-----Original Message-----
From: Philippine Stock Exchange <no-reply@pse.com.ph>
Sent: Thursday, February 29, 2024 8:58 AM

Subject: Material Information/Transactions

Dear Sir/Madam:

Your disclosure was approved as Company Announcement. Details are as follows:

Company Name: Pacific Online Systems Corporation Reference Number: 0006366-2024 Date and Time: Thursday, February 29, 2024 08:58 AM Template Name: Material Information/Transactions Report Number: C01102-2024

Best Regards,
PSE EDGE

If verification is required, please request for a hard copy.

The Philippine Stock Exchange, Inc., 6th to 10th Floors, PSE Tower, 5th Avenue corner 28th Street, Bonifacio Global City, Taguig City, Philippines 1634

C01102-2024

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)

   Feb 29, 2024

2. SEC Identification Number

   AS093008809

3. BIR Tax Identification No.

   003-865-392-000

4. Exact name of issuer as specified in its charter

   Pacific Online Systems Corporation

5. Province, country or other jurisdiction of incorporation

   Metro Manila, Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   7. 28F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila
   Postal Code
   1605

8. Issuer's telephone number, including area code

   8. (+632) 8584-1700

9. Former name or former address, if changed since last report

   Not applicable

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	895,330,946

11. Indicate the item numbers reported herein

   Item 9

Pacific Online Systems Corporation
LOTO

PSE Disclosure Form 4-30 - Material Information/Transactions
References: SRC Rule 17 (SEC Form 17-C) and
Sections 4.1 and 4.4 of the Revised Disclosure Rules

Subject of the Disclosure

Results of Board of Directors' Meeting

Background/Description of the Disclosure

Kindly be informed that during the Board of Directors' meeting of Pacific Online Systems Corporation (the "Company") held last night, February 28, 2024, the Board has approved the following:

1. Audited financial statements of the Company for the year 2023;
2. Declaration of regular cash dividends of Ten Centavos (Php 0.10) per share for a total dividend payment to its common shareholders of approximately Php89.5 Million payable on March 26, 2024 to shareholders of record as of March 14, 2024.

Thank you.

Other Relevant Information

Kindly see attached.

Filed on behalf by:

Name	Michelle Angeli Hernandez
Designation	Compliance Officer

February 29, 2024

SECURITIES AND EXCHANGE COMMISSION
7907 Makati Avenue, Salcedo Village
Barangay Bel-Air, Makati City

Attention : **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director, Markets and Securities Regulation Department

PHILIPPINE STOCK EXCHANGE, INC.
6/F PSE Tower, 5th Avenue corner 28th Street,
Bonifacio Global City, Taguig City

Attention : **Ms. Alexandra D. Tom Wong**
Officer-in-Charge, Disclosure Department

Subject : **Results of Board Meeting**

Gentlemen:

Please be informed that during its meeting held last night, our Board of Directors has approved the following:

1. Audited financial statements of the Company for the year 2023;
2. Declaration of regular cash dividends of Ten Centavos (Php 0.10) per share for a total dividend payment to its common shareholders of approximately Php89.5 Million payable on March 26, 2024 to shareholders of record as of March 14, 2024.

Thank you.

Very truly yours,

JASON C. NALUPTA
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. **February 29, 2024**
   Date of Report (Date of earliest event reported)

2. SEC Identification Number **AS093008809** 3. BIR Tax Identification Number **003-865-392-000**

4. **Pacific Online Systems Corporation**
   Exact name of issuer as specified in its charter

5. **Metro Manila, Philippines**
   Province, country or other jurisdiction of incorporation

   (SEC Use Only)
   Industry Classification Code:

7. **28F East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila**
   Address of principal office

   1605
   Postal Code

8. **(+632) 8584-1700**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock[1]	**895,330,946**

11. Indicate the item numbers reported herein:
    Item No. 9

Please be advised that at a meeting of the Company's Board of Directors held on February 28, 2024, the Board approved the 2023 Audited Financial Statements of the Company. Further, the Board approved the declaration of regular cash dividends of Ten Centavos (Php 0.10) per share for a total dividend payment to its common shareholders of approximately Php89.5 Million payable on March 26, 2024 to shareholders of record as of March 14, 2024.

[1]PhP1.00 par value

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 hereunto duly authorized.

Pacific Online Systems Corporation
Issuer

Jason C. Nalupta
Corporate Secretary

February 29, 2024
Date

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S O 9 3 0 0 8 8 0 9

COMPANY NAME

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
momendoza@pacificonline.com.ph	(02) 8584-1700	0918-906-0138

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
61	Second Friday of April	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Michelle Angeli T. Hernandez	glgatdula@pacificonline.com.ph	(02) 8662-8888	0917-5691734

CONTACT PERSON'S ADDRESS

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

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

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

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Registration No. PP201007009

BDO Towers Valero
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Pacific Online Systems Corporation and Subsidiaries
28th Floor East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center, Pasig City

Opinion

We have audited the accompanying consolidated financial statements of Pacific Online Systems Corporation (POSC) and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2023, 2022, and 2021, and notes to consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2023, 2022 and 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Proper Accounting and Recognition of Interest in a Joint Operation
The Group accounted for its 50% ownership in Pinoylotto Technologies Corp. (PinoyLotto), a joint venture entity that was awarded with the five-year lease of the customized Philippine Charity Sweepstakes Office (PCSO) Lottery System (PLS Project), as a joint operation. Accordingly, the Group's corresponding share in the assets, liabilities, revenues, and expenses of PinoyLotto was recognized in the consolidated financial statements. PinoyLotto commenced its commercial operations in October 2023. The proper accounting and recognition of interest in joint operation is significant to our audits because of the substantial amount of the Group's share in PinoyLotto's financial position and results of operations and the difference in its financial reporting period.

Our audit procedures included, among others, obtaining the relevant financial information of PinoyLotto and reviewing the alignment with the group reporting period, and checking compliance with the provisions of the significant contracts and agreements. We also gathered sufficient audit evidence to assess the reasonableness of significant balances, focusing on key audit areas such as classification and measurement of lease revenue, determining the validity and proper classification of capital expenditures and operating costs, completeness of liabilities, among others. We also reviewed the adequacy of the related disclosures in Note 2, *Summary of Material Policy Information*, Note 3, *Significant Judgments, Accounting Estimates and Assumptions*, and Note 6*, Interest in Joint Operation* of the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Belinda B. Fernando.

REYES TACANDONG & CO.

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 2, 2024, Makati City

February 28, 2024
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 **2023**	2022
ASSETS			
Current Assets			
Cash and cash equivalents	7	**₱343,945,679**	₱301,656,383
Investments held for trading	8	**100,012,769**	71,288,577
Trade and other receivables	9	**284,426,917**	201,198,131
Creditable withholding taxes (CWTs)	10	**101,764,077**	129,606,983
Other current assets	10	**118,272,603**	19,411,394
Total Current Assets		**948,422,045**	723,161,468
Noncurrent Assets			
Financial assets at fair value through other comprehensive income (FVOCI)	11	**237,600,090**	179,142,925
Property and equipment	12	**706,208,497**	2,013,551
Right-of-use (ROU) assets	18	**541,486**	1,815,399
Net retirement asset	19	**4,098,008**	–
Net deferred tax assets	17	**426,979**	–
Other noncurrent assets	10	**4,482,115**	209,824,090
Total Noncurrent Assets		**953,357,175**	392,795,965
		₱1,901,779,220	₱1,115,957,433
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and other current liabilities	13	**₱254,980,348**	₱109,487,367
Current portion of loan payable	6	**58,823,529**	–
Current portion of lease liabilities	18	**294,303**	1,891,442
Total Current Liabilities		**314,098,180**	111,378,809
Noncurrent Liabilities			
Loan payable - net of current portion	6	**411,764,707**	67,500,000
Lease liabilities - net of current portion	18	**208,495**	–
Net deferred tax liabilities	17	–	531,152
Net retirement liability	19	–	442,153
Total Noncurrent Liabilities		**411,973,202**	68,473,305
Total Liabilities		**726,071,382**	179,852,114

(Forward)

	Note	December 31 2023	2022
Equity Attributable to Equity Holders of the Parent Company	14		
Capital stock		**₱895,330,946**	₱895,330,946
Additional paid-in capital		**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary		**(285,267,558)**	(285,267,558)
Other equity reserves		**(224,052,317)**	(273,276,416)
Retained earnings		**530,917,448**	342,701,848
		1,171,568,842	934,129,143
Non-controlling Interest		**4,138,996**	1,976,176
Total Equity		**1,175,707,838**	936,105,319
		₱1,901,779,220	₱1,115,957,433

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2023**	2022	2021
REVENUES				
Equipment rental	18	**₱599,221,040**	₱519,051,226	₱426,345,611
Commission income	21	**2,332,616**	–	–
		601,553,656	519,051,226	426,345,611
COST OF SERVICES	15	**(260,670,197)**	(247,547,583)	(378,629,801)
GENERAL AND ADMINISTRATIVE EXPENSES	15	**(124,144,648)**	(95,773,077)	(165,518,554)
OPERATING INCOME (LOSS)		**216,738,811**	175,730,566	(117,802,744)
OTHER INCOME (CHARGES)				
Marked-to-market gains (losses) on investments held for trading	8	**54,078,646**	9,659,082	(22,631,431)
Dividend income	11	**18,947,664**	18,947,664	15,368,577
Finance charges	18	**(17,903,206)**	(220,505)	(642,417)
Interest income	7	**5,753,505**	437,289	122,135
Others -net	16	**54,045,681**	10,579,308	34,975,394
		114,922,290	39,402,838	27,192,258
INCOME (LOSS) BEFORE INCOME TAX		**331,661,101**	215,133,404	(90,610,486)
PROVISION FOR INCOME TAX	17			
Current		**54,676,728**	3,576,689	–
Deferred		**2,119,557**	20,457,202	50,134,333
		56,796,285	24,033,891	50,134,333
NET INCOME (LOSS)		**₱274,864,816**	₱191,099,513	(₱140,744,819)

(Forward)

		Years Ended December 31		
	Note	**2023**	2022	2021
NET INCOME (LOSS)		**₱274,864,816**	₱191,099,513	(₱140,744,819)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on financial assets at FVOCI	11	**58,457,165**	16,971,435	(29,655,825)
Remeasurement gains (losses) on retirement benefits, net of deferred tax	19	**(9,233,066)**	8,655,956	26,559,054
		49,224,099	25,627,391	(3,096,771)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱324,088,915**	₱216,726,904	(₱143,841,590)
Net income (loss) attributable to:				
Equity holders of the Parent Company		**₱272,701,996**	₱191,117,272	(₱140,274,063)
Non-controlling interest		**2,162,820**	(17,759)	(470,756)
		₱274,864,816	₱191,099,513	(₱140,744,819)
Total comprehensive income (loss) attributable to:				
Equity holders of the Parent Company		**₱321,926,095**	₱216,744,663	(₱143,370,834)
Non-controlling interest		**2,162,820**	(17,759)	(470,756)
		₱324,088,915	₱216,726,904	(₱143,841,590)
Earnings (loss) per share - continuing operations				
Basic / diluted earnings (loss) per share	22	**₱0.3228**	₱0.2262	(₱0.1660)

