12. CHAN, CARMELITA	66,000	0.0074
13. VILLANUEVA, MYRA P.	23,400	0.0026
14. CHAN, CARMELITA D.L.	33,300	0.0037
15. TAGUBA, LUCILA A.	20,000	0.0022
16. SY, CAROLINE TANCUAN	20,000	0.0022
17. SY, HANS JR. TANCUAN	20,000	0.0022
18. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
19. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
20. PEREZ, JOSE DEXTER F.	18,000	0.0020

Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

Voting Rights

At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Company at the time of closing of the transfer books for such meeting.

Dividend Rights of Common Shares

The Company's board of directors is authorized to declare cash, property, or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds of the Company's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares will be entitled to the full dividend declared without regard to any subsequent transfer of share. Other than statutory limitations, there are no restrictions that limit the Company from paying dividends on common equity.

Appraisal Rights

As provided for by law, any stockholder shall have a right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines and;
3. In case of merger or consolidation.

Item 6. Management Discussion and Analysis of Operating Performance and Financial Condition

Results of Operations and Financial Condition

2019 Compared to 2018

The Group generated total revenues from operating sources of about P989.87 million for the year ended December 31, 2019, a decrease of P946.6 million (49%) over total revenues of P1.936 billion during the same period in 2018. The decrease in revenue was due to lower lotto sales, which was cannibalized by the continuing expansion of Small-Town Lottery (STL). In addition, President Duterte ordered the suspension of all PCSO games, which meant lost sales of four (4) days for lotto, two (2) months for both keno and instant scratch tickets, and one (1) month for STL. It also took about three (3) months before retail sales levels returned to pre-suspension period for instant scratch tickets. Furthermore, Keno revenues decreased during the fourth quarter due to reduced ELA rate on top of much lower sales, which resulted from implementing the Keno ticket price to pre-TRAIN Law level with lower prize structure.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2019 decreased by P247.06 million (15%) to P1.370 billion, from P1.614 billion in 2018. The decrease is attributed to the following:

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;
- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;
- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;
- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;
- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;
- Operating supplies expense decreased by P104.9 million (66%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

The decreases accounted for in the foregoing expense accounts were offset mainly by the combined increases of the following expense accounts:

- Travel and accommodation expense increased by P10.9 million (15%) mainly due to the increased volume of field visits;

- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;
- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;
- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;
- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;
- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

The Group's net loss after tax of P317.6 million represents a P621.7 million (204%) decline from last year's net income of P304.0 million. The lower net income in 2019 was a result of the 42% drop in overall sales across all products.

Total assets of the Company decreased by P386.7 million (18%) to P1.72 billion as of December 31, 2019, from P2.10 billion as of December 31, 2018. Decreases in assets are attributable to the following:

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;
- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;
- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;
- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;
- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;
- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;
- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

The decreases in the assets above were offset by the following increases:

- Other current assets increased by P69.8 million (48%) due to pre payments and additional creditable withholding tax;
- Other noncurrent assets increased by P84.7 million (41%) mainly due to the prepayments of technical and advisory services pertaining to software development;

Total liabilities of P399.6 million was up by P57.1 million (17%) over last year's P342.5 million due principally to the following:

- Loan payable increased from zero to P140.8 million (1530%) due to a P150 million loan from Asia United Bank;

- Lease liability ROU-current increased by P41.5 million (100%), due to the effect of adopting the new accounting standard PFRS 16- Leases;
- Defined benefit liability increased by P29.2 million (from 0 in 2018) due to the accrual of retirement expense for 2019;
- Lease liability ROU-noncurrent portion increased by P9.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

The increases in the liabilities were offset by the following decreases:

- Trade and other current liabilities decreased by P100.8 million (41%) due to lower trade payables resulting from lower operating expenses;
- Current portion of obligations under finance lease decreased by P3.4 million (17%) due to the amortization of capital lease for 2019;
- Withholding taxes payable decreased by P2.6 million (43%) due to lower withholding taxes resulting from lower operating expenses;
- Income tax payable decreased by P5.1 million (55%) due to less income tax as a result of lower net income for the year;
- Obligations under finance lease – net of current portion decreased by P16.0 million (100%) due to reclassification to current portion;
- Deferred tax liability decreased by P37.3 million (100%) as it was offset to deferred tax asset.

As of December 31, 2019, the Company has:

- No known trends or any demands, commitments, or events that will result in or that are likely to result in the liquidity increasing or decreasing in any material way;
- No events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
- No material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period; and
- Not breached any loans, leases or other indebtedness or financing agreement.

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2019	Dec. 31, 2018
Current Ratio	2.39:1.00	4.00 : 1.00
Debt-to-Equity Ratio	0.30:1.00	0.19 : 1.00
Asset-to-Equity Ratio	1.30:1.00	1.19 : 1.00

	For the year ended	
	Dec. 31, 2019	Dec. 31, 2018
Return on Equity	-24.12%	17.27%
Return on Assets	-18.51%	14.46%
Interest Coverage Ratio	(54.95):1.00	79.04 : 1.00
Solvency Ratio	(0.23):1.00	1.56 : 1.00
Book Value per Share	1.56	10.84

The above performance indicators are calculated as follows:

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Asset-to-equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Return on Stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$
Interest Coverage Ratio	$\frac{\text{Income Before Interest \& Tax}}{\text{Interest Expense}}$
Solvency Ratio	$\frac{\text{Net Income} + \text{Depreciation}}{\text{Total Liabilities}}$
Book Value per Share	$\frac{\text{Total Equity}}{\text{Total Shares Outstanding}}$

2018 Compared to 2017

The Group generated total revenues from operating sources of about P1.936 billion for the year ended December 31, 2018, a decrease of P384 million (17%) over total revenues of P2.320 billion during the same period in 2017. The decrease in revenue was due to lower lottery sales, which was caused by the expansion of Small Town Lottery (STL) from 17 to 86 operators and the 20% increase in lottery ticket prices with the implementation of the Documentary Stamp Tax (DST) on lottery tickets as mandated by the TRAIN Law in 2018. The STL games offer lower ticket prices and higher payout ratios versus the online lotto and keno games.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2018 decreased by P37.9 million (2%) to P1.614 billion, from P1.652 billion in 2017. The decrease is attributed to the following:

- Consultancy fees decreased by P35.2 million (54%) due to lower lottery sales, on which the fees are based on;
- Management fees decreased by P25.2 million (36%) due to the decrease in EBITDA, on which the fees are based on;
- Advertising and promotion decreased by P32.3 million (45%) due to reduction in keno marketing and promotional activities as compared to 2017;
- Operating supplies decreased by P57.2 million (26%), mainly due to the takeover by PCSO of lotto paper supplies as part of the terms in the extension of the lotto ELA starting August 1, 2018;
- No provision for possible impairment of receivables was recorded in 2018, while the P25.0 million provision in 2017 was required for possible impairment of past due accounts receivable and unused input taxes of the nine (9) subsidiaries that LCC acquired in 2017;

- Other expenses decreased by P20.4 million (45%) mainly due to lower miscellaneous incidental business expenses.

The decreases accounted for in the foregoing expense accounts were offset mainly by the combined increases of the following expense accounts:

- Personnel costs increased by P82.5 million (31%) mainly due to the acquisition of the nine (9) subsidiaries of LCC in 2017, which effectively increased the manpower of the Group;
- Rent and utilities increased by P49.6 million (30%) due to rental rate escalation of the Group's offices and logistics centers and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries in 2017;
- Entertainment, amusement and recreation expense increased by P4.1 million (26%) due to higher business representation expenses incurred in 2018
- Other income (net of other charges) increased by P107.3 million from last year's P54.2 million, mainly due to the full recognition of the P203.5 million brand and trademark license fee and its corresponding interest income of P12.5 million covering the exclusive use of the Company's instant scratch ticket trademarks by PMLC over 5 years starting on January 1, 2018. This other income was reduced by the provision of P110.9 million impairment of the goodwill pertaining to the acquisition of Falcon Resources Inc. (FRI) by TGTI. Based on projections of declining revenues from FRI's core business of instant ticket distribution in the next few years, management deems it prudent to impair the goodwill.

The Group's net income after tax of P304.0 million represents a P188.8 million (38%) decline from last year's net income of P492.9 million. The lower net income in 2018 was a result of the double-digit decline in lottery sales as explained above.

In 2018, Company booked a net fair value loss on investment in shares of stock of P306.8 million versus a net gain of P119 million in 2017. This translates to a P425.8 million decrease in fair value gain on investment, which resulted to a net comprehensive income of P9.64 million that is equivalent to about 2% of last year's P613.21 million net comprehensive income.

Total assets of the Company decreased by P530.8 million (20%) to P2.10 billion as of December 31, 2018, from P2.63 billion as of December 31, 2017. Decreases in assets are attributable to the following:

- Marketable securities decreased by P22.8 million (13%) due to unrealized mark-to-market loss amounting to P11.9 million and disposal of P10.9 million worth of securities during the year;
- Trade and other receivables-net decreased by P218.2 million (43%) due mainly to the lower lotto and keno sales as of last quarter of 2018 plus the lower ELA rate on lotto sales starting August 1, 2018 as part of the terms in the extension of the contract for another year;
- Investment in stocks went down by P272.3 million (37%) due to the decrease in the stock market prices of investments on hand during 2018;
- Goodwill and intangibles decreased by P110.9 million (87%) as a result of the impairment of the goodwill initially booked when FRI was acquired by TGTI in 2014;
- Property and equipment decreased by P178.1 million (41%) due to depreciation of lottery equipment and other fixed assets

The decreases in the assets above were offset by the following increases:

- Cash increased by P124.1 million (28%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Other current assets increased by P30 million (26%) due to recognition of prepaid income taxes and reclass from non-current of the cash bond held in escrow for the instant ticket MOA with PCSO that was approved for release in 2019.
- Other noncurrent assets increased by P126.3 million (159%) due to the reversal of the an accrual for a payable to PCSO pertaining to the long term MOA on instant tickets, which expired in 2016, and reclass of its corresponding cash bond held in escrow to current assets, approved for release in 2019.
- Retirement benefit asset increased by P6.5 million (479%) due to additional contribution made to the retirement fund;

Total liabilities of P342.5 million was down by P271.3 million (44%) over last year's P613.8 million due principally to the following:

- Trade and other current liabilities decreased by P247.9 million (50%) due mainly to payables booked as of yearend 2017 for dividends and lotto paper, which were not incurred as of yearend 2018;
- Income tax payable went down by P20 million (68%) due to lower net income vs. last year;

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2018	Dec. 31, 2017
Current Ratio	4.00:1.00	2.16 : 1.00
Debt-to-Equity Ratio	0.19:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.19:1.00	1.30 : 1.00

	For the year ended	
	Dec. 31, 2018	Dec. 31, 2017
Return on Equity	17.27%	24.40%
Return on Assets	14.46%	18.71%
Interest Coverage Ratio	79.04:1.00	67.46 : 1.00
Solvency Ratio	1.56:1.00	1.17 : 1.00
Book Value per Share	4.17	4.77

2017 Compared to 2016

The Company, consolidated with its subsidiaries, generated total revenues from operating sources of about P2.32 billion for the year ended December 31, 2017, an increase of P432 million (23%) over total revenues of P1.89 billion during the same period in 2016. The increase in revenue was due to higher lottery sales resulting from more P100 million lotto jackpot prizes, additional draw for Ultra Lotto 6/58 game, additional Keno terminal rollouts, and acquisition of nine (9) entities engaged in retail distribution of lottery tickets nationwide.

The Company's total operating expenses, including depreciation and amortization, for the year ended December 31, 2017 increased by P362 million (28%) to P1.65 billion, from P1.29 billion in 2016. The increase is attributed to the following:

- Personnel costs increased by P99.9 million (47%) mainly due to the acquisition of the nine (9) subsidiaries of LCC which effectively increased the manpower of the Group;
- Depreciation and amortization charges increased by P54.3 million (32%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2016;
- Rent and utilities increased by P43.2 million (57%) due to additional logistics hubs set up in VisMin and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries;
- Consultancy fees increased by P7.4 million (13%) due to higher sales, on which the fees are based on;
- Communication expenses increased by P8.4 million (8%) due to additional communication links resulting from additional lotto and keno terminal rollout;
- Management fees increased by P5.2 million (8%) due to the increase in EBITDA, on which the fees are based on;
- Repairs and maintenance increased by P5.6 million (12%) due to renovation and repairs of logistics and office facilities;
- Advertising and promotion increased by P58.0 million (434%) due to more aggressive keno marketing and promotional activities implemented during first half of the year, while there was no such activity in 2016.
- Operating supplies increased by P25.7 million (13%), mainly due to higher consumables, resulting from higher lottery sales;
- Impairment losses on receivables increased by P7.7 million and provision for probable losses increased by P25M due to additional provision required for possible impairment of past due accounts receivable and unused input taxes of the 9 subsidiaries that LCC acquired.
- Other expenses increased by P22.8 million (92%) mainly due to higher miscellaneous incidental business expenses.

The increases accounted for in the foregoing expense accounts were offset mainly by the combined decreases of the following expense accounts:

- Professional fees decreased by P3.8 million (22%) due to lower fees paid during the period, and
- Entertainment, amusement and recreation expense decreased by P2.6 million (14%) due to lower business representation expenses incurred in 2017;

Other income (net of other charges) increased by P68.2 million in 2017 from net charges of P14.1 million in 2016, mainly due to improved mark to market gain on marketable securities of P39.3 million, increase in excess input taxes of P18.7 million, and the P11.8M service income earned in 2017.

In 2017, a fair value gain on investment in shares of stock of P119.0 million was posted, which resulted in a total net comprehensive income of P613.2 million for 2017 versus P607.7 million total net comprehensive gain in 2016.

Total assets of the Company increased by P206.6 million (9%) to P2.6 billion as of December 31, 2017, from P2.4 billion as of December 31, 2016. Increases in assets are attributable to the following:

- Cash increased by P188.2 million (73%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Marketable securities increased by P12.5 million (8%) due to additional marketable securities purchased at P10.2 million and the unrealized mark-to-market gain amounting to P2.2 million;
- Retirement benefit asset increased by P1.0M (320%) due to additional contribution made to the retirement fund;
- Other noncurrent assets increased by P24.5 million (45%) due to the bonds and rental deposits of the additional subsidiaries purchased.

The increases in assets above were offset by the following decreases:

- Other current assets decreased by P8.2 million (7%) due to application of prepaid income taxes against income tax payable, and
- Property and equipment decreased by P40.9 million (9%) due to higher depreciation expense for the year;

Total current liabilities increased by P180.7 million (46%) from P394.9 million in 2016 to P575.6 million in 2017 due to the declaration of P86.7 million cash dividends in December 2017 for payment in January 2018 and accrual of operating expenses pertaining to the 9 subsidiaries acquired in 2017.

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2017	Dec. 31, 2016
Current Ratio	2.16 : 1.00	2.65 : 1.00
Debt-to-Equity Ratio	0.30 : 1.00	0.24 : 1.00
Asset-to-Equity Ratio	1.30 : 1.00	1.24 : 1.00

	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
Return on Equity	24.40%	20.42%
Return on Assets	18.71%	16.50%
Interest Coverage Ratio	67.46 : 1.00	46.77 : 1.00
Solvency Ratio	1.17 : 1.00	1.22 : 1.00

Plans and Prospects

The Group foresees the next year to still be a very challenging period, but is optimistic that it will be able to generate more favorable financial results than the past year.

With the removal of the legal impediment for the Company to lease to PCSO's lotto operations in Luzon, the Company can now install lotto terminals in agents that generate more than double the lottery sales of VISMIN agents and are more easily accessible for equipment repairs and maintenance. The Company

continues to work closely with the PCSO in launching more creative and innovative marketing programs to help improve lottery sales nationwide.

The PCSO is expected to hold a re-bidding for the nationwide online lottery system (NOLS) in the first quarter of 2020, in time for the expiration of its Equipment Lease Agreements (ELA) with both its lotto systems providers. With its ELA expiring on July 31, 2020, the Company definitely plans to participate in the NOLS bidding. The Company is confident that it will be able to meet all the requirements of the bidding's Terms of Reference (TOR) given its track record of over 20 years in the lottery business and its technology partners that are global leaders in the gaming industry. Moreover, the Company has also maintained its ISO certification for Quality Management System (ISO 9000) and Information Security Management (ISO/IEC 27001), with SGS as its certifying body since 2015. In the event, however, that the Company does not win the bid, it expects its existing contract with PCSO to be extended for another one (1) to two (2) years because of the lengthy and complex transition that any new system provider will have to undergo to take over the nationwide lottery.

The ELA of TGTI, the Group's keno business unit, is due to expire on October 1, 2020. PCSO, however, has acknowledged that keno is still a viable revenue source for its charity fund and has expressed the urgent need to improve sales, which have been severely hampered in the past 2 years. TGTI has been working closely with PCSO to come up with an improved keno game as part of the negotiations for a possible renewal or extension of its contract with PCSO.

The Company is committed to its vision of being the gaming partner of choice, despite all the regulatory, environmental and social hurdles of the industry, along with the ever-changing market demands and rapid technological developments in the shifting landscape of the Philippine gaming industry. To ensure growth, stability, and sustainability in the long-term, the Company is determined to push forward with relevant projects and be dynamic and proactive in its business strategies in serving the Philippine gaming market.

Item 7. Financial Statements

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2019 presented in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

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

Pursuant to the requirement on Rotation of External Auditors under SEC Memorandum Circular No. 8 Series of 2003, the registrant will recommend the accounting firm of R. G. Manabat & Co. for reappointment at the scheduled annual meeting.

Representatives of the principal accountant (R. G. Manabat & Co.), the Company's external auditors for the most recently completed fiscal year are expected to be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.

R. G. Manabat & Co. audited the Company's statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the year ended December 31, 2019 and a summary of significant accounting policies and other explanatory notes. R. G. Manabat & Co.'s responsibility is to express an opinion on these financial statements based on their audit. The audits were conducted in accordance with Philippine Standards on Auditing. The partner who handled the Company's external audit was Mr. Dindo Marco M. Dioso.

The Company's Board of Directors in the annual shareholders' meeting on May 30, 2019 recommended, and the shareholders approved, the appointment of R. G. Manabat & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2019.

In the Company's three (3) most recent fiscal years, there has been no change in auditor and there has been no disagreement on accounting and financial disclosures. For LCC and LotoPac, the external auditor contracted was Punongbayan & Araullo for 2015, but was changed to RG Manabat & Co. in 2016

The aggregate fees for each of last three (3) fiscal years for professional services rendered by the external auditors are as follows:

	2019	2018	2017
Audit fee	P1,848,000	P2,054,000	P2,114,000
Tax services	600,000	600,000	810,000
Other fees			
TOTAL	P2,448,000	P2,654,000	P2,924,000

It is the policy of the Company that any draft audit report must first be reviewed by the Audit Committee prior to said report being endorsed to the Board of Directors for approval. The Audit Committee members are: Mr. Laurito E. Serrano (Chairman), Mr. Jerry C. Tiu, and Mr. Tarcisio M. Medalla. The final draft of the Company's audited financial statements was discussed and reviewed by said Committee. Whereupon said Committee resolved to recommend to the Company's Board of Directors that said financial statements be approved for issuance and disclosure to the public, the PSE and all related governmental agencies. Said audited financial statements were approved by the Company's Board of Directors during its meeting held on February 20, 2020.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors and Senior Management

The following sets forth certain information as to the Directors and Executive Officers of the Company:

Name	Position with the Company
Willy N. Ocier	Chairman and President
Ma. Virginia V. Abo-Hamda	Director and Chief Financial Officer
Armin Antonio B. Raquel-Santos	Director
Tarcisio M. Medalla	Director
Henry N. Ocier	Director
Regina O. Reyes	Director
Jerry C. Tiu	Lead Independent Director
Laurito E. Serrano	Independent Director
Joseph C. Tan	Independent Director
A. Bayani K. Tan	Corporate Secretary
Jason C. Nalupta	Assistant Corporate Secretary
Christopher C. Villaflor	VP- Central System & Network Management
Valentino L. Kintanar	VP-Technical Services
Romeo J. Roque, Jr.	VP- Agent Management
Ma. Concepcion T. Sangil	VP- Human Resources Management

Board of Directors

The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on May 30, 2019. The term of the current members of the BOD shall be until the next stockholders' meeting on May 29, 2020. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier, Filipino, 63, is the Chairman and President of the Company and a Director since July 29, 1999. He is an Executive Director and Co-Vice Chairman of Belle Corporation, Highlands Prime, Inc. and Tagaytay Highlands International Golf Club, Inc. He is also the Chairman of the Board and Director of Premium Leisure Corp. as well as with APC Group, Inc., and Premium Leisure and Amusement, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge Inc. He is a Director of Leisure & Resorts World Corporation, Vantage Equities Inc., and Abacore Capital Holdings Inc. He also serves as the Chairman, Chief Executive Officer and President of Philippine Global Communications, Inc. He was the former President and Chief Operating Officer of Eastern Securities Development Corporation. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics. In recognition of Mr. Ocier's corporate leadership and role in providing employment opportunities to Filipinos, the University of Batangas conferred him a degree in Doctor of Humanities, honoris causa.

Tarcisio M. Medalla, Filipino, 71, is a Director of the company since December 10, 2001. He is currently the Chairman and President of listed firm Paxys, Inc. He is also a Director of All Asia Customer Services Holdings Ltd., the principal shareholder of Paxys, Inc. He graduated with a Bachelor of Science degree in Commerce (Major in Accounting) from De La Salle University. He attended the Advanced Management Program (AMP) at Harvard Business School. He is a Certified Public Accountant.

Henry N. Ocier, Filipino, 60, is a Director of the company since June 29, 2009. He serves as Senior Manager for Corporate Social Responsibility for Belle Corporation. He currently holds the position of President & General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

Regina O. Reyes, Filipino, 55, elected as Director last July 21, 2016. She is currently the President and CEO of listed firm, Abacore Capital Holdings, Inc., and President of private company, Click Communications, Inc. She also served as Administrator of the Province of Marinduque from January 2010 to January 2012. She was a member of the House of Representatives, representing the lone district of Marinduque, from 2013 to June 2016. In Congress, she was Vice Chairman of the Committee on National Defense and Security and was a member of several key committees, including Appropriations, Justice, Health, and Natural Resources. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA and her Bachelor of Laws degree from the Ateneo de Manila University Law School. Ms. Reyes is a member of both the Philippine Bar and the State Bar of California.

Ma. Virginia V. Abo-Hamda, Filipino, 60, is a Director and Chief Financial Officer of the Company. She joined Pacific Online in September 2009 as Vice President of Instant Tickets Division and was promoted as SVP for Corporate Planning & Business Development in 2013. Prior to this, she worked as a Consultant for AB Leisure Exponent, Inc. (1999-2009), and AB Gaming & Leisure Specialist Inc. (2003-2009). Ms. Abo-Hamda served as General Accounting Manager for D'Agostino Supermarkets, Inc. New York, USA from 1990 to 1996 and as Senior Financial Analyst for Kraft-General Foods International, New York, USA from 1988 to 1989. She worked with Carlos J. Valdes & Co., CPAs from 1981 to 1986, in its Management Services Division as an Associate Consultant. She graduated Summa Cum Laude with a Bachelor of Science degree in Commerce (Major in Accounting) from College of the Holy Spirit. Ms. Abo-Hamda passed the CPA board exams in 1980 at 16th place. She earned her Master's degree in Business Administration (Concentration in Finance) from Fordham University, New York, USA.

Armin Antonio B. Raquel-Santos, Filipino, 52, is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) and concurrently the Executive Vice President – Integrated Resorts of Belle Corporation. He is a Director of Tagaytay Highlands International Golf Club, Inc. and Trustee and Vice President of Melco Crown Philippines Foundation Corporation. He was former Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II and First Philippine Electric Company. He was also former Governor of the Board of Investments (BOI), served as Assistant Secretary with the Department of Trade and Industry (DTI), Vice Chairman and CEO of Philippine Retirement Authority (PRA), Executive Vice President of Philippine International Trading Corporation (PITC), and Deputy Administrator of Subic Bay Metropolitan Authority (SBMA). His experience includes stints with multinational companies; Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York. He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A.

Independent Directors

Pursuant to the requirements of Section 38 of the SRC, the Company's Board of Directors and stockholders approved the amendment of the Company's By-Laws adopting the requirement on the nomination and election of independent directors. In line with this, the Board of Directors has elected Messrs. Laurito E. Serrano, Jerry C. Tiu, and Joseph C. Tan as the Company's independent directors.

