C01248-2022

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)
   Mar 1, 2022
2. SEC Identification Number
   AS093008809
3. BIR Tax Identification No.
   003865392000
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
   28F UNIT2803A&B EAST TOWER PSE CENTER EXCHANGE ROAD ORTIGAS CENTER PASIG CITY
   Postal Code
   1605
8. Issuer's telephone number, including area code
   +63285841700
9. Former name or former address, if changed since last report
   N/A
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

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

Pacific Online Systems Corporation
LOTO

PSE Disclosure Form ETF-12- Material Information/Transactions
Reference: Section 6 of the Rules on Exchange Traded Funds

Subject of the Disclosure
Audited Financial Statement for the period ended December 31, 2021
Background/Description of the Disclosure
In observance of good governance standards and practices, we hereby submit our Audited Financial Statement for the period ended December 31,2021.
Other Relevant Information
-

Filed on behalf by:

Name	Irene Bautista
Designation	Controller

COVER SHEET

A S 0 9 3 0 0 8 8 0 9

SEC Registration Number

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

28TH FLOOR, EAST TOWER PHILIPPINE STOCK EXCHANGE CENTER, EXCHANGE ROAD ORTIGAS CENTER, PASIG CITY

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

JACKSON T. ONGSIP

(Contact Person)

(+632) 8584-1700

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Calendar Year)

1 7 - C

(Form Type)

0 5 | 2 8

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PACIFIC ONLINE
SYSTEMS CORPORATION

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. **March 01, 2022**
   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

   Industry Classification Code: (SEC Use Only)

7. **28th Floor East Tower PSE Center, Exchange Road**
   Ortigas Center, Pasig City
   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	**895,330,946**

U2803 A&B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City, 1605 PH
16/F Metrobank Plaza, Osmeña Boulevard, Cebu City, 6000 PH
t (+63)(2) 8584.1700/ (+63)(2) 8584.1816/ (+63)(2) 8584.1843
t (+63)(32) 255.0721/ t (+63)(32) 255.0716
www.loto.com.ph

PACIFIC ONLINE SYSTEMS CORPORATION LOTO

11. Indicate the item numbers reported herein:

Item No. 9 (Please refer to the attached)

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

Jackson T. Ongsip
President

March 01, 2022
Date

SEC Form 17-C
December 2003

PACIFIC ONLINE
SYSTEMS CORPORATION LOTO

March 1, 2022

Securities and Exchange Commission
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay 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. Janet A. Encarnacion**
Head, Disclosure Department

Subject : **Audited Financial Statement for the period ended December 31, 2021**

Gentlemen :

In observance of good corporate governance standards and practices, we hereby submit our Audited Financial Statement for the period ended December 31, 2021.

We trust you find everything in order.

Thank you.

JACKSON T. ONGSIP
President

PACIFIC ONLINE
SYSTEMS CORPORATION LOTO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Pacific Online Systems Corporation and Subsidiaries (the Company)** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2021 and 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Reyes Tacandong & Co. and R. G. Manabat & Co., the independent auditors appointed by the stockholders for the periods December 31, 2021 and 2020, respectively, have audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Signature: **WILLY N. OCIER**
Chairman of the Board

Signature: **JACKSON T. ONGSIP**
President

Signature: **MARIA NERIZA C. BANARIA**
Chief Financial Officer

Signed this 10th day of February 2022

SUBSCRIBED AND SWORN TO BEFORE ME, AT PASIG CITY
THIS DAY OF FEB 10 2022 AFFIANT EXHIBITING TO ME
HIS/HER COMPETENT EVIDENCE OF IDENTITY NO. ______
ISSUED AT ______ ON ______.

Doc. No. 110;
Page No. 22;
Book No. 07;
Series of 2022.

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2022
PTR No. 8098064 /01/04/2022 Pasig City
IBP No. 167462 / 11/18/2021-For Year 2022/ RSM
Roll No. 41969
MCLE Comp. VI-0021812 / March 28, 2019
No. 11 Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 38 (2021-2022)

U2803 A&B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City, 1605 PH
16F Metrobank Plaza, Osmeña Boulevard, Cebu City, 6000 PH
t (+63)(2) 8584.1700/ (+63)(2) 8584.1816/ (+63)(2) 8584.1843
t (+63)(32) 255.0721/ t (+63)(32) 255.0716
www.loto.com.ph

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	0	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)
57	May 28	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Grace L. Gatdula	glgatdula@pacificonline.com.ph	(02) 8584-1700	0998-594-6190

CONTACT PERSON'S ADDRESS

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

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 Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

BDO Towers Valero (formerly Citibank Tower)
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 Board of Directors
Pacific Online Systems Corporation and Subsidiaries
28th Floor, East Tower, Philippine Stock Exchange Centre
Exchange Road, Ortigas Center Pasig City, Metro Manila

Opinion

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

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

Basis for Opinion

We conducted our audit 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.

Other Matter

The consolidated financial statements of the Group as at December 31, 2020 and for the years ended December 31, 2020 and 2019 were audited by another auditor whose report dated March 1, 2021, expressed an unmodified opinion on those consolidated financial statements.

Key Audit Matters

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

Assessing Recoverability of Nonfinancial Assets
As at December 31, 2021, the carrying amount of the Group's nonfinancial assets amounted to ₱193.1 million (net of allowance for impairment losses amounting to ₱33.6 million), which represents 23% of its total consolidated assets. Management's assessment for impairment of the Group's nonfinancial assets is considered an area of significant judgment and estimate because of the uncertainties and prevailing challenges in the conduct of business brought about by the pandemic and imminent changes in the operations and sources of cash flows of the Group.

Our audit procedures included, among others, assessing management's determination of the recoverable amounts of the Group's nonfinancial assets considering the potential impact of regulatory processes and decisions and changes in business strategies. We evaluated the appropriateness of the assumptions used by the Group in the impairment assessment, in particular those involving the forecasted cash flows from existing and committed contracts. We also reviewed the adequacy of the Group's related disclosures in Note 3, *Significant Judgments, Accounting Estimates, and Assumptions* in the consolidated financial statements.

Assessing Joint Control and Determining Proper Classification of a Joint Arrangement
As at December 31, 2021, 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, as a joint operation. Accordingly, the Group's corresponding share in the assets, liabilities, revenue and expenses of PinoyLotto was recognized in the consolidated financial statements. The assessment of the joint arrangement is considered as a key audit matter because of the significant judgment involved in the management's process in evaluating the Group's rights and obligations arising from the arrangement, including its consideration of the structure and legal form of the arrangement, the terms agreed by parties or established by relevant regulatory body, among others.

Our audit procedures included, among others, reviewing the provisions of the joint venture arrangement and other relevant agreements and documents and assessing the appropriateness of the judgment made on the existence of joint control and determining the proper classification and accounting for the joint arrangement by considering the pertinent facts and circumstances as at report date. We also reviewed the adequacy of the related disclosures in Notes 3 and 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 distributed to stockholders for the year ended December 31, 2021, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report to be distributed to stockholders for the year ended December 31, 2021 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 audit 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 audit.

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

BELINDA B. FERNANDO
Partner
CPA Certificate No. 81207
Tax Identification No. 102-086-538-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-004-2019
Valid until October 16, 2022
PTR No. 8851706
Issued January 3, 2022, Makati City

February 10, 2022
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

(With Comparative Figures for 2020)

	Note	**2021**	2020
ASSETS			
Current Assets			
Cash	7	**₱98,638,883**	₱162,274,833
Marketable securities	8	**61,629,495**	84,260,926
Trade and other receivables	9	**229,355,532**	132,373,468
Other current assets	10	**157,272,264**	164,733,666
Total Current Assets		**546,896,174**	543,642,893
Noncurrent Assets			
Financial assets at fair value through other comprehensive income (FVOCI)	11	**252,166,540**	281,822,365
Property and equipment	12	**23,398,041**	83,495,388
Right-of-use assets	19	**6,672,570**	10,119,536
Deferred tax assets	18	**21,398,655**	82,414,559
Other noncurrent assets	10	**4,624,920**	101,909,300
Total Noncurrent Assets		**308,260,726**	559,761,148
		₱855,156,900	₱1,103,404,041
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	14	**₱112,922,359**	₱180,208,165
Lease liabilities	19	**4,886,938**	7,676,824
Income tax payable		**–**	6,146
Total Current Liabilities		**117,809,297**	187,891,135
Noncurrent Liabilities			
Lease liabilities - net of current portion	19	**1,986,014**	3,928,543
Retirement liability	20	**16,062,627**	48,443,811
Total Noncurrent Liabilities		**18,048,641**	52,372,354
Total Liabilities		**135,857,938**	240,263,489

(Forward)

	Note	**2021**	2020
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	15	**₱895,330,946**	₱895,330,946
Additional paid-in capital	15	**254,640,323**	254,640,323
Cost of Parent Company common shares held by a subsidiary	15	**(285,267,558)**	(285,267,558)
Fair value reserve		**(492,266,311)**	(462,610,486)
Retirement benefits reserve		**12,544,249**	(14,014,805)
Other reserve	15	**2,610,354**	2,610,354
Retained earnings		**329,713,024**	469,987,087
		717,305,027	860,675,861
Non-controlling Interest		**1,993,935**	2,464,691
Total Equity		**719,298,962**	863,140,552
		₱855,156,900	₱1,103,404,041

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

(With Comparative Figures for 2020 and 2019)