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATIONS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31		
	Note	**2023**	2022	2021
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY:				
CAPITAL STOCK	14	**₱895,330,946**	₱895,330,946	₱895,330,946
ADDITIONAL PAID-IN CAPITAL		**254,640,323**	254,640,323	254,640,323
COST OF PARENT COMPANY SHARES HELD BY SUBSIDIARIES	21	**(285,267,558)**	(285,267,558)	(285,267,558)
OTHER EQUITY RESERVES				
Cumulative Unrealized Valuation Losses on Financial Assets at FVOCI				
Balance at beginning of year		**(292,848,835)**	(492,266,311)	(462,610,486)
Unrealized valuation gains (losses)	11	**58,457,165**	16,971,435	(29,655,825)
Realized portion of the fair value reserve		**–**	182,446,041	–
Balance at end of year		**(234,391,670)**	(292,848,835)	(492,266,311)
Cumulative Remeasurement Gains (Losses) on Retirement Benefits	19			
Balance at beginning of year		**16,962,065**	12,544,349	(14,014,705)
Net remeasurement gains (losses)		**(9,233,066)**	8,655,856	26,559,054
Reclassification of retirement benefit reserve		**–**	(4,238,140)	–
Balance at end of year		**7,728,999**	16,962,065	12,544,349
Other Reserves	14	**2,610,354**	2,610,354	2,610,354
		(224,052,317)	(273,276,416)	(477,111,608)
RETAINED EARNINGS				
Balance at beginning of year		**342,701,848**	329,713,024	469,987,087
Net income (loss)		**272,701,996**	191,117,272	(140,274,063)
Dividends declared	14	**(84,486,396)**	–	–
Realized portion of the fair value reserve		**–**	(183,779,301)	–
Reclassification of retirement benefit reserve	19	**–**	5,650,853	–
Balance at end of year		**530,917,448**	342,701,848	329,713,024
		1,171,568,842	934,129,143	717,305,127
NON-CONTROLLING INTEREST				
Balance at beginning of year		**1,976,176**	1,993,935	2,464,691
Share in net income (loss)		**2,162,820**	(17,759)	(470,756)
Balance at end of year		**4,138,996**	1,976,176	1,993,935
		₱1,175,707,838	₱936,105,319	₱719,299,062

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2023**	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**₱331,661,102**	₱215,133,404	(₱90,610,486)
Adjustments for:				
Marked-to-market losses (gains) on investments held for trading	8	**(54,078,646)**	(9,659,082)	22,631,431
Depreciation and amortization	12	**40,796,382**	33,728,316	148,369,577
Dividend income	11	**(18,947,664)**	(18,947,664)	(15,368,577)
Finance charges	18	**17,903,206**	220,505	642,417
Interest income	7	**(5,753,505)**	(4,118,204)	(6,235,177)
Retirement benefits cost	19	**2,718,689**	5,920,800	9,383,034
Unrealized foreign exchange loss (gain)		**(2,351,403)**	(170,916)	511,428
Gain on disposal of:				
Property and equipment	12	**(38,845)**	(395,719)	(175,500)
Subsidiaries	5	**–**	(542,645)	–
Provision for (reversal of) impairment loss on:				
Spare parts, supplies and CWTs	10	**–**	61,744	(10,860,620)
Trade and other receivables	9	**–**	–	(26,000,000)
Loss on retirement of property and equipment	12	**–**	–	834,745
Other provisions		**–**	–	676,407
Operating income before working capital changes		**311,909,316**	221,230,539	33,798,679
Decrease (increase) in:				
Trade and other receivables		**(83,228,786)**	18,188,886	(64,869,022)
Other current assets		**(98,861,209)**	(213,765,951)	(48,496,158)
Other noncurrent assets		**(4,482,115)**	1,855,161	97,284,380
Increase (decrease) in trade payables and other current liabilities		**145,492,981**	14,857,878	(66,540,728)
Net cash generated from (used for) operations		**270,830,187**	42,366,513	(48,822,849)
Income taxes paid		**(26,833,822)**	–	(6,146)
Contributions to plan assets	19	**(19,569,605)**	(10,000,000)	(5,000,000)
Interest received on cash and cash equivalents		**5,753,890**	437,289	122,135
Net cash flows provided by (used in) operating activities		**230,180,650**	32,803,802	(53,706,860)

(Forward)

	Note	2023	2022	2021
		Years Ended December 31		
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	**(₱533,312,994)**	(₱36,000)	(₱12,127,263)
Proceeds from disposal of:				
Investments held for trading	8	**25,354,455**	–	–
Property and equipment	12	**–**	3,869,285	913,501
Financial asset at FVOCI	11	**–**	88,661,790	–
Dividends received	8	**18,947,664**	18,947,664	15,368,577
Disposal of subsidiaries, net of cash of the disposed subsidiaries	5	**–**	(3,910,087)	–
Net cash flows provided by (used in) investing activities		**(489,010,876)**	107,532,652	4,154,815
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loan availments	5	**432,500,000**	67,500,000	–
Loan payments		**(29,411,764)**		
Cash dividends paid	14	**(84,486,396)**	–	–
Finance charges paid		**(17,878,309)**	–	–
Payments of lease liabilities	18	**(1,930,130)**	(4,989,872)	(12,827,398)
Net cash flows provided by (used in) financing activities		**298,768,503**	62,510,128	(12,827,398)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**39,937,893**	202,846,584	(62,379,443)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**301,656,383**	98,638,883	162,274,833
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		**2,351,403**	170,916	(1,256,507)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱343,945,679**	₱301,656,383	₱98,638,883

		2023	2022	2021
COMPONENTS OF CASH AND CASH EQUIVALENTS				
Cash on hand		**₱397,065**	₱491,500	₱535,132
Cash in banks		**281,705,944**	201,164,883	98,103,751
Cash equivalents		**61,842,670**	100,000,000	–
		₱343,945,679	₱301,656,383	₱98,638,883
NONCASH FINANCIAL INFORMATION				
Reclassification from advances to suppliers to property and equipment	10	**₱209,824,090**	₱–	₱–

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2023 AND 2022
AND FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

1. **General Information**

Corporate Information

Pacific Online Systems Corporation ("POSC" or "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 1993. The Parent Company is a public company under Section 17.2 of the Revised Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange, Inc. (PSE) starting on April 12, 2007.

The Parent Company's registered office address is at 28th Floor East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City.

The Parent Company is a 50.1%-owned subsidiary of Premium Leisure Corporation (PLC or the "Immediate Parent Company") and its Ultimate Parent Company is Belle Corporation (Belle). Belle and PLC are corporations incorporated and domiciled in the Philippines with shares listed on the PSE.

As at December 31, the subsidiaries of the Parent Company and its interest in a joint operation, which are all incorporated and domiciled in the Philippines, are as follows:

		Percentage of Ownership		
	Industry	**2023**	2022	2021
Subsidiaries				
Total Gaming Technologies, Inc. (TGTI)	Gaming	**98.9**	98.9	98.9
Loto Pacific Leisure Corporation (LotoPac)	Gaming	**100.0**	100.0	100.0
Falcon Resources Inc. (FRI)[(a)]	Gaming	**100.0**	100.0	100.0
Futurelab Interactive Corp. (FIC)[(c)]	Gaming	**100.0**	100.0	100.0
TGTI Services, Inc. (TGTISI)[(a)(b)]	Gaming	**–**	–	100.0
Interest in Joint Operation				
PinoyLotto Technologies Corp. (PinoyLotto)	Gaming	**50.0**	50.0	50.0

(a) Indirect ownership through TGTI
(b) Sold in 2022
(c) 50%-owned by POSC and 50% owned by TGTI

POSC

The Parent Company is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. The Parent Company can also engage in any lawful arrangement for sharing profits, union of interest, unitization or formal agreement, reciprocal concession, or cooperation, with any corporation, association, partnership, syndicate, entity, person on governmental, municipal or public authority, domestic or foreign.

The Parent Company's primary source of revenue arises from the Equipment Lease Agreement (ELA) with the Philippine Charity Sweepstakes Office (PCSO) for the lease of lotto terminals, which includes central computer, communications equipment, and the right to use the application software and manuals for the central computer system and draw equipment. The ELA has been concluded on September 30, 2023 (see Notes 18 and 21).

POSC remains committed to looking for opportunities in the industry. Such opportunities include the Web-based Application Betting Platform (WABP). The Parent Company was granted by the PCSO with a one-year trial period to provide WABP which was launched on December 15, 2023.

TGTI

TGTI was incorporated and registered with the SEC on October 23, 2002. The primary purpose of TGTI is to lease gaming equipment and provide consultancy services relative to online gaming to those engaged in gaming business among others, non-profit institutions, and other entities.

TGTI's primary source of revenue arises from the ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. The ELA concluded last April 1, 2022, and was no longer renewed (see Notes 18 and 21). The Company is still evaluating its future operating plans and management continues to actively look for viable opportunities within the gaming industry.

LotoPac

LotoPac was incorporated on March 16, 2007, primarily to acquire, establish, operate and manage amusement, recreational and gaming equipment facilities, as well as places for exhibitions, recreational, 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.

In 2020, LotoPac ceased its operations as an investment holding entity.

FRI

FRI was incorporated on May 25, 1999 primarily to engage in the business of trading or selling of goods on wholesale or retail basis, such as sweepstakes, instant game tickets, and other lottery and gaming tickets, including, but not limited to, those introduced by PCSO as well as tickets of shows, concerts and other events.

In 2020, FRI ceased its scratch ticket distribution operations with the intention to diversify to projects that are more aligned with the Parent Company's strategy and to focus on technology driven games and related support services that will be more viable and sustainable in the long term.

TGTISI

TGTISI was incorporated on August 31, 2011 primarily to engage in, conduct and carry on the business of providing logistical, technical support, and consultancy services, and providing end-to-end solutions to entities in the gaming industry in all aspects.

On June 9, 2022, TGTI's Board of Directors (BOD) approved the sale of all its common shares in TGTISI to a third party (see Note 5).

FIC

FIC was incorporated on April 4, 2016 primarily to acquire, establish, own, hold, lease, except financial leasing, sell, conduct, operate and manage amusement, recreational, and gaming equipment facilities, and enterprises of any kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure for the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions

PinoyLotto
On June 21, 2021, PinoyLotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated and registered with the SEC primarily to provide software support and online lottery equipment service.

PinoyLotto was awarded with the five year-lease of the customized PCSO Lottery System (PLS Project) at a contract price of ₱5,800.0 million. PinoyLotto commenced its commercial operations on October 1, 2023, and pursuant to the contract, 6,500 terminals have been installed and are in operation nationwide.

The Group's interest in PinoyLotto was accounted for as a joint operation (see Note 6).

The Parent Company, its subsidiaries and interest in joint operation are collectively referred herein as "the Group."

Approval of the Consolidated Financial Statements
The consolidated financial statements as at and for the years ended December 31, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021 were approved and authorized for issuance by the BOD on February 28, 2024.

2. Summary of Material Policy Information

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

Measurement Bases
The consolidated financial statements are presented in Philippine Peso (Peso), the Group's functional currency. All amounts are rounded to the nearest Peso unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for:

- investments held for trading which are measured at fair value;
- financial assets at fair value through other comprehensive income (FVOCI); and
- retirement asset or liability which is measured as the difference between the present value of defined benefit obligation and the fair value of plan assets.
- lease liabilities which is measured at the fair value of future lease payments.

Historical cost is generally based on the fair value of the consideration given in exchange of assets and fair value of the consideration received in exchange for incurring a liability.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of market observable data to a possible extent. Fair values are categorized into different levels in a fair value hierarchy, as described below, based on lowest level inputs used that is significant to the fair value measurement as a whole::

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

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 8, *Investments Held for Trading,* Note 11, *Financial Assets at FVOCI* and Note 23, *Financial Instruments*.

Adoption of Amendments to PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to PFRS:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments.

The adoption of the amendments to PFRS did not materially affect the consolidated financial statements of the Group.

Amendments to PFRS in Issue But Not Yet Effective

Relevant new and amendments to PFRS, which are not yet effective as at December 31, 2023 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PAS 1, *Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Group shall also apply Amendments to PAS 1 - *Classification of Liabilities as Current or Noncurrent* for that period.

