CR02979-2020

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

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

1. Check the appropriate box:
   - (●) Preliminary Information Statement
   - ( ) Definitive Information Statement
2. Name of Registrant as specified in its charter

   PACIFIC ONLINE SYSTEMS CORPORATION
3. Province, country or other jurisdiction of incorporation or organization

   Metro Manila
4. SEC Identification Number

   ASO93-008809
5. BIR Tax Identification Code

   003-865-392-000
6. Address of principal office

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

   Postal Code

   1605
7. Registrant's telephone number, including area code

   (632) 8584 1700
8. Date, time and place of the meeting of security holders

   June 22, 2020; 9:00AM; in virtual format through videoconferencing
9. Approximate date on which the Information Statement is first to be sent or given to security holders

   May 25, 2020
10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor

    Not Applicable

    Address and Telephone No.

    Not Applicable

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

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

Common Shares	895,330,946

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

(•) Yes ( ) No

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

Philippine Stock Exchange; Common Shares

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

Pacific Online Systems Corporation
LOTO

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

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

Inclusive Dates of Closing of Stock Transfer Books

Start Date	N/A
End date	N/A

Other Relevant Information
-

Filed on behalf by:

Name	JASON NALUPTA
Designation	ASSISTANT CORPORATE SECRETARY

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO: ALL STOCKHOLDERS

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

Items in the agenda of the meeting are as follows:

AGENDA

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

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

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

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

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

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

(ii) by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at www.evoting.pacificonline.com.ph. The e-voting portal will be open until 10:00 in the morning of June 22, 2020.

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

City of Pasig, Metro Manila, May 12, 2020.

A. BAYANI K. TAN
Corporate Secretary

RATIONALE FOR AGENDA ITEMS

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

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

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

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

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

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

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

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

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

Agenda Item No. 8. Appointment of External Auditors

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

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

PROXY FORM

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

1. Election of Directors.
____ 1.1. Vote for all nominees listed below:
1.1.1. Willy N. Ocier
1.1.2. Ma. Virginia V. Abo-Hamda
1.1.3. Tarcisio M. Medalla
1.1.4. Henry N. Ocier
1.1.5. Regina O. Reyes
1.1.6. Armin Antonio B. Raquel Santos
1.1.7. Laurito E. Serrano (Independent Director)
1.1.8. Jerry C. Tiu (Independent Director)
1.1.9. Joseph C. Tan (Independent Director)

____ 1.2. Withhold authority for all nominees listed above
____ 1.3. Withhold authority to vote for the nominees listed below:

__________________ __________________
__________________ __________________

2. Approval of minutes of previous Annual Stockholders' Meeting.
___ Yes ___ No ___ Abstain

3. Approval of 2019 Operations and Results
___ Yes ___ No ___ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Management from date of last Stockholders' Meeting to June 22, 2020.
___ Yes ___ No ___ Abstain

5. Appointment of R. G. Manabat & Co. (KPMG) as external auditor.
___ Yes ___ No ___ Abstain

6. At their discretion, the proxy named above are authorized to vote upon such other matters as may be properly come before the meeting.
___ Yes ___ No ___ Abstain

____
Printed Name of Stockholder

____
Signature of Stockholder /
Authorized Signatory

____
Date

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

WE ARE NOT SOLICITING PROXIES.

SECRETARY'S CERTIFICATE

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

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

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

> "RESOLVED, that ____________________ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of Pacific Online Systems Corporation (Pacific Online) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in Pacific Online and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.
>
> "RESOLVED, FINALLY, That Pacific Online be furnished with a certified copy of this resolution and Pacific Online may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

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

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

____
Printed Name and Signature of the
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on __________________ in _________________. Affiant exhibited to me his Competent Evidence of Identity by way of _____________________ issued on _______________ at ________________.

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

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box
   [√] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization: **Pasig City, Metro Manila, Philippines**

4. SEC Identification Number: **AS093-008809**

5. BIR Tax Identification Number: **003-865-392-000**

6. Address of principal office: **28th Floor, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City**

7. Registrant's telephone number, including area code: **(632) 584-1700**

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

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

9. Approximate date on which the Information Statement is to be sent or given to security holders: **May 25, 2020**

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	**₱1.00 par value** **895,330,946 (as of April 30, 2020)**

11. Are any or all of Registrant's securities listed on a Stock Exchange?

    Yes [√] No [ ]

    If so disclose name of the Exchange : **The Philippine Stock Exchange, Inc.**
    Class of securities listed : **Common Shares**

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

A. GENERAL INFORMATION

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

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

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

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

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

Item 2. Dissenters' Right of Appraisal

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

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the Company's property and assets;

3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and

4. In case of merger or consolidation.

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

> The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares; Provided, that the failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.
>
> If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made; Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; Provided further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

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

(a) No person who has been a director or officer or any nominee for election as director of the Company or associate of such persons, have substantial interest, direct or indirect, in any matter to be acted upon, other than the election of directors for the year 2020-2021.

(b) The Company is not aware of any director or security holder who intends to oppose any action to be taken by the Company during the stockholders' meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) As of April 30, 2020, the Company has **895,330,946** common shares outstanding and each share is entitled to one vote.

(b) The record date with respect to the determination of the stockholders entitled to notice of and vote at the Annual Stockholders' Meeting is **April 30, 2020**.

(c) With respect to the election of nine (9) directors, each stockholder may vote such number of shares for as many as Nine (9) persons he may choose to be elected from the list of nominees, or he may cumulate the said shares and give one candidate as many votes as the number of his shares multiplied by Nine (9) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by Nine (9).

(d) Security ownership of certain record and beneficial owners and management.

(1) Security Ownership of Certain Record and Beneficial Owners

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

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

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

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

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

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

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

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

(2) Security Ownership of Directors and Management

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

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

(3) Voting Trust Holders of 5% or More

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

Changes in Control

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

Item 5. Directors and Executive Officers

Directors and Executive Officers

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

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

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

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

Board of Directors

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

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

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

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

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

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

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

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

Independent Directors

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

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

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

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

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

the Board to the Committee as qualified, are eligible to participate in the SOP. Shares of stock subject to the SOP amount to up to five per cent (5%) of the Company's total outstanding common stock.

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

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

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

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

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

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

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

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

Involvement in Certain Legal Proceedings

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

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

Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

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

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

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

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

b. The Parent Company received cash dividends from TGTI and LCC.

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

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

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

Disagreement with Directors

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

Item 6. Compensation of Directors and Executive Officers

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

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

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

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

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

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

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

Warrants and Options Outstanding

Warrants

The Corporation has not issued any form of warrants.

Stock Option Plan

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

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

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

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

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

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

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

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

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

Item 7. Independent Public Accountants

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

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

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

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

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

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

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

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

Item 8. Compensation Plans

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

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

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

Item 10. Modification or Exchange of Securities

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

Item 11. Financial and Other Information

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

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

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

Item 13. Acquisition or Disposition of Property

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

Item 14. Restatement of Accounts

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

OTHER MATTERS

Item 15. Action with Respect to Reports

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

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

Item 16. Matters Not Required to be Submitted

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

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

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

Item 18. Other Proposed Actions

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

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

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

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

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

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

Item 19. Voting Procedures

(a) Actions to be taken at the Annual Stockholders' Meeting shall require the vote of the stockholders representing at least a majority of the Company's outstanding capital stock.

(c) Two inspectors shall be appointed by the Board of Directors before or at each meeting of the stockholders, at which an election of directors shall take place. If no such appointment shall have been made or if the inspectors appointed by the Board of Directors refused to act or fail to attend, then the appointment shall be made by the presiding officer of the meeting. For purposes of the Annual Stockholders' Meeting on June 22, 2020 the Corporate Secretary and/or his representative, together with the Audit Partner of the External Auditor and/or his representative, have been designated as inspectors who have been tasked to oversee the counting of votes.