	Note	**2021**	2020	2019
CONTINUING OPERATIONS REVENUES				
Equipment rental	19, 22	**₱426,345,611**	₱293,104,496	₱681,483,757
Commission and distribution income		**–**	5,425,907	25,465,751
		426,345,611	298,530,403	706,949,508
COST OF SERVICES	16	**378,629,801**	514,362,959	726,469,650
GENERAL AND ADMINISTRATIVE EXPENSES	16	**165,518,554**	279,263,749	228,215,853
OPERATING LOSS		**(117,802,744)**	(495,096,305)	(247,735,995)
OTHER INCOME (CHARGES)				
Mark-to-market loss on marketable securities	8	**(22,631,431)**	(6,195,655)	(15,248,311)
Dividend income	8,11	**15,368,577**	29,302,224	31,657,224
Finance charges	19	**(642,417)**	(6,335,216)	(4,408,963)
Interest income	7	**122,135**	676,852	1,269,508
Impairment loss on goodwill	13	**–**	–	(17,046,266)
Others - net	17	**34,975,394**	3,473,074	(12,892,446)
		27,192,258	20,921,279	(16,669,254)
LOSS BEFORE INCOME TAX		**(90,610,486)**	(474,175,026)	(264,405,249)
INCOME TAX EXPENSE (BENEFIT)	18			
Current		–	6,039	4,210,086
Deferred		**50,134,333**	(52,959,818)	(68,381,533)
		50,134,333	(52,953,779)	(64,171,447)
NET LOSS FROM CONTINUING OPERATIONS		**(140,744,819)**	(421,221,247)	(200,233,802)
DISCONTINUED OPERATION				
Net income (loss) from discontinued operation	5	–	39,833,733	(120,738,572)
NET LOSS		**(₱140,744,819)**	(₱381,387,514)	(₱320,972,374)

	Note	**2021**	2020	2019
NET LOSS		**(₱140,744,819)**	(₱381,387,514)	(₱320,972,374)
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified to profit or loss				
Fair value loss on financial assets at FVOCI	11	**(29,655,825)**	(65,808,515)	(108,075,050)
Remeasurement gain (loss) on retirement benefits, net of deferred tax	20	**26,559,054**	(3,082,772)	(18,152,999)
		(3,096,771)	(68,891,287)	(126,228,049)
TOTAL COMPREHENSIVE LOSS		**(₱143,841,590)**	(₱450,278,801)	(₱447,200,423)
Net loss attributable to:				
Equity holders of the Parent Company		**(₱140,274,063)**	(₱378,508,762)	(₱319,411,018)
Non-controlling interest		**(470,756)**	(2,878,752)	(1,561,356)
		(₱140,744,819)	(₱381,387,514)	(₱320,972,374)
Total comprehensive loss attributable to:				
Equity holders of the Parent Company		**(₱143,370,834)**	(₱447,400,049)	(₱445,639,067)
Non-controlling interest		**(470,756)**	(2,878,752)	(1,561,356)
		(₱143,841,590)	(₱450,278,801)	(₱447,200,423)
Loss per share - continuing operations				
Basic / diluted loss per share	23	**(₱0.1666)**	(₱0.4986)	(₱0.2370)

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for 2020 and 2019)

	Note	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax from continuing operations		**(₱90,610,486)**	(₱474,175,026)	(₱264,405,249)
Income (loss) before income tax from discontinued operation	5	**–**	39,836,985	(130,982,422)
Loss before income tax		**(90,610,486)**	(434,338,041)	(395,387,671)
Adjustments for:				
Depreciation and amortization	12	**148,369,577**	233,659,796	219,353,441
Provision for (reversal of) impairment loss on:				
Trade and other receivables	9	**(26,000,000)**	139,677,614	2,147,391
Spare parts, supplies and creditable withholding taxes	10	**–**	44,005,570	–
Right-of-use asset	19	**–**	458,997	–
Goodwill	13	**–**	–	17,046,266
Fair value loss on marketable securities	8	**22,631,431**	6,195,655	15,248,311
Dividend income	8, 11	**(15,368,577)**	(29,302,224)	(31,657,224)
Retirement benefits	20	**9,383,034**	11,290,060	18,265,466
Interest income	7, 17	**(6,235,177)**	(6,267,240)	(10,149,516)
Loss on retirement of asset	12	**834,746**	–	–
Other provisions		**676,407**	–	–
Finance charges	19	**642,417**	6,335,216	7,022,938
Unrealized foreign exchange loss		**511,428**	238,218	885,057
Gain on sale of:				
Property and equipment	12	**(175,500)**	(15,000)	(839,812)
Subsidiaries	5	–	(55,761,139)	–
Write-off of refundable deposit	19	**–**	1,794,147	–
Operating income (loss) before working capital changes		**44,659,300**	(82,028,371)	(158,065,353)
Decrease (increase) in:				
Trade and other receivables		**(64,869,022)**	(97,843,325)	119,294,903
Other current assets		**(59,356,779)**	(168,956,266)	(69,326,528)
Increase (decrease) in trade and other current liabilities		**(66,540,727)**	208,065,476	(105,557,506)
Net cash used for operations		**(146,107,228)**	(140,762,486)	(213,654,484)
Retirement contributions	20	**(5,000,000)**	–	(6,500,000)
Interest received		**122,135**	676,852	1,269,508
Income tax paid		**(6,146)**	(940,580)	(13,924,737)
Net cash flows used in operating activities		**(150,991,239)**	(141,026,214)	(232,809,713)

(Forward)

	Note	**2021**	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in other noncurrent assets		**₱97,284,380**	₱157,284,675	(₱84,660,518)
Dividends received	8, 11	**15,368,577**	29,302,224	31,657,224
Acquisitions of property and equipment	12	**(12,127,263)**	(90,839,188)	(29,536,476)
Proceeds from sale of:				
Property and equipment	12	**913,500**	671,523	955,673
Marketable securities	8	–	50,000,000	–
Disposal of subsidiaries, net of cash disposed of		–	9,879,025	–
Net cash flows provided by (used in) investing activities		**101,439,194**	156,298,259	(81,584,097)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of lease liabilities	19	**(12,827,398)**	(36,842,773)	(60,485,647)
Finance charges paid		**–**	(4,337,479)	–
Loan proceeds (payments)		**–**	(150,000,000)	150,000,000
Increase in installment payable		**–**	–	(9,205,042)
Net cash flows provided by (used in) financing activities		**(12,827,398)**	(191,180,252)	80,309,311
NET DECREASE IN CASH		**(62,379,443)**	(175,908,207)	(234,084,499)
CASH AT BEGINNING OF YEAR		**162,274,833**	337,471,529	571,260,258
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		**(1,256,507)**	711,511	295,770
CASH AT END OF YEAR	7	**₱98,638,883**	₱162,274,833	₱337,471,529

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2021

(With Comparative Figures for 2020 and 2019)

		Equity Attributable to Equity Holders of the Parent Company									
	Note	**Capital stock**	**Additional paid-in Capital**	**Cost of Parent Company Common Shares Held by a Subsidiary**	**Fair Value Reserve**	**Retirement Benefits Reserve**	**Other Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at January 1, 2021		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱462,610,486)**	**(₱14,014,805)**	**₱2,610,354**	**₱469,987,087**	**₱860,675,861**	**₱2,464,691**	**₱863,140,552**
Net loss		**–**	**–**	**–**	**–**	**–**	**–**	**(140,274,063)**	**(140,274,063)**	**(470,756)**	**(140,744,819)**
Other comprehensive loss	11,20	**–**	**–**	**–**	**(29,655,825)**	**26,559,054**	**–**	**–**	**(3,096,771)**	**–**	**(3,096,771)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(29,655,825)**	**26,559,054**	**–**	**(140,274,063)**	**(143,370,834)**	**(470,756)**	**(143,841,590)**
Balance at December 31, 2021		**₱895,330,946**	**₱254,640,323**	**(₱285,267,558)**	**(₱492,266,311)**	**₱12,544,249**	**₱2,610,354**	**₱329,713,024**	**₱717,305,027**	**₱1,993,935**	**₱719,298,962**

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital stock	Additional paid-in Capital	Cost of Parent Company Common Shares Held by a Subsidiary	Fair Value Reserve	Retirement Benefits Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱396,801,971)	(₱17,614,609)	₱2,610,354	₱855,178,425	₱1,308,075,910	₱5,343,443	₱1,313,419,353
Net loss		–	–	–	–	6,682,576	–	(385,191,338)	(378,508,762)	(2,878,752)	(381,387,514)
Other comprehensive loss	11,20	–	–	–	(65,808,515)	(3,082,772)	–	–	(68,891,287)	–	(68,891,287)
Total comprehensive loss for the year		–	–	–	(65,808,515)	3,599,804	–	(385,191,338)	(447,400,049)	(2,878,752)	(450,278,801)
Balance at December 31, 2020		₱895,330,946	₱254,640,323	(₱285,267,558)	(₱462,610,486)	(₱14,014,805)	₱2,610,354	₱469,987,087	₱860,675,861	₱2,464,691	₱863,140,552

		Equity Attributable to Equity Holders of the Parent Company										
	Note	Cash capital	Additional paid-in Capital	Cost of Parent Company Common Shares Held by a Subsidiary	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2019		₱447,665,473	₱254,640,323	(₱285,267,558)	₱422,431,981	(₱288,726,921)	₱538,390	₱2,610,354	₱1,199,822,935	₱1,753,714,977	₱6,904,799	₱1,760,619,776
Net loss		–	–	–	–	–	–	–	(319,411,018)	(319,411,018)	(1,561,356)	(320,972,374)
Other comprehensive loss	11,20	–	–	–	–	(108,075,050)	(18,152,999)	–	–	(126,228,049)	–	(126,228,049)
Total comprehensive loss for the year		–	–	–		(108,075,050)	(18,152,999)	–	(319,411,018)	(445,639,067)	(1,561,356)	(447,200,423)
Stock dividend distributed	15	447,665,473	–	–	(422,431,981)	–	–	–	(25,233,492)	–	–	–
Balance at December 31, 2019		₱895,330,946	₱254,640,323	(₱285,267,558)	₱–	(₱396,801,971)	₱17,614,609	₱2,610,354	₱855,178,425	₱1,308,075,910	₱5,343,443	₱1,313,419,353

See accompanying Notes to Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021
(With Comparative Information for 2020 and 2019)

1. **Company 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, Metro Manila.

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

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					
		2021			2020		
	Industry	**Direct**	**Indirect**	**Total**	Direct	Indirect	Total
Subsidiaries							
Loto Pacific Leisure Corporation (LotoPac)	Gaming	**100.0**	**–**	**100.0**	100.0	–	100.0
Total Gaming Technologies, Inc. (TGTI)	Gaming	**98.9**	**–**	**98.9**	98.9	–	98.9
Falcon Resources Inc. (FRI)	Gaming	**–**	**100.0**	**100.0**	–	100.0	100.0
TGTI Services, Inc. (TGTISI)	Gaming	**–**	**100.0**	**100.0**	–	100.0	100.0
Interest in Joint Operation							
PinoyLotto Technologies Corp. (PinoyLotto)	Gaming	**50.0**	**–**	**50.0**	–	–	–

<u>POSC</u>

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 existing ELA is valid until July 2022 (see Notes 19 and 22).