- Amendments to PAS 7, *Statement of Cash Flows* and PFRS 7, *Financial Instrument: Disclosures - Supplier Finance Arrangements* – The amendments introduced new disclosure requirements to enable users of the financial statements assess the effects of supplier finance arrangements on the liabilities, cash flows and exposure to liquidity risk. The amendments also provide transitional relief on certain aspects, particularly on the disclosures of comparative information. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025:

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability* – The amendments clarify when a currency is considered exchangeable into another currency and how an entity determines the exchange rate for currencies that lack exchangeability. The amendments also introduce new disclosure requirements to help users of financial statements assess the impact when a currency is not exchangeable. An entity does not apply the amendments retrospectively. Instead, an entity recognizes any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings when the entity reports foreign currency transactions. When an entity uses a presentation currency other than its functional currency, it recognizes the cumulative amount of translation differences in equity. Earlier application is permitted.

Deferred effectivity -

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

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the financial statements of the Group. Additional disclosures will be included in the financial statements, as applicable.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company, its subsidiaries and its corresponding share in the joint operation.

Subsidiaries. Subsidiaries are entities controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interest (NCI), even if this results in the NCI interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NCI represent the portion of net results and net assets not held by the Parent Company. These are presented in the consolidated statements of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statements of comprehensive income. NCI represent the equity interest in TGTI not held by the Parent Company.

If the Parent Company loses control over a subsidiary, it derecognizes the assets including goodwill, liabilities and NCI in the subsidiary. The Parent Company recognizes the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in the consolidated statements of comprehensive income.

Business Combinations and Goodwill. Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used.

Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

Goodwill acquired in a business combination is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for NCI and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment or determined in accordance with PFRS 8, *Operating Segment*.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than the carrying amount, an impairment loss is recognized. Impairment loss with respect to goodwill cannot be reversed in future periods.

When goodwill has been allocated to a CGU or group of CGUs and part of the operations within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the CGU retained.

Joint Arrangements. Joint arrangements represent activities where the Parent Company has joint control established by a contractual agreement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing the control. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

The Group accounted for its interest in PinoyLotto as a joint operation. Accordingly, the Group recognizes (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenues and share in revenues from the output of the joint operation, and (iv) its expenses, including its share of any expenses incurred jointly. The Parent Company reports items of a similar nature to those on the financial statements of the joint arrangement, on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

The financial statements of PinoyLotto with a fiscal period ended June 30, are incorporated in the consolidated financial statements as at December 31. Adjustments and disclosures are made for the effects of significant transactions or events that occurred between the date of PinoyLotto's financial statements and the date of the consolidated financial statements. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable is done using settlement date accounting.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

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

Classification of Financial Instruments. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and, (c) financial assets at FVOCI. The classification of a financial asset largely depends its contractual cash flow characteristics and on the Group's business model for managing them.

Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

Equity securities that have been designated to be measured at FVOCI can no longer be reclassified to a different category.

As at December 31, 2023 and 2022, the Group does not have financial liabilities at FVPL and debt instruments measured at FVOCI.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest (SPPI) are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

Classified under this category are the Group's investments in listed equity securities included under "Investments held for trading" account.

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Classified under this category are the Group's cash and cash equivalents, trade and other receivables (excluding advances to contractors, suppliers, officers and employees) and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets").

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. On initial recognition, equity securities which are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are measured at fair value with unrealized valuation gains or losses recognized in other comprehensive income and are accumulated under "Other equity reserves" account in the equity section of the consolidated statements of financial position. These fair value changes are not reclassified to profit or loss in subsequent periods. On disposal of these equity securities, any cumulative valuation gains or losses will be reclassified to retained earnings.

Classified under this category are the Group's investments in equity securities issued by the Parent Company.

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

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

Classified under this category are the Group's trade payables and other current liabilities (excluding statutory payables), loan payable and lease liabilities.

Impairment of Financial Assets at Amortized Cost
The Group records an allowance for expected credit loss (ECL) on financial assets at amortized cost based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group measures loss allowances at an amount equivalent to the 12-month ECL for financial assets on which credit risk has not increased significantly since initial recognition or that are determined to have low credit risk at reporting date. Otherwise, impairment loss will be based on lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at reporting date with the risk of a default occurring on the financial instrument on the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort. In addition, the Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at reversal date.

A financial asset is written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Trade Receivables. The Group has applied the simplified approach in measuring the ECL on trade receivables. Simplified approach requires that ECL should always be based on the lifetime ECL. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments Measured at Amortized Cost. For these financial assets, the Group applies the general approach in determining ECL. The Group recognizes an allowance based on either the 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has expired;

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

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

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

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

Offsetting Financial Assets and Liabilities
Financial assets and liabilities are offset, and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Creditable Withholding Taxes (CWTs)
CWTs represent the amount withheld by the Group's customers in relation to its income. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs are stated at its net realizable amount.

Advances to Suppliers
Advances to suppliers represent payment for purchased goods which are not yet delivered to the Group as at reporting date. Advances to suppliers are measured at the amount of cash paid. Subsequently, these are transferred to appropriate account upon receipt of the goods or services.

Value-Added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

Under Revenue Regulations (RR) No. 16-2005, sale to the government agencies is subject to a 5% final withholding VAT. Allowable input VAT should not exceed 7% of the gross receipts, which effectively accounts for the standard input VAT in lieu of the actual input VAT attributable to such sale. Any excess standard input VAT over actual input VAT is recognized as other income.

Starting 2021, the 5% final withholding VAT should be treated as creditable VAT.

The net amount of tax recoverable from (payable to) the taxation authority is included as part of "Other current assets" account or "Trade payables and other current liabilities" account in the consolidated statements of financial position.

The amount of VAT on revenue not yet collected is presented as part of “Statutory payables” under “Trade payables and other current liabilities” account in the consolidated statements of financial position.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Each part of the property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the depreciable assets. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

Asset Type	Number of Years
Lottery equipment	4 - 10 or term of lease, whichever is shorter
Computer software	5
Leasehold improvements	4 or the term of the lease, whichever is shorter
Office furniture, fixtures and equipment	4
Transportation equipment	4 - 5

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment.

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

Fully depreciated assets are retained in the accounts until these are no longer in use.

Software Development

Software development cost is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, an internally generated software development is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated to write off the cost of intangible assets less their estimated residual values, if any, using the straight-line method over their estimated useful lives, of two to three years and amortization of intangible assets is recognized in profit or loss. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of Nonfinancial Assets (excluding Goodwill)

Nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Equity

Capital Stock and Additional Paid-in Capital. Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Incremental costs directly attributable to the issue of new capital stock are recognized as a deduction, net of tax, from the equity.

Cost of Parent Company Common Shares Held by a Subsidiary. Parent Company's shares which are held by a subsidiary are treated similar to treasury shares and recognized and deducted from equity at cost. No gain or loss is recognized in the consolidated statements of comprehensive income on the purchase, sale, issue, or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in other reserves.

Other Equity Reserves. Other equity reserves primarily comprise of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other equity reserves of the Group mainly pertain to cumulative unrealized valuation losses of financial assets at FVOCI and cumulative remeasurement gains of retirement benefits.

Retained Earnings. Retained earnings represent the cumulative balance of the Group's results of operations and reclassification of realized equity reserves, net of dividends declared.

Revenue Recognition
Revenue from contracts with customers is recognized control of the services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue from contracts with customers is recognized.

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

Equipment Rental. Revenue from lease agreements with variable lease payments is recognized based on a certain percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement. For lease agreements with fixed payments and is classified as operating lease, revenue is recognized on a straight-line basis over the term of the lease.

Commission Income. Commission income from WBAP is recognized at a point in time when the related services are provided and is computed based on a certain percentage of gross sales of the web-based lottery operations.

Dividend Income. Revenue is recognized when the Group's right to receive the payment is established.

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

Service Income. Revenue is recognized at a point in time when the service to the customer is performed. Service income consists of fees earned by TGTISI in providing repairs and maintenance services to Rapid Bingo equipment of AB Leisure Exponent Inc.

Other Income. Income from other sources is recognized when earned.

The related contract balances are the trade receivables which represent the Group's right to an amount of consideration that is unconditional i.e., only the passage of time is required before payment of the consideration is due.

Cost and Expense Recognition
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Cost of Services. Cost of services is recognized as expense when the related services are rendered.

General and Administrative Expenses. General and administrative expenses constitute cost of administering the business. These expenses are recognized in profit or loss when incurred.

Leases
At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessor. Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income under operating leases are recognized on a straight-line basis over the lease terms. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rent income. Contingent rents are recognized as revenue in the period in which these are earned.

Group as a Lessee. At the commencement date, the Group recognizes right-of-use (ROU) assets and lease liabilities.

ROU Assets. ROU assets are initially measured at cost, which comprises the initial amount of lease liabilities adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred, less any incentives received. ROU assets are subsequently amortized using the straight-line method from the commencement date to the end of the lease term. In addition, ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

Lease Liabilities. Lease liabilities are initially measured at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the fixed payments, including in-substance fixed payments, and if applicable:

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the lessee under residual value guarantees; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

The lease liabilities are subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the ROU assets, or is recorded in profit or loss if the carrying amount of the ROU assets has been reduced to zero.

Short-term Leases and Leases of Low-value Assets. The Group has elected not to recognize ROU assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Group has a funded, non-contributory defined benefit plan covering all qualified employees. Retirement benefit costs are actuarially determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement benefits cost recognized in profit or loss include: (a) the service cost of the defined benefit plan, i.e., current service costs, past service costs (including curtailment gains or losses) and any gain or loss on settlement; and (b) net interest on the retirement liability or asset.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on the retirement liability or asset) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

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

Foreign Currency Denominated Transactions

Transactions denominated in foreign currencies are initially recorded in Peso using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between the rate at transaction date and settlement date or reporting date are credited to or charged against profit or loss. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of initial transactions.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

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

Deferred Tax. Deferred tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes except for:

- When it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses (net operating loss carryover or NOLCO), only if it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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

Offsetting. Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Group plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Related Parties and Transactions

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

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties. Transactions between related parties are accounted for at arm’s length prices or on terms similar to those offered to non-related parties in an economically comparable market.

Related party transactions are considered material and/or significant if i) these transactions amount to 10% or higher of the Group’s total assets, or ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Group’s total assets. Details of transactions entered into by the Group with related parties are reviewed in accordance with the Group’s related party transactions policy.

Earnings (Loss) per Share
Basic earnings (loss) per share is computed by dividing net income (loss) for the year attributable to common equity holders of the Parent Company by the weighted average number of issued and outstanding common shares during the year, after giving retroactive effect to any stock dividends declared during the year.

Diluted earnings (loss) per share is computed by dividing net income (loss) for the year attributable to common equity holders of the parent by the weighted average number of issued and outstanding common shares during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings (loss) per share does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on earnings (loss) per share.

As the Group has no dilutive potential common shares outstanding, basic and diluted earnings (loss) per share are stated at the same amount.

Operating Segments
For management purposes, the Group is organized into business units based on the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and services.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are made using the best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period these arise.

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

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

3. **Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires management to exercise judgment, make estimates and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the consolidated financial statements. The judgment, accounting estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Assessing Joint Control and Determining Proper Classification of a Joint Arrangement. Management has used judgment in classifying the Parent Company's interest in PinoyLotto as a joint operation. PinoyLotto is 50% owned by the Parent Company and is assessed to be controlled jointly with the parties to the agreement because the parties have equal number of board representatives and the relevant activities that significantly affect the return on the investment requires approval of representatives from both parties. In classifying the interest as a joint operation, management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

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

Determining the Classification of Lease. The Group leases to PCSO the lottery equipment it uses for its nationwide on-line lottery operations. The Group have determined that it has retained substantially all the risks and benefits of ownership of the lottery equipment being leased to PCSO. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, the lease term is not for the major part of the asset's economic life, and, certain features of the arrangement does not transfer substantially all risk and rewards to the lessee. Accordingly, the lease is accounted for as an operating lease.