(d) Stockholders may vote at all meetings either in person or by proxy duly given in writing in favor of any person of their confidence and each stockholder shall be entitled to one vote for each share of stock standing in his name in the books of the corporation; provided, however, that in the election of directors, each stockholder shall be entitled to cumulate his votes in the manner provided for by law. For the purpose of this year's annual stockholders' meeting, which will be held only in a virtual format, the stockholders may only vote through proxies or by remote communication (in absentia). The stockholders are encouraged to participate in the meeting by either of the following:

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

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

ii. by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at www.evoting.pacificonline.com.ph. The e-voting portal will be open until 10:00 in the morning of June 22, 2020.

(e) The method of counting votes shall be in accordance with the general provisions of the Revised Corporation Code. The counting shall be done by the inspectors abovementioned, witnessed and the results verified by a duly appointed independent third-party validator, Alberto, Pascual & Associates.

SIGNATURES

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

This report is signed in the City of Pasig, Metro Manila on May 13, 2020.

PACIFIC ONLINE SYSTEMS CORPORATION

By:

WILLY N. OCIER
Chairman and President

PACIFIC ONLINE SYSTEMS CORPORATION

BUSINESS AND GENERAL INFORMATION

BUSINESS

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

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

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

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

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

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

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

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

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

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

** With indirect ownership through LotoPac*
*** Indirectly owned through TGTI*
**** Indirectly owned through LCC (collectively referred to as "nine entities starting July 1, 2017)*

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

Background on the TGTI Investment

On April 13, 2004, the Company purchased 50% of the outstanding capital stock of Innovative Solutions Consultancy Group, Corp. (Innovative), which is a joint stock company incorporated to manage enterprises engaged in the gaming business. On May 31, 2004, Innovative, in turn, acquired 80% of the outstanding capital stock of Total Gaming Technologies, Inc. (TGTI), a domestic corporation founded in October 2002 to develop new games for the Philippine gaming industry and to provide consultancy service and state-of-the-art equipment to the local gaming operators through its strategic partnership with Intralot. TGTI has entered into an Equipment Lease Agreement (ELA) with the PCSO for the nationwide operation of the Online Keno (initially referred to as Fast Keno) game. A Shareholders' Agreement was executed whereby Innovative shall provide management counsel and expertise to TGTI to ensure proper execution of the Online Keno game, among others. In April 2008, the Company acquired from Intralot additional 574,885 shares of Innovative for a contract price of P4.3 million. This increased the Company's interest in Innovative from 50% in 2007 to 87.38% in 2008. In August 2010, the minority shareholders of TGTI and Innovative entered into a contract wherein the minority shareholders sold all of their 2,650,000 common stock to the Company, part of the consideration of which is that the Company, as controlling shareholder of TGTI, will cause the creation of preferred stock, of which 3,312,500 preferred shares will be issued to the minority shareholders of TGTI. The total preferred stock of 3,312,500 has been fully subscribed, and of the said subscription, the amount of P331,250 has been paid. Preferred stock will have a par value of P1.00 per share, non-voting and will have preference in the distribution of assets in the event of dissolution. On December 20, 2012, the majority of TGTI's stockholders and its Board of Directors (BOD) approved the Company's application for increase in its authorized capital stock with the SEC from Fifty Million Pesos (P50,000,000.00) divided into Forty Million (40,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P1.00) per share, to Seven Hundred Million Pesos (P700,000,000.00), divided into Six Hundred Ninety Million (690,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

Recent Developments

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

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

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

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

Agreements with the Philippine Charity Sweepstakes Office (PCSO)

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

Pacific Online's Agreements with PCSO

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government Regulation and Environmental Compliance

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

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

Technology Development, Supply and Service Contracts

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

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

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

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

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

Intralot

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

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

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

The Philippine Lottery Sector

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

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

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

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

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

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

The Group's Online Lottery Operations and Products

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

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

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

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

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

Market Profile

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

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

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

Organization and Manpower

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

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

Risks

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

1. General Risks

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

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

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

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

3. Risks Relating to the Company and its Subsidiaries

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

b. Business Interruption Risk

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

PROPERTIES

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

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

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

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

LEGAL PROCEEDINGS

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

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

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

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

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

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

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

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

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

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

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

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

DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

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

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

2019 Compared to 2018

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

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

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

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

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

- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;

- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;

- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;

- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;

- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

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

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

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;

- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;

- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;

- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;

- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;

- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;

- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

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

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

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

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

- Lease liability ROU-noncurrent portion increased by P9.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

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

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

As of December 31, 2019, the Company has:

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

Key Performance Indicators

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

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

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

The above performance indicators are calculated as follows:

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

Debt to Equity Ratio $\frac{\text{Total Liabilities}}{\text{Total Equity}}$

Asset-to-equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$

Return on Stockholders' Equity	Net Income / Total Equity
Return on Assets	Net Income / Total Assets
Interest Coverage Ratio	Income Before Interest & Tax / Interest Expense
Solvency Ratio	Net Income + Depreciation / Total Liabilities
Book Value per Share	Total Equity / Total Shares Outstanding

2018 Compared to 2017

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

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

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

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

- Personnel costs increased by P82.5 million (31%) mainly due to the acquisition of the nine (9) subsidiaries of LCC in 2017, which effectively increased the manpower of the Group;
- Rent and utilities increased by P49.6 million (30%) due to rental rate escalation of the Group's offices and logistics centers and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries in 2017;

- Entertainment, amusement and recreation expense increased by P4.1 million (26%) due to higher business representation expenses incurred in 2018

- Other income (net of other charges) increased by P107.3 million from last year's P54.2 million, mainly due to the full recognition of the P203.5 million brand and trademark license fee and its corresponding interest income of P12.5 million covering the exclusive use of the Company's instant scratch ticket trademarks by PMLC over 5 years starting on January 1, 2018. This other income was reduced by the provision of P110.9 million impairment of the goodwill pertaining to the acquisition of Falcon Resources Inc. (FRI) by TGTI. Based on projections of declining revenues from FRI's core business of instant ticket distribution in the next few years, management deems it prudent to impair the goodwill.

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

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

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

- Marketable securities decreased by P22.8 million (13%) due to unrealized mark-to-market loss amounting to P11.9 million and disposal of P10.9 million worth of securities during the year;

- Trade and other receivables-net decreased by P218.2 million (43%) due mainly to the lower lotto and keno sales as of last quarter of 2018 plus the lower ELA rate on lotto sales starting August 1, 2018 as part of the terms in the extension of the contract for another year;

- Investment in stocks went down by P272.3 million (37%) due to the decrease in the stock market prices of investments on hand during 2018;

- Goodwill and intangibles decreased by P110.9 million (87%) as a result of the impairment of the goodwill initially booked when FRI was acquired by TGTI in 2014;

- Property and equipment decreased by P178.1 million (41%) due to depreciation of lottery equipment and other fixed assets

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

- Cash increased by P124.1 million (28%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;

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

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

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

Key Performance Indicators

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

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

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

2017 Compared to 2016

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

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

- Personnel costs increased by P99.9 million (47%) mainly due to the acquisition of the nine (9) subsidiaries of LCC which effectively increased the manpower of the Group;

- Depreciation and amortization charges increased by P54.3 million (32%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2016;

- Rent and utilities increased by P43.2 million (57%) due to additional logistics hubs set up in VisMin and the expanded retail outlets resulting from the acquisition of LCC’s subsidiaries;

- Consultancy fees increased by P7.4 million (13%) due to higher sales, on which the fees are based on;

- Communication expenses increased by P8.4 million (8%) due to additional communication links resulting from additional lotto and keno terminal rollout;

- Management fees increased by P5.2 million (8%) due to the increase in EBITDA, on which the fees are based on;

- Repairs and maintenance increased by P5.6 million (12%) due to renovation and repairs of logistics and office facilities;

- Advertising and promotion increased by P58.0 million (434%) due to more aggressive keno marketing and promotional activities implemented during first half of the year, while there was no such activity in 2016.

- Operating supplies increased by P25.7 million (13%), mainly due to higher consumables, resulting from higher lottery sales;

- Impairment losses on receivables increased by P7.7 million and provision for probable losses increased by P25M due to additional provision required for possible impairment of past due accounts receivable and unused input taxes of the 9 subsidiaries that LCC acquired.

- Other expenses increased by P22.8 million (92%) mainly due to higher miscellaneous incidental business expenses.