Laurito E. Serrano, Filipino, 59, is a Director of the company since May 23, 2014. Mr. Serrano currently serves as Independent Director and Chairman of the Audit and Risk Management Committee of Atlas Consolidated Mining and Development Corporation. He also serves as a Independent Director, Chairman of the Audit and Compliance Committee and a member of the Risk Oversight Committee of Rizal Commercial Banking Corporation. He is likewise an Independent Director of the APC Group, Inc., 2GO Group Inc., and Axelum Resources Corp., and a director of MRT Development Corporation. Mr. Serrano is a former partner of the Corporate Finance Consulting Group of SGV & Co.. He is a Philippine Certified Public Accountant and has a Master's degree in Business Administration from Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance.

Jerry C. Tiu, Filipino, 63, is an Independent Director of the company since February 21, 2007 and was appointed as the Lead Independent Director last May 31, 2017. He is a Director and the President of Tagaytay Highlands Community Condominium Association, Inc., Tagaytay Midlands Community Homeowners' Association, Inc., and Greenlands Community Homeowners' Association, Inc. He is likewise the President of the following companies: Tagaytay Highlands International Golf club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., and The Spa & Lodge at Tagaytay Highlands, Inc. He is a former Director of the Manila Polo Club. He holds a Bachelor of Science degree in Commerce (Major in Marketing) from University of British Columbia.

Atty. Joseph C. Tan, Filipino, 62, is the Founding Partner of MOST Law Firm from September 2006 to present. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He is currently an Independent Director of 2GO Group, Inc., Premium Leisure, Corp., Pacific Online Systems Corporation and LMG Chemicals Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).

Executive Officers

Aside from the President and CFO listed above, the executive officers of the Company include the following:

Valentino L. Kintanar, Filipino, 59, is Vice President for Technical Services of the Company. He joined the Company in January 29, 1996. He served as Technical Services Manager of EMCOR, Inc. and was a Systems Engineer of Technics, Philippines from 1983-1987. He previously worked as Senior Shift Technician of Fairchild Semiconductors, Phil. from 1980-1983. He graduated with a degree in Bachelor of Science in Electronics and Communications Engineering from the University of Southern Philippines.

Romeo J. Roque, Jr., Filipino, 51, is Vice President for Agent Management of the Company. He joined the Company in February 5, 1996. He served as Product Support Manager for Infonet Solutions, Inc. from 1995 to 1996 and as Systems Engineer for ATS Software Pte. Ltd. in Singapore from 1993 to 1995. He previously worked for Electroworld as Systems Consultant from 1991 to 1993. He graduated with a degree in Bachelor of Science in Computer Engineering from University of San Carlos. He was credited with Master in Business Administration academic units from the University of the Philippines.

Christopher C. Villaflor, Filipino, 43, is the Vice President for Central System and Network Management of the Company since 2016. He joined the Company in March 2000 as a Bench Engineer. From June 2004 to October 2009, he served as the Systems Administrator for the Data Center Operations overseeing the lottery administration and maintenance for the Visayas and Mindanao regions. In 2009 he was promoted as Senior Manager of the Data Center Operations and in August 2017, he moved up as Assistant Vice President overseeing the Central System Management Department of the Online Lottery Division. Mr. Villaflor has extensive experience in the area of system design, development and testing on both the UNIX (OpenVMS, SunOS/Solaris) environment and Microsoft Windows. He has had formal trainings on Oracle 10g Programming PL/SQL and Data Administration, AIX Unix System Administration and Operational Planning using Software Engineering for SDLC. He graduated with a degree in Bachelor of Science in Computer Engineering from the University of San Carlos in 1998.

Ma. Concepcion T. Sangil, Filipino, 62, is the Vice President for Human Resources Management of the Company. She has a total of 37 years professional experience, initially as a Management Consultant for over 17 years specializing in project management, institutional strengthening, organizational development, change management processes, management and operations audit, systems development and business re-engineering. She was also exposed to actual hands-on operations and management of a micro-lending institution, as an executive officer for over 8 years and later as Head of the Human Resource Division for a multi car brand dealership and multi-media company for 10 years. She graduated from St. Paul College of Manila with a degree of Bachelor of Science in Commerce, major in Accounting. She earned an MA in Urban

and Regional Planning from the School of Urban and Regional Planning, University of the Philippines. She was an accredited court mediator by the Supreme Court and a certified life coach.

Mr. A. Bayani K. Tan, 64, Filipino, is the Corporate Secretary of the Corporation (since May 2007, Publicly-Listed). He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Philequity Group of Mutual Fund Companies (since 1997), Premium Leisure Corporation (since December 1993, Publicly-Listed), Sterling Bank of Asia Inc (A Savings Bank) (since December 2006), TKC Metals Corporation (since February 2007, Publicly-Listed), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999), and Vantage Equities, Inc. (since January 1993, Publicly-Listed). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), Managing Trustee of the SCTan Foundation, Inc. (since 1986), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013), Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011) and Trustee of Guimaras Forest Foundation, Inc. (since September 2019), Reintegration for Care and Wholeness (RCW) Foundation, Inc. (since April 2014) and St. Scholastica's College Manila (since October 2019). Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society). Mr. Tan placed 6th in the bar examinations in 1981. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Atty. Jason C. Nalupta, Filipino, 48, is the Assistant Corporate Secretary of the corporation since October 2009. He is also currently the Corporate Secretary or Assistant Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, and Crown Asia Chemicals Corporation. He is also a Director and/or Corporate Secretary or Assistant Corporate Secretary of private companies Sino Cargoworks Agencies, Inc., Falcon Resources, Inc., Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Metropolitan Leisure & Tourism Corporation, Sagesoft Solutions, Inc., Radenta Technologies, Inc., Xirus, Inc., Glyphstudios, Inc., Loto Pacific Leisure Corporation, and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Mr. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from Ateneo de Manila University in 1996 and 1992, respectively. Mr. Nalupta was admitted to the Philippine Bar in 1997.

Family Relationships

Henry N. Ocier and Willy N. Ocier are brothers.

Significant Employees

The Company is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Company and will not compete upon termination.

Stock Option Plan

The Company's Board ("BOD") approved the proposed Stock Option Plan ("the Plan") on December 12, 2006. The Company's Stock Option Plan provides an incentive and mechanism to employees and officers to become stockholders of the Company, as well as to qualified directors, officers and employees, who are already stockholders, to increase their equity in the Company and thereby increase their concern for the Company's well-being. All such full-time and regular employees of the Company, its subsidiaries and affiliates, their officers and directors, and such other qualified persons who may be recommended from time to time by the Executive Committee or the Board to the Committee as qualified, are eligible to participate in

the Plan. Shares of stock subject to the Plan amount to five per cent (5%) of the Company's total outstanding common stock.

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company's shares at the time of grant, and, in no case, be less than the Offer Price at which the Company's shares are initially offered for sale to the public. Further, the purchase price shall be subject to adjustment for subsequent stock dividends or splits.

The shares covered by any one grant shall be offered for subscription over a period of Three (3) years from and after the effectivity date of each grant that may be determined by the Committee. The Participants may exercise their right to subscribe to shares under the Plan in accordance with the following schedule:

- 1/3 of total grant within One (1) year from the effectivity date of each grant
- 1/3 of total grant within Two (2) years from the effectivity date of each grant
- 1/3 of total grant within Three (3) years from the effectivity date of each grant

On February 15, 2008, SEC approved the Company's application requesting that its proposed issuance of 9,954,900 common shares be exempt from the registration requirements of the Securities Regulation Code.

On May 6, 2008, the BOD approved the allocation of 2,174,000 shares to its executives and employees and to the officers of Lucky Circle under the Plan which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The purchase price upon exercise of the option was fixed at ₱8.88 per share. At the grant date, the fair value of the Company's share amounted to ₱9.20 per share.

On May 19, 2008, grantees of the stock options exercised 617,000 shares of the Company's stock at ₱8.88 per share.

In 2011 and 2010, certain grantees of the stock options exercised 495,000 shares and 455,000 shares, respectively, of the Company's stock at ₱ 8.88 per share.

As at December 31, 2019 and 2018, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

Involvement in Certain Legal Proceedings

Atty. A. Bayani K. Tan. As a result of the delay in the delivery of the facilities of the Universal Leisure Club, Inc., some of its members initiated a Complaint for Estafa (I.S. No. 08K-19713) against ULC, the Universal Rightfield Property Holdings, Inc. and the Universal Leisure Corp., as well as their respective officers and directors, including their former Corporate Secretary, Atty. A. Bayani K. Tan, the incumbent Corporate Secretary of the Corporation. The Complaint was submitted for resolution in 2009 and was acted upon and dismissed by the City Prosecutor of Manila (OCP) only on March 18, 2013. Complainants belatedly filed motion for reconsideration for which reason, among others, the OCP denied motion on June 16, 2014. A Petition for Review dated March 31, 2014 was filed by the Complainant before the Department of Justice (DOJ). On August 7, 2014, Atty. Tan filed his Comment to the said Petition. In a Resolution dated April 17, 2015, the Petition for Review was denied and the DOJ dismissed the complaint for Estafa.

Item 10. Executive Compensation

The following table shows the aggregate compensation received by the directors and executive officers of the Company for calendar years 2019 and 2018, as well as the estimated aggregate compensation for calendar year 2020.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman & President				
Ma. Virginia V. Abo-Hamda Director & Chief Financial Officer				
Valentino L. Kintanar VP-Technical Services				
Romeo J. Roque, Jr. VP-Agent Management				
Ma. Concepcion T. Sangil VP- Human Resources Management				
Christopher C. Villafior VP- Central System & Network Management				
Total for the Executive Officers as a group	2020 (Estimate)			P14,374,498
	2019			P13,343,054
	2018			P15,611,747
Total for the Directors and Executive Officers as a group	2020 (Estimate)			P17,141,165
	2019			P16,109,720
	2018			P19,535,081
Total for President and 4 most highly compensated Executive Officers	2020 (Estimate)			P12,774,908
	2019			P11,861,950
	2018			P13,880,275

Compensation of the Group's key management personnel are as follows:

	2019	2018	2017
	<i>(In Millions)</i>		
Short-term employee benefits	P27.6	P32.02	P34.26
Post-retirement benefits	2.3	2.33	2.50
	P29.9	P34.35	P36.76

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 17 of the audited consolidated financial statements.

Other than those disclosed above, there are no other standard or other arrangements wherein directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

There is no compensatory plan or arrangement, including payments to be received from the Company, with respect to any of its executive officer, which will result from the resignation, retirement or any other termination of any of its executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or in any of its executive officer's responsibilities, following a change-in-control and the amount involved, including all periodic payments or installments, which exceeds ₱ 2.5 million.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons or group are known to the Company as direct owners of more than five percent (5%) of the Company's voting securities as of December 31, 2019:

Shareholder	Number of Shares	Percent	Beneficial Owner
PREMIUM LEISURE CORPORATION 5/F Tower A, Two E-Com Center, Mall of Asia Complex, Pasay City	448,560,806	50.1000	PREMIUM LEISURE CORPORATION
PCD NOMINEE CORPORATION	327,381,777	36.5654	VARIOUS
WILLY N. OCIER 28/F East Tower, PSE Centre, Exchange Road, Ortigas Center Pasig City	71,819,350	8.0215	WILLY N. OCIER

Security Ownership of Directors and Management

The following table shows the shares beneficially owned by the directors and executive officers of the Company as of 31 December 2019:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizenship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,974,950	80,794,500	Filipino	9.02
Common	Virginia V. Abo-Hamda	2,000		2,000	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Regina O. Reyes	300		300	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Jerry C. Tiu	200	250	450	Filipino	0.00
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Armin B. Raquel-Santos	200		200	Filipino	0.00
Common	Joseph C. Tan	200		200	Filipino	0.00
Common	A. Bayani K. Tan	0	1,413,000	1,413,000	Filipino	0.15
Common	Romeo J. Roque, Jr	6,000		6,000	Filipino	0.00
Common	Frederic C. DyBuncio	200	100	300	Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.06
	All Directors and Executive Officers as a group	72,226,450	11,787,200	84,013,650		9.36

Item 12. Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Advances to Related Parties	Advances from Related Parties		
TGTI							
▪ Advances	2019	a	(P3,928,115)	P-	P2,657,914	On demand, noninterest bearing	Unsecured
	2018	a	-	-	16,586,029		
▪ Dividend income received	2019	c	-	-	-		
	2018	c	6,732,636	-	-		
▪ Dividends paid	2019	b	-	-	-		
	2018	b	99,048,559	-	-		
▪ Treasury Stock	2019	c	-	-	-		
	2018	c	174,384,130	-	-		
▪ Reimbursements	2019	a	31,259,301	-	-		
	2018	a	75,624,181	-	-		
FRI							
▪ Advances	2019	a	(10,000,000)	-	-	On demand, noninterest bearing	Unsecured
	2018	a	-	-	10,000,000		
LOTO PAC							
▪ Advances	2019	a	150,967	-	986,855	On demand, noninterest bearing	Unsecured
	2018	a	111,456	-	841,489		
LCC & Nine Entities							
▪ Dividends paid	2019		-	-	-		
	2018		39,055,276	-	-		
▪ Advances	2019	a	79,287,018	986,855	P108,375,661	On demand, noninterest bearing	Unsecured
	2018	a	-	-	29,958,498		
▪ Rental expense	2019	d	76,662,787	-	-		
	2018	d	32,287,272	-	-		
▪ Security deposits	2019	d	22,929,104	-	-		
	2018	d	23,104,654	-	-		
TOTAL	2019			P986,855	P112,020,430		
TOTAL	2018			P -	P57,386,016		

- a. The Parent Company has an operational and technical support services agreement with TGTI which the former will assist the latter in the following: (1) establishing a suitable and efficient telecommunications links for the latter's online keno network and (2) overseeing the efficient operation, regular preventive maintenance, and necessary repairs on TGTI's online keno terminals deployed within the Visayas and Mindanao regions, including the central data server located in Cebu City. In consideration for lease services, TGTI pays a fixed fee per keno terminal.

TGTI also reimburses the Parent Company for communication expenses incurred on some online keno agents/operators and the shared data center.

The Parent Company granted non-interest bearing cash advances to LotoPac, LCC and FRI for working capital requirements. The P10.0 million advances to FRI was converted to equity during the year.

- b. The Parent Company received cash dividends from TGTI and LCC.
- c. TGTI purchased traded shares of the Parent Company (LOTO) through its stock brokers, thus, TGTI receives dividends for these shares. The cost of shares purchased by TGTI is included in the "Treasury Stock" account in the consolidated statements of financial position. TGTI received cash dividend from the Parent Company.

- d. LCC and Nine Entities have existing agreements with related parties under common ownership by SM Investment Corporation for the leased space of its outlets which are renewable every six months to two years at its option.

Under the terms of the lease agreement, LCC and Nine Entities are required to pay rentals equivalent to a fixed rate per month and security deposits corresponding to three (3) months rent. These deposits consist of amounts paid in advance which can be collected in cash upon termination of the lease.

PART IV - CORPORATE GOVERNANCE

The Company remains focused on ensuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders. With this in mind, the Board of Directors has established corporate governance principles to ensure accountability, fairness and transparency in the organization.

Its Manual on Corporate Governance was revised last year and submitted to SEC May 22, 2019. Changes made to the manual are as follows:

- 1) Inclusion of Vision, Mission and Corporate Values
- 2) Inclusion of Definition of Terms
- 3) Inclusion of Board Evaluation/Self-Assessment
- 4) Updated Board Committees (prior version still had the old committees reflected)
- 5) Included Risk Officer responsibilities (under the Board Risk Oversight Committee portion)

In compliance with SEC Memo Circular No. 19, Series of 2016 directing all publicly listed companies (PLCs) to submit anew Manual on Corporate Governance (MCG) pursuant to the new Code of Corporate Governance for PLCs, the Company, upon the approval of its Board, on May 31, 2017, submitted its Revised Manual on Corporate Governance ("the Manual") to the SEC. Prior to the submission, a review of the various established Board level committees and its respective charters were done. As a result, the following comprise the Board level committees of the Company as approved last May 31, 2017:

Executive Committee - acts on behalf of the Board in the management and direction of the business and conduct of the affairs of the Company.

Audit Committee - has general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.

Board Risk Oversight Committee – assists the Board in overseeing the Company's practices and processes relating to risk assessment and risk management; maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls,

Corporate Governance Committee – tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices. Folded in are the nomination and remuneration oversight functions as well.

Related Party Transactions Committee - assists the Board in overseeing the Company's practices and processes relating to related party transactions (RPTs). Reviews all material related party transactions of the Company and ensures that all RPTs are conducted on a fair and arms-length basis.

A Lead Independent Director and Compliance Officer were also appointed on May 31, 2017.

- Members of various committees are expected to serve for a term of one (1) year.

The Company is not aware of any non-compliance with its Manual of Corporate Governance, by any of its officers or employees.

PART V - EXHIBITS AND SCHEDULES

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

a. Exhibits

There are no exhibits to be provided that are applicable to the Company.


b. Reports on SEC Form 17-C

Document	Date Filed	Item No.	Matter
SEC FORM 17-C dated January 24, 2019	January 25, 2019	Item 9	Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated January 31, 2019	January 31, 2019	Item 9	[Amend-1]Notice of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated March 5, 2019	March 5, 2019	Item 9	[Amend-3]Amendments to Articles of Incorporation
SEC FORM 17-C dated March 15, 2019	March 18, 2019	Item 9	[Amend-3]Declaration of Stock Dividends
SEC FORM 17-C dated May 30, 2019	May 31, 2019	Items 4 and 9	Results of Annual or Special Stockholders' Meeting
SEC FORM 17-C dated May 30, 2019	May 31, 2019	Items 4 and 9	Results of Organizational Meeting of Board of Directors
SEC FORM 17-C dated July 15, 2019	July 15, 2019	number of shares of common stock outstanding	Clarification of News Reports
SEC FORM 17-C dated July 26, 2019	July 26, 2019	number of shares of common stock outstanding	Reply to Exchange's Query
SEC FORM 17-C dated July 26, 2019	July 26, 2019	number of shares of common stock outstanding	[Amend-1]Reply to Exchange's Query
SEC FORM 17-C dated July 27, 2019	July 29, 2019	Item 9	Material Information/Transactions
SEC FORM 17-C dated July 31, 2019	July 31, 2019	Item 9	Clarification of News Reports
SEC FORM 17-C dated August 1, 2019	August 2, 2019	Item 9	Material Information/Transactions
SEC FORM 17-C dated September 30, 2019	September 30, 2019	Item 9	Clarification of News Reports
SEC FORM 17-C dated October 7, 2019	October 8, 2019	Item 9	Change in Corporate Contact Details and/or Website

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on February 20, 2020.

By:



WILLY N. OCIER

Chairman of the Board and President



MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer



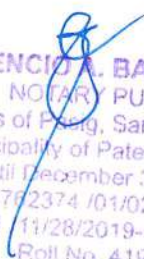
A. BAYANI K. TAN
Corporate Secretary

FEB 20 2020

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2020, affiants exhibiting to me their Community Tax Certificates, as follows:

NAME	COMMUNITY TAX CERTIFICATE NO.	DATE OF ISSUE	PLACE OF ISSUE
WILLY N. OCIER	04596093	Jan. 20, 2020	Pasay City
MA. VIRGINIA V. ABO-HAMDA	14491731	Jan. 23, 2020	Pasig City
A. BAYANI K. TAN	07573862	Jan. 21, 2020	Manila

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Page No. 05
Series of 2020



GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2020
PTR No. A-4792374 /01/02/2020 Taguig City
IBP No. 095971 /11/28/2019-For Year 2020/ RSM
Roll No. 41969
MCLE Comp. VI-0021512 / March 28, 2019
No. 11, Unit J Fremont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 32 (2019-2020)



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO: ALL STOCKHOLDERS

NOTICE is hereby given that there will be an annual meeting of the stockholders of **PACIFIC ONLINE SYSTEMS CORPORATION** on June 22, 2020 (Monday), at 9:00 a.m. The meeting will be conducted virtually and can be accessed at the link provided in the Company's website at <https://www.loto.com.ph/investor-relations/Annual-or-Special-Stockholders-Meeting/Virtual-ASM>

Items in the agenda of the meeting are as follows:

AGENDA

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Approval of the Minutes of the Previous Annual Stockholders' Meeting
5. Approval of 2019 Operations and Results
6. Ratification of All Acts of the Board of Directors and Officers
7. Election of Directors
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

The close of business on **April 30, 2020** has been fixed as the record date for the determination of the stockholders entitled to notice of and vote at said meeting and any adjournment thereof.

Due to the COVID-19 Pandemic resulting in the imposition by the government of regulations limiting mobility and mass gatherings, the Company will not be conducting a physical annual stockholders' meeting. In lieu thereof, the annual stockholders' meeting will be held virtually through an online webinar platform for stockholders to attend by remote communication. They can join by registering online at asmregister.loto.com.ph on or before 5:00 p.m. on June 11, 2020. The identities of those registering to participate online will be going through a process of verification, after which an email from the Company will be sent to them giving instructions as to how they will be able to watch the livestream of the annual stockholders' meeting

The stockholders are likewise encouraged to participate in the meeting by either of the following:

- (i) by submitting duly accomplished proxies to the Office of the Corporate Secretary at 2704 East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City or via electronic copy by emailing corporatesecretary@pacificonline.com.ph on or before 5:00 p.m. on June 11, 2020.

For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

- (ii) by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at asmregister.loto.com.ph. The e-voting portal will be open until 9:00 in the morning of June 22, 2020.

Validation of proxies is set on June 15, 2020 at 2:00 p.m. The votes already cast using the e-voting platform by that time will also be verified on said date.

City of Pasig, Metro Manila, May 20, 2020.


A. BAYANI K. TAN
Corporate Secretary

RATIONALE FOR AGENDA ITEMS

Agenda Item No. 4. Approval of the Minutes of the Previous Meeting of Stockholders held on May 30, 2019

Copies of the Minutes of the May 30, 2019 Annual Stockholders' Meeting is currently posted on the Corporation's website (please see link here: <https://www.loto.com.ph/sites/default/files/POSC%20ASM%202019%20MINUTES.pdf>) and can be viewed at any time. Stockholders will be asked to approve the Minutes of the 2019 Annual Stockholders' Meeting.

Agenda Item No. 5. Approval of 2019 Operations and Results

A report on the highlights of the financial performance of the Corporation for the year ended December 31, 2019 will be presented to the Stockholders. A summary of the Corporation's performance for the year is also provided in the "Management Discussion and Analysis of Operating Performance and Financial Condition" section on page 27 hereof.

The Corporation's Audited Financial Statements, for which the external auditors have issued an unqualified opinion, have likewise been reviewed by the Audit Committee and the Board of Directors. A summary of the 2019 AFS shall also be presented to the Stockholders. The 2019 Annual Report may be accessed at <https://www.loto.com.ph/sites/default/files/Annual%20Report-2019.pdf>.

Agenda Item No. 6. Ratification of all Acts of the Board of Directors and Management from the date of the last Annual Stockholders' Meeting to the date of this meeting

All actions, proceedings and contracts entered into, as well as resolutions made and adopted by the Board of Directors and of Management from the date of the Stockholders Meeting held on May 30, 2019 to the date of this meeting shall be presented for confirmation, approval, and ratification. The items covered with respect to the ratification of the acts of the Board of Directors and Officers for the past year up to the date of the meeting are those items entered into in the ordinary course of business.

Agenda Item No. 7. Election of Directors for 2020 to 2021

The current members of the Board of Directors, as reviewed, qualified and recommended by the Corporate Governance Committee, have been nominated for re-election. Their proven expertise and qualifications, based on current regulatory standards and the Corporation's own criteria, will help sustain the Company's solid performance that will result to its stockholders' benefit. The profiles of the Directors are available in the Company website as well as in this Information Statement. If elected, they shall serve as Directors for a period of one (1) year from June 22, 2020 or until their successors shall have been duly elected and qualified.

Agenda Item No. 8. Appointment of External Auditors

The Audit Committee has pre-screened and recommended, and the Board has endorsed for consideration of the stockholders, the re-appointment of R.G. Manabat & Co. as the Corporation's External Auditor for 2020-2021. R.G. Manabat & Co. is one of the most reputable auditing firms in the country and is duly accredited by the Securities and Exchange Commission. The Stockholders will also be requested to delegate to the Board the authority to approve the appropriate audit fee for 2020.