Revenue from equipment rental is disclosed in Notes 18 and 21.

Determining the Fair Value of Financial Instruments. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

The fair value of the Group's financial assets and liabilities are disclosed in Note 23.

Accounting Estimates and Assumptions

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

Assessing Impairment Losses on Financial Assets. Impairment losses on financial assets are determined based on ECL. In assessing the ECL, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

The Group maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible accounts. The level of this allowance is evaluated by the management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the age and status of receivables, the length of relationship with the customers, the customer's payment behavior and known market factors. The Group reviews the allowance on a continuous basis.

For other financial assets at amortized cost, the Company has applied the general approach and calculated the ECL by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECL.

No provision for impairment losses on trade and other receivables was recognized by the Group in 2023, 2022 and 2021. The allowance for impairment losses on financial assets at amortized cost are disclosed in Note 9. The reversal of impairment loss in 2022 is disclosed in Note 16.

The carrying amounts and credit quality of financial assets at amortized cost that were subjected to impairment assessment are disclosed in Note 23.

Determining Impairment of Significant Nonfinancial Assets. The Group assesses whether there are any indicators of impairment for significant nonfinancial assets at each reporting date. Significant nonfinancial assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of these nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets which will necessitate the Group to make estimates and assumptions that can materially affect the consolidated financial statements.

While it is believed that the assumptions used in the estimation of recoverable values are appropriate and reasonable, future events could cause the Group to conclude that such nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's consolidated financial statements.

Management has considered the external and internal sources of impairment and assessed that there were no impairment indicators affecting the Group's property and equipment as at December 31, 2023 and 2022.

In 2020, the Group recognized provision for impairment loss for the remaining amount of spare parts and supplies of TGTI as these are identified as obsolete. In 2022 and 2021, however, the management reversed a portion of the impairment loss that were previously recognized for spare parts and supplies that were utilized in the operations. No provision for (reversal of) impairment losses on spare parts and supplies was recognized in 2023 (see Note 10).

The carrying amounts of nonfinancial assets as at December 31, 2023 and 2022 are as follows:

	Note	**2023**	2022
Property and equipment	12	**₱706,208,497**	₱2,013,551
CWTs	10	**101,764,077**	129,606,983
Other current assets*	10	**27,071,189**	4,911,394
Other noncurrent assets*	10	**1,647,000**	207,054,331
ROU assets	18	**502,798**	1,815,399

**Excluding guarantee and/or refundable deposits.*

Assessing the Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The amount of deferred tax assets that are recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

Details of recognized and unrecognized deferred tax assets are disclosed in Note 17.

Estimating the Useful Lives of Property and Equipment, ROU Assets and Software Development. The Group estimates the useful lives of the property and equipment, ROU assets and software development based on the period over which these assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of these assets. In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of property and equipment, ROU assets and software development in 2023, 2022 and 2021. The carrying amount of property and equipment, ROU assets, software development are disclosed in Notes 10, 12 and 18, respectively.

Evaluating Contingencies. The Group recognizes provision for possible claims when it is determined that an unfavorable outcome is probable and the amount of the claim can be reasonably estimated. The determination of reserves required, if any, is based on analysis of such individual issue, often with the assistance of outside legal counsel. Management believes that any potential claims against the Group arising from the normal course of business will not have any material adverse effect on its consolidated financial position and consolidated financial performance.

4. Segment Information

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. Thus, 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.

In 2023, 2022, and 2021 the Group's segment pertains solely to equipment leasing and other related services.

Performance is measured based on segment income before income tax, as included in the internal management reports that are reviewed by the Group's President. Segment net income is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

5. Disposal of a Subsidiary

On June 9, 2022, TGTI's BOD approved the transfer of all the rights, title and interests in TGTISI's shares to a third party for a consideration of ₱1.0 million.

Total gain on deconsolidation amounted to ₱542,645, which is the difference between the consideration received and the Group's share on TGTISI's net asset at the date of disposal (see Note 16).

Effect of Disposal on the Financial Position and Cash Flows of the Group

	2022
Cash	(₱4,910,087)
Trade and other receivables	(13,649,430)
Other current assets	(190,709)
Trade payables and other current liabilities	18,292,871
Net assets	(₱457,355)
Cash consideration received	₱1,000,000
Cash disposed of	(4,910,087)
Net cash outflow	(₱3,910,087)

6. **Interest in Joint Operation**

Interest in joint operation pertains to the Group's 50% ownership in PinoyLotto. As discussed in Note 1, PinoyLotto was awarded a five-year lease of the customized PCSO Lottery System, also known as '2021 PLS Project' at a contract price of ₱5,800.0 million.

The five-year lease commenced on October 1, 2023.

The contractual arrangements give the joint operators direct rights to the assets and obligations for the liabilities within the normal course of business.

Relevant financial information of PinoyLotto and the Group's share of the assets and liabilities as at December 31, 2023 and 2022, and share in revenue and expenses for the years ended December 31, 2023 and 2022 are as follows:

Share in Assets, Liabilities, Revenues, Cost, and Expenses

	2023	2022
Cash and cash equivalents	**₱72,608,057**	₱25,892,498
Trade and other receivables	**96,666,667**	–
Other current assets	**29,487,751**	2,289,300
Total Current Assets	**198,762,475**	28,181,798
Property and equipment	**706,091,820**	14,400
ROU assets	**541,486**	–
Other noncurrent assets	**68,850**	207,054,331
Total Noncurrent Assets	**706,702,156**	207,068,731
Total Assets	**₱905,464,631**	₱235,250,529
Trade payables and other current liabilities	**(₱110,782,832)**	(₱2,250)
Nontrade payable	**(67,500,000)**	(13,111,169)
Current portion of loan payable	**(58,823,529)**	–
Current portion of lease liabilities	**(294,303)**	–
Total Current Liabilities	**(237,400,664)**	(13,113,419)
Loan payable net of current portion	**(411,764,707)**	(67,500,000)
Lease liabilities net of current portion	**(208,495)**	–
Total Noncurrent Liabilities	**(411,973,201)**	(67,500,000)
Total Liabilities	**(₱649,373,865)**	(₱80,613,419)
Revenue from equipment rental	**₱129,464,286**	₱–
Cost of services	**(52,269,770)**	–
Operating expenses	**(51,632,168)**	(13,978,690)
Other income (charges)	**(20,106,566)**	
Net loss	**(₱5,455,782)**	(₱13,978,690)

Nontrade Payable
This pertains to advances made by the joint operators to PinoyLotto.

Loan Agreement

On October 15, 2022, PinoyLotto entered into a long-term loan agreement with a local bank for a loan facility with a maximum aggregate principal amount of ₱1.0 billion, the proceeds of which shall be used to partially finance the capital expenditure requirements of the PLS Project.

In November 2022, PinoyLotto made its first drawdown for the principal amount of ₱135.0 million. The loan has a term of five years, payable in equal quarterly installments beginning on the second year from initial drawdown up to the maturity. Annual effective interest rate on the loan is 7.96%.

In 2023, Pinoylotto made the remaining drawdowns for the the principal loan amount of ₱865.0 million. The loans will all mature on November 15, 2027, payable in equal quarterly installments. The annual effective interest rate on the loans ranges from 6.54% to 6.85%.

Interest expense on loan payable which was recognized as “Finance charges” amounted to ₱17.9 million in 2023.

The loan is secured by a continuing surety of the Parent Company and PGMC and maintenance of a debt service reserve account.

Pursuant to the terms of the loan agreement, PinoyLotto is required to comply with certain financial covenants starting June 30, 2024. PinoyLotto needs to comply with certain parameters of the loan agreement such as required financial ratios and avoiding corporate acts that may result in the event of default.

As at December 31, 2023, PinoyLotto is compliant with the loan covenants.

Capital Expenditure Commitments

In connection with the acquisition of property and equipment pursuant to the PLS Project, PinoyLotto entered into purchase, supply, implementation and maintenance support agreements in 2022. The estimated capital expenditure is ₱1.36 billion. Capitalized property and equipment as at December 31, 2023 amounted to ₱1.43 billion.

7. Cash and Cash Equivalents

This account consists of:

	2023	2022
Cash on hand	**₱397,065**	₱491,500
Cash in banks	**281,705,944**	201,164,883
Cash equivalents	**61,842,670**	100,000,000
	₱343,945,679	₱301,656,383

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱5.8 million, ₱0.4 million and ₱0.1 million in 2023, 2022 and 2021, respectively.

8. Investments Held for Trading

This account consists mainly of investments in quoted shares of stock of Leisure and Resorts World Corporation, Vantage Equities, Inc. and APC Group, Inc.

Movements in this account are as follows:

	2023	2022
Balance at beginning of year	**₱71,288,577**	₱61,629,495
Marked-to-market gains	**54,078,646**	9,659,082
Disposals	**(25,354,454)**	–
Balance at end of year	**₱100,012,769**	₱71,288,577

The fair values of these securities are based on closing quoted market prices on the last market day of the year.

In 2023, gain on disposal of investments held in trading amounted to ₱2.2 million. These are presented under "Other income" in the consolidated statements of comprehensive income. (see Note 16)

9. Trade and Other Receivables

This account consists of:

	Note	2023	2022
Trade		**₱126,533,972**	₱66,548,397
Nontrade receivables:			
Third party		**147,500,000**	127,500,000
Lucky Circle Corporation (LCC) Group		**113,677,614**	113,677,614
Accrued license fee income	21	**–**	4,000,000
Advances to:			
Contractors and suppliers		**2,216,241**	2,775,402
Officers and employees		**872,036**	531,761
Other receivables		**9,452,059**	1,989,961
		400,251,922	317,023,135
Less allowance for impairment loss		**115,825,004**	115,825,004
		₱284,426,917	₱201,198,131

Trade receivables are generally on a 30-to-60 day credit terms. The risks associated on this account are disclosed in Note 23.

Nontrade receivables from the LCC Group are amounts due from former investees where the Group had set up an allowance for impairment because of the delayed payments and disposal of ownership interest in LCC Group.

Advances to contractor are noninterest-bearing and are subject to liquidation.

10. **CWTs and Other Assets**

CWTs
This account consists of:

	2023	2022
CWTs	**₱102,297,243**	₱130,140,149
Less allowance for impairment loss	**533,166**	533,166
	₱101,764,077	₱129,606,983

Current Assets
This account consists of:

	Note	**2023**	2022
Guarantee deposits	21	**₱91,000,000**	₱14,500,000
Input VAT		**22,965,845**	3,789,001
Prepayments		**3,499,269**	1,122,393
Spare parts and supplies		**606,075**	–
Refundable deposits		**201,414**	–
		₱118,272,603	₱19,411,394

Guarantee deposits include cash bonds held in escrow account as part of the agreement with PCSO.

Prepayments represent mainly unexpired portion of insurance and rent. It also includes prepaid technical training, advisory and maintenance services related to the software maintenance.

Movement in the allowance for impairment loss is as follows:

		2022		
	Note	Spare Parts and Supplies	CWTs	Total
Balance at beginning of year		₱32,673,528	₱471,422	₱33,144,950
Provision (reversal)	15	(32,673,528)	61,744	(32,611,784)
Balance at end of year		₱–	₱533,166	₱533,166

No movements in the allowance for impairment loss in 2023.