LotoPac

LotoPac was incorporated in March 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.

On February 13, 2020, the LotoPac sold its investment in shares of stock of Lucky Circle Corporation (LCC) and as a result, LotoPac ceased its operations as an investment holding entity.

TGTI

TGTI was incorporated and registered with the SEC on October 23, 2002. The primary purpose of the 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 is valid until April 1, 2022 (see Notes 19 and 22).

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.

Starting July 2020, the FRI ceased commercial operations of scratch ticket distribution 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.

PinoyLotto

On September 7, 2021, Pinoylotto, a joint venture corporation owned by POSC, Philippine Gaming Management Corp. (PGMC) and International Lottery & Totalizator Systems, Inc. (ILTS), was incorporated with the SEC. PinoyLotto was awarded with the five years lease of the customized PCSO Lottery System, with a contract price of ₱5,800.0 million.

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."

The consolidated financial statements as at and for the year ended December 31, 2021 (with comparative figures for 2020 and 2019) were approved and authorized for issuance by the Board of Directors (BOD) on February 10, 2022.

2. **Summary of Significant Accounting Policies**

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). 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, the Group's functional currency. All amounts are rounded to the nearest thousands unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for marketable securities and financial assets at fair value through other comprehensive income (FVOCI) which are measured at fair value.

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 market observable data to a possible extent when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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 Notes 8, *Marketable Securities,* 11, *Financial Assets at FVOCI*, and 24, *Financial Instruments*.

Adoption of Amendment to PFRS

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

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases – Corona Virus Disease (COVID)-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the *COVID-19* related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

The adoption of the amendment to PFRS did not have any material effect on the consolidated financial statements of the Group. Additional disclosures were included in the notes to consolidated financial statements, as applicable.

Amendments to PFRS Issued But Not Yet Effective

Relevant amendments to PFRS which are not yet effective for the year ended December 31, 2021 and have not been applied in preparing the consolidated financial statements are summarized below.

Effective for annual periods beginning on or after April 1, 2021:

- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021 but earlier application is permitted. The 2021 amendment is mandatory for entities that elected to apply the previous amendment.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or IFRIC 21, *Levies,* instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are fist applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.

  - Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023:

- 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 amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, *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, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *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 require 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. Earlier application is permitted.

- Amendments to PAS 12, *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. 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 consolidated financial statements of the Group. Additional disclosures will be included in the consolidated 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 operations.

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 interests (NCI), even if this results in the NCI interests having a deficit balance.

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 statement of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statement of comprehensive income. NCI represent the equity interest in TGTI not held by the Parent Company.

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.

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 statement 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. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any 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 incurred are expensed outright.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

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 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 non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group 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 consolidated statement of comprehensive income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group measures in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

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 (CGU), 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGU to which the goodwill is allocated. These budgets and forecasts calculations generally cover a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

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.

When business combination involves more than one exchange transaction (occurs in stages), each exchange transaction is treated separately by the Group, using the cost of transaction and fair value information at the date of each exchange transactions, to determine the amount of goodwill associated with that transaction. Any adjustment to fair value relating to the previously held interest is a revaluation and is accounted for as such.

When subsidiaries are sold, the difference between the selling price and the net assets plus goodwill is recognized in profit or loss.

Joint Arrangements. Joint arrangements represent activities where the Parent Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. 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.

For a joint operation, the consolidated financial statements include the Parent Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the joint arrangement. 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.

Joint ventures are accounted for using the equity method of accounting and recognized at cost and adjusted thereafter for the post-acquisition change in the Parent Company's share of the joint venture's net assets.

Classification of a joint arrangement as either joint operation or joint venture requires judgment. 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.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:

- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classifications.

The Group classifies all other liabilities as noncurrent.

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

Financial Instruments

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statement 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 on the Group's business model and its contractual cash flow characteristics.

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).

As at December 31, 2021 and 2020, 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 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 "Marketable securities" 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, 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").*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 gains or losses recognized in other comprehensive income and are included under "Fair value Reserve" account in the equity section of the consolidated statement of financial position. These fair value changes are recognized in equity and 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 Ultimate Parent Company and 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 and other current liabilities (excluding statutory payables) 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 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 statement 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 statement 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.

Other Assets
This account mainly consists of creditable withholding taxes (CWT), spare parts and supplies, prepayments, and excess of input value-added tax (VAT) over output VAT.

CWT. CWT represents the amount withheld by the Group's customers in relation to its income. CWT 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. CWT is stated at its net realizable amount.

Spare Parts and Supplies. Spare parts and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method and includes expenditures incurred in acquiring the supplies and bringing them to their existing location and condition. NRV is the current replacement cost.

Prepayments. Prepayments are expenses not yet incurred but paid in advance. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current asset. Otherwise, these are classified as noncurrent asset.

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 Regulation 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 and other current liabilities" account in the consolidated statement of financial position.

The amount of VAT on revenue not yet collected is presented under "Trade and other current liabilities" account in the consolidated statement 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
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 and 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. Subsequently 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 to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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'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 statement 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 is recognized in other reserves.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Group pertains to fair value movement of financial assets at FVOCI, remeasurement of retirement benefits and other reserves.

Retained Earnings. Retained earnings represent the cumulative balance of the Group's results of operations, net of dividends declared to date.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

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 is recognized.

Equipment Rental. Revenue is recognized over time 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.

Commission and Distribution Income. Revenues from the distribution of lottery tickets such as lotto, keno, sweepstakes and instant scratch tickets to customers, including retailers and sub-distributors, representing the Company's share from the sales, are recognized at a point in time, specifically, upon delivery of the tickets to the customers.

Dividends. 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 over 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. Revenue is recognized when earned.

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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

a) the right to obtain substantially all of the economic benefits from the use of the identified asset; and

b) the right to direct the use of the identified asset.

Group as a Lessee. At the commencement date, the Group recognizes right-of-use (ROU) assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value, in which case the lease payments associated with those leases are recognized as an expense in profit or loss on a straight-line basis. For leases with lease terms of 12 months or less but with an option to extend the lease, the management assesses whether there is reasonable certainty that the Group will extend the lease, by considering all relevant facts and circumstances that create an economic incentive for the lessee to extend or terminate the lease, to determine the appropriate lease term.

Right-of-use assets (ROU) Assets. At commencement date, the Group measures ROU assets at cost which is comprised of the following:

a) the amount of the initial measurement of lease liabilities;
b) any lease payments made at or before the commencement date less any lease incentives received;
c) any initial direct costs; and
d) an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the ROU assets are depreciated over the shorter of the lease terms or the useful lives of the underlying assets.

Lease Liabilities. At commencement date, the Group measures a lease liability 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 a lease liability consist of the following:

a) fixed payments, including in-substance fixed payments;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees; and
d) 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.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

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

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.

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 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.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

Past service costs are recognized in the profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognize related restructuring costs.

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.

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

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 other comprehensive income or directly in equity.

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.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Loss per Share

Basic loss per share is computed by dividing net loss for the year attributable to common equity holders of the Parent Company, after recognition of the dividend requirement of preferred shares, as applicable, 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 loss per share is computed by dividing net 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 loss per share does not assume conversion, exercise, or other issue of potential common shares that would have an anti-dilutive effect on loss per share.

As the Group has no dilutive potential common shares outstanding, basic and diluted 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.

Discontinued Operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statements of income are re-presented as if the operation had been discontinued from the comparative years.

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, 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 relation to the classification of the Group's interest in PinoyLotto and classified it as a joint operation. PinoyLotto is 50% owned by the Parent Company but controlled jointly with the other owner. PinoyLotto has been classified as a joint operation because the parties have equal number of board representatives and because relevant activities that significantly affect the return on the investment requires approval of representatives from both partners. 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 Revenue Recognition, Contract Term and Existence of Significant Financing Components. Management determined that the Group's licensing of its distinct brands and trademarks provides a right to use intellectual property as it exists at the point in time at which the license is granted because there is no implicit or implied obligation to undertake activities during the license period.

Management determined that the license granted provides the licensee a valuable right because it enables to tap into the existing instant scratch ticket customers that patronize the Group's distinct brand and trademarks. The existence of such valuable right is considered a substantive penalty for the licensee to terminate the license agreement given that it is costly to rebrand and also to develop and market new instant scratch ticket design/variants.

Management determined that a significant financing component exists for the license agreement because the license period is long term and the fixed consideration is payable over a period of time. The financing component is recognized as interest income when the licensee pays in arrears.

Evaluating of 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 Parent Company and TGTI leases to PCSO the lottery equipment it uses for its nationwide on-line lottery operations. The Parent Company and TGTI 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, and, the lease term is not for the major part of the asset's economic life. Accordingly, the lease is accounted for as an operating lease.

Revenue from equipment rental amounted to ₱426.3 million in 2021 (₱293.1 million and ₱681.5 million in 2020 and 2019, respectively) (see Notes 19 and 22).

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 24.

Determining whether the Group is Acting as Principal or an Agent. The Group assesses its revenue arrangements using the following processes to determine whether it is acting as a principal or an agent:

- identify the specified goods or services to be provided to the customer (which for example, could be a right to a good or service to be provided by another party) and

- assess whether it controls each specified good or service before that good or service is transferred to the customer.

The Group has determined that it is acting as an agent in its commission and distribution income arrangements.

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 expected credit losses. In assessing the expected credit losses, 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 not limited to, the age and status of receivables, the length of relationship with the customers, the customer's payment behavior and know market factors. The Group reviews the allowance on a continuous basis.

The Group uses the ECL model in estimation the level of allowance, which includes forecasts of future events and conditions. A credit loss is the difference between the cash flow that are due in accordance with the contract and the cash flow that are expected to be received discounted at the original effective interest rate. The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Group's receivables is less than one year so the lifetime ECL and the 12-month ECL are similar.

The Group recognized provision for (reversal of) impairment losses on trade and other receivables amounting to (₱26.0 million) in 2021 (₱139.7 million and ₱2.1 million in 2020 and 2019, respectively) (see Notes 9, 16 and 17). Allowance for impairment losses on amortized cost amounted to ₱115.8 million (₱141.8 million in 2020).