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

- Professional fees decreased by P3.8 million (22%) due to lower fees paid during the period, and

- Entertainment, amusement and recreation expense decreased by P2.6 million (14%) due to lower business representation expenses incurred in 2017;

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

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

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

- Cash increased by P188.2 million (73%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;

- Marketable securities increased by P12.5 million (8%) due to additional marketable securities purchased at P10.2 million and the unrealized mark-to-market gain amounting to P2.2 million;

- Retirement benefit asset increased by P1.0M (320%) due to additional contribution made to the retirement fund;

- Other noncurrent assets increased by P24.5 million (45%) due to the bonds and rental deposits of the additional subsidiaries purchased.

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

- Other current assets decreased by P8.2 million (7%) due to application of prepaid income taxes against income tax payable, and

- Property and equipment decreased by P40.9 million (9%) due to higher depreciation expense for the year;

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

Key Performance Indicators

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

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

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

Plans and Prospects

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

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

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

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

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

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

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

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

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

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

FINANCIAL STATEMENTS

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

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

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

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

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

The movements in treasury shares are as follows:

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

Dividends

No cash or stock dividends were declared in 2019.

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

2018

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

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

In 2017, the Company declared cash dividends as follows:

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

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

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

Stock Prices

As of the trading date, April 30, 2020 the stocks of the Company closed at P1.73 per share. The Company's stock price was pegged at a high of P1.75 and at a low of P1.70 as of the same date. The stock prices as of quarter end date for 2019 are as follows:

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

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

Security Holders

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

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

Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

Voting Rights

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

Dividend Rights of Common Shares

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

Appraisal Rights

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

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines and;

3. In case of merger or consolidation.

COMPLIANCE WITH THE MANUAL ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

UNDERTAKING TO PROVIDE COPIES OF THE ANNUAL REPORT

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

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

COVER SHEET

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

SEC Registration Number

PACIFIC ONLINE SYSTEMS CORPORATION

(Company's Full Name)

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

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

Ma. Virginia V. Abo-Hamda

(Contact Person)

8584-1700

(Company Telephone Number)

1 2 | 3 1

Month Day

(Fiscal Year)

1 7 - A

(Form Type)

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc

Amended Articles Number/Section

Total Amount of Borrowings

56

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

SECURITIES AND EXCHANGE COMMISSION

SECURITIES AND EXCHANGE COMMISSION
FEB 27 2020

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2019**

2. SEC Identification Number **AS093-008809** 3. BIR Tax Identification No. **003-865-392-000**

4. Exact name of registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**

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

6. ______________ (SEC Use Only)
   Industry Classification Code

7. **28/F, East Tower, Philippine Stock Exchange, Exchange Road, Ortigas Center, Pasig City, Metro Manila** **1605**
   Address of principal office Postal Code

8. **632/8884-1700**
   Registrant's telephone number, including area code

9. **Not applicable**
   Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, ₱1.00 par value	**895,330,943**

11. Are any or all of these securities listed on the Philippine Stock Exchange.
    Yes [√] No [ ]

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports)
    Yes [√] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.
    Yes [√] No [ ]

13. Aggregate market value of voting stock held by non-affiliates - ₱ 650.7 million
    This was computed by multiplying the number of voting stocks held by non-affiliates by the stock's closing price on February 26, 2020

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

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

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

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

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

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

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

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

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

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

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

** With indirect ownership through LotoPac*
*** Indirectly owned through TGTI*
**** Indirectly owned through LCC (collectively referred to as "nine entities starting July 1, 2017)*

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

Background on the TGTI Investment

On April 13, 2004, the Company purchased 50% of the outstanding capital stock of Innovative Solutions Consultancy Group, Corp. (Innovative), which is a joint stock company incorporated to manage enterprises engaged in the gaming business. On May 31, 2004, Innovative, in turn, acquired 80% of the outstanding capital stock of Total Gaming Technologies, Inc. (TGTI), a domestic corporation founded in October 2002 to develop new games for the Philippine gaming industry and to provide consultancy service and state-of-the-art equipment to the local gaming operators through its strategic partnership with Intralot. TGTI has entered into an Equipment Lease Agreement (ELA) with the PCSO for the nationwide operation of the Online Keno (initially referred to as Fast Keno) game. A Shareholders' Agreement was executed whereby Innovative shall provide management counsel and expertise to TGTI to ensure proper execution of the Online Keno game, among others. In April 2008, the Company acquired from Intralot additional 574,885 shares of Innovative for a contract price of P4.3 million. This increased the Company's interest in Innovative from 50% in 2007 to 87.38% in 2008. In August 2010, the minority shareholders of TGTI and Innovative entered into a contract wherein the minority shareholders sold all of their 2,650,000 common stock to the Company, part of the consideration of which is that the Company, as controlling shareholder of TGTI, will cause the creation of preferred stock, of which 3,312,500 preferred shares will be issued to the minority shareholders of TGTI. The total preferred stock of 3,312,500 has been fully subscribed, and of the said subscription, the amount of P331,250 has been paid. Preferred stock will have a par value of P1.00 per share, non-voting and will have preference in the distribution of assets in the event of dissolution. On December 20, 2012, the majority of TGTI's stockholders and its Board of Directors (BOD) approved the Company's application for increase in its authorized capital stock with the SEC from Fifty Million Pesos (P50,000,000.00) divided into Forty Million (40,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P1.00) per share, to Seven Hundred Million Pesos (P700,000,000.00), divided into Six Hundred Ninety Million (690,000,000) common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

Recent Developments

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

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

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

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

Agreements with the Philippine Charity Sweepstakes Office (PCSO)

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

Pacific Online's Agreements with PCSO

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

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

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

2013 Amended ELA. On March 28, 2013, the Company and PCSO further amended some provisions of the ELA, which extended it from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Company agreed to reduce the rental fees for VISMIN and with the approval to service PCSO's Luzon lotto operations. The amendment also incorporated the fee for the supply of bet slips and ticket paper rolls for the PCSO's VISMIN and Luzon operations as part of the rental fee.

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

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

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

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

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

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

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

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

TGTI's Equipment Lease Agreement (ELA)

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

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

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

LCC Agency Agreement

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

Government Regulation and Environmental Compliance

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

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

Technology Development, Supply and Service Contracts

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

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

Scientific Games

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

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

Intralot

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

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

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

The Philippine Lottery Sector

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

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

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

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

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

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

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

The Group's Online Lottery Operations and Products

As of December 31, 2019, the Company together with its subsidiary TGTI, had over 5,800 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

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

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

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

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

Market Profile

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

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

Competition

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

Organization and Manpower

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

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

Risks

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

1. General Risks

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

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

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

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

3. Risks Relating to the Company and its Subsidiaries

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

b. Business Interruption Risk

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

Item 2. Properties

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

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

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

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

Item 3. Legal Proceedings

1. **"TMA Group of Companies, et al. vs. Philippine Charity Sweepstakes Office (PCSO), et al."**
   RTC 66, Makati City- Civil Case No. 11-310/569 [121-106]

This is a complaint for specific performance and damages filed by TMA Australia Pty. Ltd. and its local subsidiary, TMA Group Philippines, Inc. (TMAP), against PCSO as regards their contract for the supply of lotto paper. The complainants subsequently amended their complaint to include Pacific Online and Philippine Gaming Management Corporation (PGMC) as defendants. They prayed for a temporary restraining order and/or writ of preliminary injunction to enjoin all defendants from doing anything in violation or derogation of the contractual terms of the Joint Venture Agreement (JVA) dated December 4, 2009 for the supply of lotto paper. No damages were prayed for against Pacific Online. On June 22, 2017, a Notice of Dismissal dated June 15, 2017 was received from TMAP praying for the dismissal of the Supplemental Complaint against Pacific Online pursuant to Section 1 of Rule 17. No objection was interposed to and/or comment on the Notice of Dismissal. Thus, in an Order dated June 26, 2017, the court dismissed the case against Pacific Online.