Noncurrent Assets
This account consists of:

	2023	2022
Refundable deposits	**₱2,835,115**	₱2,769,759
Advances to suppliers	**–**	207,054,331
Others	**1,647,000**	–
	₱4,482,115	₱209,824,090

Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest.

Advances to supplier pertains to acquisition of online lotto equipment by the PinoyLotto for the 2021 PLS Project (see Note 6)

11. **Financial Assets at FVOCI**

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company (see Note 20). The movement in this account is as follows:

	2023	2022
Balance at beginning of year	**₱179,142,925**	₱252,166,540
Unrealized valuation gains	**58,457,165**	16,971,435
Disposal	**–**	(89,995,050)
Balance at end of year	**₱237,600,090**	₱179,142,925

The fair values of these securities are based on the quoted prices on the last market of the year. On February 4, 2022, the Group sold its investment in its Ultimate Parent Company for a consideration of ₱88.7 million.

Dividend income amounted to ₱18.9 million in 2023 and 2022 and ₱15.4 million in 2021.

12. **Property and Equipment**

The movement in this account is as follows:

	2023					
	Lottery Equipment	**Computer Software**	**Leasehold Improvements**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost						
Balances at beginning of year	**₱501,864,242**	**₱–**	**₱6,732,232**	**₱16,108,222**	**₱16,360,639**	**₱541,065,335**
Additions	**701,070,563**	**15,493,781**	**3,537,822**	**24,396,965**	**–**	**744,491,133**
Disposal	**(501,864,242)**	**–**	**(6,732,232)**	**–**	**(3,803,010)**	**(512,399,484)**
Balances at end of year	**701,070,563**	**15,493,781**	**3,537,822**	**40,505,187**	**12,557,629**	**773,164,982**
Accumulated Depreciation and Amortization						
Balances at beginning of year	**501,864,242**	**–**	**5,576,547**	**16,108,222**	**15,502,773**	**539,051,784**
Disposal	**(501,864,242)**	**–**	**(5,576,547)**	**–**	**(3,635,493)**	**(511,076,282)**
Depreciation and amortization	**35,053,533**	**780,089**	**176,890**	**2,389,595**	**580,876**	**38,980,983**
Balances at end of year	**35,053,533**	**780,089**	**176,890**	**18,497,817**	**12,448,156**	**66,956,485**
Carrying Amount	**₱666,017,035**	**₱14,713,692**	**₱3,360,932**	**₱22,007,370**	**₱109,473**	**₱706,208,497**

	2022				
	Lottery Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost					
Balances at beginning of year	₱527,639,554	₱16,158,667	₱38,354,390	₱36,373,192	₱618,525,803
Disposal	(25,775,312)	(9,426,435)	(22,282,168)	(20,012,553)	(77,496,468)
Additions	–	–	36,000	–	36,000
Balances at end of year	501,864,242	6,732,232	16,108,222	16,360,639	541,065,335
Accumulated Depreciation and Amortization					
Balances at beginning of year	515,169,982	13,924,345	36,944,728	29,088,707	595,127,762
Disposal	(25,775,312)	(9,426,435)	(22,233,496)	(16,587,659)	(74,022,902)
Depreciation and amortization	12,469,572	1,078,637	1,396,990	3,001,725	17,946,924
Balances at end of year	501,864,242	5,576,547	16,108,222	15,502,773	539,051,784
Carrying Amount	₱–	₱1,155,685	₱–	₱857,866	₱2,013,551

The Group sold certain equipment with a carrying amount of ₱3.4 million, ₱3.5 million and ₱738,001 for a total consideration of ₱3.4 million, ₱3.9 million and ₱913,501 in 2023, 2022 and 2021, respectively, resulting to a gain on sale amounting to ₱38,845, ₱395,719 and ₱175,500 in 2023, 2022 and 2021, respectively (see Note 16).

The Group retired certain equipment with a carrying amount of ₱834,745 resulting to a loss on retirement amounting to and ₱834,745 in 2021 (see Note 16). Since the ELA was terminated on September 30, 2023, the Group retired fully depreciated lottery equipment at cost of ₱504.0 million.

Depreciation and amortization recognized in the consolidated financial statements arises from:

	Note	**2023**	2022	2021
Property and equipment		**₱38,980,983**	₱17,946,924	₱70,651,864
ROU assets	18	**1,815,399**	4,645,028	10,899,532
Software development	10	–	11,136,364	66,818,181
		₱40,796,382	₱33,728,316	₱148,369,577

Depreciation and amortization are allocated as follows:

	Note	**2023**	2022	2021
Cost of services	15	**₱37,901,647**	₱29,217,792	₱137,888,868
General and administrative expenses	15	**2,894,735**	4,510,524	10,480,709
		₱40,796,382	₱33,728,316	₱148,369,577

13. **Trade Payables and Other Current Liabilities**

This account consists of:

	Note	**2023**	2022
Accounts payable		**₱144,505,658**	₱37,466,158
Advances from joint operators	6	**67,500,000**	13,111,169
Statutory payables		**18,718,599**	11,365,137
Software and license fees payable	21	**8,865,861**	22,551,018
Accrued expenses:			
Salaries and other short-term benefits		**3,245,706**	–
Professional fees		**2,656,000**	11,856,892
Communication		**1,039,126**	3,160,123
Rental and utilities		–	15,264
Other provision		–	4,675,556
Others		**8,449,398**	5,286,050
		₱254,980,348	₱109,487,367

Accounts payable generally has a 30-to-45 day credit terms.

Statutory payables mainly pertain to statutory contributions, withholding taxes, VAT payable, deferred output VAT and other liabilities to the government agencies, which are payable within the next financial year.

Accrued expenses are normally settled in the following month.

Other provisions pertain to the Group's accruals of usual potential liabilities.

14. **Equity**

Capital Stock and Additional Paid-in Capital

Details of capital stock as at December 31, 2023 and 2022 are as follows:

	Number of Shares	Amount
Authorized - ₱1 par value:		
Common shares	2,288,000,000	₱2,288,000,000
Issued	895,330,946	₱895,330,946
Cost of Parent Company Common Shares		
Held by a Subsidiary:		
Balance at beginning and end of year	(50,466,984)	(285,267,558)
Outstanding	844,863,962	₱610,063,388

Additional paid-in capital amounted to ₱254.6 million as at December 31, 2023 and 2022.

Cost of Parent Company Common Shares Held by Subsidiary

As at December 31, 2023 and 2022, TGTI holds Parent Company common shares totaling 50,466,984 equivalent to ₱285.3 million. These are presented as “Cost of Parent Company common shares held by subsidiary” account in the consolidated statements of financial position. Related other reserves amounted to ₱2.6 million as at December 31, 2023 and 2022.

The Parent Company listed its shares in the PSE on April 12, 2007. As at December 31, 2023 and 2022, all issued shares are listed in the PSE.

Pursuant to the PSE’s rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. As at December 31, 2023 and 2022, public ownership over the Parent Company is 35.75%.

There are no movements in the number of outstanding shares for all the periods presented. As at December 31, 2023 and 2022, the Parent Company has 61 and 60 stockholders of record, respectively.

Other Equity Reserves

Details of other equity reserves shown in the consolidated statements of financial position follows:

	Note	**2023**	2022
Cumulative unrealized valuation losses on financial asset at FVOCI	11	**(₱234,391,670)**	(₱292,848,835)
Cumulative remeasurement gains on net retirement liability	19	**7,728,999**	16,962,065
		(226,662,671)	(275,886,770)
Other reserves		**2,610,354**	2,610,354
		(₱224,052,317)	(₱273,276,416)

Retained Earnings

On February 28, 2023, the Parent Company's BOD approved the declaration of cash dividends of ₱0.10 per share amounting to approximately ₱89.5 million to shareholders of record as at March 15, 2023. Total dividends are inclusive of dividends payable to a subsidiary which holds Parent Company shares amounting to ₱5.0 million. POSC paid dividends to shareholders of record on March 28, 2023.

On February 28, 2024, the Parent Company's BOD approved the declaration of cash dividends of ₱0.10 per share amounting to approximately ₱89.5 million to shareholders of record as at March 13, 2024 for payment on March 28, 2024.

15. **Costs and Expenses**

Cost of Services

This account consists of:

	Note	**2023**	2022	2021
Software and license fees	21	**₱65,552,553**	₱60,508,456	₱54,498,348
Personnel costs		**47,840,646**	45,774,003	60,181,751
Depreciation and amortization	12	**37,901,647**	29,217,792	137,888,868
Repairs and maintenance		**36,253,335**	6,236,267	21,622,692
Communication		**35,853,495**	52,106,865	59,064,228
Travel and accommodation		**15,998,823**	11,348,845	14,697,869
Rent and utilities	18	**15,954,914**	17,432,832	23,359,564
Operating supplies		**2,633,609**	21,621,140	4,532,056
Professional fees		**1,531,173**	3,231,886	2,640,935
Others		**1,150,002**	69,497	143,490
		₱260,670,197	₱247,547,583	₱378,629,801

General and Administrative Expenses

This account consists of:

	Note	**2023**	2022	2021
Personnel costs		**₱38,246,725**	₱36,848,072	₱58,229,330
Communication		**17,895,730**	2,598,167	5,261,859
Rent and utilities	18	**14,813,288**	8,266,557	7,332,968
Pre-operating expenses	6	**14,362,121**	13,993,257	48,630,295
Travel and accommodation		**9,314,153**	8,575,837	10,570,979
Taxes and licenses		**8,607,318**	4,712,080	11,702,081
Professional fees		**5,015,570**	4,451,336	3,213,406
Director's fee		**4,849,346**	5,049,020	1,943,072
Depreciation and amortization	12	**2,894,736**	4,510,524	10,480,709
Operating supplies		**1,703,392**	1,266,847	2,027,307
Repairs and maintenance		**1,598,131**	2,695,171	2,905,206
Entertainment and representation		**415,045**	342,917	757,066
Provision for impairment losses	9, 10, 18	**–**	61,744	–
Marketing and promotion		**–**	–	373,920
Others		**4,429,093**	2,401,548	2,090,356
		₱124,144,648	₱95,773,077	₱165,518,554

Pre-operating expenses of PinoyLotto is as follows:

	2023	2022	2021
Taxes and licenses	**₱4,360,942**	₱2,740,990	₱–
Professional fees	**4,255,645**	6,221,510	–
Rent and utilities	**3,283,261**	920,890	–
Entertainment and representation	**535,557**	398,094	–
Bank charges	**2,976**	3,266,241	–
Depreciation	**2,224**	7,200	–
Start-up cost	–	–	48,630,295
Others	**1,921,516**	438,332	–
	₱14,362,121	₱13,993,257	₱48,630,295

Pre-operating expenses pertain to cost to obtain contract.

Personnel costs are as follows:

	Note	2023	2022	2021
Salaries and wages		**₱61,265,423**	₱57,272,452	₱82,576,302
Other short-term employee benefits		**22,103,259**	19,428,823	26,451,745
Post-employment benefits	19	**2,718,689**	5,920,800	9,383,034
		₱86,087,371	₱82,622,075	₱118,411,081

16. **Other Income (Charges)**

Others - net in this account consists of:

	Note	2023	2022	2021
Sale of trademark		**₱26,785,714**	₱–	₱–
Net claims		**20,218,195**	–	–
Foreign exchange gain (loss)		**(2,351,019)**	(1,833,336)	745,079
Gain on disposal of investments held for trading	8	**2,200,087**	–	–
Gain on disposal of property and equipment		**38,845**	395,719	175,500
Gain on deconsolidation	5	**–**	542,645	–
Accreted interest income	21	**–**	3,680,915	6,113,042
Sale of scrap items		**–**	2,892,120	–
Service income		**–**	2,035,056	490,728
Reversal of impairment loss	9	**–**	–	26,000,000
Loss on retirement of asset		**–**	–	(834,745)
Others		**7,153,859**	2,866,189	2,285,790
		₱54,045,681	₱10,579,308	₱34,975,394

Sale of trademark mainly pertains to assignment of trademark to Diamond Powerwinners (see Note 21).