The carrying amount of financial assets at amortized cost as at December 31, 2021 and 2020 are as follows:

	Note	**2021**	2020
Cash	7	**₱98,638,883**	₱162,274,833
Trade and other receivables	9	**229,355,532**	132,373,468
Guaranteed deposits	10	**14,500,000**	14,500,000
Refundable deposits	10	**3,706,928**	4,159,704

Estimating Impairment of Goodwill. Impairment exists when the carrying value of the CGU, including the goodwill, exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flows model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flows model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant the goodwill.

The Group recognized an impairment loss on goodwill amounting to ₱17.0 million in 2019 (see Note 13). As at December 31, 2019, the goodwill of ₱17.0 million was already fully impaired.

Determining Impairment of Nonfinancial Assets (Except Goodwill) Including Deferred Tax Assets. The Group assesses whether there are any indicators of impairment for all nonfinancial assets at each reporting date. 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. Similarly, 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 income 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.

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 including the review of useful lives of the Group's property and equipment and management assessed that there were no impairment indicators affecting the Group's property and equipment as at December 31, 2021 and 2020.

In 2020, certain ROU assets were impaired due to the pre-termination of the lease contracts owing to the cost-cutting measures of the management. Given this case and as stipulated in the lease contracts, the lease deposits shall be forfeited and thus, management also impaired the refundable deposits relating to the ROU assets.

In 2020, management provided provision for impairment loss for the remaining amount of spare parts and supplies of TGTI as these are identified as obsolete and unusable owing to the necessary upgrades of hardware and software upon renewal of TGTI's ELA. Management has also determined that these spare parts and supplies have no resale value given that TGTI is the sole provider of the keno operation in the country and the said spare parts and supplies can only be used with the existing keno terminals and system equipment. In 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.

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 income 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.

Certain deferred tax assets pertaining to NOLCO amounting to ₱53.2 million as at December 31, 2021 (₱28.8 million as at December 31, 2020) were not recognized because it is not probable that future taxable profit will be available against which the Group can use the benefit therefrom (see Note 18).

Provision for (reversal of) impairment loss on nonfinancial assets amounted to nil in 2021 (₱44.5 million and nil in 2020 and 2019, respectively) (see Notes 10 and 19). Allowances for impairment loss on nonfinancial assets amounted to ₱33.6 million and ₱44.5 million as at December 31, 2021 and 2020, respectively (see Notes 10 and 19).

The carrying amounts of nonfinancial assets as at December 31, 2021 and 2020 are as follows:

	Note	**2021**	2020
Property and equipment	12	**₱23,398,041**	₱83,495,388
CWT	10	**101,489,046**	77,257,846
Deferred tax assets	18	**21,398,655**	82,414,559
Spare parts and supplies	10	**28,340,206**	18,616,487
Prepayments	10	**11,809,673**	68,859,333
ROU Assets	19	**6,672,570**	10,119,536
Software development	10	**–**	11,136,364

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 and ROU assets in 2021, 2020 and 2019. The carrying amount of property and equipment amounted to ₱23.4 million as at December 31, 2021 (₱83.5 million as at December 31, 2020) (see Note 12). The carrying amount of ROU assets amounted to ₱6.7 million as at December 31, 2021 (₱10.1 million as at December 31, 2020) (see Note 19).

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

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

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement liability. Retirement liability amounted to ₱16.1 million as at December 31, 2021 (₱48.4 million as at December 31, 2020) (see Note 20).

Estimating the Transaction Price of Income from Brands and Trademarks License Agreement. The Group adjusts the promised amount of consideration for the time value of money to estimate the transaction price in a contract. In making the assessment, the Group considers the following factors:

- Combined effect of the expected length of time of the contract
- Payment terms of the contract
- Prevailing interest rate in the relevant market

The discount rate used in determining the financing component of the income from the Group's license agreement is 6.7%. This represents the risk-free interest rate for the payment period plus estimated credit spread. The financing component deducted from the license fee income amounted to ₱36.5 million in 2018. The accreted interest income amounted to ₱6.1 million in 2021 (₱5.6 million and ₱8.6 million in 2020 and 2019, respectively) (see Notes 17 and 22).

Leases - Estimating the Incremental Borrowing Rate on Leases. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to ROU asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for entities within the group that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the entity's standalone credit rating).

The Group's ROU assets amounted to ₱6.7 million as at December 31, 2021 (₱10.1 million as at December 31, 2020) while lease liabilities amounted to ₱6.8 million as at December 31, 2021 (₱11.6 million as at December 31, 2020) (see Note 19).

Evaluating Contingencies. The Group has no legal and administrative claims in process and only a couple of tax assessments, which management believes will not have a 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.

The Group is engaged in the businesses of leasing lottery equipment to PCSO (leasing activities) and sale of lottery tickets like lotto, keno, sweepstakes and instant tickets (distribution and retail activities), among others. On February 13, 2020, the Group sold its Distribution and Retail Activities segment (see Note 5). Thus, in 2021, the Group's segment pertains solely to leasing activities.

Revenue generated from the leasing activities account for 100% of the Group's revenue in 2021 (98% and 96% in 2020 and 2019, respectively).

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.

In 2020 and 2019, information regarding the results of each reportable segment is shown below:

	2020			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	₱293,104,496	₱–	₱–	₱293,104,496
Commission and distribution income	–	5,425,907	–	5,425,907
	293,104,496	5,425,907	–	298,530,403
Segment results				
Income (loss) before income tax	(569,779,214)	31,276,822	104,161,108	(474,175,016)
Income tax expense (benefit)	(53,139,818)	186,039	–	(52,953,779)
Net income (loss)	(₱516,639,396	₱31,090,783	₱104,161,108	(₱381,387,505)
Segment assets	₱1,291,413,275	₱103,428,485	(₱291,437,719)	₱1,103,404,041
Deferred tax assets	81,738,151	–	676,408	82,414,559
Segment assets (excluding deferred tax assets)	₱1,209,675,124	₱103,428,485	(₱292,114,127)	₱1,020,989,482
Segment liabilities	₱247,404,339	₱23,051,656	(₱30,192,506)	₱240,263,489
Other Information				
Capital expenditures	₱90,839,188	₱–	₱–	₱90,839,188
Depreciation and amortization	233,337,475	322,320	–	233,659,795
Finance charges	6,335,216	–	–	6,335,216
Interest income	291,049	385,803	–	676,852

	2019			
	Leasing Activities	Distribution and Retail Activities (discontinued)	Eliminations	Consolidated
Revenue				
Equipment rental	₱681,483,757	₱–	₱–	₱681,483,757
Commission and distribution income	–	25,465,751	–	25,465,751
	681,483,757	25,465,751	–	706,949,508
Segment results				
Income (loss) before income tax	(375,765,509)	96,215	111,264,045	(264,405,249)
Income tax expense (benefit)	(64,714,850)	543,403	–	(64,171,447)
Net income (loss) from discontinued operation	–	(120,738,572)	–	(120,738,572)
Net income (loss)	(₱311,050,659)	(₱121,185,760)	₱111,264,045	(₱320,972,374)
Segment assets	₱1,949,630,084	₱434,910,553	(₱672,311,208)	₱1,712,229,429
Deferred tax assets	27,277,145	24,547,842	676,408	52,501,395
Segment assets (excluding deferred tax assets)	₱1,922,352,939	₱410,362,711	(₱672,987,616)	₱1,659,728,034
Segment liabilities	₱320,033,751	₱229,654,430	(₱150,278,105)	₱399,410,076
Other Information				
Capital expenditures	₱19,359,959	₱10,176,519	₱–	₱29,536,478
Depreciation and amortization	159,503,099	2,017,917	–	161,521,016
Finance charges	4,367,236	41,727	–	4,408,963
Interest income	1,129,011	140,497	–	1,269,508

5. **Discontinued Operation**

On February 6, 2020, the Parent Company's BOD approved the sale of LCC, the Group's Distribution and Retail Activities segment, to focus its resources on its principal business of providing modern and efficient online gaming facilities and equipment to its customers. LCC operates and/or manages several outlets throughout the Philippines which sell products of the PCSO, including lotto, keno and instant scratch tickets. LCC is included as part of "Distribution and Retail Activities" in the Group's reportable segment in the consolidated financial statements.

On February 13, 2020, POSC has concluded the sale of all of the POSC's equity interest in LCC, equivalent to ₱127.0 million shares for ₱1.082 per share to a third party for a total consideration of ₱137.4 million.

The relevant information on discontinued operation is presented below:

Results of Discontinued Operation

	2020	2019
Revenue	₱29,909,718	₱282,915,888
Expenses	45,708,617	415,406,119
Result from operating activities	(15,798,899)	(132,490,231)
Gain on sale of subsidiaries	55,761,139	–
Other income - net	(125,255)	1,507,809
Income (loss) before income tax from discontinued operation	39,836,985	(130,982,422)
Provision for income tax:		
Current	3,252	3,393,294
Deferred	–	(13,637,144)
Net income (loss) from discontinued operation, net of tax	₱39,833,733	(₱120,738,572)
Basic/ diluted earnings (loss) per share	₱0.0471	(₱0.1429)

Total gain on deconsolidation amounted to ₱55.8 million, which is the difference between the consideration received and the Group's share on LCC Group's net asset at the date of disposal.

Cash Flow Provided by (Used in) Discontinued Operation

	2020	2019
Net cash provided by (used in) operating activities	(₱13,665,741)	(₱25,970,672)
Net cash provided by (used in) investing activities	9,879,025	(9,698,616)
Net cash used in financing activities	–	(2,613,975)
	(₱3,786,716)	(₱38,283,263)

Effect of Disposal on the Financial Position of the Group as at December 31, 2020

Cash and cash equivalent	(₱127,534,435)
Trade and other receivables	(3,884,240)
Other current assets	(48,047,685)
Property and equipment	(25,369,421)
ROU assets	(26,056,920)
Other noncurrent assets	(29,299,938)
Trade and other current liabilities	159,490,201
Lease liabilities	27,074,542
Net assets	(₱73,627,896)
Cash consideration received	₱137,413,460
Cash disposed of	(127,534,435)
Net cash inflow	₱9,879,025

6. **Interest in Joint Operation**

On September 7, 2021, Pinoylotto, a joint venture corporation owned by POSC, PGMC and ILTS, was incorporated with the SEC. PinoyLotto was awarded five-year lease of the customized PCSO Lottery System, also known as '2021 PLS Project' with a contract price of ₱5,800.0 million (See Note 1).