Stockholders are given the opportunity to raise questions regarding the operations and report of the Corporation as well as other concerns, by emailing corporatesecretary@pacificonline.com.ph (Subject: Questions for ASM 2020) on or before 9:00 am on June 22, 2020. Questions will be responded to during the question and answer portion of the annual stockholders' meeting before the end of the proceedings. Due to the limited time, however, not all questions may be responded to during the livestream of the annual stockholders' meeting. Questions not addressed at the meeting proper, including those that may be received after the livestream, will be responded to via email by the corporate officers concerned.

PROXY FORM

The undersigned stockholder of Pacific Online Systems Corporation (the "Company") hereby appoints the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on June 22, 2020 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Election of Directors.

___ 1.1. Vote for all nominees listed below:

- 1.1.1. Willy N. Ocier
- 1.1.2. Ma. Virginia V. Abo-Hamda
- 1.1.3. Tarcisio M. Medalla
- 1.1.4. Henry N. Ocier
- 1.1.5. Regina O. Reyes
- 1.1.6. Armin Antonio B. Raquel Santos
- 1.1.7. Laurito E. Serrano (Independent Director)
- 1.1.8. Jerry C. Tiu (Independent Director)
- 1.1.9. Joseph C. Tan (Independent Director)

___ 1.2. Withhold authority for all nominees listed above

___ 1.3. Withhold authority to vote for the nominees listed below:

2. Approval of minutes of previous Annual Stockholders' Meeting.

___ Yes ___ No ___ Abstain

3. Approval of 2019 Operations and Results

___ Yes ___ No ___ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Management from date of last Stockholders' Meeting to June 22, 2020.

___ Yes ___ No ___ Abstain

5. Appointment of R. G. Manabat & Co. (KPMG) as external auditor.

___ Yes ___ No ___ Abstain

6. At their discretion, the proxy named above are authorized to vote upon such other matters as may be properly come before the meeting.

___ Yes ___ No ___ Abstain

Printed Name of Stockholder

Signature of Stockholder /
Authorized Signatory

Date

THIS PROXY FORM SHOULD BE RECEIVED BY THE CORPORATE SECRETARY (IN HARDCOPY TO THE OFFICE OF THE CORPORATE SECRETARY AT 2704, EAST TOWER, PHILIPPINE STOCK EXCHANGE CENTRE, ORTIGAS CENTER PASIG CITY OR EMAILED TO CORPORATESECRETARY@PACIFICONLINE.COM.PH AT LEAST SIX (6) BUSINESS DAYS BEFORE THE DATE SET FOR THE ANNUAL MEETING, AS PROVIDED IN THE BY-LAWS.

WE ARE NOT SOLICITING PROXIES.

SECRETARY'S CERTIFICATE

I, _____, Filipino, of legal age and with office address at _____, do hereby certify that:

1. I am the duly elected and qualified Corporate Secretary of _____ (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at _____;

2. Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on _____, the following resolution was passed and approved:

"RESOLVED, that _____ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of Pacific Online Systems Corporation (Pacific Online) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in Pacific Online and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.

"RESOLVED, FINALLY, That Pacific Online be furnished with a certified copy of this resolution and Pacific Online may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

3. The foregoing resolution has not been modified, amended or revoked in accordance with the records of the Corporation presently in my custody.

IN WITNESS WHEREOF, I have signed this instrument in on _____.

Printed Name and Signature of the
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on _____ in _____, Affiant exhibited to me his Competent Evidence of Identity by way of _____ issued on _____ at _____.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2020.



PACIFIC ONLINE SYSTEMS CORPORATION 2020 ANNUAL STOCKHOLDERS' MEETING

Guidelines for Participating via Remote Communication and Voting *in Absentia*

The 2020 Annual Stockholders' Meeting (ASM) of Pacific Online Systems Corporation (the "Company") will be held on June 22, 2020 at 9:00 A.M. and the Board of Directors of the Corporation has fixed the end of trading hours of the Philippine Stock Exchange, Inc. on **April 30, 2020** ("Record Date") as the record date for the determination of stockholders entitled to notice of, to attend, and to vote at such meeting and any adjournment thereof.

In view of the continuing mobility restrictions and prohibition on mass gatherings due to the public health emergency, the Board of Directors of the Company has approved and authorized stockholders to participate in the ASM via remote communication and to exercise their right to vote *in absentia* or by proxy.

REGISTRATION

The conduct of the meeting will be streamed live, and stockholders may attend the meeting by registering until June 11, 2020, 5:00 p.m. via asmregister.loto.com.ph and by submitting the following requirements and documents, subject to verification and validation:

1. Individual Stockholders
 - 1.1. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others in order to validate the registration of the shareholder (up to 2MB)
 - 1.2. Stock certificate number
 - 1.3. Active e-mail address/es
 - 1.4. Active contact number/s, with area and country codes
2. Multiple Stockholders or with joint accounts
 - 2.1. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others in order to validate the registration of the shareholders (up to 2MB)
 - 2.2. Stock certificate number/s
 - 2.3. Active e-mail addresses of the stockholders
 - 2.4. Active contact numbers, with area and country codes
 - 2.5. Digital copy of an authorization letter executed by all named holders, authorizing a holder to vote for and on behalf of the account
3. Corporate Stockholders
 - 3.1. Digital copy of the Secretary's Certificate (or equivalent for non-resident) attesting to the authority of the representative to vote for and on behalf of the corporation
 - 3.2. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID,

- senior citizen ID, among others to validate the registration of the authorized representative (no more than 2MB)
- 3.3. Active e-mail address/es of the authorized representative
 - 3.4. Active contact number of an authorized representative, with area and country codes
4. PCD Participants/Brokers
- 4.1. Digital copy of the Secretary's Certificate (or equivalent for non-resident) attesting to the authority of the representative to vote for and on behalf of the PCD participant/broker
 - 4.2. Digital copy of the certificate of shareholdings issued by the PCD/broker
 - 4.3. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others to validate the registration of the authorized representative (no more than 2MB)
 - 4.4. Active e-mail address/es of the authorized representative
 - 4.5. Active contact number of the authorized representative, with area and country codes

Important Reminders:

- **Please refrain from sending duplicate and inconsistent information/documents as these can result in failed registration. All documents/information shall be subject to verification and validation by the Company.**
- **Please be informed that by providing us with the above documents, you consent to the Company's processing of your personal data in accordance with the Data Privacy Act for the purpose of validating your credentials and registration to participate and vote at the Company's annual stockholders' meeting.**

ONLINE VOTING

1. Log-in to the voting portal by clicking the link, and using the log-in credentials, sent to the email address of the shareholder to the Company.
2. Upon accessing the portal, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended to the Notice of Meeting.
 - 2.1 A stockholder has the option to vote "Yes", "No", or "Abstain" on each agenda item for approval.
 - 2.2 For the election of directors, the stockholder has the option to vote for all nominees, withhold vote for any of the nominees, or vote for certain nominees only.

Note: A stockholder may vote such number of his/her shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected (9 directors) multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholder.

3. Once the stockholder has finalized his vote, he can proceed to submit his vote by clicking the “Submit” button.
4. The stockholder can still change and re-submit votes, provided, such new votes are submitted within the Voting Period using the same log-in credentials. Previous votes will be automatically overridden and replaced by the system with the new votes cast.

ASM LIVESTREAM

The ASM will be broadcasted live and stockholders who have successfully registered will be provided access to participate via remote communication. Instructions on how to access the livestream will be sent to their emails upon registration.

OPEN FORUM

During the virtual meeting, after all items in the agenda have been discussed, the Company will have the Question and Answer Portion, during which, the meeting’s moderator will read and where representatives of the Company shall answer questions and comments received from stockholders, as time will allow.

Stockholders may send their questions in advance by sending an email bearing the subject “Questions for ASM 2020” to corporatesecretary@pacificonline.com.ph on or before 9:00 am on 22 June 2020. A section for stockholder comments/questions or a “chatbox” shall also be provided in the livestreaming platform.

Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by the Company via email.

For any concerns, please email us at corporatesecretary@pacificonline.com.ph.

For complete information on the annual meeting, please visit <https://www.loto.com.ph/investor-relations/Annual-or-Special-Stockholders-Meeting/Virtual-ASM>.

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS**

**Information Statement Pursuant to Section 20
of the Securities Regulation Code**

1. Check the appropriate box
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**
3. Province, country or other jurisdiction of incorporation or organization: **Pasig City, Metro Manila, Philippines**
4. SEC Identification Number: **AS093-008809**
5. BIR Tax Identification Number: **003-865-392-000**
6. Address of principal office: **28th Floor, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City**
7. Registrant's telephone number, including area code: **(632) 584-1700**
8. Date, time, and place of the meeting of security holders:
- | | | |
|-----------------|----------|---|
| Date | : | June 22, 2020 (Monday) |
| Time | : | 9:00 o'clock in the morning |
| Platform | : | Videoconferencing via Zoom Webinar |
9. Approximate date on which the Information Statement is to be sent or given to security holders: **May 25, 2020**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):
- | | |
|----------------------------|---|
| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
| <u>Common Stock</u> | <u>₱1.00 par value</u>
<u>895,330,946 (as of April 30, 2020)</u> |
11. Are any or all of Registrant's securities listed on a Stock Exchange?
- Yes No
- If so disclose name of the Exchange : **The Philippine Stock Exchange, Inc.**
Class of securities listed : **Common Shares**

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED
TO SEND US A PROXY.**

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders

- (a) Date - **June 22, 2020 (Monday)**
Time - **9:00 o'clock in the morning**
Platform - **Videoconferencing via Zoom Webinar**

The approximate date on which the Information Statement will be sent or given to security holders is on **May 25, 2020**.

- (b) The complete mailing address of the principal office of Pacific Online Systems Corporation ("the Company") is:

28th Floor, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City 1605

Item 2. Dissenters' Right of Appraisal

The matters to be voted upon in the Annual Stockholders' Meeting on **June 22, 2020** are not among the instances enumerated in Sections 41 and 80 of the Revised Corporation Code whereby the right of appraisal (defined as the right of any stockholder to dissent and demand payment of the fair value of his shares) may be exercised. The instances where the right of appraisal may be exercised are as follows:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the Company's property and assets;
3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and
4. In case of merger or consolidation.

In case the right of appraisal may be exercised, Section 81 of the Revised Corporation Code provides for the appropriate procedure, *viz*:

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares; Provided, that the failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made; Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; Provided further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- (a) No person who has been a director or officer or any nominee for election as director of the Company or associate of such persons, have substantial interest, direct or indirect, in any matter to be acted upon, other than the election of directors for the year 2020-2021.
- (b) The Company is not aware of any director or security holder who intends to oppose any action to be taken by the Company during the stockholders' meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

- (a) As of April 30, 2020, the Company has **895,330,946** common shares outstanding and each share is entitled to one vote.
- (b) The record date with respect to the determination of the stockholders entitled to notice of and vote at the Annual Stockholders' Meeting is **April 30, 2020**.
- (c) With respect to the election of nine (9) directors, each stockholder may vote such number of shares for as many as Nine (9) persons he may choose to be elected from the list of nominees, or he may cumulate the said shares and give one candidate as many votes as the number of his shares multiplied by Nine (9) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by Nine (9).
- (d) Security ownership of certain record and beneficial owners and management.

(1) Security Ownership of Certain Record and Beneficial Owners

The following persons or group are known to the Company as direct owners of more than five percent (5%) of the Company's voting securities as of April 30, 2020:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	PREMIUM LEISURE CORPORATION ⁽¹⁾ 5/F Tower A, Two E-Com Center, Mall of Asia Complex, Pasay City Parent Company	PREMIUM LEISURE CORPORATION	Filipino	448,560,806	50.10
Common	PCD NOMINEE CORPORATION ⁽²⁾ G/F Makati Stock Exchange 6767 Ayala Avenue, Makati City Filipino/Non-Filipino N/A	Various	Filipino and Non-Filipino	327,381,777	36.57
Common	WILLYN. OCIER 28/F East Tower, PSE Centre Exchange Road, Ortigas Center, Pasig City Filipino Chairman and President	Willy N. Ocier	Filipino	80,794,500	9.02

⁽¹⁾The majority shareholder of Premium Leisure Corporation is Belle Corporation.

⁽²⁾PCD Nominee Corporation ("PCDNC") is a wholly-owned subsidiary of Philippine Central Depository, Inc. ("PCD"). The beneficial owners of such shares registered under the name of PCDNC are PCD's participants who hold the shares in their own behalf or in behalf of their clients. The PCD is prohibited from voting these

shares; instead, the participants have the power to decide how the PCD shares in POSC are to be voted. The participants of PCD who own more than 5% of the Company's outstanding capital are:

- a. Eastern Securities Development Corporation; and
- b. Papa Securities Corporation

The shares held by Premium Leisure Corporation shall be voted or disposed of by the persons who shall be duly authorized the corporation. The natural person/s who has/have the power to vote on the shares of PLC shall be determined upon the submission of its proxy form to the Company, which shall be not later than six (6) business days before the date of the meeting.

The PCD Participants, like Eastern Securities and Development Corporation and Papa Securities Corporation, on the other hand, issue proxies in favor of the beneficial owners of the Company's shares recorded under their names. The identities of these beneficial owners, who will then exercise the right to vote the shares beneficially-owned by them, shall be known to the Company only when the proxies are submitted before the date of the meeting.

(2) Security Ownership of Directors and Management

The following table shows the shares beneficially owned by the directors and executive officers of the Company as of April 30, 2020:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizenship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,974,950	80,794,500	Filipino	9.02
Common	Virginia V. Abo-Hamda	2,000	0	2,000	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Regina O. Reyes	300	0	300	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Jerry C. Tiu	200	250	450	Filipino	0.00
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Armin B. Raquel-Santos	200	0	200	Filipino	0.00
Common	Joseph C. Tan	200	0	200	Filipino	0.00
Common	A. Bayani K. Tan	0	1,413,000	1,413,000	Filipino	0.15
Common	Romeo J. Roque, Jr	6,000	0	6,000	Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.06
	All Directors and Executive Officers as a group	72,226,250	11,787,100	84,013,350		9.35

(3) Voting Trust Holders of 5% or More

There is no party known to the Company as holding any voting trust or any similar arrangement for 5% or more of the Company's voting securities.

Changes in Control

There is no arrangement known to the Company which may result in a change in control of the Company.

Item 5. Directors and Executive Officers

Directors and Executive Officers

The following are the Directors and Executive Officers of the Company:

Name	Position with the Company
Willy N. Ocier	Chairman / President
Ma. Virginia V. Abo-Hamda	Director and Chief Financial Officer
Armin Antonio B. Raquel-Santos	Director
Tarcisio M. Medalla	Director
Henry N. Ocier	Director
Regina O. Reyes	Director
Jerry C. Tiu	Lead Independent Director
Laurito E. Serrano	Independent Director
Joseph C. Tan	Independent Director
A. Bayani K. Tan	Corporate Secretary
Jason C. Nalupta	Assistant Corporate Secretary
Christopher C. Villaflor	VP-Central System & Network Management
Valentino L. Kintanar	VP-Technical Services
Romeo J. Roque, Jr.	VP- Agent Management
Ma. Concepcion T. Sangil	VP- Human Resources Management
Anna Josefina G. Esteban	Assistant VP- Internal Audit
Mischel Gabrielle O. Mendoza	Corporate Planning Head, Integrated Management Systems Representative and Risk Officer
Grace L. Gatdula	Compliance Officer, Administration Head and Contact for Stakeholders
Ma. Meliza C. Romillo	Data Protection Officer, MIS/IT Head

The following are the Members of the Corporate Governance Committee, whose functions include the nomination of the Candidates for Board of Directors:

Name	Position
Joseph C. Tan	Chairman
Laurito E. Serrano	Member
Jerry C. Tiu	Member

Board of Directors

The present members of the Board of Directors ("BOD") were elected during the annual stockholders' meeting held on May 30, 2019. The term of the current members of the BOD shall be until the next stockholders' meeting on June 22, 2020. The following are the incumbent members of the Board of Directors ("BOD") of the Company:

Willy N. Ocier, Filipino, 63, is the Chairman and President of the Company and has been a Director since July 29, 1999. He is an Executive Director and Co-Vice Chairman of Belle Corporation and Highlands Prime, Inc. He is likewise the Vice Chairman of Tagaytay Highlands International Golf Club, Inc. He is also the Chairman of the Board and Director of Premium Leisure Corp., APC Group, Inc., and Premium Leisure and Amusement, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge at Tagaytay Highlands, Inc. He is a Director of Leisure &

Resorts World Corporation, Vantage Equities Inc., and Abacore Capital Holdings Inc. He also serves as the Chairman, Chief Executive Officer and President of Philippine Global Communications, Inc. He was the former President and Chief Operating Officer of Eastern Securities Development Corporation. He graduated from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. In recognition of Mr. Ocier's corporate leadership and role in providing employment opportunities to Filipinos, the University of Batangas conferred on him a degree in Doctor of Humanities, *Honoris Causa*.

Tarcisio M. Medalla, Filipino, 71, has been a Director of the Company since December 10, 2001. He is currently the Chairman and President of listed firm Paxys, Inc. He is also a Director of All Asia Customer Services Holdings Ltd., the principal shareholder of Paxys, Inc. He graduated with a Bachelor of Science degree in Commerce (Major in Accounting) from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.

Henry N. Ocier, Filipino, 60, has been a Director of the Company since June 29, 2009. He serves as Senior Manager for Corporate Social Responsibility for Belle Corporation. He currently holds the position of President & General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

Regina O. Reyes, Filipino, 55, was first elected as Director of the Company in July 2016. She is currently the President and CEO of listed firm, Abacore Capital Holdings, Inc., and President of private company, Click Communications, Inc. She also served as Administrator of the Province of Marinduque from January 2010 to January 2012. She was a member of the House of Representatives, representing the lone district of Marinduque, from 2013 to June 2016. In Congress, she was Vice Chairman of the Committee on National Defense and Security and was a member of several key committees, including Appropriations, Justice, Health, and Natural Resources. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA and her Bachelor of Laws degree from the Ateneo de Manila University Law School. Ms. Reyes is a member of both the Philippine Bar and the State Bar of California.

Ma. Virginia V. Abo-Hamda, Filipino, 60, is a Director and the concurrent Chief Financial Officer of the Company. She joined Pacific Online in September 2009 as Vice President of its Instant Tickets Division and was promoted as SVP for Corporate Planning & Business Development in 2013. Prior to this, she worked as a Consultant for AB Leisure Exponent, Inc. (1999-2009), and AB Gaming & Leisure Specialist Inc. (2003-2009). Ms. Abo-Hamda served as General Accounting Manager for D'Agostino Supermarkets, Inc. New York, USA from 1990 to 1996 and as Senior Financial Analyst for Kraft-General Foods International, New York, USA from 1988 to 1989. She worked with Carlos J. Valdes & Co., CPAs from 1981 to 1986, in its Management Services Division as an Associate Consultant. She graduated *Summa Cum Laude* with a Bachelor of Science degree in Commerce (Major in Accounting) from the College of the Holy Spirit. Ms. Abo-Hamda passed the CPA board exams in 1980 at 16th place. She earned her Master's Degree in Business Administration (Concentration in Finance) from Fordham University, New York, USA.

Armin Antonio B. Raquel Santos, Filipino, 52, is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) and concurrently the Executive Vice President – Integrated Resorts of Belle Corporation. He is a Director of Tagaytay Highlands International Golf Club, Inc. and Trustee and Vice President of Melco Crown Philippines Foundation Corporation. He previously served as Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II, and First Philippine Electric Company. He was also former Governor of the Board of Investments (BOI), served as Assistant Secretary with the Department of Trade and Industry (DTI), Vice Chairman and CEO of the Philippine Retirement Authority (PRA), Executive Vice President of Philippine International Trading Corporation (PITC), and Deputy Administrator of Subic Bay Metropolitan Authority (SBMA). His experience includes stints with multinational companies; Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York. He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, New York, U.S.A.

Independent Directors

Pursuant to the requirements of Section 38 of the Securities Regulation Code, the Company's Board of Directors and stockholders approved the amendment of the Company's By-Laws adopting the requirement on the nomination and election of independent directors. In line with this, the following have been serving as the Company's independent directors and are being re-nominated for the same positions:

Laurito E. Serrano, Filipino, 59, has been an Independent Director of the Company since May 23, 2014. Mr. Serrano also currently serves as Independent Director and Chairman of the Audit and Risk Management Committee of Atlas Consolidated Mining and Development Corporation. He also serves as an Independent Director and concurrent Chairman of the Audit and Compliance Committee and a member of the Risk Oversight Committee of Rizal Commercial Banking Corporation. He is likewise an Independent Director of the APC Group, Inc., 2GO Group Inc., and Axelum Resources Corp., and a director of MRT Development Corporation. Mr. Serrano is a former partner of the Corporate Finance Consulting Group of SGV & Co. He is a Philippine Certified Public Accountant and has a Master's Degree in Business Administration from the Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance.

Jerry C. Tiu, Filipino, 63, has been an Independent Director of the Company since February 21, 2007 and has been designated as the Lead Independent Director. He is a Director and the President of Tagaytay Highlands Community Condominium Association, Inc., Tagaytay Midlands Community Homeowners' Association, Inc., and Greenlands Community Homeowners' Association, Inc. He is likewise the President of the following companies: Tagaytay Highlands International Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., and The Spa & Lodge at Tagaytay Highlands, Inc. He is a former Director of the Manila Polo Club. He holds a Bachelor of Science degree in Commerce (Major in Marketing) from the University of British Columbia.

Joseph C. Tan, Filipino, 62, has been an Independent Director of the Company since 2017. He is the Managing Partner of MOST Law Firm from September 2006 to present. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He is currently an Independent Director of 2GO Group, Inc., Premium Leisure, Corp., and LMG Chemicals Corporation. He was also a director of the Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration Degree from the University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws Degree from the Ateneo de Manila College of Law, graduating with honors (Class of 1985).

Executive Officers

Aside from the Chairman and President and Chief Financial Officer named above, the other principal executive officers of the Company include the following:

Valentino L. Kintanar, Filipino, 59, is Vice President for Technical Services of the Company. He joined the Company in January 29, 1996. He served as Technical Services Manager of EMCOR, Inc. and was a Systems Engineer of Technics, Philippines from 1983-1987. He previously worked as Senior Shift Technician of Fairchild Semiconductors, Phil. from 1980-1983. He graduated with a degree in Bachelor of Science in Electronics and Communications Engineering from the University of Southern Philippines.

Romeo J. Roque, Jr., Filipino, 51, is Vice President for Agent Management of the Company. He joined the Company in February 5, 1996. He served as Product Support Manager for Infonet Solutions, Inc. from 1995 to 1996 and as Systems Engineer for ATS Software Pte. Ltd. in Singapore from 1993 to 1995. He previously worked for Electroworld as Systems Consultant from 1991 to 1993. He graduated with a degree in Bachelor of Science in Computer Engineering from the University of San Carlos. He was credited with Master in Business Administration academic units from the University of the Philippines.

Christopher C. Villafior, Filipino, 43, has been the Vice President for Central System and Network Management of the Company since 2016. He joined the Company in March 2000 as a Bench Engineer. From June 2004 to October 2009, he served as the Systems Administrator for the Data Center Operations overseeing the lottery administration and maintenance for the Visayas and Mindanao regions. In 2009 he was promoted as Senior Manager of the Data Center Operations and in August 2017, he moved up as Assistant Vice President overseeing the Central System Management Department of the Online Lottery Division. Mr. Villafior has extensive experience in the area of system design, development and testing on both the UNIX (OpenVMS, SunOS/Solaris) environment and Microsoft Windows. He has had formal trainings on Oracle 10g Programming PL/SQL and Data Administration, AIX Unix System Administration and Operational Planning using Software Engineering for SDLC. He graduated with a degree in Bachelor of Science in Computer Engineering from the University of San Carlos in 1998.

Ma. Concepcion T. Sangil, Filipino, 62, is the Vice President for Human Resources Management of the Company. She has a total of 37 years professional experience, initially as a Management Consultant for over

17 years specializing in project management, institutional strengthening, organizational development, change management processes, management and operations audit, systems development and business re-engineering. She was also exposed to actual hands-on operations and management of a micro-lending institution, as an executive officer for over 8 years and later as Head of the Human Resource Division for a multi car brand dealership and multi-media company for 10 years. She graduated from St. Paul College of Manila with a degree of Bachelor of Science in Commerce, major in Accounting. She earned an MA in Urban and Regional Planning from the School of Urban and Regional Planning, University of the Philippines. She was an accredited court mediator by the Supreme Court and a certified life coach.