Net claims pertain to TGTI's claims over lost revenues during the pandemic from PCSO net of related costs incurred.

Others mainly consist of miscellaneous income, bank charges and seller's prize from winning tickets exceeding ₱10,000.

17. Income Tax

Current income tax expense pertains to regular corporate income tax (RCIT).

The components of the net deferred tax assets (liabilities) of the Group are as follows:

	2023	2022
Items recognized in profit or loss		
Retirement benefits	**₱308,869**	₱5,764,560
Accrued license fee income	**–**	(1,000,000)
Unamortized past service costs	**3,291,966**	331,820
Unrealized foreign exchange loss	**(587,851)**	125,761
Excess payment over lease related expenses	**(9,672)**	(99,271)
	3,003,312	5,122,870
Items recognized in other comprehensive income		
Remeasurement of retirement liability	**(2,576,333)**	(5,654,022)
Net deferred tax asset	**₱426,979**	(₱531,152)

Unrecognized deferred tax assets pertaining to NOLCO amounted to ₱43.5 million and ₱40.6 million as at December 31, 2023 and 2022.

On September 30, 2020, the Bureau of Internal Revenue issued RR No. 25-2020 to implement Section 4 of the Republic Act No. 11494, *Bayanihan to Recover as One Act* allowing the net operating loss of a business or enterprise incurred for the taxable years 2020 and 2021 to be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

The details of the Group's NOLCO are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Applied	Ending Balance	Valid Until
2022	₱–	₱15,315,044	₱–	₱–	₱15,315,044	2025
2021	53,134,368	–	–	–	53,134,368	2026
2020	249,198,861	–	–	(143,634,179)	105,564,682	2025
	₱–	₱15,315,044	₱–	(₱143,634,179)	₱174,014,094	

The reconciliation between the income tax expense (benefit) computed at statutory tax rate and the income tax expense (benefit) shown in the consolidated statements of comprehensive income is as follows:

	2023	2022	2021
Income tax at statutory income tax rate	**₱82,450,737**	₱53,783,351	(₱22,652,622)
Income tax effects of:			
Marked-to-market losses on securities	**(14,069,683)**	1,874,923	5,657,858
Changes in deferred tax assets	**(8,273,486)**	(26,024,104)	51,437,805
Nontaxable income	**(3,475,241)**	(4,736,916)	(6,500,000)
Income subjected to final tax	**(1,025,301)**	(4,846,202)	(3,866,142)
Nondeductible expenses and others	**(669,282)**	3,982,839	13,448,518
Effect of change in tax rates	–	–	12,608,916
Provision for income tax at effective tax rate	**₱54,937,744**	₱24,033,891	₱50,134,333

Under the Corporate Recovery and Tax Incentives for Enterprises ("CREATE"), the RCIT of domestic corporations was reduced from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. MCIT was changed from 2% to 1% of gross income for a period of three years up to June 30, 2023.

The effect of the reduction of tax rates were applied in the 2021 deferred tax expense. Details of adjustments are as follows:

Deferred tax expense	₱37,525,417
Effect of change in tax rate	12,608,916
Adjusted deferred tax expense	₱50,134,333

In 2023, the current income tax rates used in preparing the financial statements is 25% RCIT and 1.5% MCIT. In 2022, the current income tax rates used in preparing the financial statements is 25% RCIT and 1% MCIT.

18. **Lease Commitments**

Group as Lessor

POSC leases online lotto equipment and accessories to PCSO for a period of one year until July 31, 2021 as provided in the 2020 Amended ELA. The ELA was extended twice until it was finally concluded on September 30, 2023.

Rental payments are based on a percentage of gross amount of lotto ticket sales from the operation of POSC's lotto terminals. Rental income amounted to ₱469.8 million, ₱512.7 million and ₱390.8 million in 2023, 2022 and 2021, respectively, (see Note 21).

On October 1, 2023, PinoyLotto commenced its commercial operations for the five year-lease of the customized PCSO Lottery System at a contract price of ₱5,800.0 million. Pursuant to the contract, 6,500 terminals have been installed and are in operation nationwide.

Rental income amounted to ₱129.4 million (see Note 6).

TGTI leases “Online KENO” equipment and accessories to PCSO for a period of 10 years from the time the ELA will run in commercial operations. In 2021, the ELA was extended until April 1, 2022 and was not renewed. Rental payment by PCSO is based on certain percentage of gross amount of “Online KENO” games from the operation of all TGTI’s KENO terminals.

Rental income amounted to nil, ₱6.3 million and ₱35.5 million in 2023, 2022 and 2021, respectively, (see Note 21).

Group as Lessee
POSC and TGTI leases office space and warehouses. The leases typically run for a period of two to five years, with an option to renew the lease after expiration date upon mutual agreement of the parties.

Amounts recognized in the consolidated statements of comprehensive income follow:

	Note	**2023**	2022	2021
Rent expense		**₱18,092,195**	₱12,592,852	₱14,851,199
Amortization on ROU assets	12	**1,815,399**	4,645,028	10,899,532
Interest expense on lease liabilities		**17,903,206**	220,505	642,417
		₱37,810,800	₱17,458,385	₱26,393,148

Interest expense on lease liabilities is recognized under “Finance charges” account in the consolidated statements of comprehensive income.

Rent expense pertains to low-value asset leases on storage and short-term leases on warehouses.

The movements in the ROU assets are presented below:

	2023	2022
Balance at beginning of year	**₱1,815,399**	₱6,672,570
Amortization	**(1,815,399)**	(4,645,028)
Modification	**–**	(212,143)
Addition	**541,486**	–
Balance at end of year	**₱541,486**	₱1,815,399

The movements in the lease liabilities are presented below:

	2023	2022
Balance at beginning of year	**₱1,891,442**	₱6,872,952
Additions	**541,486**	
Payments	**(1,955,027)**	(4,989,872)
Interest expense	**24,897**	220,505
Modification	**–**	(212,143)
	502,798	1,891,442
Current portion	**294,303**	1,891,442
Noncurrent portion	**208,495**	–
Balance at end of year	**₱502,798**	₱–

Refundable deposits amounted to ₱2.7 million as at December 31, 2023 and 2022, respectively.

The future minimum lease payments under noncancellable leases are as follows:

	2023	2022
Within one year	**₱294,303**	₱1,916,339
After one year but not more than five years	**208,495**	–
	₱502,798	₱1,916,339

19. **Retirement Benefits**

The Parent Company and TGTI have funded, noncontributory defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. Costs are determined in accordance with the actuarial study, the latest of which is dated December 31, 2023.

Changes in the retirement benefits of the Group are as follows:

	2023		
	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Liability**
Balance at beginning of year	**₱51,053,813**	**₱50,611,659**	**₱442,154**
Net retirement income (costs) in profit or loss:			
Current service cost	**4,306,251**	**–**	**4,306,251**
Past service cost	**(1,940,828)**	**–**	**(1,940,828)**
Interest expense	**3,572,295**	**–**	**3,572,295**
Interest income	–	**(3,219,029)**	**(3,219,029)**
	5,937,718	**(3,219,029)**	**2,718,689**
Benefits paid	**–**	**–**	**–**
Contributions	**–**	**19,569,605**	**(19,569,605)**
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	**7,263,106**	**–**	**7,263,106**
Actuarial changes arising from changes in financial assumptions	**4,676,032**	**–**	**4,676,032**
Actual return excluding amount included in net interest cost	–	**(371,616)**	**371,617**
	11,939,138	**(371,616)**	**12,310,755**
Balance at end of year	**₱68,930,669**	**₱66,590,619**	**(₱4,098,008)**

	2022		
	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Liability
Balance at beginning of year	₱69,354,501	₱53,291,874	₱16,062,627
Net retirement income (costs) in profit or loss:			
Current service cost	5,718,843	–	5,718,843
Interest expense	3,805,047	–	3,805,047
Interest income	–	3,603,090	(3,603,090)
	9,523,890	3,603,090	5,920,800
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	(1,540,075)	–	(1,540,075)
Actuarial changes arising from changes in financial assumptions	(14,900,199)	–	(14,900,199)
Actual return excluding amount included in net interest cost		(4,899,000)	4,899,000
	(16,440,274)	(4,899,000)	(11,541,274)
Contributions	–	10,000,000	(10,000,000)
Benefits paid	(11,384,305)	(11,384,305)	–
Balance at end of year	₱51,053,812	₱50,611,659	₱442,153

The following table presents the fair values of the plan assets of the Group as at December 31:

	2023	2022
Cash and cash equivalents	**₱651,170**	₱46,707
Debt instruments - government bonds	**39,659,754**	21,902,515
Debt instruments - other bonds	**4,317,196**	3,695,652
Unit investment trust funds	**21,424,722**	24,318,213
Others	**537,777**	648,572
	₱66,590,619	₱50,611,659

The Group's plan assets are administered by a Trustee. The Group and the retirement plan have no specific matching strategies between the retirement plan assets and define benefit asset or obligation under the retirement plan.

Movements in retirement benefit reserve consist of the following:

	2023		
	Retirement Benefits Reserve	**Deferred Tax (see Note 17)**	**Total**
Balance at beginning of year	**₱22,835,630**	**(₱5,873,565)**	**₱16,962,065**
Remeasurement gain	**(12,310,755)**	**3,077,689**	**(9,233,066)**
Balance at end of year	**₱10,524,875**	**(₱2,795,876)**	**₱7,728,999**

	2022		
	Retirement Benefits Reserve	Deferred Tax (see Note 17)	Total
Balance at beginning of year	₱16,945,209	(₱4,400,960)	₱12,544,249
Remeasurement gain	11,541,274	(2,885,318)	8,655,956
Reclassification	(5,650,853)	1,412,713	(4,238,140)
Balance at end of year	₱22,835,630	(₱5,873,565)	₱16,962,065

The principal assumptions used to determine retirement plan assets as at December 31 are as follows:

	2023	2022
Discount rates	**6.11%**	7.32%
Future salary increases	**8.00%**	8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2023 and 2022 assuming all other assumptions were held constant:

	2023		2022	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	**-100**	**(₱73,532,250)**	-100	(₱57,254,690)
	+100	**65,003,908**	+100	45,813,638
Salary increase rate	**+100**	**73,605,475**	+100	57,410,691
	-100	**(64,864,095)**	-100	(45,585,797)

The average duration of the Group's defined benefit obligation is 10.28 years in 2023.

The maturity analysis of the undiscounted benefit payments follows:

	2023	2022
Within one year	**₱30,074,267**	₱4,503,945
More than one year to five years	**8,297,618**	8,631,666
More than five years to ten years	**199,462,807**	384,459,915

20. Related Party Transaction and Balances

The financial assets at FVOCI pertains to the Group's investment in shares of the Ultimate Parent Company and Parent Company totaling ₱237.6 million and ₱179.1 million as at December 31, 2023 and 2022, respectively (see Note 11).

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

	2023	2022	2021
Salaries and wages	**₱9,187,230**	₱9,319,577	₱22,746,801
Retirement benefits	**881,108**	1,565,098	90,291
Professional fees	**–**	–	1,333,333
	₱10,068,338	₱10,884,675	₱24,170,425

21. Significant Contracts and Commitments

Agreements with PCSO

POSC. The Parent Company has an ELA with the PCSO for the lease of lotto terminals, which includes central computer, communications equipment, and the right to use the application software and manuals for the central computer system and draw equipment of PCSO. This also includes the supply of betting slips and ticket paper rolls.

PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character through holding and conducting charity sweepstakes, races, and lotteries.