The Group's interest in PinoyLotto was considered as joint operation. Financial information of PinoyLotto and the Group's share of the assets, liabilities, and pre-operating expenses as at and for the year ended December 31, 2021 are as follows:

	PinoyLotto	Share in Joint Operation
Cash	₱5,377,271	₱2,688,635
Other current assets	262,591	131,296
Trade and other current liabilities	(3,425)	(1,713)
Net loss (mainly pre-operating expenses)	97,263,563	48,631,781

7. **Cash**

This account consists of:

	2021	2020
Cash on hand	**₱535,132**	₱702,132
Cash in banks	**98,103,751**	161,572,701
	₱98,638,883	₱162,274,833

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱122,135 in 2021 (₱676,852 and ₱1.3 million in 2020 and 2019, respectively).

8. Marketable Securities

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 marketable securities are as follows:

	2021	2020
Balance at beginning of year	**₱84,260,926**	₱140,456,581
Mark-to-market loss	**(22,631,431)**	(6,195,655)
Disposal	**–**	(50,000,000)
Balance at end of year	**₱61,629,495**	₱84,260,926

The fair values of these securities are based on closing quoted market prices on the last market day of the year. Dividend income amounted to nil in 2021 (₱2.3 million and ₱4.7 million in 2020 and 2019, respectively).

9. Trade and Other Receivables

This account consists of:

	Note	**2021**	2020
Trade		**₱51,730,465**	₱114,880,889
Nontrade receivables:			
LCC Group		**113,677,614**	113,677,614
Third party		**104,000,000**	–
Accrued license fee income - current portion	22	**70,319,085**	41,886,958
Advances to:			
Contractors and suppliers		**3,310,451**	2,186,791
Officers and employees		**1,867,608**	1,291,113
Other receivables		**275,313**	275,107
		345,180,536	274,198,472
Less allowance for impairment loss		**115,825,004**	141,825,004
		₱229,355,532	₱132,373,468

Trade receivables are generally on a 30-to-60 day credit terms. The risks associated on this account are disclosed in Note 24.Nontrade receivables from LCC Group pertain to reclassified amounts from advances to subsidiaries of the Parent Company to LCC Group at the date of disposal. The management assessed that there may be delayed payments from LCC Group due to the impact of COVID-19 pandemic to its operations and since the balances pertain to long outstanding advances, the management assessed that provision is necessary.

Nontrade receivables from third parties pertain to advances to consultant which are noninterest-bearing and are subject to liquidation but are for refund to the Group in the absence of the required output.

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, Powerball Gaming and Entertainment Corporation (PMLC) was not able to supply and distribute instant scratch tickets to its customers. The management expected delay on the payment for those months, thus, the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable. In 2021, the allowance for impairment losses amounting to ₱26.0 million was reversed since these are expected to be collected in 2022 as agreed by management and PMLC (see Note 22).

The movements in allowance for impairment losses are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱141,825,004**	₱2,147,391
Reversal	17	**(26,000,000)**	–
Impairment losses	16	**–**	139,677,613
Balance at end of year		**₱115,825,004**	₱141,825,004

10. **Other Assets**

Current Assets
This account consists of:

	Note	**2021**	2020
CWT		**₱101,960,468**	₱77,729,268
Spare parts and supplies at cost		**61,013,735**	62,150,635
Guaranteed deposits	22	**14,500,000**	–
Prepayments		**11,809,673**	68,859,333
Input VAT		**1,133,338**	–
		190,417,214	208,739,236
Less allowance for impairment loss		**33,144,950**	44,005,570
		₱157,272,264	₱164,733,666

Prepayments represent mainly unexpired portion of insurance and rent. It also includes prepaid technical training, advisory and maintenance services related to the software development contract in 2019.

Movement of allowance for impairment loss is as follows:

	Note	Spare parts and supplies	CWT	Total
Provision for impairment losses in 2020 / allowance for impairment loss as at January 1, 2021	16	₱43,534,148	₱471,422	₱44,005,570
Reversal		(10,860,620)	–	(10,860,620)
Balance as at December 31, 2021		₱32,673,528	₱471,422	₱33,144,950

Noncurrent Assets
This account consists of:

	Note	**2021**	2020
Refundable deposits		**₱3,706,928**	₱4,159,704
Accrued license fee income - net of current portion	9, 22	**–**	70,319,085
Guaranteed deposits	22	**–**	14,500,000
Software development		**–**	11,136,364
Others		**917,992**	1,794,147
		₱4,624,920	₱101,909,300

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

Software development represents payments for the creation and development of new gaming solutions to enable selling of lottery tickets through different channels and enhance existing lottery system efficiencies in response to the changing economic conditions of the environment. Amortization of software development and certain prepayments amounted to ₱66.8 million in 2021 (₱126.6 million in 2020) (see Note 12).

Refundable deposits are subject to adjustments every year if rent rates increase and shall be returned to the lessee without interest. An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 19).

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 21). The movement in this account is as follows:

	2021	2020
Balance at beginning of year	**₱281,822,365**	₱347,630,880
Fair value loss	**(29,655,825)**	(65,808,515)
Balance at end of year	**₱252,166,540**	₱281,822,365

There were no acquisitions or disposals in 2021, 2020 and 2019. Dividend income amounted to ₱15.4 million in 2021 (₱27.0 million in 2020 and 2019, respectively).

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

Movements of fair value reserve are as follows:

	2021	2020
Balance at beginning of year	**(₱462,610,486)**	(₱396,801,971)
Fair value loss	**(29,655,825)**	(65,808,515)
Balance at end of year	**(₱492,266,311)**	(₱462,610,486)

12. **Property and Equipment**

The movement in this account is as follows:

	2021				
	Lottery Equipment	**Leasehold Improvements**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost					
Balance at beginning of year	**₱814,177,341**	**₱31,175,485**	**₱39,448,488**	**₱53,244,251**	**₱938,045,565**
Disposal	**(297,333,428)**	**(15,347,420)**	**(1,978,868)**	**(16,987,309)**	**(331,647,024)**
Additions	**10,795,641**	**330,602**	**884,770**	**116,250**	**12,127,263**
Balance at end of year	**527,639,554**	**16,158,667**	**38,354,390**	**36,373,192**	**618,525,803**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**750,318,988**	**27,813,804**	**36,600,360**	**39,817,025**	**854,550,177**
Disposal	**(296,498,683)**	**(15,347,420)**	**(1,978,868)**	**(16,249,308)**	**(330,074,279)**
Depreciation and amortization	**61,349,677**	**1,457,961**	**2,323,236**	**5,520,990**	**70,651,864**
Balance at end of year	**515,169,982**	**13,924,345**	**36,944,728**	**29,088,707**	**595,127,762**
Carrying Amount	**₱12,469,573**	**₱2,234,321**	**₱1,409,662**	**₱7,284,485**	**₱23,398,041**

		2020				
	Note	Lottery Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year		₱742,769,119	₱102,167,530	₱201,111,088	₱76,077,001	₱1,122,124,738
Disposal of subsidiaries	5	–	(68,195,834)	(158,744,891)	(14,710,883)	(241,651,608)
Additions		89,370,392	211,114	1,130,182	127,500	90,839,188
Disposal		(17,962,170)	(3,007,325)	(4,047,891)	(8,093,117)	(33,110,503)
Reclassification		–	–	–	(156,250)	(156,250)
Balance at end of year		814,177,341	31,175,485	39,448,488	53,244,251	938,045,565
Accumulated Depreciation and Amortization						
Balance at beginning of year		696,805,264	93,203,302	174,238,015	50,462,166	1,014,708,747
Disposal of subsidiaries	5	–	(64,358,066)	(141,306,507)	(10,617,614)	(216,282,187)
Depreciation and amortization		71,475,894	1,975,893	7,716,746	7,409,064	88,577,597
Disposal		(17,962,170)	(3,007,325)	(4,047,894)	(7,436,591)	(32,453,980)
Balance at end of year		750,318,988	27,813,804	36,600,360	39,817,025	854,550,177
Carrying Amount		₱63,858,353	₱3,361,681	₱2,848,128	₱13,427,226	₱83,495,388

Depreciation and amortization pertaining to discontinued operation amounted to ₱57.8 million in 2019.

Depreciation and amortization recognized in the financial statements arises from:

	Note	**2021**	2020	2019
Property and equipment		**₱70,651,864**	₱88,577,597	₱137,135,722
Software development	10	**66,818,181**	126,590,909	–
ROU assets	19	**10,899,532**	18,491,290	24,385,294
		₱148,369,577	₱233,659,796	₱161,521,016

Depreciation and amortization are allocated as follows:

	Note	**2021**	2020	2019
Cost of services	16	**₱137,888,868**	₱223,361,791	₱141,647,893
General and administrative expenses	16	**10,480,709**	10,298,005	19,873,123
		₱148,369,577	₱233,659,796	₱161,521,016

13. Goodwill

Goodwill acquired through business combinations has been allocated to distribution and retail activities, a CGU, which is also the reportable operating segment for impairment testing. The Group performs impairment testing annually or more frequently when there are indicators of impairment for goodwill.

Goodwill in LCC amounting to ₱17.0 million was fully provided with allowance for impairment loss in 2019. In 2020, the goodwill in LCC was included in the net assets derecognized as a result of disposal of LCC (see Note 5).

14. Trade and Other Current Liabilities

This account consists of:

	Note	**2021**	2020
Accounts payable		**₱46,955,265**	₱80,208,348
Accrued expenses:			
Professional fees		**22,822,274**	28,358,274
Communication		**5,792,772**	24,146,710
Rental and utilities		**373,272**	419,410
Software and license fees payable	22	**18,240,075**	38,592,854
Statutory payables		**10,053,206**	3,443,866
Others		**8,685,495**	5,038,703
		₱112,922,359	₱180,208,165

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

Accrued expenses are normally settled in the following month.

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.