A. Bayani K. Tan, 64, Filipino, has been the Corporate Secretary of the Corporation since May 2007 when it became publicly-listed. He is also a Director or Corporate Secretary of the following reporting and/or listed companies: Belle Corporation (since May 1994), Coal Asia Holdings, Inc. (since July 2012), Discovery World Corporation (since March 2013), I-Remit, Inc. (since May 2007), Premium Leisure Corporation (since December 1993), Sterling Bank of Asia Inc (A Savings Bank) (since December 2006), TKC Metals Corporation (since February 2007), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), and The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), Managing Trustee of the SCTan Foundation, Inc. (since 1986), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013), Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011) and Trustee of Guimaras Forest Foundation, Inc. (since September 2019), Reintegration for Care and Wholeness (RCW) Foundation, Inc. (since April 2014) and St. Scholastica's College Manila (since October 2019). Mr. Tan holds a Master of Laws degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society). Mr. Tan placed 6th in the bar examinations in 1981. He has a Bachelor of Arts major in Political Science degree from the San Beda College (Class of 1976) from where he graduated Class Valedictorian and was awarded the medal for Academic Excellence.

Jason C. Nalupta, Filipino, 48, has been the Assistant Corporate Secretary of the Corporation since October 2009. He is also currently the Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, and Crown Asia Chemicals Corporation. He is also a Director and/or Corporate Secretary or Assistant Corporate Secretary of private companies Sino Cargoworks Agencies, Inc., Falcon Resources, Inc., Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Metropolitan Leisure & Tourism Corporation, Sagesoft Solutions, Inc., Radenta Technologies, Inc., Xirrus, Inc., Glyphstudios, Inc., Loto Pacific Leisure Corporation, and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Mr. Nalupta earned his Juris Doctor Degree, as well as his Bachelor of Science Degree in Management (Major in Legal Management), from the Ateneo de Manila University in 1996 and 1992, respectively. Mr. Nalupta was admitted to the Philippine Bar in 1997.

Family Relationships

Henry N. Ocier and Willy N. Ocier are brothers.

Significant Employees

The Company is not dependent on the services of any particular employee. It does not have any special arrangements to ensure that any employee will remain with the Company and will not compete upon termination.

Stock Option Plan

The Company's Board of Directors approved the Company's Stock Option Plan ("SOP") on December 12, 2006. The SOP provides an incentive and mechanism to employees and officers to become stockholders of the Company, as well as to qualified directors, officers and employees, who are already stockholders, to increase their equity in the Company and thereby increase their concern for the Company's well-being. All such full-time and regular employees of the Company, its subsidiaries and affiliates, their officers and directors, and such other qualified persons who may be recommended from time to time by the Executive Committee or the Board to the Committee as qualified, are eligible to participate in the SOP. Shares of stock subject to the SOP amount to up to five per cent (5%) of the Company's total outstanding common stock.

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company's shares at the time of grant, and, in no case, be less than the Offer Price at which the Company's shares are initially offered for sale to the public. Further, the purchase price shall be subject to adjustment for subsequent stock dividends or splits.

The shares covered by any one grant shall be offered for subscription over a period of Three (3) years from and after the effectivity date of each grant that may be determined by the Committee. The Participants may exercise their right to subscribe to shares under the SOP in accordance with the following schedule:

- 1/3 of total grant within One (1) year from the effectivity date of each grant
- 1/3 of total grant within Two (2) years from the effectivity date of each grant
- 1/3 of total grant within Three (3) years from the effectivity date of each grant

On February 15, 2008, SEC approved the Company's application requesting that its proposed issuance of 9,954,900 common shares be exempt from the registration requirements of the Securities Regulation Code.

On May 6, 2008, the BOD approved the allocation of 2,174,000 shares to its executives and employees and to the officers of Lucky Circle under the SOP which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The purchase price upon exercise of the option was fixed at ₱8.88 per share. At the grant date, the fair value of the Company's share amounted to P9.20 per share.

On May 19, 2008, grantees of the stock options exercised 617,000 shares of the Company's stock at ₱8.88 per share.

In 2011 and 2010, certain grantees of the stock options exercised 495,000 shares and 455,000 shares, respectively, of the Company's stock at ₱ 8.88 per share.

As at December 31, 2019 and 2018, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

Involvement in Certain Legal Proceedings

As of the date of the report, to the best of the Company's knowledge, there has been no occurrence of any of the following events that are material to an evaluation of the ability or integrity of any Director, any nominee for election as director or executive officer of the Company:

- any bankruptcy petition filed by or against any business of which the incumbent Directors or senior management of the Company was a general partner or executive officer, either at the time of the bankruptcy or within five years prior to that time;
- any conviction by final judgment in a criminal proceeding, domestic or foreign, pending against any of the incumbent Directors or senior management of the Company;
- any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any of the incumbent Directors or senior management of the Company in any type of business, securities, commodities or banking activities; and
- any finding by domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or said regulatory organization, that any of the incumbent Directors or senior management of the Company has violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

Category/ Transaction	Year	Note	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Advances to Related Parties	Advances from Related Parties		
TGTI							
▪ Advances	2019	a	(P3,928,115)	P-	P2,657,914	On demand, noninterest bearing	Unsecured
	2018	a	-	-	16,586,029		
▪ Dividend income received	2019	c	-	-	-		
	2018	c	6,732,636	-	-		
▪ Dividends paid	2019	b	-	-	-		
	2018	b	99,048,559	-	-		
▪ Treasury Stock	2019	c	-	-	-		
	2018	c	174,384,130	-	-		
▪ Reimbursements	2019	a	31,259,301	-	-		
	2018	a	75,624,181	-	-		
FRI							
▪ Advances	2019	a	(10,000,000)	-	-	On demand, noninterest bearing	Unsecured
	2018	a	-	-	10,000,000		
LOTO PAC							
▪ Advances	2019	a	150,967	-	986,855	On demand, noninterest bearing	Unsecured
	2018	a	111,456	-	841,489		
LCC & Nine Entities							
▪ Dividends paid	2019		-	-	-		
	2018		39,055,276	-	-		
▪ Advances	2019	a	79,287,018	986,855	P108,375,661	On demand, noninterest bearing	Unsecured
	2018	a	-	-	29,958,498		
▪ Rental expense	2019	d	76,662,787	-	-		
	2018	d	32,287,272	-	-		
▪ Security deposits	2019	d	22,929,104	-	-		
	2018	d	23,104,654	-	-		
TOTAL	2019			P986,855	P112,020,430		
TOTAL	2018			P -	P57,386,016		

- a. The Parent Company has an operational and technical support services agreement with TGTI which the former will assist the latter in the following: (1) establishing a suitable and efficient telecommunications links for the latter's online keno network and (2) overseeing the efficient operation, regular preventive maintenance, and necessary repairs on TGTI's online keno terminals deployed within the Visayas and Mindanao regions, including the central data server located in Cebu City. In consideration for lease services, TGTI pays a fixed fee per keno terminal.

TGTI also reimburses the Parent Company for communication expenses incurred on some online keno agents/operators and the shared data center.

The Parent Company granted non-interest bearing cash advances to LotoPac, LCC and FRI for working capital requirements. The P10.0 million advances to FRI was converted to equity during the year.

- b. The Parent Company received cash dividends from TGTI and LCC.
- c. TGTI purchased traded shares of the Parent Company (LOTO) through its stock brokers, thus, TGTI receives dividends for these shares. The cost of shares purchased by TGTI is included in the "Treasury Stock" account in the consolidated statements of financial position. TGTI received cash dividend from the Parent Company.
- d. LCC and Nine Entities have existing agreements with related parties under common ownership by SM Investment Corporation for the leased space of its outlets which are renewable every six months to two years at its option.

Under the terms of the lease agreement, LCC and Nine Entities are required to pay rentals equivalent to a fixed rate per month and security deposits corresponding to three (3) months rent. These deposits consist of amounts paid in advance which can be collected in cash upon termination of the lease.

Disagreement with Directors

No director has resigned nor declined to stand for re-election to the Board of Directors since the date of the last annual meeting of stockholders because of a disagreement with the Company regarding the latter's operations, policies, or practices.

Item 6. Compensation of Directors and Executive Officers

The following table shows the aggregate compensation received by the directors and executive officers of the Company for calendar years 2019 and 2018, as well as the estimated aggregate compensation for calendar year 2020.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman & President				
Ma. Virginia V. Abo-Hamda Director & Chief Financial Officer				
Valentino L. Kintanar VP-Technical Services				
Romeo J. Roque, Jr. VP-Agent Management				
Ma. Concepcion T. Sangil VP- Human Resources Management				
Christopher C. Villaflores VP- Central System & Network Management				
Total for the Executive Officers as a group	2020 (Estimate)			P14,374,498
	2019			P13,343,054
	2018			P15,611,747
Total for the Directors and Executive Officers as a group	2020 (Estimate)			P17,141,165
	2019			P16,109,720
	2018			P19,535,081
Total for President and 4 most highly compensated Executive Officers	2020 (Estimate)			P12,774,908
	2019			P11,861,950
	2018			P13,880,275

Compensation of the Group's key management personnel are as follows:

	2019	2018	2017
		<i>(In Millions)</i>	
Short-term employee benefits	P27.6	P32.02	P34.26
Post-retirement benefits	2.3	2.33	2.50
	P29.9	P34.35	P36.76

The compensation of the Group's key management personnel is included in the "Personnel Costs" as disclosed in Note 17 of the audited consolidated financial statements.

Other than those disclosed above, there are no other standard or other arrangements wherein directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

There is no compensatory plan or arrangement, including payments to be received from the Company, with respect to any of its executive officer, which will result from the resignation, retirement or any other termination of any of its executive officer's employment with the Company and its subsidiaries or from a change-in-control of the Company or in any of its executive officer's responsibilities, following a change-in-control and the amount involved, including all periodic payments or installments, which exceeds ₱ 2.5 million.

Warrants and Options Outstanding

Warrants

The Corporation has not issued any form of warrants.

Stock Option Plan

The Company's Board ("BOD") approved the proposed Stock Option Plan ("the Plan") on December 12, 2006. The Company's Stock Option Plan provides an incentive and mechanism to employees and officers to become stockholders of the Company, as well as to qualified directors, officers and employees, who are already stockholders, to increase their equity in the Company and thereby increase their concern for the Company's well-being. All such full-time and regular employees of the Company, its subsidiaries and affiliates, their officers and directors, and such other qualified persons who may be recommended from time to time by the Executive Committee or the Board to the Committee as qualified, are eligible to participate in the Plan. Shares of stock subject to the Plan amount to five per cent (5%) of the Company's total outstanding common stock.

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company's shares at the time of grant, and, in no case, be less than the Offer Price at which the Company's shares are initially offered for sale to the public. Further, the purchase price shall be subject to adjustment for subsequent stock dividends or splits.

The shares covered by any one grant shall be offered for subscription over a period of Three (3) years from and after the effectivity date of each grant that may be determined by the Committee. The Participants may exercise their right to subscribe to shares under the Plan in accordance with the following schedule:

- 1/3 of total grant within One (1) year from the effectivity date of each grant
- 1/3 of total grant within Two (2) years from the effectivity date of each grant
- 1/3 of total grant within Three (3) years from the effectivity date of each grant

On February 15, 2008, SEC approved the Company's application requesting that its proposed issuance of 9,954,900 common shares be exempt from the registration requirements of the Securities Regulation Code.

On May 6, 2008, the BOD approved the allocation of 2,174,000 shares to its executives and employees and to the officers of Lucky Circle under the Plan which is exercisable over a period of three years from May 6,

2008 until May 6, 2011. The purchase price upon exercise of the option was fixed at ₱8.88 per share. At the grant date, the fair value of the Company's share amounted to P9.20 per share.

On May 19, 2008, grantees of the stock options exercised 617,000 shares of the Company's stock at ₱8.88 per share.

In 2011 and 2010, certain grantees of the stock options exercised 495,000 shares and 455,000 shares, respectively, of the Company's stock at ₱ 8.88 per share.

As at December 31, 2020 and 2018, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

Item 7. Independent Public Accountants

Pursuant to the requirement on Rotation of External Auditors under SEC Memorandum Circular No. 8 Series of 2003, the Company will recommend the accounting firm of R. G. Manabat & Co. (KPMG) for reappointment at the scheduled annual meeting.

Representatives of R. G. Manabat & Co., the Company's external auditors for the most recently completed fiscal year, are expected to be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if they so desire.

R. G. Manabat & Co. audited the Company's statement of financial position as at December 31, 2019, the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the same period, together with the summary of significant accounting policies and other explanatory notes. R. G. Manabat & Co.'s responsibility is to express an opinion on these financial statements based on their audit. The audits were conducted in accordance with Philippine Standards on Auditing. The partner who handled the Company's external audit was Mr. Enrico E. Baluyut.

The Company's Board of Directors in the annual shareholders' meeting on May 30, 2019 recommended, and the shareholders approved, the appointment of R. G. Manabat & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2019.

In the Company's three (3) most recent fiscal years, there has been no change in auditor and there has been no disagreement on accounting and financial disclosures. R.G. Manabat & Co. was also engaged as external auditors for LCC and LotoPac beginning 2016

The aggregate fees for each of last three (3) fiscal years for professional services rendered by the external auditors are as follows:

	2019	2018	2017
Audit fee	P1,848,000	P2,054,000	P2,114,000
Tax services	600,000	600,000	810,000
Other fees			
TOTAL	P2,448,000	P2,654,000	P2,924,000

It is the policy of the Company that any draft audit report must first be reviewed by the Audit Committee prior to said report being endorsed to the Board of Directors for approval. The Audit Committee members are: Mr. Laurito E. Serrano (Chairman), Mr. Jerry C. Tiu, and Mr. Tarcisio M. Medalla. The final draft of the Company's audited financial statements was discussed and reviewed by said Committee, whereupon said Committee resolved to recommend to the Company's Board of Directors that said financial statements be approved for issuance and disclosure to the public, the PSE and all related governmental agencies. Said audited financial statements were approved by the Company's Board of Directors during its meeting held on February 20, 2020.

Item 8. Compensation Plans

Please see the previous discussion on the Corporation's Stock Option Plan (page 8).

Item 9. Authorization or Issuance of Securities other than for Exchange

No action is to be taken during the 2020 ASM with respect to this item.

Item 10. Modification or Exchange of Securities

No action is to be taken during the 2020 ASM with respect to this item.

Item 11. Financial and Other Information

No action is to be taken during the 2020 ASM with respect to this item.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action is to be taken during the 2020 ASM with respect to any transaction involving: (i) merger or consolidation into or with any other person or of any other person into or with the Company; (ii) acquisition by the Company or any of its security holders of securities of another person; (iii) acquisition of any other going business or of the assets thereof; (iv) sale or other transfer of all or any substantial portion of the assets of the Company; or (v) liquidation or dissolution of the Company.

Item 13. Acquisition or Disposition of Property

No action is to be taken during the 2020 ASM with respect to this item.

Item 14. Restatement of Accounts

No action is to be taken during the 2020 ASM with respect to the restatement of any asset, capital or surplus account of the Company.

OTHER MATTERS

Item 15. Action with Respect to Reports

The Company will seek the approval by the stockholders of the Minutes of the Annual Stockholders' Meeting held on May 30, 2019 during which the following were taken up: (1) Call to Order, (2) Proof of Notice of Meeting, (3) Certification of Quorum, (4) Approval of the Minutes of the previous Special Stockholders' Meeting, (5) Approval of 2018 Operations and Results, (6) Ratification of All Acts of the Board of Directors and Officers, (7) Election of Directors, (8) Appointment of External Auditors, (9) Other Matters, and (10) Adjournment.

The Company will also seek approval by the stockholders of the 2019 Operations and Results contained and discussed in the annual report attached and made part of this Information Statement. Approval of the reports will constitute approval and ratification of the acts of management and of the Board of Directors for the past year.

Item 16. Matters Not Required to be Submitted

No action is to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, By-Laws or Other Documents

No action will be taken with respect to any amendment to the Corporation's Articles of Incorporation or By-Laws.

Item 18. Other Proposed Actions

The following are to be proposed for approval during the stockholders' meeting:

1. Minutes of the Annual Stockholders' Meeting held on May 30, 2019;
2. 2019 Operations and Results;

3. Ratification of All Acts of the Board of Directors and Officers;
4. Election of Directors for 2020-2021;
5. Appointment of R. G. Manabat & Co. as External Auditors; and,
6. Other Matters.

The items covered with respect to the ratification of the acts of the Board of Directors and officers for the past year up to the date of the meeting are those items entered into in the ordinary course of business, with those of significance having been covered by appropriate disclosures such as:

1. Membership in the relevant board committees;
2. Extension of term of the Company's Equipment Lease Agreement with PCSO; and
3. Designation of authorized signatories.

Management reports which summarize the acts of management for the year 2019 are included in the Company's Annual Report to be made available to the stockholders together with this Information Statement and shall be submitted for approval by the stockholders at the meeting. Accordingly, approval of the Annual Report will constitute approval and ratification of the acts of Management stated therein during the period covered thereby.

Item 19. Voting Procedures

- (a) Actions to be taken at the Annual Stockholders' Meeting shall require the vote of the stockholders representing at least a majority of the Company's outstanding capital stock.
- (c) Two inspectors shall be appointed by the Board of Directors before or at each meeting of the stockholders, at which an election of directors shall take place. If no such appointment shall have been made or if the inspectors appointed by the Board of Directors refused to act or fail to attend, then the appointment shall be made by the presiding officer of the meeting. For purposes of the Annual Stockholders' Meeting on June 22, 2020 the Corporate Secretary and/or his representative, together with the Audit Partner of the External Auditor and/or his representative, have been designated as inspectors who have been tasked to oversee the counting of votes.
- (d) Stockholders may vote at all meetings either in person or by proxy duly given in writing in favor of any person of their confidence and each stockholder shall be entitled to one vote for each share of stock standing in his name in the books of the corporation; provided, however, that in the election of directors, each stockholder shall be entitled to cumulate his votes in the manner provided for by law. For the purpose of this year's annual stockholders' meeting, which will be held only in a virtual format, the stockholders may only vote through proxies or by remote communication (in absentia). The stockholders are encouraged to participate in the meeting by either of the following:
 - i. by submitting duly accomplished proxies to the Office of the Corporate Secretary at 2704 East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City or via electronic copy by emailing corporatesecretary@pacificonline.com.ph on or before 5:00 p.m. on June 11, 2020.

For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.
 - ii. by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at asmregister.loto.com.ph. The e-voting portal will be open until 9:00 in the morning of June 22, 2020.
- (e) The method of counting votes shall be in accordance with the general provisions of the Revised Corporation Code. The counting shall be done by the inspectors abovementioned, witnessed and the results verified by a duly appointed independent third-party validator, Alberto, Pascual & Associates.

SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, we hereby certify that the information set forth in this report is true, complete, and correct.

This report is signed in the City of Pasig, Metro Manila on May 20, 2020.

PACIFIC ONLINE SYSTEMS CORPORATION

By:



WILLY N. OCIER
Chairman and President

PACIFIC ONLINE SYSTEMS CORPORATION

BUSINESS AND GENERAL INFORMATION

BUSINESS

Pacific Online Systems Corporation (“Company”) was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (“SEC”) on November 11, 1993. The Company is primarily engaged in the development, design and management of online computer systems, terminals and software for the Philippine gaming industry. It sources technology from leading global suppliers of integrated gaming systems and leases equipment to the Philippine Charity Sweepstakes Office (PCSO) for its online lotto operations in the Visayas and Mindanao (VISMIND) regions under the terms of an Equipment Lease Agreement (ELA), which was initially entered into on November 25, 1995. It also provides the necessary technical support through a Maintenance Repair Agreement (MRA) that is co-terminus with the ELA. The Company’s ELA with the PCSO was amended in 2004, 2012, 2013, 2015, 2018, and 2019, principally to amend the term thereof, in response to PCSO’s requirements to ensure integrity, sustainability and efficiency in its online lotto operations. In 2019, the ELA was amended to allow the use of the Company’s terminals for PCSO’s lotto operations in Luzon. The latest amendment to the ELA was made wherein the ELA’s term was extended up to July 31, 2020. The equipment rental revenue earned by the Company with this ELA is based on a percentage of lotto sales generated by the Company’s terminals.

In 2004, the Company acquired 50% of Total Gaming Technologies Inc. (TGTI), which has its own ELA with the PCSO for the latter’s online keno operations nationwide. TGTI’s ELA with PCSO provides for a lease period of ten (10) years commencing on the date of actual commercial operations of at least 200 online keno agents. With October 2010 established as the start of commercial operations for online keno, TGTI’s ELA will expire on September 30, 2020. TGTI’s equipment rental revenue is based on a percentage of keno ticket sales or a fixed annual rental of P40,000 per terminal, whichever is higher. By 2013, the Company already owns 98.92% of TGTI.

In 2007, the Company set up Loto Pacific Leisure Corporation (LotoPac) primarily to acquire, establish, own, hold, lease, sell, conduct, operate, and manage amusement, recreational and gaming equipment facilities, and enterprise of every kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business. LotoPac subsequently acquired Lucky Circle Corporation (LCC) in August 2007. LCC is an authorized PCSO agent operating online betting stations that sell sweepstakes, lotto, keno and instant tickets in outlets located in major shopping malls like SM Supermall, Robinsons, and Gaisano nationwide. LCC earns a certain percentage of the sales of lotto, keno, sweepstakes and instant scratch as tickets as commission income. In 2010, the Company subscribed to additional 124 million shares of LCC, after the SEC’s approval of the increase in the latter’s authorized capital stock, which increased the Company’s interest in LCC to 97.64%.

In 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO, for a period of seven years to undertake the printing, distribution and sale of instant scratch tickets nationwide. The instant scratch ticket, branded as Scratchit™, provided a steady stream of revenues for PCSO and its agents. It also expanded the Company’s experience in the lottery business. On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) to be the exclusive marketing, distribution, selling and collecting agent of the Company for Scratchit™ tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

On June 16, 2014, TGTI and the shareholders of Falcon Resources, Inc. (FRI) entered into a Memorandum of Understanding (MOU) for the former’s intention to acquire the latter’s interest in FRI representing 100% ownership. On December 11, 2014, the deed of sale for the transfer of shares of stocks was executed. FRI is a company engaged in consultancy services for TGTI and a sub-distributor of instant scratch tickets. FRI is a company incorporated in the Philippines.

On July 1, 2017, LCC and the stockholders of the following entities entered into a Deed of Sale Agreement for the transfer of shares of stock representing 100% ownership.

- a) Athena Ventures, Inc.
- b) Avery Integrated Hub Inc.
- c) Circle 8 Gaming Ventures Inc.
- d) Lucky Deal Leisure Inc.
- e) Lucky Fortune Business Ventures Inc.
- f) Lucky Pick Leisure Club Corp.
- g) Lucky Ventures Leisure Corp.
- h) Lucky Games Entertainment Ventures Inc.
- i) Orbis Valley Corporation

These entities are engaged in the trading and selling of goods such as lotto, keno, sweepstakes and scratch tickets, on retail basis. The acquisition is in line with the Company's business strategy of expanding its market reach nationwide.

Summarized below are the subsidiaries of the Company and the corresponding percentage of its ownership.

	Percentage of Ownership	
	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	100.00	-
Lucky Circle Corporation ("LCC")*	97.64	2.36
Total Gaming Technologies, Inc. ("TGTI")	98.92	-
Falcon Resources, Inc. ("FRI")**		100.00
TGTI Services, Inc. (TGTISI)**		100.00
Athena Ventures Inc. (AVI)***	-	100.00
Avery Integrated Hub Inc. (AIHI)***	-	100.00
Circle 8 Gaming Venture, Inc. (C8)***	-	100.00
Lucky Deal Leisure Inc. (LLI)***	-	100.00
Lucky Fortune Business Ventures, Inc. (LBVI)***	-	100.00
Lucky Pick Leisure Club Corp. (LLCC)***	-	100.00
Lucky Ventures Leisure Corp. (LLC)***	-	100.00
Lucky Games Entertainment Ventures Inc. (LGEVI)***	-	100.00
Orbis Valley Corporation (OVC)***	-	100.00

* With indirect ownership through LotoPac

** Indirectly owned through TGTI

*** Indirectly owned through LCC (collectively referred to as "nine entities starting July 1, 2017)

For the year ended December 31, 2019, the Company together with its subsidiaries ("Group") generated P989.87 million gross revenues, primarily through lottery equipment rentals billed to PCSO, and posted a P317.61 million net loss. As of December 31, 2019, the Group had total assets of P1.7 billion and liabilities and shareholders' equity of P1.3 billion.