Pursuant to the amended ELA, the Parent Company was required to deposit cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals. As at December 31, 2023 and 2022, the total cash bond, included under "Other current assets" in the consolidated statements of financial position, amounted to ₱91.0 million and ₱14.5 million, respectively.

Since July 31, 2019, the ELA has been extended for PCSO to complete the bidding process for the Philippine Lottery System (PLS) under Republic Act No. 9184, as amended, until a new lottery system is fully realized and to ensure unhampered and uninterrupted operations of the online lottery and to avoid the loss of funds to PCSO. In 2023, the ELA was extended until September 30, 2023 and concluded also at the same date.

The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of gross sales of lotto tickets from PCSO's Luzon and VISMIN operations. The number of installed lotto terminals totaled 3,716 and 3,605 as at September 30 2023 and December 31, 2022, respectively. The Parent Company's rental income amounted to ₱469.8 million, ₱512.7 million and ₱390.8 million in 2023, 2022 and 2021, respectively (see Note 18).

On August 30, 2023, POSC was granted a one-year trial period to provide a WABP for PCSO. Under the arrangement, POSC will be acting as PCSO's exclusive agent and generates fees based on a certain percentage of revenues. This was launched in December 15, 2023. Fees presented as "Commission income" in the consolidated statements of comprehensive income amounted to ₱2.3 million in 2023.

TGTI. TGTI had an ELA with PCSO which provides for the lease of the equipment for PCSO's Online KENO games. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories. The rental fee, presented as "Equipment rental" in the consolidated statements of comprehensive income, is based on a percentage of the gross sales of the "Online KENO" terminals. The minimum price per keno bet was reduced from ₱12 to ₱10, inclusive of documentary stamp tax. The ELA may be extended and/or renewed upon the mutual consent of the parties.

The ELA required TGTI to post a cash bond and performance security bond with an aggregate amount of ₱2.5 million. The cash bond in included under “Other current assets” in the consolidated statements of financial position (see Note 10).

The ELA concluded and was not renewed in 2022.

The number of installed online KENO terminals totaled 57 and 569 as at December 31, 2022 and 2021, respectively. Pinoylotto’s revenue from equipment rental amounted to ₱129.4 million in 2023. TGTI’s revenue from equipment rental nil, ₱6.3 million and ₱35.6 million in 2023, 2023 and 2022, respectively (see Note 18).

<u>Brand and Trademark Agreements</u>

- In January 2018, POSC entered into a Brand and Trademark License Agreement (BTLA) with PMLC granting the latter a non-assignable, non-transferable and exclusive right to use POSC’s instant scratch tickets’ brand 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 term of the PMLC’s agreement with PCSO for the supply and distribution of its instant scratch tickets. In consideration of the BTLA, PMLC agreed to pay POSC a guaranteed fixed monthly fee of ₱4.0 million starting January 2018. The agreement with PMLC was accounted for as sale of right to use the brand and trademark. POSC already transferred the control over the brand and trademark to PMLC on January 1, 2018 and there are no other performance obligation to be provided to PMLC.

  Due to the suspension of PCSO games on July 27, 2019 for two months and on March 17, 2020 for four and a half months, the PMLC was not able to supply and distribute the instant scratch tickets to its customers. As a result, impairment losses amounting to ₱26.0 million were recognized in 2020. Consequently, this was reversed in 2021 and was subsequently collected in 2022 (see Note 16).

- POSC has entered a new contract with Diamond Powerwinners for Trademark Assignment with a total fee of ₱30.0 million (inclusive of VAT). The contract terms are for ten months starting November 2023 to August 2024.

Accreted interest income amounted to nil and ₱3.7 million in 2023 and 2022, respectively (see Note 16). Accrued license fee income amounted to ₱nil and 4.0 million as at December 31, 2023 and 2022, respectively (see Note 9).

<u>Contracts with Scientific Games and Intralot and Management Agreement</u>

Scientific Games. As at December 31, 2023 and 2022, POSC has a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of Visayas-Mindanao Online Lottery System. In consideration, POSC shall pay Scientific Games a pre-agreed percentage of the revenue generated by the terminals from PCSO’s conduct of online lottery operation using the computer hardware and operating system provided by Scientific Games. The contract shall continue as long as the POSC’s ELA with PCSO is in effect.

In 2021, the contract with Scientific Games was extended until July 31, 2022 and subsequently extended again until September 30, 2023.

Intralot. As at December 31, 2022 and 2021, POSC and TGTI have contracts with Intralot Inc., a company subsidiary domiciled in Atlanta, Georgia, for the supply of hardware, operating system software and terminals and the required training required to operate the system. In consideration, POSC and TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operations. The Contract shall continue as long as POSC's and TGTI's ELA with PCSO are in effect.

The contract with POSC was extended until September 30, 2023 and was no longer renewed.

The contract with TGTI ended on March 31, 2022.

Software and license fee recognized amounted to ₱65.6 million, ₱60.5 million and ₱54.5 million in 2023, 2022 and 2021, respectively (see Note 15). Software and license fees payable amounted to ₱8.9 million, ₱22.6 million and ₱18.2 million as at December 31, 2023, 2022 and 2021, respectively (see Note 13).

22. Basic Earnings (Loss) per Share

As at December 31, 2023, 2022 and 2021, the basic/diluted earnings (loss) per share was computed as follows:

	2023	2022	2021
Income(loss) attributable to Equity holders of the Parent (a)	**₱272,701,996**	₱191,117,272	(₱140,274,063)
Number of issued common shares at beginning of year	**895,330,946**	895,330,946	895,330,946
Number of parent company common shares held by a subsidiary at beginning of year	**(50,466,984)**	(50,466,984)	(50,466,984)
Weighted average number of issued common shares - basic, at end of year (b)	**844,863,962**	844,863,962	844,863,962
Basic/diluted earnings (loss) per share (a/b)	**₱0.3228**	₱0.2262	(₱0.1660)

There are no common stock equivalents that would have a dilutive effect on the basic earnings (loss) per share.

23. Financial Instruments

Financial Risk Management Objectives and Policies

The financial instruments mainly comprise cash, trade and other receivables (excluding advances to suppliers, officers and employees) and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets"), investments held for trading and financial assets at FVOCI, trade payables and other current liabilities (excluding statutory payables) and lease liabilities. The main purpose of these financial instruments is to finance the Group's projects and operations.

It is the policy that no trading of financial instruments should be undertaken by the Group. The main risks arising from the financial instruments are credit risk, equity price risk, liquidity risk and foreign currency risk. The BOD reviews and approves policies for managing these risks.

Credit Risk. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not offer credit terms without the specific approval of the management. There is no significant concentration of credit risk.

With respect to credit risk arising from the financial assets of the Group, which comprise of cash (excluding cash on hand) trade and other receivables (excluding advances to suppliers) and guarantee and refundable deposits (presented as part of "Other current assets" or "Other noncurrent assets"), the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these financial assets.

The table below shows the Group's aging analysis of financial assets.

	2023						
	Neither Past Due nor Impaired	Past Due but not Impaired					
		Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash and cash equivalents*	**₱343,945,679**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱343,945,679**
Trade and other receivables**	**284,426,917**	**–**	**–**	**–**	**–**	**115,825,004**	**400,251,921**
Refundable deposit***	**3,036,530**	**–**	**–**	**–**	**–**	**–**	**3,036,530**
Guarantee deposits***	**91,000,000**	**–**	**–**	**–**	**–**	**–**	**91,000,000**
	₱722,409,126	**₱–**	**₱–**	**₱–**	**₱–**	**₱115,825,004**	**₱838,234,130**

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statements of financial position.*

	2022						
	Neither Past Due nor Impaired	Past Due but not Impaired					
		Less than 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired	Total
Cash and cash equivalents*	₱301,164,883	₱–	₱–	₱–	₱–	₱–	₱301,164,883
Trade and other receivables**	200,038,359	–	–	–	–	113,677,614	313,715,973
Refundable deposit***	2,769,759	–	–	–	–	–	2,769,759
Guarantee deposits***	14,500,000	–	–	–	–	–	14,500,000
	₱518,473,001	₱–	₱–	₱–	₱–	₱113,677,614	₱632,150,615

***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statements of financial position.*

Financial assets are considered past due when collections are not received on due date.

<u>Credit Quality of Financial Assets</u>
The financial assets are grouped according to stage whose description is explained as follows:

Stage 1 – those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 – those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date

Stage 3 – those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The credit quality of the Group's financial assets are as follows:

	2023			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents*	**₱343,945,679**	**₱–**	**₱–**	**₱343,945,679**
Trade and other receivables-net**	**284,426,917**	**–**	**115,825,004**	**400,251,921**
Refundable deposit***	**3,036,530**	**–**	**–**	**3,036,530**
Guarantee deposit***	**91,000,000**	**–**	**–**	**91,000,000**
Gross Carrying Amount	**₱722,409,126**	**₱–**	**₱115,825,004**	**₱838,234,130**

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statement of financial position.*

	2022			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents*	₱301,164,883	₱–	₱–	₱301,164,883
Trade and other receivables-net**	200,038,359	–	113,677,614	313,715,973
Refundable deposit***	2,769,759	–	–	2,769,759
Guarantee deposit***	14,500,000	–	–	14,500,000
Gross Carrying Amount	₱518,473,001	₱–	₱113,677,614	₱632,150,615

**Excluding cash on hand.*
***Excluding advances to suppliers, officers and employees.*
****Presented under "Other current assets" and/or "Other noncurrent assets" account.*

High grade financial assets pertain to receivables from clients or customers who have no history of delayed payment while medium grade includes receivables from clients or customers who have history of delayed payment but is currently updated.

Cash in banks are deposited with the top ten banks in the Philippines; hence, considered high grade.

Quoted marketable securities and financial assets at FVOCI are assessed as high grade based on financial status of the counterparty and its current stock price performance in the market.

Equity Price Risk. Equity price risk is the risk that the fair value of quoted marketable securities and financial assets at FVOCI in listed equities decreases as a result of changes in the value of individual stock. The Group's exposure to equity price risk relates primarily to the Group's marketable securities. The Group monitors the equity investments based on market expectations. Significant movements 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 2023 and 2022 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	**2023**	2022
Impact in profit or loss		
5%	**₱5,022,327**	₱3,564,429
(5%)	**(5,022,327)**	(3,564,429)
Impact in comprehensive income		
5%	**₱19,008,007**	₱14,331,434
(5%)	**(19,008,007)**	(14,331,434)

Liquidity Risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Group's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Group considers obtaining borrowings as the need arises.

The table also analyzes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	2023				
	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Trade payables and other current liabilities*	**₱168,761,749**	**₱–**	**₱–**	**₱67,500,000**	**₱236,261,749**
Loan payable	**–**	**–**	**58,823,529**	**411,764,707**	**470,588,236**
Lease liabilities	**73,576**	**73,756**	**147,152**	**208,495**	**502,979**
	₱40,235,234	**₱761,534**	**₱58,970,681**	**₱479,473,202**	**₱707,352,964**

**Excluding statutory payables*

	2022				
	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Trade payables and other current liabilities*	₱39,290,044	₱–	₱–	₱58,832,186	₱98,122,230
Loan payable	–	–	–	67,500,000	67,500,000
Lease liabilities	1,149,804	766,536	–	–	1,916,340
	₱40,439,848	₱766,536	₱–	₱126,332,186	₱167,538,570

**Excluding statutory payables*

Foreign Currency Risk. Foreign currency risk is the risk that the fair value or future cash flows of financial asset or financial liability will fluctuate due to changes in foreign exchange rates.