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

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

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

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

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

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

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

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

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

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

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

A special stockholders' meeting was convened last September 25, 2018, wherein the Increase in capitalization to P2.288 billion and stock dividend of 422,431,981 shares to its shareholders were approved. Said special stockholders' meeting was approved by the BOD during its meeting on August 14, 2018. The increase in authorized capitalization was approved by the SEC on February 28, 2019. On March 15, 2019, the SEC approved the Record Date of March 29, 2019 and the Payment Date of on or before April 23, 2019 for LOTO's 100% stock dividends.

PART II - OPERATIONAL FINANCIAL INFORMATION

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

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

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

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock. For the same reasons as above, the Company bought back 1,478,000 shares in 2018 and 16,771,546 shares in 2017. The Company did not buy back any treasury shares in 2019 but the number of treasury shares doubled as a result of the stock dividend.

The movements in treasury shares are as follows:

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

Dividends

No cash or stock dividends were declared in 2019.

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

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

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

In 2017, the Company declared cash dividends as follows:

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

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

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

Stock Prices

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

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

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

Security Holders

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

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

Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

Voting Rights

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

Dividend Rights of Common Shares

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

Appraisal Rights

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

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines and;

3. In case of merger or consolidation.

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

Results of Operations and Financial Condition

2019 Compared to 2018

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

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2019 decreased by P247.08 million (15%) to P1.370 billion, from P1.614 billion in 2018. The decrease is attributed to the following:

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;

- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;

- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;

- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;

- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;

- Operating supplies expense decreased by P104.9 million (56%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

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

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

- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;

- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;

- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;

- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;

- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

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

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

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;

- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;

- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;

- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;

- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;

- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;

- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

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

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

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

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

- Lease liability ROU-current increased by P41.5 million (100%), due to the effect of adopting the new accounting standard PFRS 16- Leases;
- Defined benefit liability increased by P29.2 million (from 0 in 2018) due to the accrual of retirement expense for 2019;
- Lease liability ROU-noncurrent portion increased by P8.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

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

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

As of December 31, 2019, the Company has:

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

Key Performance Indicators

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

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

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

The above performance indicators are calculated as follows.

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

2018 Compared to 2017

The Group generated total revenues from operating sources of about P1.936 billion for the year ended December 31, 2018, a decrease of P384 million (17%) over total revenues of P2.320 billion during the same period in 2017. The decrease in revenue was due to lower lottery sales, which was caused by the expansion of Small Town Lottery (STL) from 17 to 68 operators and the 20% increase in lottery ticket prices with the implementation of the Documentary Stamp Tax (DST) on lottery tickets as mandated by the TRAIN Law in 2018. The STL games offer lower ticket prices and higher payout ratios versus the online lotto and keno games.

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

- Consultancy fees decreased by P35.2 million (54%) due to lower lottery sales, on which the fees are based on;

- Management fees decreased by P25.2 million (36%) due to the decrease in EBITDA, on which the fees are based on;

- Advertising and promotion decreased by P32.3 million (45%) due to reduction in keno marketing and promotional activities as compared to 2017;

- Operating supplies decreased by P57.2 million (26%), mainly due to the takeover by PCSO of lotto paper supplies as part of the terms in the extension of the lotto ELA starting August 1, 2018;

- No provision for possible impairment of receivables was recorded in 2018, while the P25.0 million provision in 2017 was required for possible impairment of past due accounts receivable and unused input taxes of the nine (9) subsidiaries that LCC acquired in 2017,

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

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

- Personnel costs increased by P62.5 million (31%) mainly due to the acquisition of the nine (9) subsidiaries of LCC in 2017, which effectively increased the manpower of the Group;

- Rent and utilities increased by P49.6 million (30%) due to rental rate escalation of the Group's offices and logistics centers and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries in 2017;

- Entertainment, amusement and recreation expense increased by P4.1 million (26%) due to higher business representation expenses incurred in 2018

- Other income (net of other charges) increased by P107.3 million from last year's P54.2 million, mainly due to the full recognition of the P203.5 million brand and trademark license fee and its corresponding interest income of P12.5 million covering the exclusive use of the Company's instant scratch ticket trademarks by PMLC over 5 years starting on January 1, 2018. This other income was reduced by the provision of P110.9 million impairment of the goodwill pertaining to the acquisition of Falcon Resources Inc. (FRI) by TGTI. Based on projections of declining revenues from FRI's core business of instant ticket distribution in the next few years, management deems it prudent to impair the goodwill.

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

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

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

- Marketable securities decreased by P22.8 million (13%) due to unrealized mark-to-market loss amounting to P11.9 million and disposal of P10.9 million worth of securities during the year;

- Trade and other receivables-net decreased by P218.2 million (43%) due mainly to the lower lotto and keno sales as of last quarter of 2018 plus the lower ELA rate on lotto sales starting August 1, 2018 as part of the terms in the extension of the contract for another year;

- Investment in stocks went down by P272.3 million (37%) due to the decrease in the stock market prices of investments on hand during 2018;

- Goodwill and intangibles decreased by P110.9 million (87%) as a result of the impairment of the goodwill initially booked when FRI was acquired by TGTI in 2014;

- Property and equipment decreased by P178.1 million (41%) due to depreciation of lottery equipment and other fixed assets

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

- Cash increased by P124.1 million (28%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;

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

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

- Trade and other current liabilities decreased by P247.9 million (50%) due mainly to payables booked as of yearend 2017 for dividends and lotto paper, which were not incurred as of yearend 2018;
- Income tax payable went down by P70 million (68%) due to lower net income vs. last year;

Key Performance Indicators

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

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

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

2017 Compared to 2016

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

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

- Personnel costs increased by P99.9 million (47%) mainly due to the acquisition of the nine (9) subsidiaries of LCC which effectively increased the manpower of the Group;

- Depreciation and amortization charges increased by P54.3 million (32%) due to depreciation of new lottery machines and equipment and other fixed assets acquired in 2016;

- Rent and utilities increased by P43.2 million (57%) due to additional logistics hubs set up in VisMin and the expanded retail outlets resulting from the acquisition of LCC's subsidiaries,

- Consultancy fees increased by P7.4 million (13%) due to higher sales, on which the fees are based on;

- Communication expenses increased by P8.4 million (8%) due to additional communication links resulting from additional lotto and keno terminal rollout;

- Management fees increased by P5.2 million (8%) due to the increase in EBITDA, on which the fees are based on;

- Repairs and maintenance increased by P5.6 million (12%) due to renovation and repairs of logistics and office facilities;

- Advertising and promotion increased by P58.0 million (434%) due to more aggressive keno marketing and promotional activities implemented during first half of the year, while there was no such activity in 2016.

- Operating supplies increased by P25.7 million (13%), mainly due to higher consumables, resulting from higher lottery sales;

- Impairment losses on receivables increased by P7.7 million and provision for probable losses increased by P25M due to additional provision required for possible impairment of past due accounts receivable and unused input taxes of the 9 subsidiaries that LCC acquired.

- Other expenses increased by P22.8 million (92%) mainly due to higher miscellaneous incidental business expenses.

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

- Professional fees decreased by P3.6 million (22%) due to lower fees paid during the period, and

- Entertainment, amusement and recreation expense decreased by P2.6 million (14%) due to lower business representation expenses incurred in 2017;

Other income (net of other charges) increased by P63.2 million in 2017 from net charges of P14.1 million in 2016, mainly due to improved mark to market gain on marketable securities of P39.3 million, increase in excess input taxes of P18.7 million, and the P11.6M service income earned in 2017.

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

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

- Cash increased by P188.2 million (73%) mainly due to the acquisition of the nine (9) subsidiaries of LCC during the second half of 2017;

- Marketable securities increased by P12.5 million (8%) due to additional marketable securities purchased at P10.2 million and the unrealized mark-to-market gain amounting to P2.2 million;

- Retirement benefit asset increased by P1.0M (320%) due to additional contribution made to the retirement fund;

- Other noncurrent assets increased by P24.5 million (45%) due to the bonds and rental deposits of the additional subsidiaries purchased.

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

- Other current assets decreased by P8.2 million (7%) due to application of prepaid income taxes against income tax payable, and

- Property and equipment decreased by P40.9 million (9%) due to higher depreciation expense for the year.