Background on the TGTI Investment

On April 13, 2004, the Company purchased 50% of the outstanding capital stock of Innovative Solutions Consultancy Group, Corp. (Innovative), which is a joint stock company incorporated to manage enterprises engaged in the gaming business. On May 31, 2004, Innovative, in turn, acquired 80% of the outstanding capital stock of Total Gaming Technologies, Inc. (TGTI), a domestic corporation founded in October 2002 to develop new games for the Philippine gaming industry and to provide consultancy service and state-of-the-art equipment to the local gaming operators through its strategic partnership with Intralot. TGTI has entered into an Equipment Lease Agreement (ELA) with the PCSO for the nationwide operation of the Online Keno (initially referred to as Fast Keno) game. A Shareholders' Agreement was executed whereby Innovative shall provide management counsel and expertise to TGTI to ensure proper execution of the Online Keno game, among others. In April 2008, the Company acquired from Intralot additional 574,885 shares of Innovative for a contract price of P4.3 million. This increased the Company's interest in Innovative from 50% in 2007 to 87.38% in 2008. In August 2010, the minority shareholders of TGTI and Innovative entered into a contract wherein the minority shareholders sold all of their 2,650,000 common stock to the Company, part of the consideration

of which is that the Company, as controlling shareholder of TGTI, will cause the creation of preferred stock, of which 3,312,500 preferred shares will be issued to the minority shareholders of TGTI. The total preferred stock of 3,312,500 has been fully subscribed, and of the said subscription, the amount of P331,250 has been paid. Preferred stock will have a par value of P1.00 per share, non-voting and will have preference in the distribution of assets in the event of dissolution. On December 20, 2012, the majority of TGTI's stockholders and its Board of Directors (BOD) approved the Company's application for increase in its authorized capital stock with the SEC from Fifty Million Pesos (P50,000,000.00) divided into Forty Million (40,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P1.00) per share, to Seven Hundred Million Pesos (P700,000,000.00), divided into Six Hundred Ninety Million (690,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

Recent Developments

In July 2019, the Company passed its yearly surveillance audit for ISO 2700:2013 and ISO 9001:2015 conducted by Societe Generale de Surveillance (SGS), the world's leading inspection, verification, testing and certification company. On November 16, 2015, the Company obtained an ISO accreditation through SGS for ISO 9001:2008 Quality Management Systems and ISO/IEC 27001:2013 Information Security Management. In 2018, the certification for ISO 9001:2008 was updated to the 2015 version. SGS was contracted by the Company to provide another surveillance audit in 2020.

On August 1, 2019, the Company's ELA with PCSO was amended to extend the term from August 1, 2019 up to July 31, 2020. The ELA may, however, be subject to another extension should the bidding for the lease of a new lotto system not be held before the termination date.

On July 27, 2019, the President of the Philippines, suspended the sale of PCSO games - lotto, keno, instant scratch tickets and Small-Town Lottery (STL). The suspension was eventually lifted on July 31 for lotto, September 1 for STL and September 27 for keno and instant scratch tickets.

On February 13, 2020, the Company and LotoPac sold 100% of LCC in light of the need for the Company to focus on its core business.

Agreements with the Philippine Charity Sweepstakes Office (PCSO)

PCSO is the principal government agency for "raising and providing funds for health programs, medical assistance and services, and charities of national character" by means of holding and conducting charity sweepstakes, races, and lotteries. It also engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs.

Pacific Online's Agreements with PCSO

The Equipment Lease Agreement (ELA) was awarded to Pacific Online on November 25, 1995 whereby the PCSO leases online lottery equipment from the Company for its VISMIN lotto operations.

2004 ELA. The initial ELA as amended on February 13, 2004, allows the Company to continue to deploy online lotto terminals in its covered regions. General terms of the amended ELA and MRA stipulate a certain percent share by the Company of all PCSO sales from the conduct of online lotto games in the VISMIN area and a term of eight (8) years commencing from the date of commercial operations of the Company. Commercial operation, as amended, was defined to be the operation of not less than 800 lotto terminals. However, commercial operation was formally effected on April 1, 2005, setting the term of the Company's ELA up to 2013, even if the PCSO had actually begun operations of the Company's online lotto terminals since 1996. The delay in the deployment of the required number of terminals to constitute commercial operation was mainly due to strong opposition from religious sector leaders and certain Local Government Unit (LGU) officials during the introductory phase and due to the absence of telecommunications service in many areas in VISMIN. Thus, this ELA covers the lease of not less than 800 lotto terminals, central computer system, communications

and draw equipment, and the right to use the application software and manuals for the central computer system of PCSO for its VISMIN operations for a period of eight years from April 1, 2005 to March 31, 2013.

2012 Amended ELA. On May 22, 2012, the Company and PCSO amended certain provisions of the ELA to lower rental fee on the lotto terminals for VISMIN operations and for the lease of lotto terminals for Luzon operations effective June 1, 2012. The ELA provides PCSO an option to purchase the equipment related to its VISMIN operations at the end of the lease period for a sum of P15.0 million. Lotto terminals for PCSO's Luzon operations are not included in the "Option to Purchase" provision of the amended ELA. In accordance with the terms of the ELA, the Company also provides maintenance and repair services fee which were incorporated in the rental fee as part of the lowered rental rate provision of the amended ELA.

2013 Amended ELA. On March 26, 2013, the Company and PCSO further amended some provisions of the ELA, which extended it from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Company agreed to reduce the rental fees for VISMIN and with the approval to service PCSO's Luzon lotto operations. The amendment also incorporated the fee for the supply of bet slips and ticket paper rolls for the PCSO's VISMIN and Luzon operations as part of the rental fee.

2015 Amended ELA. On July 15, 2015, the Company and PCSO further amended some provisions of the ELA, which extended it from August 1, 2015 to July 31, 2018. The amendment also required the Company to deposit an additional P5 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

2018 Amended ELA. On September 12, 2018, the ELA was further amended to extend the term from July 31, 2018 to August 1, 2019 at a reduced rate. The amendment also required the Company to increase its initial cash bond from P5 million to P12 million, to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

2019 Amended ELA. On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020.

The rental fee, presented as "Equipment rental" in the consolidated statements of income, is based on percentage of gross sales of lotto tickets from PCSO's VISMIN and Luzon operations or a fixed annual rental of P35,000 per terminal, whichever is higher. This covers the equipment rental of lotto terminals, central computer and communications equipment including the accessories and right to use the application software, the central computer system, terminals and draw equipment, and maintenance and repair services.

Instant Scratch Tickets. On March 25, 2009, the Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of instant scratch tickets effective December 1, 2009. The share of PCSO is guaranteed for every 500 million tickets sold for a period of seven years from the date of the MOA's effectivity. The MOA required a P10 million cash bond to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. Said cash bond is in an escrow account with BDO since January 2010 and was authorized by PCSO for release in November 2018.

On March 31, 2015 the Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) to be the exclusive marketing, distribution, selling and collecting agent of the Company for its instant scratch tickets throughout the Philippines. The agreement took effect on April 1, 2015 and has ended on November 30, 2016.

In January 2018, the Company entered into a Brand and Trademark License Agreement with Powerball Marketing & Logistics Corp. (PMLC) granting the latter a non-assignable, non-transferable and exclusive right to use of the Parent Company's instant scratch tickets' Brands and Trademarks. The agreement has an initial term of five (5) years effective on January 1, 2018, subject to adjustment to conform to and coincide with the term of the PMLC's agreement with PCSO for the supply and distribution of its instant scratch tickets. The

consideration is a guaranteed fixed monthly fee. PMLC is not restricted to develop its own brand.

TGTI's Equipment Lease Agreement (ELA)

2004 ELA. TGTI entered into an ELA with PCSO on April 6, 2004, which provides for the lease of the equipment for PCSO's online keno games. The lease is for a period of ten (10) years commencing on the date of actual commercial operation of at least 200 online keno outlets. The rental fee is based on a percentage of the gross sales of the online keno terminals or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher.

2008 Amended ELA. On July 15, 2008, TGTI and PCSO agreed on some amendments to the ELA. Under the terms of the Amended ELA, TGTI shall provide the services of telecommunications integrator and procure supplies for the online keno operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all online keno terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly. Commercial operations for online keno commenced on October 1, 2010 and ELA term ends on September 30, 2020.

2019 Amended ELA. On October 1, 2019, the ELA was amended to a lower lease rate, inclusive of VAT. The minimum price per Keno bet was reduced from Twelve Pesos (P12.00) to Ten Pesos (P10.00), inclusive of DST.

LCC Agency Agreement

LCC enters into a two-year agency agreement with PCSO for every retail outlet it opens to operate. Agency agreements for lotto and keno terminals are executed separately at different times. These agreements are renewed by PCSO pending payment of the required surety bond and compliance with the terms and conditions of the Agency Agreement. The same type of agency agreement with PCSO is entered into by the 9 companies that LCC acquired in 2017.

Government Regulation and Environmental Compliance

The Company does not need any government approval for its principal products or services since its business is in the development, design and management of online computer systems, terminals and software for the PCSO and not in the operation of the lottery business.

The Company has been fully compliant with environmental regulations and ordinances issued by the concerned Local Government Units (LGU) and by the Department of Natural Resources (DENR) in so far as disposal of used computer hardware, office equipment and other bulky operating supplies are concerned, pursuant to the Republic Act 9003: Ecological Solid Waste Management Act of 2000.

Technology Development, Supply and Service Contracts

From 1995 to 2005, the Company had provided the PCSO a single integrated system for its online lottery operations using the GTECH Legacy system. In 2005, the Company decided to contract Scientific Games to provide its new AEGIS™ system, after having assessed the obsolescence of GTECH's lottery system infrastructure. On November 21, 2005, the Company implemented the migration from the Legacy lottery system into the new AEGIS™ System. In 2006, the Company entered into another contract with Intralot, for the provision of another new system using the LOTOS® application software. Since December 2006, therefore, the Company has been providing the PCSO a two-network system for its VISMIN online lotto operations.

Having two (2) online lottery systems running in parallel has expanded the availability of lottery terminals nationwide and provides a safety net for PCSO's operations. The new technology also helps provide versatility in connectivity given the country's hybrid telecommunications network. These systems are capable of operating nationwide through GPRS, LTE, VSAT and DSL technology which offer diversity in providing options to sites unserviceable by specific telecommunication providers. Terminal connectivity is now a lot easier due to compatibility of the lottery terminals with widespread mobile phone cell sites in VISMIN. Online connectivity in VISMIN is now available wherever there is a cell site of Globe and Smart Telecoms, as well as VSAT providers for sites unreachable by Globe and Smart.

Scientific Games

Scientific Games (SG) is a top provider in the global lottery and regulated gaming industries. It has over 40 years of gaming and lottery experience in over six continents. On February 15, 2005, the Company, entered

into a Supply and Service Contract with SG for the provision of a new system, AEGIS™. On November 20, 2005, the Company migrated into the new AEGIS™ System. Under the terms of the Contract, Scientific Games will provide the Company with Extrema® terminals as well as the required training necessary for its operation. In consideration of the foregoing, The Company shall pay Scientific Games a pre-agreed rate of its revenue from the conduct of online lottery games running under the system provided by Scientific Games. This Contract was amended in 2012 to extend the period to August 31, 2015 and provide for its supply of additional lotto terminals. In November 2015, the Company and SG further amended the contract to extend the period thru July 31, 2018. In October 2018, the contract was again amended to extend the period thru July 31, 2019. The same contract was extended through July 31, 2020.

SG was also contracted by the Company to print the instant scratch tickets under its MOA with PCSO for its nationwide instant ticket program from 2009 thru 2016.

Intralot

Intralot S.A. (Intralot) is a company incorporated under the laws of Greece and is one of the top gaming systems provider globally and operator in over 55 jurisdictions. On March 13, 2006, the Company entered into a contract with Intralot for the supply of equipment necessary for the operation of a new online lotto system effective December 8, 2006. Under the terms of the contract, Intralot will provide the Company with the computer hardware, the license to use Intralot's Lottery Application Software consisting of the software platform, LOTOS® Application Software, and the Games Application Software, the terminals as well as the required training necessary to operate the system. Based on the amended contract signed on July 7, 2006, Intralot will provide the Company with Coronis HEE terminals. In consideration of the foregoing, the Company shall pay Intralot a pre-agreed rate of the revenue generated by the terminals from the conduct of online lotto and digit games running on its system or a fixed fee per terminal per month, whichever is higher. In April 2016, the Company and Intralot agreed to amend the contract for the latter to supply additional lotto terminals to the former and extend the term of the contract until August 31, 2018. In September 2018, the contract with Intralot was again amended to extend the term until August 31, 2019. The same contract was extended through July 31, 2020.

On July 10, 2006, Intralot entered into an agreement with its subsidiary, Intralot Inc., a company domiciled in Atlanta, Georgia, through which Intralot assigned whole of the contract, including all its rights and obligations arising from its said subsidiary. This contract is co-terminus with the Company's ELA with the PCSO

Intralot is also the systems and equipment provider for TGTI, the Company's subsidiary that has the ELA with PCSO for its online keno operations. On April 1, 2004, TGTI entered into a contract with Intralot for the supply of the system and equipment for PCSO's online keno lottery operations. Intralot shall be paid based on a pre-agreed percentage of revenues generated by the keno terminals. In 2008, the contract was amended to change the calculation of amounts due Intralot to be based on a percentage of gross receipts of PCSO from its online keno games. On March 22, 2011, the contract was further amended for Intralot to supply additional keno terminals to TGTI through year 2020 and reduce the percentage charged to TGTI or a fixed fee per terminal per month, on an average basis, whichever is higher.

The Philippine Lottery Sector

The Philippine lottery sector is regulated by the PCSO, a government-owned and controlled corporation that was created primarily to raise funds for health and charity programs of the government. It regulates the lottery and other games of chance in order to protect certain sectors of society, especially the youth. It is estimated that the gaming market in the Philippines is worth over P100 billion per year, and illegal gaming accounts for half of the country's gaming industry revenues.

For over 60 years, since the inception of PCSO, the traditional Sweepstakes had been the lone source of funds for the PCSO. This changed in 1995, when PCSO launched the very first online lotto in the Philippines. This innovation brought in a new dimension of fun and excitement for the betting public.

Although there are many types of lottery games worldwide, the Philippine government-authorized lotteries can generally be categorized into these groups: traditional sweepstakes, instant scratch tickets, online lotto, online keno (Lotto Express) and Small Town Lottery (STL). The Company has partnered with PCSO in all its lottery products except for STL.

The PCSO online lotto games are basically two (2) types; i.e., jackpot draw and digit games. The winning numbers for jackpot draw and digit games are determined by a draw machine. For these lotto games, players

purchase tickets from PCSO authorized retail outlets and wait for the future drawing of prizes. The jackpot draw games have three draws a week, while digit games have three draws daily. Draw lotto jackpot prizes are generally pari-mutuel or based on the number of winners and amount of total sales generated per game at the time of draw. Lotto digit games and keno prizes are based on a fixed odds payout structure, which does not rely on the number of players and winners per draw. For online keno, winning numbers are drawn via an Random Number Generator (RNG) program and has draws every ten (10) minutes on a daily basis.

Currently, the PCSO online lotto portfolio consists of five (5) jackpot draw games and four (4) digit games. The jackpot draw games are: 6/42 Lotto, 6/45 Mega Lotto, 6/49 Super Lotto, 6/55 Grand Lotto and 6/58 Ultra Lotto; while the digit games are: 2D or EZ2, 3D or Suertres Lotto, 4D and 6D. All of the nine (9) lotto games operated by the PCSO are played in Luzon, while only eight (8) games are being played in VISMIN. The 6-digit game is played in Luzon only, but will be available in VISMIN in 2020. Modifications and enhancements of existing games and/or the introduction of new games are directed by the PCSO.

Instant scratch tickets, on the other hand, are typically played by scratching off the surface of a latex coated ticket to reveal a specific pattern of numbers, characters, pictures, or symbols that correspond to a prize amount if ticket is a winner. The player will know immediately if the ticket wins a prize or not. Instant scratch tickets like the Traditional Sweepstakes have a fixed-odds prize structure.

The Group's Online Lottery Operations and Products

As of December 31, 2019, the Company together with its subsidiary TGTI, had over 5,600 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

Aside from the number of lottery terminals deployed, total PCSO online lottery sales depend highly on the average sales generated by the various online lottery games launched. The table below shows the minimum jackpot amounts and the draw frequencies of the different lotto games supported by the Company.

<u>Lotto Game</u>	<u>Minimum Jackpot</u>	<u>Draw Frequency</u>
6/42 Lotto	P 6,000,000	3x a week - Mondays, Wednesdays and Saturdays
6/45 Mega Lotto ...	P 9,000,000	3x a week - Mondays, Wednesdays, and Fridays
6/49 Super Lotto ...	P 16,000,000	3x a week - Tuesdays, Thursdays, and Sundays
6/55 Grand Lotto...	P 30,000,000	3x a week - Mondays, Wednesdays and Saturdays
6/58 Ultra Lotto.....	P 50,000,000	3x a week -Tuesdays, Fridays and Sundays
4D Lotto.....	P 10,000	3x a week - Mondays, Wednesdays, and Fridays
3D Lotto	P 4,500	Thrice daily
2D Lotto	P 4,000	Thrice daily

In its commitment to support PCSO's efforts to effectively meet the demands of its changing market, the Company spent a total of **P463.7** million from 2017 to 2019 for its development activities broken down as follows:

<u>(in Million Pesos)</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Development Activities	204.0	34.2	225.5
Revenues	989.9	1,935.9	2,320.0
% of Revenues	20.6%	1.8%	10.0%

Market Profile

Approximately 72% of PCSO lotto sales nationwide was generated by Luzon operations, and about 28% of sales is contributed by the VISMIN regions for the year ended 2019. This may be due to Luzon's higher

population density, and higher average disposable income of residents. On the other hand, the VISMIN area faces some challenges due to its geography, more frequent power failures and intermittent telco connectivity.

As of the end of 2019, the Company's total terminal deployment in VISMIN territory covered 67 cities out of 72 total cities and 562 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment, covered 52 cities and 74 municipalities. The Company covers 100% of the VISMIN sales and only 7% in Luzon due to its restricted entry since 2012.

Competition

The Company expects the aggressive push for Small Town Lottery (STL) and the prevalence of illegal gambling particularly in interior towns and remote areas to continue to provide competition to its online lotto revenues. This mostly affects the VisMin region due to the popularity of the digit games. With the removal of the legal impediment for the Company to provide lotto equipment in Luzon, the Company expects to expand its operations in Luzon, where the additional revenues can offset the lost sales in VisMin due to STL.

Organization and Manpower

As of December 31, 2019, the Group had a total of 781 employees, of which, 574 belong to Operations and 207 were administrative and other support personnel. None of the employees of the Company have organized themselves into any labor union. The Company also provides its employees additional benefits such as health card, life and accident insurance, retirement plan, training and development programs, and wellness programs, among others.

The Company believes that it has maintained balanced relationships with the rank and file and does not anticipate any labor-management issues to arise in the near term. The Company believes that its relationships with its employees have been consistently good and productive.

Risks

Some of the risks that the Company and its subsidiaries may be exposed to are the following:

1. General Risks

Changes in the government and PCSO administration may result to changes in policies and the way that such policies are implemented, which may be favorable or unfavorable to the Company. New legislation rules regarding taxes on lottery products have an impact in sales as well.

Environmental and natural disasters can also affect the operations in a particular area.

2. Risks Relating to the Equipment Lease Agreement (ELA) with PCSO

The Company's ELA with PCSO is currently on an annual basis because of the failed bidding in 2019 of its national online lottery system (NOLS). This means that the Company will have to continue to operate under the current ELA terms beyond July 2020; i.e., when PCSO is able to hold its bidding, award the new ELA contract and undertake a transition from the current lottery system to the new system. Should the PCSO bidding for NOLS be held in 2020, the Company is well positioned to be a front runner in said bidding due to its credentials and track record. But should POSC not win the bid, it is most likely that the Company's contract with PCSO will be extended for another 2 years due to the transition period required for a new service provider to take over the NOLS.

3. Risks Relating to the Company and its Subsidiaries

a. Dependence on Suppliers

The Company's lottery operations is anchored on a two-system network. The Company has existing contracts, each distinct and entered into separately, with two global leaders in the lottery industry, namely Scientific Games and Intralot, for the supply of computer supported lottery gaming systems.

In the event that the contracts, whether collectively or individually, are terminated or suspended, operations and business of the Company may be impaired.

b. Business Interruption Risk

The operations of the Company and its subsidiaries are dependent on the reliability of its central computer system and the communications infrastructure needed to run it. Any breakdown or failure in the system provided by its suppliers, or failure in the communication infrastructure may negatively affect the Company's financial performance. However, this risk of business interruption is unlikely to happen due to the redundancy offered by the two suppliers. The communications infrastructure is being provided mainly by the two biggest telco providers in the country, namely: PLDT/Smart and Globe. The Company also contracted VSAT to provide connectivity to sites where Smart and Globe are not available.

PROPERTIES

The Company's online lottery operations are conducted mainly in Cebu, where its central system data center and logistics center are located. It also has set up 7 logistics hubs in 7 major VisMin cities to ensure efficient service delivery to the PCSO lottery agents. The Company Head Office is located in Pasig City.

There are no real properties owned and there are no plans to acquire them in the next twelve (12) months. The Company, together with its subsidiaries, lease all of its data center, logistics centers and hubs, and business offices. These properties are not mortgaged nor are there any liens and encumbrances that limit ownership or usage of the same.

The leased properties for business offices, data center, logistics facilities, and retail outlets reached about 8,072 sqm by year end 2019. About 67% of these properties are located in Luzon, and 33% in VisMin. Majority of the properties in Luzon are found in Metro Manila while those in VisMin are in Cebu. The logistics centers' areas are about 3,491 sqm in total, with 1,533 sqm in Cebu and 1,958 sqm in Metro Manila. Lease terms for most office and warehouse spaces range from two (2) to seven (7) years. Majority of leased spaces pertaining to retail outlets have one (1) year lease term only as dictated by mall leasing policies. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates ranging from 3% to 10%. Rent expense charged to operation amounted to P88.1 million in 2019, P126.6 million in 2018 and P87.1 million in 2017.

The Company's major assets are lottery equipment, which consists mainly of lottery terminals, data center equipment, software and operating systems. The equipment provided by the Company to PCSO for its lottery operations are described under the "Business" section.

LEGAL PROCEEDINGS

1. **"TMA Group of Companies, et al. vs. Philippine Charity Sweepstakes Office (PCSO), et al."**
RTC 66, Makati City- Civil Case No. 11-310/569 [321-106]

This is a complaint for specific performance and damages filed by TMA Australia Pty. Ltd. and its local subsidiary, TMA Group Philippines, Inc. (TMAP), against PCSO as regards their contract for the supply of lotto paper. The complainants subsequently amended their complaint to include Pacific Online and Philippine Gaming Management Corporation (PGMC) as defendants. They prayed for a temporary restraining order and/or writ of preliminary injunction to enjoin all defendants from doing anything in violation or derogation of the contractual terms of the Joint Venture Agreement (JVA) dated December 4, 2009 for the supply of lotto paper. No damages were prayed for against Pacific Online. On June 22, 2017, a Notice of Dismissal dated June 15, 2017 was received from TMAP praying for the dismissal of the Supplemental Complaint against Pacific Online pursuant to Section 1 of Rule 17. No objection was interposed to and/or comment on the Notice of Dismissal. Thus, in an Order dated June 28, 2017, the court dismissed the case against Pacific Online.

**2. "TMA Australia Pty. Ltd. And TMA Group Philippines, Inc. v. Pacific Online."
RTC 66, Pasig City-Civil Case No. R-PSG-17-02130 [321-108]**

This refers to a complaint for Tortious Interference and payment of Damages filed by TMA Australia Pty. Ltd. and TMA Philippines (the "TMA Group") against Pacific Online in August 2017. The TMA Group alleged that Pacific Online wrongfully interfered with the implementation of the Contractual Joint Venture Agreement (CJVA) between the TMA Group and PCSO when it entered into several equipment lease agreements with the latter that included a supply of paper provision. The TMA Group also applied for a writ of preliminary injunction (WPI) against Pacific Online and prayed for damages in the amount of at least One Million Pesos (P1,000,000.00).