15. **Equity**

Capital Stock and Additional Paid-in Capital
Details of capital stock as at December 31, 2021 and 2020 are as follows:

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

Additional paid-in capital amounted to ₱254.6 million as at December 31, 2021 and 2020. Additional paid-in capital amounting to ₱2.6 million related to Parent Company common shares held by a subsidiary was reclassified to "Other reserves" account to conform with 2021 presentation.

Cost of Parent Company Common Shares Held by Subsidiary
As at December 31, 2021 and 2020, TGTI holds Parent Company common shares totaling 50,466,984 and amounting 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, 2021 and 2020.

The foregoing were previously presented as "Treasury shares" but were reclassified to "Cost of Parent Company common shares held by subsidiary" account to conform with 2021 presentation.

The Parent Company listed its shares in the PSE on April 12, 2007. As at December 31, 2021 and 2020, 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, 2021, public ownership over the Parent Company is 35.78% (35.63% in 2020).

There are no movements in the number of outstanding shares for all the periods presented. As at December 31, 2021, the Parent Company has 57 stockholders of record.

16. **Costs and Expenses**

Cost of Services

This account consists of:

	Note	2021	2020	2019
Depreciation and amortization	12	**₱137,888,868**	₱223,361,791	₱141,647,893
Personnel costs		**60,181,751**	65,017,547	77,300,881
Communication		**59,064,228**	73,102,227	109,195,807
Software and license fees	22	**54,498,348**	40,565,718	136,317,928
Rent and utilities	19	**23,359,564**	15,101,763	16,897,242
Repairs and maintenance		**21,622,692**	20,336,565	97,454,112
Travel and accommodation		**14,697,869**	13,443,639	50,211,028
Operating supplies		**4,532,056**	8,776,315	45,180,816
Professional fees		**2,640,935**	1,962,326	3,100,444
Marketing and promotion		**92,929**	9,048,000	31,881,237
Provision for impairment loss	10	**–**	43,534,148	–
Others		**50,561**	112,920	17,282,262
		₱378,629,801	₱514,362,959	₱726,469,650

General and Administrative Expenses

This account consists of:

	Note	2021	2020	2019
Personnel costs		**₱58,229,330**	₱64,490,880	₱85,492,189
Pre-operating expenses	6	**48,630,295**	–	–
Taxes and licenses		**11,702,081**	10,249,035	33,167,459
Travel and accommodation		**10,570,979**	15,336,963	24,744,179
Depreciation and amortization	12	**10,480,709**	10,298,005	19,873,123
Rent and utilities	19	**7,332,968**	13,818,507	21,820,179
Communication		**5,261,859**	5,437,871	3,667,970
Professional fees		**3,213,406**	3,841,656	9,035,872
Repairs and maintenance		**2,905,206**	3,163,115	5,488,910
Operating supplies		**2,027,307**	1,758,707	2,848,952
Entertainment and representation		**757,066**	4,165,892	3,848,501
Marketing and promotion		**373,920**	145,468	15,728,006
Provision for impairment losses	9, 19	**–**	140,608,031	2,147,391
Others		**4,033,428**	5,949,619	353,122
		₱165,518,554	₱279,263,749	₱228,215,853

Personnel costs are as follows:

	Note	2021	2020	2019
Salaries and wages		**₱82,576,302**	₱87,299,273	₱105,894,614
Other short-term employee benefits		**26,451,745**	29,109,451	40,031,191
Post-employment benefits	20	**9,383,034**	13,099,703	16,867,265
		₱118,411,081	₱129,508,427	₱162,793,070

17. **Other Income (Charges)**

This account consists of:

	Note	**2021**	2020	2019
Reversal of impairment loss	9	**₱26,000,000**	₱–	₱–
Accreted interest income	22	**6,113,042**	5,590,388	8,600,002
Loss on retirement of asset		**(834,746)**	–	–
Foreign exchange gain (loss)		**745,079**	(949,729)	(1,180,826)
Service income (expense)		**490,728**	(1,132,202)	5,396,307
Gain on sale of property and equipment		**175,500**	15,000	403,488
Excess standard input VAT over actual input VAT		**–**	(3,696,247)	(28,913,770)
Others		**2,285,791**	3,645,864	2,802,353
		₱34,975,394	₱3,473,074	(₱12,892,446)

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

18. **Income Tax**

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

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

	2021	2020
Items recognized in profit or loss		
NOLCO	**₱32,966,294**	₱97,329,599
Accrued license fee income	**(17,579,771)**	(33,661,813)
Retirement benefits	**8,136,166**	258,854
Unamortized past service costs	**2,271,666**	11,786,821
Unrealized foreign exchange loss	**(204,491)**	173,635
Excess payment over lease related expenses	**(70,700)**	–
Accrued expenses	**–**	783,525
Prepayments	**–**	(60,266)
	25,519,164	76,610,355
Items recognized in other comprehensive income		
Remeasurement of retirement liability	**(4,120,509)**	5,804,204
Net deferred tax assets	**₱21,398,655**	₱82,414,559

Unrecognized deferred tax assets pertaining to NOLCO amounted to ₱81.6 million as at December 31, 2021 (₱36.3 million as at December 31, 2020).

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations 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 (5) consecutive taxable years following the year of such loss.

The details of the Group's unused NOLCO which can be claimed as deduction from future taxable income during the stated validity are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Applied	Ending Balance	Valid Until
2021	₱–	₱53,134,368	₱–	₱–	₱53,134,368	2026
2020	249,198,861	–	–	–	249,198,861	2025
2019	196,173,033	–	–	(40,341,905)	155,831,129	2022
2018	105,655	–	105,655	–	–	
	₱445,477,549	₱53,134,368	₱105,655	(₱40,341,905)	₱458,164,358	

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

	2021	2020	2019
Income tax at statutory income tax rate	**(₱22,652,622)**	(₱142,252,508)	(₱79,321,575)
Income tax effects of:			
Derecognized and unrecognized deferred tax on NOLCO	**51,437,805**	26,472,832	–
Nondeductible expenses and others	**13,448,518**	9,314,535	45,315,529
Effect of change in tax rates	**12,608,916**	–	–
Nontaxable income	**(6,500,000)**	(8,790,667)	(9,497,167)
Mark-to-market loss on securities	**5,657,858**	1,858,697	4,574,493
Income subjected to final tax	**(3,866,142)**	(253,820)	(512,443)
Others	**–**	2,936,167	(793,287)
Income tax expense (benefit) at effective tax rate	**₱50,134,333**	(₱52,953,779)	(₱64,171,447)

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) was approved and signed into law by the country's President. Under the CREATE, RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, MCIT was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates retrospectively became effective beginning July 1, 2020.

The passage of CREATE to law is considered a non-adjusting subsequent event for financial reporting. Accordingly, the income tax rates used in preparing the financial statements as at and for the year ended December 31,2020 are at 30% and 2% for RCIT and MCIT, respectively.

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

19. **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 (see Note 21). In 2021, the ELA was extended until July 31, 2022. Rental payments are based on a percentage of gross amount of lotto ticket sales from the operation of all PCSO's lotto terminals. Rental income amounted to ₱390.8 million in 2021 (₱245.9 million and ₱427.9 million in 2020 and 2019, respectively).

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. Rental payment by PCSO is based on certain percentage of gross amount of "Online KENO" games from the operation of all PCSO's. Rental income amounted to ₱35.5 million in 2021 (₱47.2 million and ₱253.6 million in 2020 and 2019, respectively).

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 date upon mutual agreement of the parties.

Amounts recognized in the consolidated statements of comprehensive income follow:

	2021	2020	2019
Rent expense	**₱14,851,199**	₱17,853,572	₱92,024,069
Amortization on ROU assets*	**10,899,532**	18,491,290	46,133,826
Interest expense on lease liabilities*	**642,417**	1,997,737	7,022,938
	₱26,393,148	₱38,342,599	₱145,180,833

** Including amortization amounting to ₱21.8 million and interest expense on lease liabilities amounting to ₱2.6 million pertaining to discontinued operation in 2019.*

Interest expense on lease liabilities is recognized under "Finance charges" account in the consolidated statement of comprehensive income. In 2020, finance charges also include interest on fully paid loan amounting to ₱4.3 million.

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:

	2021	2020
Balance at beginning of year	**₱10,119,536**	₱50,298,070
Amortization	**(10,899,532)**	(18,491,290)
Additions	**8,926,056**	14,788,801
Pre-termination	**(1,473,490)**	(8,865,861)
Derecognition	**–**	(27,151,187)
Provision for impairment loss	**–**	(458,997)
Balance at end of year	**₱6,672,570**	₱10,119,536

The movements in the lease liabilities are presented below:

	2021	2020
Balance at beginning of year	**₱11,605,367**	₱67,602,005
Payments	**(12,827,398)**	(36,842,763)
Additions	**8,926,056**	14,788,801
Pre-termination	**(1,473,490)**	(8,865,861)
Interest expense	**642,417**	1,997,737
Sale of subsidiaries	**–**	(27,074,552)
	6,872,952	11,605,367
Current portion	**4,886,938**	7,676,824
Noncurrent portion	**₱1,986,014**	₱3,928,543

Refundable deposits amounted to ₱3.7 million as at December 31, 2021 (₱4.2 million in 2020). An amount of ₱1.8 million was impaired pertaining to the pre-termination of ROU assets in 2020 (see Note 10).

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

	2021	2020
Within one year	**₱5,124,015**	₱15,756,853
After one year but not more than five years	**2,012,156**	1,171,535
	₱7,136,171	₱16,928,388

20. 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, 2021.