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

Key Performance Indicators

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

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

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

Plans and Prospects

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

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

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

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

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

Item 7. Financial Statements

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

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

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

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

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

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

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

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

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

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors and Senior Management

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

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

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

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

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

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

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

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

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

Independent Directors

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

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

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

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

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Involvement in Certain Legal Proceedings

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

Item 10. Executive Compensation

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

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman & President				
Ma. Virginia V. Abo-Hamda Director & Chief Financial Officer				
Valentino L. Kintanar VP-Technical Services				
Romeo J. Roque, Jr. VP-Agent Management				
Ma. Concepcion T. Sangil VP- Human Resources Management				
Christopher C. Villaflor VP- Central System & Network Management				
Total for the Executive Officers as a group	2020 (Estimate) 2019 2018			P14,374,498 P13,343,054 P15,611,747
Total for the Directors and Executive Officers as a group	2020 (Estimate) 2019 2018			P17,141,165 P16,109,720 P19,535,081
Total for President and 4 most highly compensated Executive Officers	2020 (Estimate) 2019 2018			P12,774,908 P11,881,950 P13,660,275

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

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

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

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

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

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

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

Security Ownership of Directors and Management

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

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

Item 12. Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

			Amount	Outstanding Balance			
Category/Transaction	Year	Note	of the Transaction	Advances to Related Parties	Advances from Related Parties	Terms	Conditions
TGTI							
• Advances	2019	a	(P13,928,115)	P-	P2,657,914	On demand, noninterest bearing	Unsecured
	2018	a	-	-	16,586,029		
• Dividend income received	2019	c	-	-	-		
	2018	c	6,732,636	-	-		
• Dividends paid	2019	b	-	-	-		
	2018	b	99,049,969	-	-		
• Treasury Stock	2019	c	-	-	-		
	2018	c	174,384,130	-	-		
• Reimbursements	2019	a	31,258,301	-	-		
	2018	a	75,624,181	-	-		
FRI							
• Advances	2019	a	(10,000,000)	-	-	On demand, noninterest bearing	Unsecured
	2018	a	-	-	10,000,000		
LOTO PAC							
• Advances	2019	a	150,957	-	966,855	On demand, noninterest bearing	Unsecured
	2018	a	111,458	-	641,489		
LCC & New Entities							
• Dividends paid	2019		-	-	-		
	2018		39,056,276	-	-		
• Advances	2019	a	79,287,018	966,855	P108,375,661	On demand, noninterest bearing	Unsecured
	2018	a	-	-	28,956,496		
• Rental expense	2019	d	78,862,787	-	-		
	2018	d	32,287,272	-	-		
• Security deposits	2019	d	22,929,104	-	-		
	2018	d	23,104,654	-	-		
TOTAL	2019			P966,855	P112,020,430		
TOTAL	2018			P -	P57,388,016		

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

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

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

b. The Parent Company received cash dividends from TGTI and LCC.

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

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

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

PART IV - CORPORATE GOVERNANCE

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

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

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

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

> **Executive Committee** - acts on behalf of the Board in the management and direction of the business and conduct of the affairs of the Company.
>
> **Audit Committee** - has general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.
>
> **Board Risk Oversight Committee** – assists the Board in overseeing the Company's practices and processes relating to risk assessment and risk management, maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls.
>
> **Corporate Governance Committee** – tasked with ensuring compliance with, and proper observance of, corporate governance principles and practices. Folded in are the nomination and remuneration oversight functions as well.
>
> **Related Party Transactions Committee** - assists the Board in overseeing the Company's practices and processes relating to related party transactions (RPTs). Reviews all material related party transactions of the Company and ensures that all RPTs are conducted on a fair and arms-length basis.

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

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

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

PART V - EXHIBITS AND SCHEDULES

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

a. Exhibits

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

b. Reports on SEC Form 17-C

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

SIGNATURES

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

By:

WILLY N. OCIER
Chairman of the Board and President

MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

A. BAYANI K. TAN
Corporate Secretary

FEB 20 2020

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

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

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2020
PTR No. A-4772374 /01/02/2020Taguig City
IBP No. 095271 /11/28/2019-For Year 2020/ RSM
Roll No. 41969
MCLE Comp. VI-0021512 / March 28, 2019
No. 11, Unit J Freemont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 32 (2019-2020)

Doc. No. 276
Book No. 56
Page No. 05
Series of 2020

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management **Pacific Online Systems Corporation** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free form 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 consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

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

Signature____________________

WILLY N. OCIER / Chairman of the Board

Signature____________________

WILLY N. OCIER / Chief Executive Officer

Signature____________________

MA. VIRGINIA V. ABO-HAMDA / Chief Financial Officer

Signed this 20th day of February 2020

GAUDENCIO A. BARBOZA, JR.
NOTARY PUBLIC
Cities of Pasig, San Juan and
in the Municipality of Pateros, Metro Manila
Until December 31, 2020
PTR No. A-4762374 /01/02/2020 Taguig City
IBP No. 0959/1 /11/28/2019-For Year 2020/ RSM
Roll No. 41969
MCLE Comp. VI-0021812 / March 28, 2019
No. 11, Unit J Fremont Arcade Bldg.
Shaw Blvd. Brgy. San Antonio, Pasig City
Appointment No. 22 (2019-2020)

SUBSCRIBED AND SWORN TO BEFORE ME AT PASIG CITY
THIS DAY OF FEB 20 2020 AFFIANT EXHIBITING TO ME
HIS/HER COMPETENT EVIDENCE OF IDENTITY NO. ________
ISSUED AT ________ ON ________

Doc. No. 186;
Page No. 38;
Book No. 05;
Series of 2020.

COVER SHEET

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 Center, Pasig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
58		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
Ma. Virginia V. Abo-Hamda		8584-1700	

CONTACT PERSON's ADDRESS

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

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

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226

Telephone	+63 (2) 8885 7000
Fax	+63 (2) 8894 1985
Website	home.kpmg/ph
Email	ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
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 consolidated financial statements of Pacific Online Systems Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matter

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

PFRS 16, Leases
Refer to Notes 4 and 20 to the consolidated financial statements.

The risk
The Group adopted the new standard on leases, PFRS 16, *Leases* which replaces PAS 17, *Leases*. PFRS 16 introduces a new lease accounting model where lessees are required to recognize a right-of-use (ROU) asset and a lease liability.

As at December 31, 2019, the Group has ROU assets - net of depreciation and lease liabilities amounting to P50,298,070 and P67,602,005, respectively.

The assessment of the impact of the new standard is significant to our audit, as the relevant balances and amounts recognized by the Group are material.Substantial time and effort was required to audit the right-of-use assets and lease liabilities recognized due to numerous lease contracts subjected to the transition and significant judgement was required for the assumptions and estimates made in order to determine the ROU assets and lease liabilities.

Our response
Our audit procedures included inquiries with management and review of relevant documents to understand the Group's approach to implementing PFRS 16. We evaluated whether the new accounting policies on leases are appropriate and consistent with PFRS 16. We evaluated the design and operating effectiveness of key controls over new processes introduced to apply PFRS 16, including those relevant to transition.

We tested the completeness of the population of leases subjected to PFRS 16's requirements by verifying the lease contract database against the rental payments made. We reviewed lease contracts to assess whether leases have been appropriately identified and measured. We obtained the Group's quantification of ROU assets and lease liablities and evaluated the appropriateness of inputs used including discount rates and lease terms, and performed computation checks.

We also evaluated the adequacy of disclosures required by PFRS 16 in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits 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 the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 our 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 audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 matter communicated with those charged with governance, we determine this matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter 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 Enrico E. Baluyut.

R.G. MANABAT & CO.

ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-26-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 8116756
Issued January 2, 2020 at Makati City

February 20, 2020
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2019**	**2018**
ASSETS			
Current Assets			
Cash and cash equivalents	7	**P337,471,529**	P571,260,258
Marketable securities	8	**140,456,581**	155,704,892
Trade and other receivables - net	9	**172,501,609**	285,063,895
Other current assets	10	**214,265,314**	144,938,786
Total Current Assets		**864,695,033**	1,156,967,831
Noncurrent Assets			
Investments in stocks	11	**347,630,880**	455,705,930
Property and equipment - net	12	**107,415,991**	259,876,260
Right-of-use assets	20	**50,298,070**	-
Goodwill	13	-	17,046,266
Deferred tax assets - net	15	**52,501,395**	-
Retirement benefits asset	22	-	7,855,553
Other noncurrent assets	2, 10	**290,288,060**	205,627,541
Total Noncurrent Assets		**848,134,396**	946,111,550
		P1,712,829,429	P2,103,079,381
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other current liabilities	14	**P144,231,951**	P245,071,466
Loan payable	15	**150,000,000**	-
Lease liabilities	20	**58,353,121**	-
Current portion of obligations under finance lease	20	-	19,379,463
Withholding taxes payable		**3,458,412**	6,096,017
Income tax payable		**4,274,940**	9,415,467
Current portion of installment payable		-	9,205,042
Total Current Liabilities		**360,318,424**	289,167,455
Noncurrent Liabilities			
Lease liabilities - net of current portion	20	**9,248,884**	-
Obligations under finance lease - net of current portion	20	-	15,995,011
Defined benefit liability	22	**29,842,768**	-
Deferred tax liabilities - net	19	-	37,297,139
Total Noncurrent Liabilities		**P39,091,652**	P53,292,150
Total Liabilities		**P399,410,076**	P342,459,605

Forward

	Note	December 31 2019	2018
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	16	**P895,330,946**	P447,665,473
Additional paid-in capital	16	**257,250,677**	257,250,677
Treasury stock	16	**(285,267,558)**	(285,267,558)
Stock dividend distributable	16	**-**	422,431,981
Fair value reserve	11	**(396,601,971)**	(288,726,921)
Retirement benefits reserve	22	**(17,814,609)**	538,390
Retained earnings	11, 16	**855,178,425**	1,199,822,935
		1,308,075,910	1,753,714,977
Non-controlling interest		**5,343,443**	6,904,799
Total Equity		**1,313,419,353**	1,760,619,776
		P1,712,829,429	P2,103,079,381

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Note	2019	2018	2017
REVENUES				
Equipment rental	2, 6, 20	P681,463,757	P1,448,317,611	P1,840,520,991
Commission and distribution income	2, 6	308,381,639	487,626,385	479,472,385
		989,865,396	1,935,943,996	2,319,993,376
COSTS AND EXPENSES	18	1,370,091,622	1,614,488,192	1,652,402,460
OPERATING INCOME (LOSS)		(380,226,226)	321,455,804	667,590,916
OTHER INCOME (CHARGES)				
Dividend income	6, 11	31,657,224	29,082,445	20,628,055
Impairment loss on goodwill	13	(17,046,266)	(110,933,996)	-
Mark-to-market gain (loss) on marketable securities	8	(15,248,311)	(11,903,085)	2,204,529
Finance charges	20	(7,022,938)	(6,187,352)	(10,859,855)
Interest income	7	1,549,614	1,475,133	853,644
License fee income		-	203,459,171	-
Others - net	21	(9,050,668)	56,430,481	41,329,074
		(16,161,445)	161,422,797	54,155,446
INCOME (LOSS) BEFORE INCOME TAX		(396,387,671)	482,878,601	721,746,362
INCOME TAX EXPENSE (BENEFIT)	19			
Current		7,603,380	131,398,272	230,041,358
Deferred		(82,018,677)	47,432,314	(1,160,984)
		(74,416,297)	178,830,586	228,880,374
NET INCOME (LOSS)		(P320,972,374)	P304,048,015	P492,865,988
Attributable to:				
Equity holders of the Parent Company	23	(319,411,018)	P302,659,366	P490,101,221
Non-controlling interest		(1,561,356)	1,388,649	2,764,767
		(P320,972,374)	P304,048,015	P492,865,988
Attributable to Equity Holders of the Parent Company				
Basic Earnings Per Share	23	(P0.3781)	P0.3579	P0.5733
Diluted Earnings Per Share	23	(P0.3781)	P0.3579	P0.5733

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Note	2019	2018	2017
NET INCOME (LOSS)		(P320,972,374)	P304,048,015	P492,865,988
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefits, net of tax	*22*	(18,152,999)	12,377,190	1,248,962
Fair value gain (loss) on investments in stocks	*11*	(108,075,050)	(306,782,380)	118,997,550
		(126,228,049)	(294,405,190)	120,246,512
TOTAL COMPREHENSIVE INCOME (LOSS)		(P447,200,423)	P9,642,825	P613,112,500
Attributable to:				
Equity holders of the Parent Company		(P445,639,067)	P8,254,176	P610,347,733
Non-controlling interest		(1,561,356)	1,388,649	2,764,767
		(P447,200,423)	P9,642,825	P613,112,500

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		(P295,387,671)	P482,878,601	P721,746,362
Adjustments for:				
Depreciation and amortization	12	173,219,615	223,200,081	225,444,278
Depreciation of right-of-use assets	20	46,133,628	-	-
Impairment loss on:				
Goodwill	13	17,046,266	110,933,998	-
Trade and other receivables	9, 17	2,147,391	-	25,000,000
Dividend income	8, 11	(31,857,224)	(28,082,445)	(20,628,055)
Interest income	7, 21	(10,149,518)	(14,031,615)	(853,644)
Retirement cost	22	18,266,466	12,183,420	11,181,859
Fair value loss (gain) on marketable securities	8	15,248,311	11,903,085	(2,204,528)
Finance charges	20	7,022,836	6,187,352	10,859,855
Gain on sale of:				
Marketable securities	21	-	(1,548,225)	-
Property and equipment	21	(839,812)	(1,038,518)	(155,142)
Unrealized foreign exchange loss	21	886,057	888,280	1,589,733
Operating income (loss) before working capital changes		(158,065,353)	802,472,012	971,980,718
Decrease (increase) in:				
Trade and other receivables		110,414,895	218,239,380	(114,098,994)
Other current assets		(69,326,528)	(32,860,265)	40,341,826
Right-of-use assets		(87,808,627)	-	-
Other noncurrent assets		(84,660,518)	(128,319,638)	(9,583,987)
Increase (decrease) in:				
Trade and other current liabilities		(100,839,516)	(163,095,895)	41,212,426
Withholding taxes payable		(2,837,605)	(4,365,780)	(7,435,063)
Lease liabilities		128,087,852	-	-
Interest received		10,149,516	14,031,615	853,644
Income tax paid		(13,924,737)	(149,371,845)	(243,807,667)
Retirement contributions	22	(6,500,000)	(1,000,000)	(11,004,983)
Net cash flows (used) provided by operating activities		(275,108,820)	557,009,784	668,667,920

Forward

	Note	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Marketable securities	8	P -	P -	(P17,004,130)
Investments in stocks	11	-	(34,490,020)	(68,203,070)
Property and equipment	12	(29,536,478)	(45,671,156)	(156,774,695)
Dividends received	8, 11	31,657,224	29,082,445	20,628,055
Proceeds from sale of:				
Marketable securities		-	12,423,090	6,746,030
Property and equipment		991,674	1,610,461	1,069,280
Investments in stocks		-	-	172,933,950
Cash received from acquisition of subsidiaries	13	-	-	76,694,703
Net cash flows provided by (used in) investing activities		3,112,422	(37,045,180)	36,060,123
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid		-	(P337,273,130)	(P255,092,323)
Loan proceeds	15	150,000,000	-	-
Decrease (Increase) in:				
Obligations under finance lease	20	(35,374,474)	(33,488,510)	(44,479,612)
Installment payable		(9,205,042)	3,761,219	5,443,823
Payment of lease liabilities	20	(60,485,647)	-	-
Acquisitions of treasury shares	16	-	(16,606,788)	(211,841,592)
Finance charges paid	20	(7,022,938)	(6,187,352)	(10,859,855)
Net cash flows provided by (used in) financing activities		37,911,899	(395,794,561)	(516,829,559)
NET INCREASE (DECREASE) IN CASH		(234,684,499)	124,170,043	187,888,484
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		571,280,258	447,130,976	258,944,786
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	21	295,770	(40,761)	297,706
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P337,471,529	P571,280,258	P447,130,976

See Notes to the Consolidated Financial Statements.