On 21 March 2018, the RTC granted the TMA Group's application for WPI, enjoining Pacific Online from continuing to deliver lotto paper to PCSO. Prior to the issuance of the WPI, however, Pacific Online already completed delivery of all remaining lotto paper requirements under its ELA with PCSO. Thus, the WPI obtained by the TMA Group did not really have any adverse effect on Pacific Online. Nevertheless, Pacific Online still moved for the reconsideration of the RTC's Order granting the WPI. The RTC has yet to resolve this Motion.

During the mediation proceedings on the case, Pacific Online and the TMA Group agreed, in principle, to an amicable settlement and are now in the process of drafting a Compromise Agreement.

**3. "Philippine Charity Sweepstakes Office, et al. v. Hon. Rommel C. Baybay et al."
CA GR SP No. 128259 [321-105]**

This case arose when Judge Rommel Baybay of RTC-Makati, Br. 143, in Civil Case 12-530, granted PGMC's application for injunction enjoining Pacific Online from leasing its equipment for PCSO's online lottery operations in Luzon. On September 5, 2012, a Writ of Preliminary Injunction (Injunction) was issued by Branch 143 of the Regional Trial Court (RTC) of Makati. The Injunction orders PCSO to refrain from 1) implementing, enforcing or exercising any right arising from the 2012 ELA between the Pacific Online and PCSO 2) ordering or allowing the Pacific Online, or any third party, to install or operate any equipment, computer or terminal relating to online lottery operations in Luzon, and 3) committing any act that in any way violates or otherwise interferes with the ELA between PGMC and PCSO. Pacific Online filed a case with the Supreme Court to nullify the Injunction. PCSO also filed a case with the Court of Appeals likewise questioning the Injunction. On July 17, 2013, the Supreme Court decided that the case brought by Pacific Online be consolidated with the case between PGMC and PCSO in the Court of Appeals, thus making Pacific Online a party to the case before the Court of Appeals.

Meanwhile, PGMC and PCSO entered into an Interim Settlement whereby they agreed, among others, to maintain the status quo insofar as the terminals already installed in Luzon by Pacific Online are concerned. In the same Interim Settlement, PGMC and PCSO also agreed to submit to arbitration before the International Court of Arbitration (ICA) the issue of the alleged exclusivity conferred by the ELA to PGMC for online lotto operations in Luzon. Pacific Online tried to join the arbitration but its Request for Arbitration dated May 12, 2014 was denied by the ICA on July 17, 2014, due to PCSO's opposition. An Urgent Motion to resolve was filed by Pacific Online with the Court of Appeals to compel the court to issue an order to PGMC and PCSO to include Pacific Online in the negotiations. This matter was not resolved by the Court of Appeals.

On January 29, 2016, PCSO filed a Manifestation with Motion to Dismiss dated January 12, 2016 with RTC of Makati, stating that the presiding Judge approved PGMC and PCSO's "Interim Settlement" dated December 11, 2013 wherein it was agreed that the case will be archived pending arbitration. PCSO also averred that, on December 13, 2015, PGMC and PCSO executed a "Supplemental and Status Quo Agreement" wherein the parties agreed to dismiss all pending judicial and civil actions between them but shall continue with the arbitration proceedings. Thus, pursuant to said agreement, PCSO withdrew its Petition for Certiorari in the Court of Appeals, which was granted by virtue of the Resolution dated March 1, 2016. PCSO also prayed for the dismissal of the RTC case, but this was denied by the RTC Makati after PGMC opposed PCSO's motion to dismiss.

In the meantime, the Court of Appeals required the parties to file their respective Memoranda in the case. On September 13, 2017, Pacific Online filed its Memorandum. PCSO opted not to file its own Memorandum, but manifested instead that it was adopting the Memorandum of Pacific Online. On January 8, 2019, Pacific Online's counsel received a Decision by the Court of Appeals dated December 17, 2018 dismissing Pacific

Online's Petition for Certiorari and Prohibition. Pacific Online decided to no longer pursue a Motion for Reconsideration because, to a certain extent, the Petition already served its purpose as after the same was filed, the RTC Makati put on hold the hasty implementation of the injunction. Subsequent events have likewise rendered moot the issues in the case, since, aside from the ICA arbitration decision, the ELA at issue in the case has also been amended and superseded several times. With these developments, the adverse effect against Pacific Online – the reason that this case was initiated in the first place – is no longer attendant.

DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

There have been no disagreements with any accountant on any matter of accounting principles or practices, financial statement disclosures or auditing scope of procedure. During the two (2) most recent fiscal years or any subsequent interim period, no principal accountant or independent accountants of the registrant has resigned, was dismissed, or has ceased to perform services.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations for the Period Ended March 31, 2020 vs. March 31, 2019

Revenues

For the first quarter of 2020, Pacific Online Systems Corporation (the "Company") consolidated with its subsidiaries (the "Group"), earned total revenues of P180.1 million, which is P113.7 million, or 39%, lower than last year's revenues of P293.8 million. The decrease in revenues was due to lower ELA rate for Keno, the sale of its subsidiary Lucky Circle Corporation (LCC) effective Feb. 29, 2020 and the no lottery sales from March 17 to 31, 2020 due to Enhanced Community Quarantine (ECQ).

Costs and Expenses

The Group incurred total operating expenses of P236.3 million, which is 31% or P108.3 million lower than last year's P344.6 million for the three months of the year. The decrease in costs and expenses is attributable to the following:

- Personnel costs decreased by P29.6 million (33%) due to the sale of LCC effective Feb. 29, 2020;
- Software and license fees decreased by P26.0 million (56%) due to lower lottery sales and lower rates charged by providers Intralot and Scientific Games (SG);
- Management Fees decreased by P0.9 million (100%) due to negative EBITDA;
- Operating supplies decreased by P10.7 million (64%) due to lower Keno paper consumption;
- Communications decreased by P6.1 million (19%) due to telco discount negotiated during the no sales period;
- Travel and accommodation decreased by P6.3 million (42%) due to reduced business trips;
- Rent, utilities and outside services decreased by P10.50 million (29%) due to the sale of LCC effective Feb. 29, 2020;
- Repairs and maintenance decreased by P18.7 million (67%) due to less repairs and maintenance work undertaken during the period;
- Taxes and licenses decreased by P6.0 million (52%) due to lower business taxes resulting from lower revenues;
- Professional fees decreased by P0.2 million (8%) due to timing of payment of audit fees; and

- Other expenses decreased by P0.8 million (15%) due to lower other incidental business expenses incurred.

The above decreases were offset by the increases in the following expense accounts:

- Depreciation and amortization increased by P6.8 million (12%) due to the depreciation of fixed assets acquired in 2019; and
- Marketing and promotions expense increased by P0.9 million (74%) due to marketing activities of its keno operations.

Other Income (Charges)

Other income (net of other charges) of P27.4 million decreased by 6.3 million (19%) for the period ended March 31, 2020 versus last year's P33.7 million. This change is mainly due to the P16.7 million mark to market (MTM) loss on marketable securities, offset by P9.5M net gain on the sale of LCC.

Operating Income, Net Income, Other Comprehensive Income and Total Comprehensive Income

Due to a P113.7 million (39%) decline in revenues, the Group incurred an operating loss of P56.2 million, which is higher by P5.4 million (11%) from last year's P50.8 million operating loss. Said operating loss was incurred in spite of a P108.3 million (31%) decrease in costs and expenses. Other income of P27.4 million was lower by P6.3 million (19%) from last year's P33.7 million other income, mostly due to a P16.7 million mark to market loss on marketable securities. The Group realized a net loss of P28.9 million, which is higher by P9.6 million (49%), from the P19.3 million net loss during the same period last year,

A P145.3 million fair value loss on investment in stocks resulted to a total comprehensive loss of P174.2 million, this is a P175.9 million decline from last year's total comprehensive income of P1.5 million.

Financial Condition as of March 31, 2020 vs. December 31, 2019

The Group's total assets of P1.4 billion as of March 31, 2020 decreased by P272.3 million or 16% from P1.7 billion as of December 31, 2019. The decrease in total assets is largely attributable to the following:

- Marketable securities decreased by P64.2 million (46%) due to the redemption of P50.0 million LR preferred shares and P14.2 million mark to market loss for the period;
- Investment in stocks decreased by P145.3 million (42%) due to the fair value loss incurred during the period, and;
- Other current assets decreased by P20.8 million (10%), Right of Use (ROU) assets decreased by P30.5 million (61%), Deferred tax assets decreased by P24.0 million and Other noncurrent assets decreased by P57.7 million (20%) mainly due to the effect of sale of LCC.

The decreases above were offset by the increase of trade and other receivables of P76.9 million (45%) due to the P68.4 million note receivable and P8.5 million trade receivable.

The Group's total liabilities at P271.0 million decreased by P128.4 million, or 32% from P399.4 million as of December 31, 2019. The decrease in total liabilities is explained as follows:

- Trade and other current liabilities decreased by P55.3 million (38%), Withholding taxes payable decreased by P2.9 million (84%), Income taxes payable decreased by P3.3 million (78%) and Lease liabilities decreased by P33.8 million (50%) due to the effect of sale of LCC, and;
- Loans payable decreased by P37.5 million (25%) due to payments made during the first quarter 2020.

The decreases above were offset by the increase of defined benefit liability of P4.4 million (15%), resulting from the P1.5 million additional accrual of retirement expense and exclusion of retirement benefit asset of LCC.

Total equity as of March 31, 2020 of P1.170 billion decreased by P143.9 million from the P1.313 billion equity as of yearend 2019. The decrease in total equity resulted from the P145.3 million fair value loss on investment in stocks and the P28.9 million net loss from operations for the period. However, said decrease was offset by the exclusion of LCC's P23.6 million deficit and P6.7 million reserve for retirement benefits, as LCC was sold in February 2020. Refer to Consolidated Statement of Changes in Equity for details.

Cash Flows for the Three Months Ended March 31, 2020 vs. March 31, 2019

The Group's cash balance as of March 31, 2020 of P326.5 million was lower by P248.7 million (43%), as compared to P575.3 million in 2019, mainly due to the exclusion of LCC, partial payments of company's bank loan, capital expenditures and reduced collection of rental revenues from PCSO.

Discussion and Analysis of Material Events and Uncertainties Known to Management

It is possible that PCSO's rebidding of the PLS may be further delayed beyond July 2020 with the existing lease agreement to be extended accordingly. However, whenever the bidding will finally be completed, the Company expects that its lease agreement with PCSO will, nonetheless, be extended by at least eighteen (18) months after the contract for PLS has been awarded to a new provider which will serve as a transition period prior to a new system going in full operation. In view of the continuing uncertainty and difficulties brought about by the COVID Pandemic, however, the Company will propose to the PCSO that, in lieu of proceeding with the PLS bidding, the existing lease agreement be just extended for a period of at least three (3) years to allow the Company to be able to invest on some system upgrades that will ensure the integrity of the PCSO's online gaming operations.

The suspension of lottery operations of the PCSO due to the ECQ made a major impact on POSC. It is not yet clear how long the suspension will last. It is expected that losses will continue until lottery operations resume.

Except for what has been noted in the above, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

1. Known trends, demands, commitments, events or uncertainties that would have a material impact on the Group;
2. Material commitments for capital expenditures that are reasonably expected to have a material impact on the Group's short-term or long-term liquidity;
3. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
4. Significant elements of income or loss that did not arise from the Group's continuing operations;
5. Seasonal aspects that had a material impact on the Group's results of operations;
6. Material changes in the financial statements of the Group for the periods ended December 31, 2019 to March 31, 2020, except those mentioned above;
7. Any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

The Group monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

Liquidity & Financial Leverage Ratios	The manner by which the Company calculates the performance indicators	31 March 2020	31 December 2019
Current ratio	Current assets over current liabilities	3.60:1	2.40:1
Debt to equity ratio	Total liabilities over total equity	0.23:1	0.30:1
Asset-to-equity ratio	Total assets over total equity	1.23:1	1.30:1
Solvency ratio	Total assets over total liabilities	5.32:1	4.29:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	31 March 2020	31 March 2019
Operating income (loss) margin	Operating income (loss) over revenues	(31.23%)	(17.29%)
Net profit (loss) margin	Net income (loss) over revenues	(16.04%)	(6.58%)
Return on equity	Net income (loss) over total equity	(2.47%)	(1.47%)
Return on assets	Net income (loss) over total assets	(2.01%)	(1.13%)

2019 Compared to 2018

The Group generated total revenues from operating sources of about P989.87 million for the year ended December 31, 2019, a decrease of P946.6 million (49%) over total revenues of P1.936 billion during the same period in 2018. The decrease in revenue was due to lower lotto sales, which was cannibalized by the continuing expansion of Small-Town Lottery (STL). In addition, President Duterte ordered the suspension of all PCSO games, which meant lost sales of four (4) days for lotto, two (2) months for both keno and instant scratch tickets, and one (1) month for STL. It also took about three (3) months before retail sales levels returned to pre-suspension period for instant scratch tickets. Furthermore, Keno revenues decreased during the fourth quarter due to reduced ELA rate on top of much lower sales, which resulted from implementing the Keno ticket price to pre-TRAIN Law level with lower prize structure.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2019 decreased by P247.06 million (15%) to P1.370 billion, from P1.614 billion in 2018. The decrease is attributed to the following:

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;
- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;
- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;
- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;
- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;
- Operating supplies expense decreased by P104.9 million (66%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

The decreases accounted for in the foregoing expense accounts were offset mainly by the combined increases of the following expense accounts:

- Travel and accommodation expense increased by P10.9 million (15%) mainly due to the increased volume of field visits;
- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;
- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;
- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;
- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;
- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

The Group's net loss after tax of P317.6 million represents a P621.7 million (204%) decline from last year's net income of P304.0 million. The lower net income in 2019 was a result of the 42% drop in overall sales across all products.

Total assets of the Company decreased by P386.7 million (18%) to P1.72 billion as of December 31, 2019, from P2.10 billion as of December 31, 2018. Decreases in assets are attributable to the following:

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;
- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;
- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;
- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;
- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;
- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;
- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

The decreases in the assets above were offset by the following increases:

- Other current assets increased by P69.8 million (48%) due to pre payments and additional creditable withholding tax;
- Other noncurrent assets increased by P84.7 million (41%) mainly due to the prepayments of technical and advisory services pertaining to software development;

Total liabilities of P399.6 million was up by P57.1 million (17%) over last year's P342.5 million due principally to the following:

- Loan payable increased from zero to P140.8 million (1530%) due to a P150 million loan from Asia United Bank;
- Lease liability ROU-current increased by P41.5 million (100%), due to the effect of adopting the new accounting standard PFRS 16- Leases;
- Defined benefit liability increased by P29.2 million (from 0 in 2018) due to the accrual of retirement expense for 2019;
- Lease liability ROU-noncurrent portion increased by P9.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

The increases in the liabilities were offset by the following decreases:

- Trade and other current liabilities decreased by P100.8 million (41%) due to lower trade payables resulting from lower operating expenses;
- Current portion of obligations under finance lease decreased by P3.4 million (17%) due to the amortization of capital lease for 2019;
- Withholding taxes payable decreased by P2.6 million (43%) due to lower withholding taxes resulting from lower operating expenses;
- Income tax payable decreased by P5.1 million (55%) due to less income tax as a result of lower net income for the year;
- Obligations under finance lease – net of current portion decreased by P16.0 million (100%) due to reclassification to current portion;
- Deferred tax liability decreased by P37.3 million (100%) as it was offset to deferred tax asset.

As of December 31, 2019, the Company has:

- No known trends or any demands, commitments, or events that will result in or that are likely to result in the liquidity increasing or decreasing in any material way;
- No events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
- No material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period; and
- Not breached any loans, leases or other indebtedness or financing agreement.

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2019	Dec. 31, 2018
Current Ratio	2.39:1.00	4.00 : 1.00
Debt-to-Equity Ratio	0.30:1.00	0.19 : 1.00
Asset-to-Equity Ratio	1.30:1.00	1.19 : 1.00

	For the year ended	
	Dec. 31, 2019	Dec. 31, 2018
Return on Equity	-24.12%	17.27%
Return on Assets	-18.51%	14.46%
Interest Coverage Ratio	(54.95):1.00	79.04 : 1.00
Solvency Ratio	(0.23):1.00	1.56 : 1.00
Book Value per Share	1.56	10.84

The above performance indicators are calculated as follows:

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$
Asset-to-equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$
Return on Stockholders' Equity	$\frac{\text{Net Income}}{\text{Total Equity}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$
Interest Coverage Ratio	$\frac{\text{Income Before Interest \& Tax}}{\text{Interest Expense}}$
Solvency Ratio	$\frac{\text{Net Income} + \text{Depreciation}}{\text{Total Liabilities}}$
Book Value per Share	$\frac{\text{Total Equity}}{\text{Total Shares Outstanding}}$

2018 Compared to 2017

The Group generated total revenues from operating sources of about P1.936 billion for the year ended December 31, 2018, a decrease of P384 million (17%) over total revenues of P2.320 billion during the same period in 2017. The decrease in revenue was due to lower lottery sales, which was caused by the expansion of Small Town Lottery (STL) from 17 to 86 operators and the 20% increase in lottery ticket prices with the implementation of the Documentary Stamp Tax (DST) on lottery tickets as mandated by the TRAIN Law in 2018. The STL games offer lower ticket prices and higher payout ratios versus the online lotto and keno games.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2018 decreased by P37.9 million (2%) to P1.614 billion, from P1.652 billion in 2017. The decrease is attributed to the following:

- Consultancy fees decreased by P35.2 million (54%) due to lower lottery sales, on which the fees are based on;
- Management fees decreased by P25.2 million (36%) due to the decrease in EBITDA, on which the fees are based on;
- Advertising and promotion decreased by P32.3 million (45%) due to reduction in keno marketing and promotional activities as compared to 2017;
- Operating supplies decreased by P57.2 million (26%), mainly due to the takeover by PCSO of lotto paper supplies as part of the terms in the extension of the lotto ELA starting August 1, 2018;
- No provision for possible impairment of receivables was recorded in 2018, while the P25.0 million provision in 2017 was required for possible impairment of past due accounts receivable and unused input taxes of the nine (9) subsidiaries that LCC acquired in 2017;
- Other expenses decreased by P20.4 million (45%) mainly due to lower miscellaneous incidental business expenses.

The decreases accounted for in the foregoing expense accounts were offset mainly by the combined increases of the following expense accounts:

- Personnel costs increased by P82.5 million (31%) mainly due to the acquisition of the nine (9) subsidiaries of LCC in 2017, which effectively increased the manpower of the Group;

- Rent and utilities increased by P49.6 million (30%) due to rental rate escalation of the Group's offices and logistics centers and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries in 2017;
- Entertainment, amusement and recreation expense increased by P4.1 million (26%) due to higher business representation expenses incurred in 2018
- Other income (net of other charges) increased by P107.3 million from last year's P54.2 million, mainly due to the full recognition of the P203.5 million brand and trademark license fee and its corresponding interest income of P12.5 million covering the exclusive use of the Company's instant scratch ticket trademarks by PMLC over 5 years starting on January 1, 2018. This other income was reduced by the provision of P110.9 million impairment of the goodwill pertaining to the acquisition of Falcon Resources Inc. (FRI) by TGTI. Based on projections of declining revenues from FRI's core business of instant ticket distribution in the next few years, management deems it prudent to impair the goodwill.

The Group's net income after tax of P304.0 million represents a P188.8 million (38%) decline from last year's net income of P492.9 million. The lower net income in 2018 was a result of the double-digit decline in lottery sales as explained above.

In 2018, Company booked a net fair value loss on investment in shares of stock of P306.8 million versus a net gain of P119 million in 2017. This translates to a P425.8 million decrease in fair value gain on investment, which resulted to a net comprehensive income of P9.64 million that is equivalent to about 2% of last year's P613.21 million net comprehensive income.

Total assets of the Company decreased by P530.8 million (20%) to P2.10 billion as of December 31, 2018, from P2.63 billion as of December 31, 2017. Decreases in assets are attributable to the following:

- Marketable securities decreased by P22.8 million (13%) due to unrealized mark-to-market loss amounting to P11.9 million and disposal of P10.9 million worth of securities during the year;
- Trade and other receivables-net decreased by P218.2 million (43%) due mainly to the lower lotto and keno sales as of last quarter of 2018 plus the lower ELA rate on lotto sales starting August 1, 2018 as part of the terms in the extension of the contract for another year;
- Investment in stocks went down by P272.3 million (37%) due to the decrease in the stock market prices of investments on hand during 2018;
- Goodwill and intangibles decreased by P110.9 million (87%) as a result of the impairment of the goodwill initially booked when FRI was acquired by TGTI in 2014;
- Property and equipment decreased by P178.1 million (41%) due to depreciation of lottery equipment and other fixed assets

The decreases in the assets above were offset by the following increases:

- Cash increased by P124.1 million (28%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Other current assets increased by P30 million (26%) due to recognition of prepaid income taxes and reclass from non-current of the cash bond held in escrow for the instant ticket MOA with PCSO that was approved for release in 2019.
- Other noncurrent assets increased by P126.3 million (159%) due to the reversal of the an accrual for a payable to PCSO pertaining to the long term MOA on instant tickets, which expired in 2016, and reclass of its corresponding cash bond held in escrow to current assets, approved for release in 2019.
- Retirement benefit asset increased by P6.5 million (479%) due to additional contribution made to the retirement fund;

Total liabilities of P342.5 million was down by P271.3 million (44%) over last year's P613.8 million due principally to the following:

- Trade and other current liabilities decreased by P247.9 million (50%) due mainly to payables booked as of yearend 2017 for dividends and lotto paper, which were not incurred as of yearend 2018;
- Income tax payable went down by P20 million (68%) due to lower net income vs. last year;

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2018	Dec. 31, 2017
Current Ratio	4.00:1.00	2.16 : 1.00
Debt-to-Equity Ratio	0.19:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.19:1.00	1.30 : 1.00

	For the year ended	
	Dec. 31, 2018	Dec. 31, 2017
Return on Equity	17.27%	24.40%
Return on Assets	14.46%	18.71%
Interest Coverage Ratio	79.04:1.00	67.46 : 1.00
Solvency Ratio	1.56:1.00	1.17 : 1.00
Book Value per Share	4.17	4.77

2017 Compared to 2016

The Company, consolidated with its subsidiaries, generated total revenues from operating sources of about P2.32 billion for the year ended December 31, 2017, an increase of P432 million (23%) over total revenues of P1.89 billion during the same period in 2016. The increase in revenue was due to higher lottery sales resulting from more P100 million lotto jackpot prizes, additional draw for Ultra Lotto 6/58 game, additional Keno terminal rollouts, and acquisition of nine (9) entities engaged in retail distribution of lottery tickets nationwide.

The Company's total operating expenses, including depreciation and amortization, for the year ended December 31, 2017 increased by P362 million (28%) to P1.65 billion, from P1.29 billion in 2016. The increase is attributed to the following:

- Personnel costs increased by P99.9 million (47%) mainly due to the acquisition of the nine (9) subsidiaries of LCC which effectively increased the manpower of the Group;
- Depreciation and amortization charges increased by P54.3 million (32%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2016;
- Rent and utilities increased by P43.2 million (57%) due to additional logistics hubs set up in VisMin and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries;
- Consultancy fees increased by P7.4 million (13%) due to higher sales, on which the fees are based on;
- Communication expenses increased by P8.4 million (8%) due to additional communication links resulting from additional lotto and keno terminal rollout;
- Management fees increased by P5.2 million (8%) due to the increase in EBITDA, on which the fees are based on;

- Repairs and maintenance increased by P5.6 million (12%) due to renovation and repairs of logistics and office facilities;
- Advertising and promotion increased by P58.0 million (434%) due to more aggressive keno marketing and promotional activities implemented during first half of the year, while there was no such activity in 2016.
- Operating supplies increased by P25.7 million (13%), mainly due to higher consumables, resulting from higher lottery sales;
- Impairment losses on receivables increased by P7.7 million and provision for probable losses increased by P25M due to additional provision required for possible impairment of past due accounts receivable and unused input taxes of the 9 subsidiaries that LCC acquired.
- Other expenses increased by P22.8 million (92%) mainly due to higher miscellaneous incidental business expenses.

The increases accounted for in the foregoing expense accounts were offset mainly by the combined decreases of the following expense accounts:

- Professional fees decreased by P3.8 million (22%) due to lower fees paid during the period, and
- Entertainment, amusement and recreation expense decreased by P2.6 million (14%) due to lower business representation expenses incurred in 2017;

Other income (net of other charges) increased by P68.2 million in 2017 from net charges of P14.1 million in 2016, mainly due to improved mark to market gain on marketable securities of P39.3 million, increase in excess input taxes of P18.7 million, and the P11.8M service income earned in 2017.