As at December 31, 2023 and 2022, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2023		2022	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Cash and cash equivalents	**$989,831**	**₱54,608,951**	$1,962,285	₱109,097,145
Software license fee payable*	**(160,700)**	**(8,865,861)**	(838,192)	(46,600,971)
Net foreign currency-denominated assets (liabilities)	**$989,831**	**₱54,608,951**	$1,124,093	₱62,496,174

**Presented under "Trade payables and other current liabilities" account.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱55.17 to US$1.0 and ₱55.60 to US$1.0, as at December 31, 2023 and 2022, respectively.

It is the Group's policy to ensure that capabilities exist for active but conservative management of its foreign currency risk. The Group seeks to mitigate its transactional currency exposure by maintaining its costs at consistently low levels, regardless of any upward or downward movement in the foreign currency exchange rate.

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar exchange rates, with all other variables held constant, of the Group's consolidated income before tax as at December 31, 2023 and 2022. There is no other impact on the Group's equity other than those already affecting the profit or loss in the consolidated statement of comprehensive income.

	2023		2022	
	Increase in US$ Rate	**Decrease in US$ Rate**	Increase in US$ Rate	Decrease in US$ Rate
Change in US$ rate*	**5%**	**(5%)**	5%	(5%)
Effect on income before income tax	**₱2,287,155**	**(₱2,287,155)**	₱10,756,670	(₱10,756,670)

The increase in US$ rate means stronger US dollar against peso while the decrease in US$ rate means stronger peso against the US dollar.

Capital Management

The primary objective of the Group's capital management is to safeguard its ability to continue as a going concern, so that it can continue to 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 or issue new shares. There were no changes made in the objectives, policies or processes in 2023 and 2022.

The Group considers the following as its capital:

	2023	2022
Common stock	**₱895,330,946**	₱895,330,946
Additional paid-in capital	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	**(285,267,558)**	(285,267,558)
	₱864,703,711	₱864,703,711

Fair Value of Assets and Financial Liabilities

Set out below is a comparison by category and by class of carrying values and fair values of the Group's assets and financial liabilities:

	2023		2022	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**₱343,548,615**	**₱343,548,615**	₱301,656,383	₱301,656,383
Trade and other receivables*	**284,426,917**	**284,426,917**	200,038,359	200,038,359
Refundable security deposits**	**3,036,530**	**3,036,530**	2,769,759	2,769,759
Guaranteed deposits**	**91,000,000**	**91,000,000**	14,500,000	14,500,000
At FVPL				
Investments held for trading	**100,012,769**	**100,012,769**	71,288,577	71,288,577
At FVOCI				
Financial assets at FVOCI	**237,600,090**	**237,600,090**	179,142,925	179,142,925
	₱1,059,624,921	**₱1,059,624,921**	₱769,396,003	₱769,396,003

	2023		2022	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Trade payables and other current liabilities***	**₱236,261,749**	**₱236,261,749**	₱98,122,230	₱98,122,230
Loan payable	**470,588,235**	**470,588,235**	67,500,000	66,538,186
Lease liabilities	**502,798**	**502,798**	1,891,442	1,899,514
	₱707,352,782	**₱707,352,782**	₱167,513,672	₱166,559,930

**Excluding advances to suppliers, officers and employees.*
***Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statements of financial position.*
****Excluding statutory payables*

The Group has no financial liabilities measured at fair value as at December 31, 2023 and 2022. There were no transfers between fair value measurements in 2023 and 2022.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and financial liabilities:

Cash, Trade and Other Receivables, Trade Payables and Other Current Liabilities (excluding Statutory Payables). The carrying values of these financial instruments approximate their fair values due to the relatively short-term maturities of these financial assets and financial liabilities.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of Financial Assets at FVPL and financial assets at FVOCI in quoted equity shares are based on quoted prices in the PSE or those shares whose prices are readily available from brokers or other regulatory agency as at reporting date. There are no quoted market prices for the unlisted shares and there are no other reliable sources of their fair values, therefore, these are carried at cost, net of any impairment loss.

Loan Payable and Lease Liabilities. The fair values are based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rate used for loan payable is 5.31% in 2023 and 5.78% to 5.25% for lease liabilities in 2023 and 2022.

24. Supplemental Disclosures of Cash Flow Information

Changes in Liabilities Arising from Financing Activities

	1/1/2023	**Additions (Reversals)**	**Finance Costs**	**Cash Flows**	**12/31/2023**
Lease liabilities	**₱1,891,442**	**₱541,486**	**₱24,897**	**(₱1,955,027)**	**₱502,798**
Loans payable	**67,500,000**	**432,500,000**	**17,878,309**	**(47,290,073)**	**470,588,236**
Total liabilities from financing activities	**₱69,391,442**	**₱433,041,486**	**₱17,903,206**	**(₱49,245,100)**	**₱471,091,034**

	1/1/2022	Additions (Reversals)	Finance Costs	Cash Flows	12/31/2022
Lease liabilities	₱6,872,952	(₱212,143)	₱220,505	(₱4,989,872)	₱1,891,442
Loans payable	–	67,500,000	–	–	67,500,000
Total liabilities from financing activities	₱6,872,952	₱67,287,857	₱220,505	(₱4,989,872)	₱69,391,442

	1/1/2021	Additions (Reversals)	Finance Costs	Cash Flows	12/31/2021
Lease liabilities	₱11,605,367	₱7,452,566	₱642,417	(₱12,827,398)	₱6,872,952

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Registration No. PP201007009

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors
Pacific Online Systems Corporation and Subsidiaries
28th Floor East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center Pasig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Pacific Online Systems Corporation and Subsidiaries (the Group) as at and for the years ended December 31, 2023 and 2022 and have issued our report thereon dated February 28, 2024. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole.

The following supplementary schedules are the responsibility of the Group's management. These are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 Part II, and are not part of the basic consolidated financial statements:

- Reconciliation of the Parent Company's Retained Earnings Available for Dividend Declaration as at December 31, 2023
- Schedules required by Annex 68-J as at December 31, 2023
- Conglomerate Map as at December 31, 2023
- Schedule of Financial Soundness Indicators as at and for the years ended December 31, 2023 and 2022

The supplementary schedules have been subjected to the audit procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

REYES TACANDONG & CO.

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-004-2022
Valid until October 16, 2025
PTR No. 9564560
Issued January 2, 2024, Makati City

February 28, 2024
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2023 and 2022

Ratio	Formula	2023	2022
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		
	Total current assets	**₱948,422,045**	₱723,161,468
	Divide by: Total current liabilities	**314,098,180**	111,378,809
	Current Ratio	**3.01**	6.49
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities**		
	Total current assets	**₱948,422,045**	₱723,161,468
	Less: Other current assets	**118,272,604**	19,411,394
	Quick assets	**830,149,442**	703,750,074
	Divide by: Total current liabilities	**314,098,180**	111,378,809
	Acid Test Ratio	**2.63**	6.32
Debt-to-Equity Ratio	**Total Interest-Bearing debt divided by Total Equity**		
	Total interest-bearing debt	**₱470,588,236**	₱67,500,000
	Total equity	**1,175,707,838**	936,105,319
	Debt to Equity Ratio	**0.4**	0.07
Asset-to-Equity Ratio	**Total Assets divided by Total Equity**		
	Total assets	**₱1,901,779,220**	₱1,115,957,433
	Total equity	**1,175,707,838**	936,105,319
	Asset to Equity Ratio	**1.62**	1.19
Interest Rate Coverage Ratio	**Income Before Interest and Taxes divided by Total Interest Expense**		
	Net income before income tax	**₱331,661,101**	₱215,133,404
	Less: Interest income	**5,753,505**	437,289
	Add: Interest expense	**17,903,206**	220,505
	Income before interest and taxes	**341,952,646**	214,916,620
	Divide by: Interest expense	**17,903,206**	220,505
	Interest Rate Coverage Ratio	**19.10**	974.66

Return on Equity	**Net Income divided by Average Total Equity**		
	Net income	**₱274,864,816**	₱191,099,513
	Average Total Equity	**1,055,906,579**	827,702,141
	Return on Equity	**0.26**	0.23
Return on Assets	**Net Income divided by Average Total Assets**		
	Net income	**₱274,864,816**	₱191,099,513
	Average total assets	**1,508,868,327**	985,557,167
	Return on Assets	**0.18**	0.19
Solvency Ratio	**Net Income Before Non-Cash Expenses divided by Total Liabilities**		
	Net income	**₱274,864,816**	₱191,099,513
	Add: Non-cash expenses	**40,796,382**	33,948,821
	Net loss before non-cash expenses	**315,661,198**	225,048,334
	Total liabilities	**726,071,382**	179,852,114
	Solvency Ratio	**0.43**	1.25
Net Profit Margin	**Net Income divided by Total Revenue**		
	Net income	**₱274,864,816**	₱191,099,513
	Total revenue	**601,553,656**	519,051,226
	Net profit margin	**0.46**	0.37

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

PARENT COMPANY'S RECONCILIATON OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2023

		Amount
Unappropriated retained earnings, beginning of reporting period		₱144,015,881
Less: Category B: Items that are directly debited to unappropriated retained earnings		
Dividend declaration during the reporting period		(84,486,396)
Unappropriated retained earnings, as adjusted		59,529,485
Add net income for the current year	245,453,493	
Add: Category C.1: Unrealized income recognized in the profit or loss during the reporting period (net of tax)		
Share in net loss PinoyLotto	5,455,782	
Add/Less: Category C.1: Unrealized income recognized in the profit or loss during the reporting period (net of tax)		
Unrealized fair value adjustment (mark-to-market gains) of financial instruments at FVPL	(54,078,646)	
Unrealized foreign exchange loss	2,351,403	199,182,032
Add: Category F: Other items that should be excluded from the determination of the amount of available for dividends distribution		
Net movement in deferred tax asset and deferred tax liabilities related to same transaction		3,530,365
Total retained earnings, end of the reporting period available for dividend		₱262,241,882

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6 PART II OF REVISED SRC RULE 68

DECEMBER 31, 2023

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Schedule	*Description*	*Page*
A	Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	N/A
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	2
D	Long-Term Debt	2
E	Indebtedness to Related Parties	N/A
F	Guarantees of Securities of Other Issuers	N/A
G	Capital Stock	2

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value based on market quotations at balance sheet date	Interest received and accrued
	(In Thousands)			
Financial assets at fair value through profit or loss				
APC Goup, Inc.	45,821,000	₱10,767,935	₱10,767,935	₱–
Leisure and Resorts World Corp.	6,980,592	55,844,736	55,844,736	–
Vantage Equities, Inc.	43,376,750	33,400,098	33,400,098	–
		₱100,012,769	**₱100,012,769**	–
Financial assets at fair value through other comprehensive income				
Premium Leisure Corporation	377,143,000	₱237,600,090	₱237,600,090	–
		₱337,612,859	**₱337,612,859**	

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial statements

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts Collected	Allowance for Doubtful Accounts	Current	Not Current	Balance at end of period
Total Gaming Technologies Inc.	₱37,698,261	₱137,967	(₱17,855,138)	₱–	₱–	₱–	₱19,981,090
TGTI Services, Inc.	–	–	–	–	–	–	–
	₱37,698,261	**₱137,967**	**(₱17,855,138)**	**₱–**	**₱–**	**₱–**	**₱19,981,090**

Schedule D. Long-term debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"
Loan Payable			
Unionbank of the Philippines	₱470,588,235	₱58,823,529	₱411,764,706
	₱470,588,235	₱58,823,529	₱411,764,706

Schedule G. Capital Stock

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under statement of financial position	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stock	2,288,000,000	895,330,946	–	50,466,984	73,667,550	771,196,412
	2,288,000,000	**895,330,946**	**–**	**50,466,984**	**73,712,150**	**771,196,412**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAP

DECEMBER 31, 2023