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2019		P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776
Net loss		-	-	-	-	-	-	(319,411,018)	(319,411,018)	(1,561,356)	(320,972,374)
Other comprehensive loss	*11, 22*	-	-	-	-	(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)
Transactions with owners											
Cash dividends	*16*	-	-	-	-	-	-	-	-	-	-
Stock dividend distributed	*16*	447,665,473	-	-	(422,431,981)	-	-	(25,233,492)	-	-	-
Acquisition of treasury shares	*16*	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-
December 31, 2019		P895,330,946	P257,250,677	(P285,267,558)	P -	(396,801,971)	(P17,614,609)	P855,178,425	P1,308,075,910	P5,343,443	P1,313,419,353

Forward

		Equity Attributable to Equity Holders of the Parent Company									
	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Stock Dividend Distributable	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non controlling Interest	Total Equity
Balance at January 1, 2018, as previously classified		P447,665,473	P257,250,677	(P268,660,770)	P -	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872
Realized portion of fair value reserve	*11*	-	-	-	-	(98,774,351)	-	98,774,351	-	-	-
Balance at January 1, 2018		447,665,473	257,250,677	(268,660,770)	-	18,055,459	(11,838,800)	1,573,066,775	2,015,538,814	4,536,058	2,020,074,872
Net income		-	-	-	-	-	-	302,659,366	302,659,366	1,388,649	304,048,015
Other comprehensive income (loss)	*11, 22*	-	-	-	-	(306,782,380)	12,377,190	-	(294,405,190)	-	(294,405,190)
Total comprehensive income for the year		-	-	-	-	(306,782,380)	12,377,190	302,659,366	8,254,176	1,388,649	9,642,825
Transactions with owners											
Cash dividends	*16*	-	-	-	-	-	-	(253,471,225)	(253,471,225)	(951,441)	(254,422,666)
Stock dividend	*16*	-	-	-	422,431,981	-	-	(422,431,981)	-	-	-
Acquisition of treasury shares	*16*	-	-	(16,606,788)	-	-	-	-	(16,606,788)	-	(16,606,788)
Other		-	-	-	-		-	-	-	1,931,533	1,931,533
December 31, 2018		P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776

Forward

	Note	Capital Stock	Additional Paid-in Capital	Treasury Stock	Fair Value Reserve	Retirement Benefits Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
		Equity Attributable to Equity Holders of the Parent Company								
January 1, 2017		P447,665,473	P257,250,677	(P56,819,178)	(P2,167,740)	(P13,087,762)	P1,322,465,903	P1,955,307,373	P5,323,531	P1,960,630,904
Net income for the year		-	-	-	-	-	490,101,221	490,101,221	2,764,767	492,865,988
Other comprehensive income		-	-	-	118,997,550	1,248,962	-	120,246,512	-	120,246,512
Total comprehensive income for the year		-	-	-	118,997,550	1,248,962	490,101,221	610,347,733	2,764,767	613,112,500
Transactions with owners										
Cash dividend	*16*	-	-	-	-	-	(338,274,700)	(338,274,700)	(3,552,240)	(341,826,940)
Acquisition of treasury shares	*16*	-	-	(211,841,592)	-	-	-	(211,841,592)	-	(211,841,592)
December 31, 2017		P447,665,473	P257,250,677	(P268,660,770)	P116,829,810	(P11,838,800)	P1,474,292,424	P2,015,538,814	P4,536,058	P2,020,074,872

See Notes to the Consolidated Financial Statements

1. Reporting Entity

Corporate Information
Pacific Online Systems Corporation ("Pacific Online" 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 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 Group is a 50.1% owned subsidiary of Premium Leisure Corporation (PLC) "Immediate Parent Company") and its ultimate parent company is Belle Corporation (Belle). Belle and PLC are corporations with shares listed on the PSE.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group"). The following subsidiaries are incorporated in the Philippines and registered with SEC:

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

** With indirect ownership through LotoPac*
*** Indirectly owned through TGTI*
**** Indirectly owned through LCC (collectively referred to as "Nine Entities") starting July 1, 2017 (Note 13)*

Pacific Online
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 or governmental, municipal or public authority, domestic or foreign.

TGTI

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

LotoPac

LotoPac was incorporated in March 2007, primarily to acquire, establish, own, hold, lease, sell, conduct, operate, and manage amusement, recreational and gaming equipment facilities, and enterprise of every kind and nature, as well as places for exhibitions, recreation, gaming, amusement and leisure of the general public, and to acquire, hold and operate any and all privileges, rights, franchises and concessions as may be proper, necessary, advantageous, or convenient in the conduct of its business. LotoPac acquired LCC in August 2007.

LCC and Nine Entities

LCC and Nine Entities were incorporated and registered with SEC to engage in the business of trading and selling of goods such as sweepstakes tickets, tickets of shows and concerts, and such other number games, including but not limited to those introduced by Philippine Charity Sweepstakes Office (PCSO).

LCC and Nine Entities are authorized agents of PCSO operating lottery betting stations located in major branches of shopping malls like SM Supermalls, Robinsons and Gaisano, nationwide. LCC and Nine Entities, as PCSO agents, earn a certain percentage of the sales of lotto, keno, sweepstakes and instant scratch tickets (Note 2).

FRI

FRI was incorporated 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.

TGTSI

TGTI Services, Inc. was incorporated 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 its aspects.

2. Agreements with PCSO

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

Parent Company's Equipment Lease Agreement (ELA)
The ELA was originally awarded to Pacific Online on November 25, 1995, whereby the PCSO leased online lottery equipment from the Parent Company for PCSO's VisMin online lotto operations. This was amended on February 13, 2004, wherein the Parent Company was allowed to continue deployment of online lotto terminals in VisMin for a period of eight (8) years from date of its commercial operation, which was defined to be operation of not less than 800 lotto terminals. With the Parent Company's commercial operation effected on April 1, 2005, its amended ELA was due to expire March 31, 2013. In addition to the lotto terminals, this lease included the central computer system, communications and draw equipment, and the right to use the application software and manuals for the central computer of PCSO's VisMin online lottery system.

2012 Amended ELA. On May 22, 2012, the ELA was amended to include the lease of lotto terminals in some of PCSO's lottery operations in Luzon which resulted in the reduction of the fees. The amendment also includes supplying betting slips and ticket paper rolls to PCSO, incorporating maintenance and repair services as part of the fees, and giving the latter an option to purchase the lotto equipment in VISMIN for P15.0 million at the end of the lease term.

2013 Amended ELA. On March 28, 2013, the ELA was further amended to extend the term from March 31, 2013 to July 31, 2015. In lieu of the PCSO option to purchase the equipment, the Parent Company agreed to reduce the fees for VISMIN and shoulder the cost of betting slips and ticket paper rolls for Luzon and VISMIN.

2015 Amended ELA. On July 15, 2015, the ELA was again amended to extend the term from August 1, 2015 to July 31, 2018. The amendment also required the Parent Company to deposit an additional P5.0 million cash bond to guarantee the unhampered use and operation of the lottery system, including equipment, servers, network communication and terminals.

2018 Amended ELA. On September 12, 2018, the ELA was amended to extend the term from August 1, 2018 to July 31, 2019. The amendment required the Parent Company to post an additional deposit of P7.0 million cash bond. The total cash bond of P12.0 million is included under "Other noncurrent assets" in the consolidated statements of financial position *(Note 10)*.

2019 Amended ELA. On August 1, 2019, the ELA was amended to extend the term from August 1, 2019 to July 31, 2020. The PCSO announced that a bidding for its nationwide lottery system (NOLS) will be conducted during the early part of 2020. The Parent Company has expressed its readiness to participate in the said bidding, as it had joined the PCSO bidding exercises held in 2019. The Parent Company's ELA with PCSO is currently on an annual basis because of the failed bidding in 2019 of its NOLS. This means that the Parent Company will have to continue to operate under the current ELA terms beyond July 2020; i.e., when PCSO is able to hold its bidding, award the new ELA contract and undertake a transition from the current lottery system to the new system. Should the PCSO bidding for NOLS be held in 2020, the Parent Company is well positioned to be a front runner in said bidding due to its credentials and track record. But should PCSO not win the bid, the Parent Company will continue to operate given that the Parent Company's contract with PCSO will be extended for another one (1) to two (2) years due to the transition period required for a new service provider to take over the NOLS.