In 2017, a fair value gain on investment in shares of stock of P119.0 million was posted, which resulted in a total net comprehensive income of P613.2 million for 2017 versus P607.7 million total net comprehensive gain in 2016.

Total assets of the Company increased by P206.6 million (9%) to P2.6 billion as of December 31, 2017, from P2.4 billion as of December 31, 2016. Increases in assets are attributable to the following:

- Cash increased by P188.2 million (73%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;
- Marketable securities increased by P12.5 million (8%) due to additional marketable securities purchased at P10.2 million and the unrealized mark-to-market gain amounting to P2.2 million;
- Retirement benefit asset increased by P1.0M (320%) due to additional contribution made to the retirement fund;
- Other noncurrent assets increased by P24.5 million (45%) due to the bonds and rental deposits of the additional subsidiaries purchased.

The increases in assets above were offset by the following decreases:

- Other current assets decreased by P8.2 million (7%) due to application of prepaid income taxes against income tax payable, and
- Property and equipment decreased by P40.9 million (9%) due to higher depreciation expense for the year;

Total current liabilities increased by P180.7 million (46%) from P394.9 million in 2016 to P575.6 million in 2017 due to the declaration of P86.7 million cash dividends in December 2017 for payment in January 2018 and accrual of operating expenses pertaining to the 9 subsidiaries acquired in 2017.

Key Performance Indicators

The Company monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

	As of	
	Dec. 31, 2017	Dec. 31, 2016
Current Ratio	2.16 : 1.00	2.65 : 1.00
Debt-to-Equity Ratio	0.30 : 1.00	0.24 : 1.00
Asset-to-Equity Ratio	1.30 : 1.00	1.24 : 1.00

	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
Return on Equity	24.40%	20.42%
Return on Assets	18.71%	16.50%
Interest Coverage Ratio	67.46 : 1.00	46.77 : 1.00
Solvency Ratio	1.17 : 1.00	1.22 : 1.00

Plans and Prospects

The Group foresees the next year to still be a very challenging period, but is optimistic that it will be able to generate more favorable financial results than the past year.

With the removal of the legal impediment for the Company to lease to PCSO's lotto operations in Luzon, the Company can now install lotto terminals in agents that generate more than double the lottery sales of VISMIN agents and are more easily accessible for equipment repairs and maintenance. The Company continues to work closely with the PCSO in launching more creative and innovative marketing programs to help improve lottery sales nationwide.

The PCSO is expected to hold a re-bidding for the nationwide online lottery system (NOLS) in the first quarter of 2020, in time for the expiration of its Equipment Lease Agreements (ELA) with both its lotto systems providers. With its ELA expiring on July 31, 2020, the Company definitely plans to participate in the NOLS bidding. The Company is confident that it will be able to meet all the requirements of the bidding's Terms of Reference (TOR) given its track record of over 20 years in the lottery business and its technology partners that are global leaders in the gaming industry. Moreover, the Company has also maintained its ISO certification for Quality Management System (ISO 9000) and Information Security Management (ISO/IEC 27001), with SGS as its certifying body since 2015. In the event, however, that the Company does not win the bid, it expects its existing contract with PCSO to be extended for another one (1) to two (2) years because of the lengthy and complex transition that any new system provider will have to undergo to take over the nationwide lottery.

The ELA of TGTI, the Group's keno business unit, is due to expire on October 1, 2020. PCSO, however, has acknowledged that keno is still a viable revenue source for its charity fund and has expressed the urgent need to improve sales, which have been severely hampered in the past 2 years. TGTI has been working closely with PCSO to come up with an improved keno game as part of the negotiations for a possible renewal or extension of its contract with PCSO.

The Company is committed to its vision of being the gaming partner of choice, despite all the regulatory, environmental and social hurdles of the industry, along with the ever-changing market demands and rapid technological developments in the shifting landscape of the Philippine gaming industry. To ensure growth, stability, and sustainability in the long-term, the Company is determined to push forward with relevant projects and be dynamic and proactive in its business strategies in serving the Philippine gaming market.

ANNEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) SECTION

Events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of obligation

The Company does not foresee any events that may trigger material financial obligation to the Company, including default or acceleration of an obligation.

All material off-balance sheet transactions, arrangement, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period

Except for what has been noted in the preceding part, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

FINANCIAL STATEMENTS

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2019 listed in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 20-IS.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company became a listed company with the listing of its shares with the Philippine Stock Exchange on April 12, 2007.

As of December 31, 2006, the Company had an authorized capital stock of 500 million common shares (at P1.00 par value), of which 125.25 million shares have been issued and outstanding. On February 9, 2007, the Company issued an additional 54 million shares from its authorized capital stock, increasing the issued and outstanding shares to 179.25 million shares. On March 27, 2007, the Company offered its shares for sale to the public through an initial public offering (IPO) with a primary offer of 11.8 million common shares and a secondary offer of 28 million common shares. Prior to the Offer, there have been no public trading market for the Company's common shares. On November 19, 2007, the SEC approved the issuance of 8.048 million common shares from the Company's unissued authorized capital stock resulting from the valuation of the deposits for future subscription as consideration for the issuance of shares, at the total subscription price of P124.744 million. On May 6, 2008, the BOD approved the allocation of 2.174 million shares to its executives and employees and to the officers of Lucky Circle Corporation ("LCC"), which is exercisable over a period of three years from May 6, 2008 until May 6, 2011. The exercise price of the option was fixed at P8.88 per share. On May 19, 2008, grantees of the stock options exercised 617 thousand shares of the Company's stock at P8.88 per share. In 2011 and 2010, certain grantees of the stock options exercised 495 thousand shares and 455 thousand shares respectively, also at P8.88 per share.

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock. For the same reasons as above, the Company bought back 1,478,000 shares in 2018 and 18,771,546 shares in 2017. The Company did not buy back any treasury shares in 2019 but the number of treasury shares doubled as a result of the stock dividend.

The movements in treasury shares are as follows:

	December 31, 2019		December 31, 2018	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of the year	25,233,492	P285,267,558	23,755,492	P268,660,770
Effect of stock dividend	25,223,492	-		
Acquisitions	-	-	1,478,000	16,606,788
Balance at end of the year	50,466,984	P285,267,558	25,233,492	P285,267,558

Dividends

No cash or stock dividends were declared in 2019.

In 2018, the BOD, upon recommendation of management, declared the following cash dividends:

2018				
Declaration	Record Date	Payment	Per Share	Amount
April 26, 2018	May 14, 2018	May 31, 2018	P0.30	P126,762,110
April 26, 2018	August 3, 2018	August 31, 2018	0.30	126,709,115
				P253,471,225

On August 14, 2018, the BOD declared a 100% stock dividend to the Company's stockholders, which the record and payment dates will be set subject to the approval of the SEC of the increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock. The declaration of the stock dividend was approved at the special meeting of the stockholders held on September 25, 2018.

In 2017, the Company declared cash dividends as follows:

Declaration	Record Date	Payment	Per Share	Amount
May 2, 2017	May 17, 2017	May 31, 2017	P0.30	P130,101,926
May 2, 2017	August 11, 2017	August 31, 2017	0.30	130,101,926
December 6, 2017	January 5, 2018	January 31, 2018	0.20	86,734,617
				P346,938,469

On August 14, 2018, the BOD approved the amendment in the Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock is pending approval of the Securities and Exchange Commission (SEC) as at December 31, 2018

There is no provision in the Company's charter or by-laws that would delay, deter, or prevent a change in control of the Company.

Stock Prices

As of the trading date, May 19, 2020 the stocks of the Company closed at P1.85 per share. The Company's stock price was pegged at a high of P1.85 and a low of P1.83 as of the same date. The stock prices as of quarter end date for 2019 are as follows:

2019	High	Low
First Quarter	4.91	4.50
Second Quarter	3.12	3.09
Third Quarter	2.96	2.82
Fourth Quarter	2.57	2.45

As of December 31, 2019, the Company's market capitalization amounted to P2,238,327,365 based on the closing price of P2.50 per share. Likewise, its market capitalization as of January 31, 2020 amounted to P1,898,101,606 based on the closing price of P2.12 per share.

Security Holders

As of April 30, 2020, Pacific Online had 57 shareholders, corresponding to total common shares outstanding of 895,330,946. The top 20 stockholders as of the same date are listed below:

Name	No. of Shares Held	% to Total
1. PREMIUM LEISURE CORP.	448,560,806	50.10
2. PCD NOMINEE CORPORATION	327,381,777	39.57
3. OCIER, WILLY N.	71,819,350	8.02
4. ABACUS CONSOLIDATED RESOURCES & HOLDINGS, INC.	43,761,930	4.89
5. OCIER WILLY &/OR GERALDINE E.Y. OCIER	1,439,000	0.1607
6. SY, HANS TAN	800,000	0.0894
7. WS FAMILY FOUNDATION, INC.	450,000	0.0503
8. OCIER, MISCHÉL GABRIELLE E.Y.	390,000	0.0436
9. KILAYKO, GREGORIO U.	200,000	0.0223
10. LIM, MAURICE D.	100,000	0.0112
11. BENITEZ, ALFREDO B.	68,200	0.0076
12. CHAN, CARMELITA	66,000	0.0074
13. CHAN, CARMELITA D.L.	33,300	0.0037
14. VILLANUEVA, MYRA P.	23,400	0.0026
15. TAGUBA, LUCILA A.	20,000	0.0022
16. SY, CAROLINE TANCUAN	20,000	0.0022
17. SY, HANS JR. TANCUAN	20,000	0.0022
18. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
19. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
20. PEREZ, JOSE DEXTER F.	18,000	0.0020

Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

Voting Rights

At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Company at the time of closing of the transfer books for such meeting.

Dividend Rights of Common Shares

The Company's board of directors is authorized to declare cash, property, or stock dividends or a combination thereof. A cash dividend declaration requires the approval of the Board and no shareholder approval is necessary. A stock dividend declaration requires the approval of the Board and shareholders representing at least two-thirds of the Company's outstanding capital stock. Holders of outstanding shares on a dividend record date for such shares will be entitled to the full dividend declared without regard to any subsequent transfer of share. Other than statutory limitations, there are no restrictions that limit the Company from paying dividends on common equity.

Appraisal Rights

As provided for by law, any stockholder shall have a right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines and;
3. In case of merger or consolidation.

COMPLIANCE WITH THE MANUAL ON CORPORATE GOVERNANCE

The Company remains focused on ensuring the adoption of systems and practices of good corporate governance in enhancing value for its shareholders. With this in mind, the Board of Directors has established corporate governance principles to ensure accountability, fairness and transparency in the organization.

Its Manual on Corporate Governance was revised last year and submitted to SEC May 22, 2019. Changes made to the manual are as follows:

- 1) Inclusion of Vision, Mission and Corporate Values
- 2) Inclusion of Definition of Terms
- 3) Inclusion of Board Evaluation/Self-Assessment
- 4) Updated Board Committees (prior version still had the old committees reflected)
- 5) Included Risk Officer responsibilities (under the Board Risk Oversight Committee portion)

In compliance with SEC Memo Circular No. 19, Series of 2016 directing all publicly listed companies (PLCs) to submit anew Manual on Corporate Governance (MCG) pursuant to the new Code of Corporate Governance for PLCs, the Company, upon the approval of its Board, on May 31, 2017, submitted its Revised Manual on Corporate Governance ("the Manual") to the SEC. Prior to the submission, a review of the various established Board level committees and its respective charters were done. As a result, the following comprise the Board level committees of the Company as approved last May 31, 2017:

Executive Committee - acts on behalf of the Board in the management and direction of the business and conduct of the affairs of the Company.

Audit Committee - has general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.

Board Risk Oversight Committee – assists the Board in overseeing the Company's practices and processes relating to risk assessment and risk management; maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls,

Corporate Governance Committee – tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices. Folded in are the nomination and remuneration oversight functions as well.

Related Party Transactions Committee - assists the Board in overseeing the Company's practices and processes relating to related party transactions (RPTs). Reviews all material related party transactions of the Company and ensures that all RPTs are conducted on a fair and arms-length basis.

A Lead Independent Director and Compliance Officer were also appointed on May 31, 2017.

Members of various committees are expected to serve for a term of one (1) year.

The Company is not aware of any non-compliance with its Manual of Corporate Governance, by any of its officers or employees.

UNDERTAKING TO PROVIDE COPIES OF THE ANNUAL REPORT

UPON WRITTEN REQUEST OF ANY SHAREHOLDER OF RECORD ENTITLED TO NOTICE OF AND VOTE AT THE MEETING, THE COMPANY SHALL FURNISH SUCH SHAREHOLDER WITH A COPY OF THE COMPANY'S INFORMATION STATEMENT (SEC FORM 20-IS) AND ANNUAL REPORT (SEC FORM 17-A) FREE OF CHARGE. ANY SUCH WRITTEN REQUEST SHALL BE ADDRESSED TO:

MR. A. BAYANI K. TAN
THE CORPORATE SECRETARY
PACIFIC ONLINE SYSTEMS CORPORATION
28th FLOOR EAST TOWER, PSE CENTRE
EXCHANGE ROAD, ORTIGAS CENTER, PASIG CITY
Fax. No. : 5717464
Email Address : contactus@pacificonline.com.ph

COVER SHEET

A S 0 9 3 - 0 0 8 8 0 9

SEC Registration Number

P A C I F I C O N L I N E S Y S T E M S
C O R P O R A T I O N A N D S U B S I D I A R I E S

(Company's Full Name)

28 t h F l o o r , E a s t T o w e r , P h i l i p p i n e
S t o c k E x c h a n g e C e n t r e , E x c h a n g e
R o a d , O r t i g a s C e n t e r , P a s i g C i t y

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

Ma. Virginia V. Abo-Hamda **8584-1700**

(Contact Person)

(Company Telephone Number)

1 2 **3 1**

Month Day
(Fiscal Year)

1 7 - Q

(Form Type)

Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

54

Total No. of Stockholders

Total Amount of Borrowings

PhP112.5 M **n/a**

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

_____ LCU

Document ID

_____ Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2020**
2. SEC Identification Number: **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**
4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**
5. **Metro Manila, Philippines** 6. _____ (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code
Incorporation or organization
7. **28/F, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City** **1605**
Address of principal office Postal Code
8. **(632) 8584-1700**
Registrant's telephone number, including area code
9. **Not applicable**
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock, ₱1.00 par value	895,330,946
	Amount of Debt Outstanding
	PhP 112.5 million

11. Are any or all of these securities listed on the Philippine Stock Exchange
Yes [] No []
12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [] No []
 - (b) has been subject to such filing requirements for the past 90 days.
Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The following unaudited financial statements are submitted as part of this report:

- a.) Consolidated Statements of Income for the three (3) months ended, March 31, 2020 and March 31, 2019;
- b.) Consolidated Statements of Comprehensive Income for the three (3) months, ended March 31, 2020 and March 31, 2019;
- c.) Consolidated Statements of Financial Position as of March 31, 2020 and Audited Statements of Financial Position as of December 31, 2019;
- d.) Consolidated Statements of Changes in Equity for the three (3) months ended, March 31, 2020 and March 31, 2019; and
- e.) Consolidated Statements of Cash Flows for the three (3) months ended, March 31, 2020 and March 31, 2019.

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

Results of Operations for the Period Ended March 31, 2020 vs. March 31, 2019

Revenues

For the first quarter of 2020, Pacific Online Systems Corporation (the "Company") consolidated with its subsidiaries (the "Group"), earned total revenues of P180.1 million, which is P113.7 million, or 39%, lower than last year's revenues of P293.8 million. The decrease in revenues was due to lower ELA rate for Keno, the sale of its subsidiary Lucky Circle Corporation (LCC) effective Feb. 29, 2020 and the no lottery sales from March 17 to 31, 2020 due to Enhanced Community Quarantine (ECQ).

Costs and Expenses

The Group incurred total operating expenses of P236.3 million, which is 31% or P108.3 million lower than last year's P344.6 million for the three months of the year. The decrease in costs and expenses is attributable to the following:

- Personnel costs decreased by P29.6 million (33%) due to the sale of LCC effective Feb. 29, 2020;
- Software and license fees decreased by P26.0 million (56%) due to lower lottery sales and lower rates charged by providers Intralot and Scientific Games (SG);
- Management Fees decreased by P0.9 million (100%) due to negative EBITDA;
- Operating supplies decreased by P10.7 million (64%) due to lower Keno paper consumption;
- Communications decreased by P6.1 million (19%) due to telco discount negotiated during the no sales period;
- Travel and accommodation decreased by P6.3 million (42%) due to reduced business trips;
- Rent, utilities and outside services decreased by P10.50 million (29%) due to the sale of LCC effective Feb. 29, 2020;
- Repairs and maintenance decreased by P18.7 million (67%) due to less repairs and maintenance work undertaken during the period;
- Taxes and licenses decreased by P6.0 million (52%) due to lower business taxes resulting from lower revenues;

- Professional fees decreased by P0.2 million (8%) due to timing of payment of audit fees; and
- Other expenses decreased by P0.8 million (15%) due to lower other incidental business expenses incurred.

The above decreases were offset by the increases in the following expense accounts:

- Depreciation and amortization increased by P6.8 million (12%) due to the depreciation of fixed assets acquired in 2019; and
- Marketing and promotions expense increased by P0.9 million (74%) due to marketing activities of its keno operations.

Other Income (Charges)

Other income (net of other charges) of P27.4 million decreased by 6.3 million (19%) for the period ended March 31, 2020 versus last year's P33.7 million. This change is mainly due to the P16.7 million mark to market (MTM) loss on marketable securities, offset by P9.5M net gain on the sale of LCC.

Operating Income, Net Income, Other Comprehensive Income and Total Comprehensive Income

Due to a P113.7 million (39%) decline in revenues, the Group incurred an operating loss of P56.2 million, which is higher by P5.4 million (11%) from last year's P50.8 million operating loss. Said operating loss was incurred in spite of a P108.3 million (31%) decrease in costs and expenses. Other income of P27.4 million was lower by P6.3 million (19%) from last year's P33.7 million other income, mostly due to a P16.7 million mark to market loss on marketable securities. The Group realized a net loss of P28.9 million, which is higher by P9.6 million (49%), from the P19.3 million net loss during the same period last year,

A P145.3 million fair value loss on investment in stocks resulted to a total comprehensive loss of P174.2 million, this is a P175.9 million decline from last year's total comprehensive income of P1.5 million.

Financial Condition as of March 31, 2020 vs. December 31, 2019

The Group's total assets of P1.4 billion as of March 31, 2020 decreased by P272.3 million or 16% from P1.7 billion as of December 31, 2019. The decrease in total assets is largely attributable to the following:

- Marketable securities decreased by P64.2 million (46%) due to the redemption of P50.0 million LR preferred shares and P14.2 million mark to market loss for the period;
- Investment in stocks decreased by P145.3 million (42%) due to the fair value loss incurred during the period, and;
- Other current assets decreased by P20.8 million (10%), Right of Use (ROU) assets decreased by P30.5 million (61%), Deferred tax assets decreased by P24.0 million and Other noncurrent assets decreased by P57.7 million (20%) mainly due to the effect of sale of LCC.

The decreases above were offset by the increase of trade and other receivables of P76.9 million (45%) due to the P68.4 million note receivable and P8.5 million trade receivable.

The Group's total liabilities at P271.0 million decreased by P128.4 million, or 32% from P399.4 million as of December 31, 2019. The decrease in total liabilities is explained as follows:

- Trade and other current liabilities decreased by P55.3 million (38%), Withholding taxes payable decreased by P2.9 million (84%), Income taxes payable decreased by P3.3 million (78%) and Lease liabilities decreased by P33.8 million (50%) due to the effect of sale of LCC, and;

- Loans payable decreased by P37.5 million (25%) due to payments made during the first quarter 2020.

The decreases above were offset by the increase of defined benefit liability of P4.4 million (15%), resulting from the P1.5 million additional accrual of retirement expense and exclusion of retirement benefit asset of LCC.

Total equity as of March 31, 2020 of P1.170 billion decreased by P143.9 million from the P1.313 billion equity as of yearend 2019. The decrease in total equity resulted from the P145.3 million fair value loss on investment in stocks and the P28.9 million net loss from operations for the period. However, said decrease was offset by the exclusion of LCC's P23.6 million deficit and P6.7 million reserve for retirement benefits, as LCC was sold in February 2020. Refer to Consolidated Statement of Changes in Equity for details.

Cash Flows for the Three Months Ended March 31, 2020 vs. March 31, 2019

The Group's cash balance as of March 31, 2020 of P326.5 million was lower by P248.7 million (43%), as compared to P575.3 million in 2019, mainly due to the exclusion of LCC, partial payments of company's bank loan, capital expenditures and reduced collection of rental revenues from PCSO.

Discussion and Analysis of Material Events and Uncertainties Known to Management

It is possible that PCSO's rebidding of the PLS may be further delayed beyond July 2020 with the existing lease agreement to be extended accordingly. However, whenever the bidding will finally be completed, the Company expects that its lease agreement with PCSO will, nonetheless, be extended by at least eighteen (18) months after the contract for PLS has been awarded to a new provider which will serve as a transition period prior to a new system going in full operation. In view of the continuing uncertainty and difficulties brought about by the COVID Pandemic, however, the Company will propose to the PCSO that, in lieu of proceeding with the PLS bidding, the existing lease agreement be just extended for a period of at least three (3) years to allow the Company to be able to invest on some system upgrades that will ensure the integrity of the PCSO's online gaming operations.

The suspension of lottery operations of the PCSO due to the ECQ made a major impact on POSC. It is not yet clear how long the suspension will last. It is expected that losses will continue until lottery operations resume.

Except for what has been noted in the above, there were no material events or uncertainties known to management that had a material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

1. Known trends, demands, commitments, events or uncertainties that would have a material impact on the Group;
2. Material commitments for capital expenditures that are reasonably expected to have a material impact on the Group's short-term or long-term liquidity;
3. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
4. Significant elements of income or loss that did not arise from the Group's continuing operations;
5. Seasonal aspects that had a material impact on the Group's results of operations;
6. Material changes in the financial statements of the Group for the periods ended December 31, 2019 to March 31, 2020, except those mentioned above;
7. Any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

The Group monitors its performance and benchmarks itself to prior year's results in terms of the following indicators:

Liquidity & Financial Leverage Ratios	The manner by which the Company calculates the performance indicators	31 March 2020	31 December 2019
Current ratio	Current assets over current liabilities	3.60:1	2.40:1
Debt to equity ratio	Total liabilities over total equity	0.23:1	0.30:1
Asset-to-equity ratio	Total assets over total equity	1.23:1	1.30:1
Solvency ratio	Total assets over total liabilities	5.32:1	4.29:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	31 March 2020	31 March 2019
Operating income (loss) margin	Operating income (loss) over revenues	(31.23%)	(17.29%)
Net profit (loss) margin	Net income (loss) over revenues	(16.04%)	(6.58%)
Return on equity	Net income (loss) over total equity	(2.47%)	(1.47%)
Return on assets	Net income (loss) over total assets	(2.01%)	(1.13%)

PART II - OTHER INFORMATION

Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash in banks, cash equivalents, trade and other receivables, marketable securities, investments in stocks, refundable deposits, guarantee bonds, trade and other current liabilities, loan payable, lease liabilities, obligations under finance lease and installment payable. The main purpose of these financial instruments is to provide financing for the Group's capital expenditures and operations. The Group has various other financial assets and liabilities such as trade and other receivables, refundable deposits, guarantee bonds, trade and other current liabilities, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, equity price risk, liquidity risk and foreign currency risk. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks. The Group's BOD and management review and agree on the policies for managing each of these risks as summarized below:

Credit Risk

The Group's receivables arise mainly from the ELA with PCSO and the license agreement with PGEC. Since the Group has significant concentration of credit risk on its receivable from PCSO and PGEC, it is the Group's policy that all credit terms specified in the ELA and the license agreement are complied with and payment terms are observed. With respect to other receivables, the Group manages credit risk by transacting only with recognized, creditworthy third parties. It is the Group's policy that the BOD approves the major transactions with third parties. Receivable balances are monitored on an ongoing basis with the objective that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which are composed of cash in banks, marketable securities, investments in stocks, refundable deposits and guarantee bonds, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the maximum exposure to credit risk for the Group's financial assets as at March 31, 2020 and December 31, 2019 without taking into account any collateral and other credit enhancements:

	Mar. 31, 2020	Dec. 31, 2019
Cash in banks and cash equivalents	P325,518,396	P332,880,313
Trade and other receivables - net*	296,465,070	212,881,594
Marketable securities	76,231,364	140,456,581
Refundable deposits	6,244,216	35,424,154
Investments in stocks	202,357,145	347,630,880
Guarantee bonds**	12,000,000	12,000,000
Total credit exposure	P918,816,191	P1,081,273,522

The table below shows the aging analysis of receivables other financial assets as at March 31, 2020 and December 31, 2019:

	March 31, 2020		
	Neither Past Due nor Impaired	Impaired	Total
Trade and other receivables - net	P92,673,073	P -	P92,673,073
Accrued receivable*	130,116,122	-	130,116,122
Note receivable	68,400,000	-	68,400,000
Guarantee bonds**	12,000,000	-	12,000,000
Refundable deposits	6,244,216	-	6,244,216
Other receivables	5,275,875	-	5,275,875
	P314,709,286	P -	P314,709,286

* Inclusive of noncurrent portion of license fee income of P86.1 million and exclusive of advance payments of P39.0 million.

** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.

	December 31, 2019		
	Neither Past Due nor Impaired	Impaired	Total
Trade and other receivables - net	P75,106,370	P -	P75,106,370
Accrued receivable*	136,615,655	-	136,615,655
Guarantee bonds**	12,000,000	-	12,000,000
Refundable deposits	35,424,154	-	35,424,154
Other receivables	1,159,570	-	1,159,570
	P260,305,748	P -	P260,305,748

* Inclusive of noncurrent portion of license fee income of P96.6 million and exclusive of advance payments of P56.2 million.

** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.

Receivables that are past due but not impaired are still collectible based on the assessment of debtor's ability to pay and collection agreement.

The table below shows the credit quality of the Group's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties:

	March 31, 2020			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks and cash equivalents	P325,518,396	P -	P -	P325,518,396
Trade and other receivables - net*	166,348,948	130,116,122	-	296,465,070
Refundable deposits	-	6,244,216	-	6,244,216
Guarantee bonds	-	-	12,000,000	12,000,000
At FVPL:				
Marketable securities	76,231,364	-	-	76,231,364
At FVOCI:				
Investments in stocks	202,357,145	-	-	202,357,145
	P770,455,853	P136,360,338	P12,000,000	P918,816,191

* Inclusive of noncurrent portion of accrued license fee income amounting to P86.1 million and exclusive of advance payments of P39.0 million.

	December 31, 2019			
	Grade A	Grade B	Grade C	Total
At amortized cost:				
Cash in banks and cash equivalents	P332,880,313	P -	P -	P332,880,313
Trade and other receivables - net*	76,265,939	136,615,655	-	212,881,594
Refundable deposits	-	35,424,154	-	35,424,154
Guarantee bonds	-	-	12,000,000	12,000,000
At FVPL:				
Marketable securities	140,456,581	-	-	140,456,581
At FVOCI:				
Investments in stocks	347,630,880	-	-	347,630,880
	P897,233,714	P172,039,809	P12,000,000	P1,081,273,522

* Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and exclusive of advance payments of P56.2 million.

Grade A pertains to those cash in banks and guarantee bonds that are deposited in reputable banks, investments with reputable publicly listed companies and receivables from PCSO which are consistently collected before the maturity date. Grade B pertains to receivables that are collected on their due dates even without an effort from the Group to follow them up. Grade C pertains to receivables which are collected on their due dates provided that the Group made a persistent effort to collect them.

Equity Price Risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of changes in the value of individual stock. The Group's current exposure to equity price risk relates primarily to the Group's quoted marketable securities and investments in stocks. The Group monitors the equity investments based on market expectations. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the BOD.

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's consolidated income before income tax and equity:

Marketable Securities

Increase (Decrease) in Equity Price		Effect on Consolidated Income before Income Tax
March 31, 2020		
5%		P3,811,568
(5%)		(3,811,568)
December 31, 2019		
5%		P7,022,829
(5%)		(7,022,829)

Investments in Stocks

Increase (Decrease) in Equity Price		Effect on Comprehensive Net Income
March 31, 2020		
8%		P16,188,572
(8%)		(16,188,572)
December 31, 2019		
8%		P27,810,470
(8%)		(27,810,470)

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances and equity securities. To limit this risk, the Group closely monitors its cash flows and ensures that credit facilities are available to meet its obligations as and when they fall due. The Group also has a committed line of credit that it can access to meet liquidity needs.

The Group maintains sufficient cash to finance its operations. Any excess cash is invested in short-term money market placements and equity securities. These are maintained to meet the requirements for additional capital expenditures, maturing obligations and cash dividends.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	March 31, 2020				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
Trade and other current liabilities*	P50,349,022	P7,373,487	P1,422,466	P27,704,428	P86,849,404
Loans payable	37,500,000	75,000,000	-	-	112,500,000
Lease liabilities	11,970,234	12,315,785	7,921,752	1,586,644	33,794,415
	P99,819,256	P94,689,272	P9,344,218	P29,291,073	P233,143,819

* Excluding statutory liabilities amounting to P2.1 million.

	December 31, 2019				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
Trade and other current liabilities*	P61,145,801	P52,988,151	P634,800	P27,627,805	P142,396,558
Loans payable	37,500,000	75,000,000	37,500,000	-	150,000,000
Lease liabilities	9,736,270	18,392,707	30,244,143	9,248,884	67,602,005
	P108,382,072	P146,380,859	P68,358,943	P36,876,689	P359,998,563

* Excluding statutory liabilities amounting to P1.8 million.

Foreign Currency Risk

The Group has transactional currency exposures. Such exposure arises from cash in banks and payables to certain suppliers which are denominated in U.S. dollar (US\$). The Group's financial instruments which are denominated in foreign currency include cash and consultancy and software and license fees payable. The Group maintains a US\$ account to match its foreign currency requirements.

As at March 31, 2020 and December 31, 2019, assets and liabilities denominated in US\$ include cash in banks amounting to P6.9 million (\$135,182) and P51.8 million (\$1,022,373), and consultancy and software and license fees payable amounting to P23.2 million (\$456,324) and P17.2 million (\$339,792), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P50.95 and P50.64 to US\$1, the Php to US\$ exchange rates, as at March 31, 2020 and December 31, 2019, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Php-US\$ exchange rates, with all other variables held constant, of the Group's consolidated income before tax. There is no other impact on the Group's equity other than those already affecting profit or loss.

Increase (Decrease) in US\$ Exchange Rate	Effect on Income before Income Tax	Effect on Equity
March 31, 2020		
5%	(P818,110)	(P572,677)
(5%)	818,110	572,677
December 31, 2019		
5%	(P691,698)	(P484,188)
(5%)	691,698	484,188

The increase in US\$ rate means stronger US\$ against Php while the decrease in US\$ means stronger Php against the US\$.

Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, reacquire its own shares, or issue new shares. The Group monitors capital on the basis of current ratio and debt-to-equity ratio. The Group's strategy, which was unchanged from prior year, was to maintain current ratio and debt-to-equity ratio at manageable levels.

There were no changes in the Group's approach to capital management during the year.

As at March 31, 2020 and December 31, 2019, the Group is compliant with the minimum public float requirement by the PSE.

The Group defines capital as capital stock, additional paid-in capital, treasury stock dividend distributable and retained earnings. Other components of equity are excluded from capital for purposes of capital management.

There were no changes in the Company's approach to capital management during the period. As at March 31, 2020 and December 31, 2019, the Company is compliant with the minimum public float requirement by PSE.

The Group's current ratio, calculated as total current assets over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at March 31, 2020 and December 31, 2019 are as follows:

Current Ratio

	Mar. 31, 2020	Dec. 31, 2019
Current assets	P845,569,574	P864,695,033
Current liabilities	235,124,348	360,318,424
Current ratio	3.60:1.00	2.40:1.00

Debt-to-Equity Ratio

	Mar. 31, 2020	Dec. 31, 2019
Total liabilities	P270,975,273	P399,410,077
Total equity	1,169,542,108	1,313,419,353
Debt-to-equity ratio	0.23:1.00	0.30:1.00

To address the prohibition in maintaining excess retained earnings over the paid in capital under Sec. 43 of the Corporation Code, the Group intends to continuously declare dividends and is considering various options in line with its business objectives and strategies and state of the gaming industry.

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at March 31, 2020 and December 31, 2019:

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash and cash equivalents	P326,548,396	P326,548,396	P337,471,529	P337,471,529
Trade and other receivable*	296,465,070	296,465,070	212,881,594	212,881,594
Refundable deposits	6,244,216	6,244,216	35,424,154	35,424,154
Guarantee bonds	12,000,000	12,000,000	12,000,000	12,000,000
At FVPL:				
Marketable securities	76,231,364	76,231,364	140,456,581	140,456,581
At FVOCI:				
Investments in stocks	202,357,145	202,357,145	347,630,880	347,630,880
	P919,846,191	P919,846,191	P1,085,864,738	P1,085,864,738

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	P86,849,404	P86,849,404	P142,396,558	P142,396,558
Loan payable	112,500,000	112,500,000	150,000,000	150,000,000
Lease liabilities (inclusive of noncurrent portion)	33,794,415	33,794,415	67,602,005	67,602,005
	P233,143,819	P233,143,819	P359,998,563	P359,998,563

*Inclusive of noncurrent portion of accrued license fee income amounting to P86.1 million and P96.6 million and exclusive of advances amounting to P39.0 million and P56.2 million as at March 31, 2020 and December 31, 2019, respectively.

**Excluding statutory liabilities of P2.1 million and P1.8 million as at March 31, 2020 and December 31, 2019, respectively.

The carrying amounts of cash and cash equivalents, trade and other receivables (excluding accrued license fee income), deposits, trade and other current liabilities and loan payable approximate their fair values due to the relatively short-term maturities of the financial instruments.

The carrying amount of accrued license fee income is based on present value using a discount rate that approximates the prevailing market rate.

The fair values of marketable securities and investments in stocks are based on quoted market prices.

The carrying amounts of guarantee bonds, deposits, lease liabilities, obligations under finance lease, and installment payable approximate their fair values since the Group does not anticipate that the effect of discounting using the prevailing market rate is significant.

	Level 1	Level 2	Level 3	Total
Marketable Securities				
Mar. 31, 2020	P76,231,364	P -	P -	P76,231,364
Dec. 31, 2019	155,704,892	-	-	155,704,892
Investments in Stocks				
Mar. 31, 2020	202,357,145	-	-	202,357,145
Dec. 31, 2019	455,705,930	-	-	455,705,930

There were no transfers between Levels as at March 31, 2020 and December 31, 2019.

Other Required Disclosures

1. The attached interim financial reports were prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following amendments to standards starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise stated, the adoption did not have a material impact on the Group's consolidated financial statements.

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

The Group has adopted PFRS 16 on the date of initial application, January 1, 2019. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The average rate applied for lease contracts with duration of 13 months to 23 months is 6% and the rate applied for lease contracts with duration of 24 months to 35 months is 6.5%.

The following amended standards and interpretations are relevant but did not have a significant impact on the Group's consolidated financial statements.

- Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments).
- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28 Investments in Associates and Joint Ventures).
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits).
- Annual Improvements to PFRSs 2015 - 2017 Cycle.

Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective January 1, 2020

- *Amendments to References to Conceptual Framework in PFRS Standards sets*
- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).*
- *Definition of a Business (Amendments to PFRS 3 Business Combinations).*

Effective January 1, 2023

PFRS 17 Insurance Contracts.

2. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A"), there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
3. There were no material changes in estimates of amounts reported in prior periods that have material effects in the current interim period.
4. Except as disclosed in the MD & A, there were no other issuance, repurchases and repayments of debt and equity securities.
5. There were no material events that occurred subsequent to March 31, 2020 and up to the date of this report that need disclosure herein.
6. Except as disclosed in the MD & A, there were no changes in the composition of the Group since March 31, 2020, such as business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, and discontinued operations.
7. There were no changes in contingent liabilities or contingent assets since March 31, 2020
8. There exist no material contingencies and other material events or transactions affecting the current interim period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **PACIFIC ONLINE SYSTEMS CORPORATION**



WILLY N. OCIER
Chairman of the Board
and President

Date: April 30, 2020



MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: April 30, 2020

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	March 31, 2020	December 31, 2019
	Unaudited	Audited
ASSETS		
Current Assets		
Cash	P326,548,396	P337,471,529
Marketable securities	76,231,364	140,456,581
Trade and other receivables – net	249,378,681	172,501,609
Other current assets	193,411,133	214,265,314
Total Current Assets	845,569,574	864,695,033
Noncurrent Assets		
Investments in stocks	202,357,145	347,630,880
Property and equipment – net	111,686,038	107,415,991
Right of use asset - net	19,837,434	50,298,070
Deferred tax asset-net	28,496,446	52,501,395
Other noncurrent assets	232,570,724	290,288,060
Total Noncurrent Assets	594,947,787	848,134,396
TOTAL ASSETS	P1,440,517,361	P1,712,829,429
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	P88,925,945	P144,231,951
Withholding taxes payable	547,158	3,458,412
Income tax payable	943,474	4,274,940
Loan payable	112,500,000	150,000,000
Lease liabilities	32,207,771	58,353,121
Total Current Liabilities	235,124,348	360,318,424
Noncurrent Liabilities		
Defined benefit liability	34,264,261	29,842,768
Lease liabilities - net of current portion	1,586,644	9,248,885
Total Noncurrent Liabilities	35,850,905	39,091,653
TOTAL LIABILITIES	270,975,253	399,410,077
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	895,330,946	895,330,946
Additional paid-in capital	257,250,677	257,250,677
Treasury shares	(285,267,558)	(285,267,558)
Fair value reserve	(542,075,706)	(396,801,971)
Retirement benefits reserve	(10,932,033)	(17,614,609)
Retained earnings	850,574,515	855,178,424
	1,164,880,841	1,308,075,910
Non-controlling Interests	4,661,267	5,343,443
Total Equity	1,169,542,108	1,313,419,353
TOTAL LIABILITIES AND EQUITY	P1,440,517,361	P1,712,829,429

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)
For the three months ended March 31, 2020 and 2019

	Three Months Ended Mar 31		This Quarter	
	2020	2019	2020	2019
REVENUE				
Equipment rental	P134,004,360	P199,606,320	P134,004,360	P199,606,320
Commission and distribution income	46,103,893	94,196,402	46,103,893	94,196,402
	180,108,253	293,802,722	180,108,253	293,802,722
COSTS AND EXPENSES				
Personnel costs	58,740,864	88,323,211	58,740,864	88,323,211
Software and license fees	20,582,546	46,627,809	20,582,546	46,627,809
Operating supplies	5,889,305	16,556,413	5,889,305	16,556,413
Depreciation and amortization	62,343,389	55,582,614	62,343,389	55,582,614
Communications	26,570,390	32,648,043	26,570,390	32,648,043
Travel and accommodation	8,866,750	15,186,363	8,866,750	15,186,363
Rent, utilities and outside services	26,133,464	36,622,630	26,133,464	36,622,630
Management fees	-	878,359	-	878,359
Repairs and maintenance	9,350,667	28,075,253	9,350,667	28,075,253
Taxes and licenses	5,438,317	11,409,689	5,438,317	11,409,689
Entertainment, amusement and recreation	3,460,658	3,628,859	3,460,658	3,628,859
Professional fees	2,359,784	2,560,133	2,359,784	2,560,133
Marketing and promotions	2,086,003	1,200,393	2,086,003	1,200,393
Others	4,528,471	5,312,835	4,528,471	5,312,835
	236,350,610	344,612,604	236,350,610	344,612,604
OPERATING INCOME (LOSS)	(56,242,357)	(50,809,882)	(56,242,357)	(50,809,882)
OTHER INCOME (CHARGES)				
Dividend income	29,302,224	26,947,224	29,302,224	26,947,224
Interest income	116,161	474,604	116,161	474,604
Finance charges	(2,340,487)	(1,196,375)	(2,340,487)	(1,196,375)
Mark-to-market gain (loss) on marketable securities	(14,225,217)	2,475,550	(14,225,217)	2,475,550
Gain (loss) on sale of Property and equipment	850	20,000	850	20,000
Foreign exchange gain (loss)	(205,522)	236,873	(205,522)	236,873
Others – net	14,704,415	4,715,627	14,704,415	4,715,627
	27,352,424	33,673,503	27,352,424	33,673,503
INCOME (LOSS) BEFORE INCOME TAX	(28,889,933)	(17,136,379)	(28,889,933)	(17,136,379)
INCOME TAX EXPENSE (BENEFIT)				
Current	-	5,231,934	-	5,231,934
Deferred	-	(3,030,718)	-	(3,030,718)
	-	2,201,215	-	2,201,215
NET INCOME (LOSS)	(P28,889,933)	(P19,337,594)	(P28,889,933)	(P19,337,594)
Attributable to:				
Equity holders of the Parent Company	(28,207,756)	(19,349,047)	(28,207,756)	(19,349,047)
Non-controlling interests	(682,177)	11,452	(682,177)	11,452
	(P28,889,933)	(P19,337,594)	(P28,889,933)	(P19,337,594)
Attributable to Equity Holders of the Parent Company				
Basic Earnings Per Share	(P0.0334)	(P0.0458)	(P0.0334)	(P0.0458)
Diluted Earnings Per Share	(P0.0334)	(P0.0229)	(P0.0334)	(P0.0229)

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31, 2020 and 2019

	Three Months Ended Mar 31		This Quarter	
	2020	2019	2020	2019
NET INCOME (LOSS)	(P28,889,933)	(P19,337,594)	(P28,889,933)	(P19,337,594)
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	(145,273,735)	20,857,040	(145,273,735)	20,857,040
Remeasurements of retirement benefits, net of tax	-	-	-	-
	(145,273,735)	20,857,040	(145,273,735)	20,857,040
TOTAL COMPREHENSIVE INCOME (LOSS)	(P174,163,668)	P1,519,446	(P174,163,668)	P1,519,446
Attributable to:				
Owners of the Parent Company	(173,481,491)	1,507,994	(173,481,491)	1,507,994
Non-controlling interests	(682,177)	11,452	(682,177)	11,452
	(P174,163,668)	P1,519,446	(P174,163,668)	P1,519,446

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2020 and 2019

	For the three months ended Mar. 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(P28,889,933)	(P17,136,379)
Adjustments for:		
Depreciation and amortization	31,882,753	55,582,614
Dividend income	(29,302,224)	(26,947,224)
Retirement cost	1,500,000	2,385,530
Finance charges	2,340,487	1,196,375
Unrealized foreign exchange loss (gain)	205,522	(236,873)
Interest income	(116,161)	(474,604)
Fair value gain on marketable securities	14,225,217	(2,475,550)
Gain on sale of:		
Subsidiary	(9,547,745)	-
Property and equipment	(850)	(20,000)
Operating income before working capital changes	(17,702,934)	11,873,889
Decrease (increase) in:		
Trade and other receivables	(80,761,311)	13,886,022
Other current assets	(27,193,504)	(2,365,135)
Right of use assets	-	(15,767,714)
Other noncurrent assets	28,417,399	12,917,795
Increase (decrease) in:		
Trade and other payables	102,406,399	(23,705,093)
Withholding taxes payable	(1,133,457)	(394,803)
Interest received	116,161	474,604
Income tax paid	(356,854)	(9,620,482)
Net cash flows provided by operating activities	3,791,899	(12,700,918)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of		
Property and equipment	(57,118,506)	(11,425,011)
Proceeds from sale of:		
Subsidiary	137,413,892	-
Marketable securities	50,000,000	-
Property and equipment	850	20,000
Dividends received	29,302,224	26,947,224
Net cash flows provided by investing activities	159,597,460	15,542,213
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of:		
Loan payable	(37,500,000)	-
Lease liabilities	(6,733,048)	-
Increase (decrease) in		
Obligation under capital lease	-	11,347,702
Installment payable	-	(9,205,042)
Finance charges paid	(2,340,487)	(1,196,375)
Net cash flows used in financing activities	(46,573,535)	946,285
NET INCREASE (DECREASE) IN CASH	116,816,824	3,787,580
CASH AT BEGINNING OF YEAR	209,937,094	571,260,258
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(205,522)	236,873
CASH AT END OF PERIOD	P326,548,396	P575,284,711

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Unaudited)

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Stock Dividend Payable	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non- Controlling Interest	Total Equity
January 1, 2019	P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776
Change in fair value of investments in stocks	-	-	-	-	20,857,040	-	-	20,857,040	-	20,857,040
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	20,857,040	-	-	20,857,040	-	20,857,040
Net income (loss) for the year	-	-	-	-	-	-	(19,349,047)	(19,349,047)	11,452	(19,337,594)
Total comprehensive income (loss) for the year	-	-	-	-	20,857,040	-	(19,349,047)	1,507,993	11,452	1,519,446
March 31, 2019	P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P267,869,881)	P538,390	P1,180,473,888	P1,755,222,971	P6,916,251	P1,762,139,222
January 1, 2020	P895,330,946	P257,250,677	(P285,267,558)	-	(P396,801,971)	(P17,614,609)	P855,178,424	P1,308,075,910	P5,343,443	P1,313,419,353
Change in fair value of investments in stocks	-	-	-	-	(145,273,735)	-	-	(145,273,735)	-	(145,273,735)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(145,273,735)	-	-	(145,273,735)	-	(145,273,735)
Net income (loss) for the year	-	-	-	-	-	-	(28,207,756)	(28,207,756)	(682,177)	(28,889,933)
Total comprehensive income (loss) for the year	-	-	-	-	(145,273,735)	-	(28,207,756)	(173,481,491)	(682,177)	(174,163,668)
Sale of subsidiary	-	-	-	-	-	6,682,576	23,603,846	30,286,421	-	30,286,421
Total transactions with owners in their capacity as owners	-	-	-	-	-	6,682,576	23,603,846	30,286,421	-	30,286,421
March 31, 2020	P895,330,946	P257,250,677	(P285,267,558)	-	(P542,075,706)	(P10,932,033)	P850,574,515	P1,164,880,840	P4,661,266	P1,169,542,108

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of March 31, 2020

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade Receivables			
1.) PCSO – Equipment rentals	P87,388,462	P -	P87,388,462
2.) Note receivable	68,400,000	-	68,400,000
3.) Accounts receivable	43,732,761	-	43,732,761
4.) Accrued license fee income-current	44,003,427	-	44,003,427
	243,524,649	-	243,524,649
b.) Non-Trade Receivables			
1.) Advances to officers and employees	1,798,530	-	1,798,530
2.) Contractors and suppliers	927,017	-	927,017
3.) Other receivables	3,128,484	-	3,128,484
	5,854,032	-	5,854,032
Total	P249,378,681	P -	P249,378,681

2.) Description of receivables

<i>Types of Receivables</i>	<i>Nature and Description</i>	<i>Collection / Liquidation Period</i>
1.) Advances to officers and employees	Company loan and other advances granted to officers and employees	Within one (1) year
2.) Advances to contractors and suppliers	Receivables from / advances to contractors and suppliers	Within one (1) year
3.) Other receivables	Other advances	Within one (1) year

3.) Normal operating cycle: 365 days

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Segment Information
For the period ended March 31, 2020

The primary segment reporting format is presented based on business segments in which the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group is engaged in the businesses of leasing gaming equipment to PCSO (leasing activity) and sale of lottery, sweepstake and instant scratch tickets (distribution and retail activities), among others.

Financial information about the Group's business segments are shown below:

	For the Three Months ended March 31, 2020			
	Equipment Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P134,004,360	P -	P -	P134,004,360
Commission and distribution income	-	46,103,893	-	46,103,893
Total revenue	P134,004,360	P46,103,893	P -	P180,108,252
Segments Results				
Income (loss) before income tax	(51,090,435)	(23,219,782)	45,420,286	(28,889,932)
Income tax expense (benefit)	-	-	-	-
Net income (loss)	(51,090,435)	(23,219,782)	45,420,286	(28,889,932)
Segment assets	P1,701,051,035	P99,802,796	(P360,336,470)	1,440,517,361
Deferred tax assets – net	27,277,145	542,893	676,408	28,496,446
Segments assets (excluding deferred tax assets - net)	1,673,773,890	99,259,903	(361,012,878)	1,412,020,915
Segment liabilities	267,818,872	34,787,653	(31,631,272)	270,975,253
Other Information				
Capital expenditures	57,118,506	-	-	57,118,506
Depreciation and amortization	58,911,293	3,432,097	-	62,343,389
Finance charges	(2,340,487)	-	-	(2,340,487)
Interest income	102,340	13,731	-	116,161

End of Report