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

	2021		
	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Liability**
Balance at beginning of year	**₱112,703,638**	**₱64,259,827**	**₱48,443,811**
Net retirement income (costs) in profit or loss:			
Current service cost	**11,746,110**	–	**11,746,110**
Past service cost	**(4,138,954)**	–	**(4,138,954)**
Interest expense	**4,031,008**	–	**4,031,008**
Interest income	–	**2,255,130**	**(2,255,130)**
	11,638,164	**2,255,130**	**9,383,034**
Remeasurement gain (loss) recognized in other comprehensive income:			
Actuarial changes due to experience adjustment	**(18,558,461)**	–	**(18,558,461)**
Actuarial changes arising from changes in financial assumptions	**(11,976,605)**	–	**(11,976,605)**

(Forward)

		2021		
		Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Liability**
Actuarial changes due to changes in demographic assumptions		**(₱5,021,814)**	**₱–**	**(₱5,021,814)**
Actual return excluding amount included in net interest cost		**–**	**1,207,338**	**(1,207,338)**
		(35,556,880)	**1,207,338**	**(36,764,218)**
Contributions		**–**	**5,000,000**	**(5,000,000)**
Benefits paid		**(19,430,421)**	**(19,430,421)**	**–**
Balance at end of year		**₱69,354,501**	**₱53,291,874**	**₱16,062,627**

		2020		
	Note	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Liability
Balance at beginning of year		₱128,758,005	₱98,915,237	₱29,842,768
Net retirement income (costs) in profit or loss:				
Current service cost		11,343,463	–	11,343,463
Interest expense		5,257,909	–	5,257,909
Past service cost		(1,809,643)	–	(1,809,643)
Interest income		–	3,517,936	(3,517,936)
Interest on the effect on asset ceiling		–	(16,267)	16,267
		14,791,729	3,501,669	11,290,060
Disposal of subsidiaries	15	(26,692,142)	(29,599,165)	2,907,023
Remeasurement gain (loss) recognized in other comprehensive income:				
Actuarial changes arising from changes in financial assumptions		17,716,460	–	₱17,716,460
Actuarial changes due to experience adjustment		(16,894,421)	–	(16,894,421)
Actual return excluding amount included in net interest cost		–	(3,909,818)	3,909,818
Effect of asset ceiling		–	327,897	(327,897)
		822,039	(3,581,921)	4,403,960
Benefits paid		(4,975,993)	(4,975,993)	–
Balance at end of year		₱112,703,638	₱64,259,827	₱48,443,811

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

	2021	2020
Cash and cash equivalents	**₱29,361**	₱19,847
Debt instruments - government bonds	**31,280,723**	25,196,150
Debt instruments - other bonds	**2,092,934**	3,772,126
Unit investment trust funds	**19,230,112**	37,324,296
Others	**658,744**	(2,052,592)
	₱53,291,874	₱64,259,827

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:

	2021		
	Retirement Benefits Reserve	**Deferred Tax** (see Note 19)	**Total**
Balance at beginning of year	**(₱19,819,009)**	**₱5,804,204**	**(₱14,014,805)**
Remeasurement loss	**36,764,218**	**(9,191,055)**	**27,573,163**
Effect of change in tax rate	–	**(1,014,109)**	**(1,014,109)**
Balance at end of year	**₱16,945,209**	**(₱4,400,960)**	**₱12,544,249**

	2020		
	Retirement Benefits Reserve	Deferred Tax (see Note 19)	Total
Balance at beginning of year	(₱25,120,921)	₱7,506,312	(₱17,614,609)
Remeasurement gain	4,403,960	(1,100,990)	3,302,970
Effect of sale of subsidiaries	897,952	(601,118)	296,834
Balance at end of year	(₱19,819,009)	₱6,006,345	(₱14,014,805)

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

	2021	2020
Discount rates	**5.19%**	3.96%
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, 2021 and 2020 assuming all other assumptions were held constant:

	2021		2020	
	Increase (Decrease)	**Increase (Decrease) in Defined Benefit Obligation**	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	**-100**	**(11,539,755)**	-100	(3,173,255)
	+100	**8,628,147**	+100	4,089,617
Salary increase rate	**+100**	**11,521,722**	+100	3,876,328
	-100	**(8,614,752)**	-100	(3,093,570)

The average duration of the Group's defined benefit obligation is 24.33 years in 2021.

The maturity analysis of the undiscounted benefit payments follows:

	2021	2020
Less than one year	**₱2,984,279**	₱24,715,065
More than one year to five years	**67,019**	3,895,513
More than five years to ten years	**80,439,492**	23,837,223

21. **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 ₱252.2 million and ₱281.8 million as at December 31, 2021 and 2020, respectively (see Note 11).

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

	2021	2020	2019
Salaries and wages	**₱22,746,801**	₱20,108,986	₱27,571,301
Professional fees	**1,333,333**	888,889	1,433,333
Retirement benefits	**90,291**	1,777,484	2,354,672
	₱24,170,425	₱22,775,359	₱31,359,306

22. **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, 2021 and 2020, the total cash bond, included under "Other current assets" or "Other noncurrent assets" in the consolidated statement of financial position, amounted to ₱12.0 million.

On July 31, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. The said extension was intended 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.

On September 9, 2020, the term of the ELA was extended on a month-to-month basis effective August 1, 2020 but not to exceed one year, commensurate to the necessity and immediacy to complete the bidding process of the new lottery system. POSC undertakes not to pull-out the lottery terminals until after the 7th month after the expiration of the ELA.

In 2021, the term of the ELA was month-to-month basis not exceeding one year, commencing from April 1, 2021 and not exceeding July 31, 2022.

The rental fee, presented as "Equipment rental" in the consolidated statement 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 3,129 and 3,370 as at December 31, 2021 and 2020, respectively. The Parent Company's rental income amounted to ₱390.8 in 2021 (₱245.9 million and ₱427.9 million in 2020 and 2019, respectively) (see Note 19).

TGTI. TGTI has 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 ELA may be extended and/or renewed upon the mutual consent of the parties.

On October 1, 2019, the ELA was amended to reduce the lease rate. The minimum price per keno bet was reduced from ₱12 to ₱10, inclusive of documentary stamp tax.

On December 11, 2020, the ELA was amended to extend the term for six months, effective October 1, 2020 until March 31, 2021. The amendment also 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" or "Other noncurrent assets" in the consolidated statements of financial position (see Note 10).

In 2021, the ELA was extended on a month-to-month basis not exceeding 1 year, commencing from April 1, 2021 and not exceeding April 1, 2022.

The number of installed online KENO terminals totaled 569 and 1,180 as at December 31, 2021 and 2020, respectively. TGTI's revenue from equipment rental amounted to ₱35.6 million in 2021 (₱47.2 million and ₱253.6 million in 2020 and 2019, respectively) (see Note 19).

Brand and Trademark Agreement with PMLC

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, PMLC was not able to supply and distribute instant scratch tickets to its customers. The management expects delay on the payment for those months, this, the management assessed that the accrued license fee income equivalent to those months with no operations may not be recoverable. Impairment losses amounting to ₱26.0 million were recognized in 2020 and subsequently reversed in 2021 (see Note 9).

Accreted interest income amounted to ₱6.1 million in 2021 (₱5.6 million and ₱8.6 million in 2020 and 2019, respectively) (see Note 17). Accrued license fee income amounted to ₱70.3 million as at December 31, 2021 (₱112.2 million as at December 31, 2020) (see Notes 9 and 10).

Contracts with Scientific Games and Intralot and Management Agreement

Scientific Games. As at December 31, 2021 and 2020, 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.

Intralot. As at December 31, 2021 and 2020, 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.

In 2021, the contract with POSC was extended until July 31, 2022 while the contract with TGTI was extended until March 31, 2022.

Management Agreement. POSC and TGTI entered into Management Agreements with AB Gaming and Leisure Exponent Specialist, Inc. ("Manager") for the latter to provide investment and management counsel and to act as manager and overseer of its operations. In consideration of the Manager's services, POSC shall pay a monthly fee and an amount equivalent to a certain percentage of the annual earnings before interest, taxes, depreciation, and amortization (EBITDA). The agreements were terminated in 2021.

Software and license fee recognized amounted to amounted to ₱54.5 million in 2021 (₱40.6 million and ₱136.3 million in 2020 and 2019, respectively) (see Note 16). Software and license fees payable amounted to ₱18.2 million as at December 31 2021 (₱38.6 million as at December 31, 2020) (see Note 14).

23. Loss per Share

As at December 31, 2021, 2020 and 2019, the basic/diluted loss per share was computed as follows:

	2021	2020	2019
Loss attributable to Equity holders of the Parent (a)	**(₱0.1660)**	(₱0.4480)	(₱0.3781)
Number of issued common shares at beginning of year	**895,330,946**	895,330,946	447,665,473
Number of parent company common shares held by a subsidiary at beginning of year	**(50,466,984)**	(50,466,984)	(25,233,492)
Weighted average number of issued common shares - basic, at end of year (b)	**844,863,962**	844,863,962	422,431,981
Basic/diluted loss per share (a/b)	**(₱0.1666)**	(₱0.4986)	(₱0.2370)

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

24. **Financial Instruments**

Financial Risk Management Objectives and Policies

The financial instruments mainly comprise cash, 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”), marketable securities and financial assets at FVOCI, trade 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 contractors and 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.

	2021						
	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*	**₱98,103,751**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱98,103,751**
Trade and other receivables**	**266,064,430**	**–**	**–**	**–**	**–**	**115,825,004**	**381,889,434**
Refundable deposit***	**3,706,928**	**–**	**–**	**–**	**–**	**–**	**3,706,928**
Guarantee bonds***	**14,500,000**	**–**	**–**	**–**	**–**	**–**	**14,500,000**
	₱382,375,109	**₱–**	**₱–**	**₱–**	**₱–**	**₱115,825,004**	**₱498,200,113**

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

	2020						
	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*	₱161,572,701	₱–	₱–	₱–	₱–	₱–	₱161,572,701
Trade and other receivables**	195,941,150	–	–	–	–	141,825,004	337,766,154
Refundable deposit***	4,159,704	–	–	–	–	–	4,159,704
Guarantee bonds***	14,500,000	–	–	–	–	–	14,500,000
	₱376,173,554	₱–	₱–	₱–	₱–	₱141,825,004	₱517,998,559

**Excluding cash on hand.*
***Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
****Presented under “Other noncurrent assets” account in the consolidated statement of financial position.*

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

Credit Quality of Financial Assets

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:

	2021			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
Financial Assets at Amortized Cost				
Cash*	**₱98,103,753**	**₱–**	**₱–**	**₱98,103,752**
Trade and other receivables-net**	**266,064,430**	**–**	**115,825,004**	**381,889,434**
Refundable deposit ***	**3,706,928**	**–**	**–**	**3,706,928**
Guarantee bonds***	**14,500,000**	**–**	**–**	**14,500,000**
Gross Carrying Amount	**₱382,375,111**	**₱–**	**₱115,825,004**	**₱498,200,114**

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

	2020			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Financial Assets at Amortized Cost				
Cash*	₱161,572,701	₱–	₱–	₱161,572,701
Trade and other receivables-net**	195,941,150	–	141,825,004	337,766,154
Refundable deposit ***	4,159,704	–	–	4,159,704
Guarantee bonds***	14,500,000	–	–	14,500,000
Gross Carrying Amount	₱376,173,554	₱–	₱141,825,000	₱517,998,559

**Excluding cash on hand.*
***Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
****Presented under "Other noncurrent assets" account in the consolidated statement of financial position.*

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 2021 and 2020 consolidated total comprehensive income before income tax:

Increase (Decrease) in Equity Price	2021	2020
Impact in profit or loss		
5%	**₱3,081,475**	₱4,213,046
(5%)	**(3,081,475)**	(4,213,046)
Impact in comprehensive income		
5%	**20,173,323**	22,545,789
(5%)	**(20,173,323)**	(22,545,789)

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.

	2021				
	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Trade and other current liabilities*	**₱18,353,479**	**₱48,156,775**	**₱6,765,172**	**₱29,593,727**	**₱102,869,152**
Lease liabilities	**1,457,623**	**1,486,180**	**1,943,134**	**1,986,015**	**6,872,952**
	₱19,811,102	**₱49,642,955**	**₱8,708,306**	**₱31,579,742**	**₱109,742,104**

**Excluding statutory payables*

	2020				
	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Trade and other current liabilities*	₱68,152,272	₱69,757,566	₱7,087,656	₱31,766,805	₱176,764,299
Lease liabilities	4,691,906	2,952,185	2,311,204	1,650,072	11,605,367
	₱72,844,178	₱72,709,751	₱9,398,860	₱33,416,877	₱188,369,666

**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, 2021 and 2020, foreign currency-denominated financial asset and financial liability in US dollars, translated into Philippine peso at the closing rate:

	2021	2020
Cash	**₱10,653,717**	₱19,636,348
Software license fee payable*	**(54,002,683)**	(80,303,793)
Net foreign currency-denominated liabilities	**(₱43,348,966)**	(₱60,667,445)

**Presented under "Trade and other current liabilities" account in the consolidated statement of financial position.*

In translating the foreign currency-denominated financial liabilities into peso amounts, the exchange rate used was ₱51.09 to US$1.0 and ₱48.02 to US$1.0, as at December 31, 2021 and 2020, 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, 2021 and 2020. 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.

	2021		2020	
	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	**₱2,167,448**	**(₱2,167,448)**	₱3,033,373	(₱3,033,373)

The increase in US$ rate means stronger US dollar against peso while the decrease in US$ 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 2021 and 2020.

The Group considers the following as its capital:

	2021	2020
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:

	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash	**₱98,103,751**	**₱98,103,751**	₱161,572,701	₱161,572,701
Trade and other receivables*	**266,064,430**	**266,064,430**	195,941,150	195,941,150
Refundable security deposits**	**3,706,928**	**3,706,928**	4,159,704	4,159,704
Guaranteed deposits**	**14,500,000**	**14,500,000**	14,500,000	14,500,000
At FVPL				
Marketable securities	**61,629,495**	**61,629,495**	84,260,926	84,260,926
At FVOCI				
Financial assets at FVOCI	**252,166,540**	**252,166,540**	281,822,365	281,822,365
	₱696,171,144	**₱696,171,144**	₱742,256,846	₱742,256,846
Financial Liabilities				
At amortized cost:				
Trade and other current liabilities***	**₱102,869,152**	**₱102,869,152**	₱176,764,299	₱176,764,299
Lease liabilities	**11,605,367**	**11,605,367**	8,925,367	8,925,367
	₱114,474,519	**₱114,474,519**	₱185,689,666	₱185,689,666

**Including noncurrent portion of accrued license fee and excluding advances to contractors, suppliers, officers and employees.*
***Presented under "Other current assets" and/or "Other noncurrent assets" account in the consolidated statement of financial position.*
****Excluding statutory payables*

The Group has no financial liabilities measured at fair value as at December 31, 2021 and 2020. There were no transfers between fair value measurements in 2021 and 2020.

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 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.

Lease Liabilities. The fair value is based on the discounted value of expected future cash flows using the applicable interest rate for similar types of instruments. Discount rates used are 5.25% to 6.50% in 2021 and 2020.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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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, Metro Manila

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 year ended December 31, 2021 and have issued our report thereon dated February 10, 2022. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplementary Schedules are the responsibility of the Group's management.

These supplementary schedules include the following:

- Schedule of Financial Soundness Indicators as at and for the years ended December 31, 2021 and 2020
- Reconciliation of Retained Earnings Available for Dividend Declaration as at December 31, 2021
- Schedules required by Annex 68-J as at December 31, 2021
- Conglomerate Map as at December 31, 2021

These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 (with comparative figures for 2020 and 2019) and no material exceptions were noted.

These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68 Part II, and are not part of the basic consolidated financial statements. 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

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Partner
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SEC Accreditation No. 81207-SEC Group A
Issued January 30, 2020
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BIR Accreditation No. 08-005144-004-2019
Valid until October 16, 2022
PTR No. 8851706
Issued January 3, 2022, Makati City

February 10, 2022
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

DECEMBER 31, 2021 and 2020

Ratio	Formula	2021	2020
Current Ratio	**Total Current Assets divided by Total Current Liabilities**		
	Total current assets	**₱546,896,174**	₱543,642,893
	Divide by: Total current liabilities	**117,809,297**	187,891,135
	Current Ratio	**4.64**	2.89
Acid Test Ratio	**Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities**		
	Total current assets	**₱546,896,174**	₱543,642,893
	Less: Inventories	**–**	–
	Land held for future development	**–**	–
	Other current assets	**157,272,264**	164,733,666
	Quick assets	**389,623,910**	378,909,227
	Divide by: Total current liabilities	**117,809,297**	187,891,135
	Acid Test Ratio	**3.31**	2.02
Debt-to-Equity Ratio	**Total Interest-Bearing debt divided by Total Equity**		
	Total interest-bearing debt	**₱–**	₱–
	Total equity	**719,298,962**	863,140,552
	Debt to Equity Ratio	**–**	–
Asset-to-Equity Ratio	**Total Assets divided by Total Equity**		
	Total assets	**₱855,156,900**	₱1,103,404,041
	Total equity	**719,298,962**	863,140,552
	Asset to Equity Ratio	**1.19**	1.28
Interest Rate Coverage Ratio	**Loss Before Interest and Taxes divided by Total Interest Expense**		
	Net loss before income tax	**(₱90,610,486)**	(₱474,175,026)
	Less: Interest income	**122,135**	676,852
	Add: Interest expense	**642,417**	6,335,216
	Loss before interest and taxes	**(90,090,204)**	(468,516,662)
	Divide by: Interest expense	**642,417**	6,335,216
	Interest Rate Coverage Ratio	**(140.24)**	(73.95)

Return on Equity	**Net Loss divided by Average Total Equity**		
	Net Loss	**(₱140,744,819)**	(₱381,387,514)
	Average Total Equity	**(791,219,757)**	(1,088,279,953)
	Return on Equity	**0.17**	0.35
Return on Assets	**Net Loss divided by Average Total Assets**		
	Net loss	**(₱140,744,819)**	(₱381,387,514)
	Average total assets	**(979,280,471)**	(1,408,116,735)
	Return on Assets	**0.14**	0.27
Solvency Ratio	**Net Loss Before Non-Cash Expenses divided by Total Liabilities**		
	Net loss	**(₱140,744,819)**	(₱381,387,513)
	Add: Non-cash expenses	**(148,359,524)**	(426,196,415)
	Net loss before non-cash expenses	**(251,048,094)**	(807,583,928)
	Total liabilities	**(135,857,937)**	(240,263,487)
	Solvency Ratio	**2.13**	3.36
Net Profit Margin	**Net Loss divided by Total Revenue**		
	Net loss	**(₱140,744,819)**	(₱381,387,514)
	Total revenue	**(426,345,611)**	(298,530,403)
	Net profit margin	**0.33**	1.28

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 2021

	Amount
Unappropriated retained earnings available for dividend distribution as at beginning of year	₱162,743,605
Net loss during the period closed to retained earnings	(128,406,087)
Add: Movement in deferred tax assets	52,444,149
Mark-to-market loss on marketable securities	22,631,431
Unrealized foreign exchange loss - net	1,396,749
	(51,933,758)
Unappropriated retained earnings as adjusted to available for dividend declaration, at end of year	**₱110,809,847**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6
PART II OF REVISED SRC RULE 68
DECEMBER 31, 2021

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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 Amortized Costs				
Cash on hand and in banks	–	₱98,639	₱98,639	₱122
Trade and other receivables	–	355,889	355,889	–
Refundable deposit	–	3,707	3,707	–
Guarantee deposits	–	14,500	14,500	–
	–	₱472,735	₱472,735	₱122
Financial assets at fair value through profit or loss				
APC Goup, Inc.	45,821	₱10,081	₱10,081	–
Leisure and Resorts World Corp.	10,725	15,980	15,980	–
Vantage Equities, Inc.	43,377	35,569	35,569	–
		₱61,629	₱61,629	–
Financial assets at fair value through other comprehensive income				
Belle Corporation	66,663	89,995	89,995	–
Premium Leisure Corporation	377,143	162,171	162,171	–
	443,806	252,167	252,167	–
		₱786,531	**₱786,531**	**–**

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Balance at end of period
Employees							
Officers	₱1,291,113	₱1,503,800	₱927,306	₱–			₱1,867,609
	₱1,291,113	**₱1,503,800**	**₱927,306**	**₱–**			**₱1,867,609**

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.	₱6,315,487	₱63,388,524	₱33,686,760	₱–	₱–	₱–	₱36,017,251
TGTI Services, Inc.	–	12,500,000	–	–	–	–	12,500,000
	₱6,315,487	**₱75,888,524**	**₱33,686,760**	**₱–**	**₱–**	**₱–**	**₱48,517,251**

Schedule D. Long-term debt

(In Thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet"
NONE			

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	–	–	73,718,250	821,612,696
	2,288,000,000	**895,330,946**	**–**	**–**	**73,718,250**	**821,612,696**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAP

DECEMBER 31, 2021