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of gross sales of lotto terminals or a fixed annual rental of P35,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 3,785 and 4,029 as at December 31, 2019 and 2018, respectively. The Parent Company's equipment rental revenue amounted to P427.9 million, P788.6 million, and P1,036.9 million in 2019, 2018 and 2017, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P42.7 million and P76.2 million as at December 31, 2019 and 2018, respectively (Note 9).

Instant Scratch Tickets. On March 25, 2009, the Parent Company entered into a non-exclusive Memorandum of Agreement (MOA) with PCSO for the printing, distribution and sale of instant scratch tickets effective December 1, 2009 until December 1, 2016. The share of PCSO is guaranteed for 500 million tickets to be sold over a period of seven years from the date of the MOA's effectivity

The MOA requires a cash bond amounting to P10.0 million to be deposited in an interest-bearing bank account designated by PCSO to guarantee the payment of all prizes for each series of tickets distributed, subject to review by PCSO for a period of seven years from the date of initial launch of the instant tickets and shall be maintained co-terminus with this MOA. The interest accrues to the Parent Company and is credited to a separate bank account. In 2018, the Parent Company received a certification from PCSO for the release of such bond.

On March 31, 2015, the Parent Company entered into an Outsourcing Memorandum of Agreement (OMOA) with Powerball Gaming and Entertainment Corporation (PGEC) authorizing PGEC as the exclusive marketing, distribution, selling and collecting agent of the Parent Company throughout the Philippines. The agreement took effect on April 1, 2015 and shall remain effective as long as the MOA with PCSO or any extension thereof shall be effective.

PGEC agreed to assume the Parent Company's commitment to PCSO to solely shoulder the project cost for the Instant Scratch Ticket program, which consists of the costs of production, distribution, warehousing, , software and hardware maintenance, advertising, marketing, selling and other related expenses. PGEC is entitled to all the revenues, sums and proceeds from the Instant Scratch Tickets beginning April 1, 2015, and shall be obligated to shoulder the pay-outs for all winnings from said tickets sold beginning April 1, 2015. An existing consultancy agreement between the Parent Company and PGEC for the scratch ticket operations was immediately terminated upon execution of the OMOA in 2015.

The MOA with PCSO expired on November 30, 2016 and the Parent Company's OMOA with PGEC also expired accordingly. All tickets distributed to the retailers and agents, were allowed to be marketed continuously until fully sold and the corresponding winnings thereof were honored and paid even after the period of the MOA with PCSO.

In 2018, the Parent Company received a certification from the OIC-Manager of Accounting and Budget Department (ADB) of PCSO stating the fulfillment of the Parent Company's obligation under the MOA and thereby clearing the Parent's Company of any accountability thereunder. ADB certified that the Parent Company is entitled to the release of the P10.0 million cash bond. The cash bond is presenred as "Bonds and deposits" under "Other Current Assets" account (Note 10).

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

TGTI Equipment Lease Agreement
2004 ELA. TGTI has an ELA with PCSO for a period of ten (10) years from the date of actual operation of at least 150 online keno outlets to September 30, 2020. This covers PCSO's online keno lottery operations. The lease includes online keno equipment and accessories.

2008 Amended ELA. On July 15, 2008, the ELA was amended wherein, TGTI shall provide the services of telecommunications integrator and procurement of paper supplies for the online keno operations of PCSO in Luzon and VISMIN areas. In consideration for such services, PCSO shall pay additional fee based on a certain percentage of the gross sales from all online keno terminals in operation in Luzon and VISMIN areas computed by PCSO and payable bi-weekly.

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

The fees, presented as "Equipment rental" in the consolidated statements of income, are based on a percentage of the gross amount of ticket sales from all of TGTI's online keno lottery terminals, excluding value-added taxes (VAT) or a fixed annual rental of P40,000 per terminal in commercial operation, whichever is higher. The number of installed lotto terminals totaled 1,833 and 2,454 as at December 31, 2019 and 2018, respectively. TGTI's equipment rental revenue amounted to P253.6 million, P659.7 million, and P803.6 million 2019, 2018 and 2017, respectively. The related receivables from PCSO, included under "Trade and other receivables" account in the consolidated statements of financial position, amounted to P22.7 million and P77.1 million as at December 31, 2019 and 2018, respectively (Note 9).

On July 27, 2019, the President of the Philippines, suspended the sale of PCSO games - lotto, keno instant scratch tickets and small-town lottery (STL). The suspension was eventually lifted on July 31, 2019 for lotto, August 24, 2019 for STL and September 27, 2019 for keno and scratch tickets.

3. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations. The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 20, 2020.

Basis of Measurement
The consolidated financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis on each reporting date:

- marketable securities and investments in stocks are measured at fair value; and

- defined benefits asset which is measured as the net total of the fair value of the plan assets and the present value of the defined benefit obligation.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso (P or Php), which is the Parent Company's functional currency. All amounts are rounded off to the nearest peso, except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other shareholders with a right to vote of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interest represents the portion of profit or loss and net assets not held by the Parent company and is presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and within equity in the consolidated statements of financial position.

Non-controlling interest represents the interest not held by the Parent Company in TGTI.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4. Significant Accounting Policies

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

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

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

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

The Group has adopted PFRS 16 on the date of initial application, January 1, 2019 (Note 20). Refer to Note 20 for the impact to the consolidated financial statements. The transition to PFRS 16 is discussed under the succeeding accounting policy for leases. The minimum future rental payments as at December 31, 2018 amounted to P90,335,553.

	Amount
Lease commitments disclosed at December 31, 2018	P90,335,553
Weighted average incremental borrowing rate at January 1, 2019	7%
Discounted operating lease commitments as at January 1, 2019	79,023,014
Less: Commitments relating to short-term leases	101,822,646
Less: Commitments relating to leases of low-value assets	-
Add: Commitments relating to leases previously classified as finance leases	35,374,474
Add: Payments in optional extension periods not recognized at December 31, 2018	81,117,872
Lease liability recognized at January 1, 2019	P103,692,714

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

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

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

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

Effective January 1, 2020

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

Effective January 1, 2023

PFRS 17 *Insurance Contracts.*

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

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at 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 or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at amortized cost. The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVPL. The Group classifies all financial liabilities at amortized cost, except for:

(a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

(c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

(d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been any significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the 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' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized 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' profit amount.

<u>Financial Assets</u>
Financial Assets at FVPL. The Group measures a financial asset at FVPL unless it is measured at amortized cost or at FVOCI. At initial recognition, the Group may choose to irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVPL are carried in the consolidated statements of financial position at fair value with gains or losses recognized in profit or loss. Interest earned is recorded in interest income while dividend income is recorded in other income when the right to receive payment has been established. The Group determines the cost of investments sold using specific identification method.

The Group's investments in equity securities included under "Marketable securities" are classified under this category (Note 8).

Financial Assets at FVOCI. The Group designates an equity instrument as a financial asset at FVOCI if the equity securities represent investments that the Group intends to hold for a long term for strategic purposes.

At initial recognition, the Group irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Subsequent to initial recognition, financial assets at FVOCI are measured at fair value and changes therein are recognized in other comprehensive income and presented in the "Fair value reserve" in equity which can be transferred to retained earnings when earned. Dividends earned on holding FVOCI equity securities are recognized as "Dividend income" in profit or loss when the right to receive payment has been established. Gains and losses on equity financial assets at FVOCI are not reclassified to profit or loss and no impairment is recognized in profit or loss.

The Group's investments in equity securities included under "Investments in stocks" account are classified under this category (Note 11).

Financial Assets at Amortized Cost. The Group measures a financial asset at amortized cost if it is not designated as at FVPL and both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is included as part of "Interest income" in the consolidated statements of income. Gains and losses are recognized in profit or loss when the financial assets at amortized cost are derecognized or impaired, as well as through the amortization process. Financial assets at amortized cost are included in current assets if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent assets.

The Group's financial assets at amortized cost include cash in banks, cash equivalents, trade and other receivables, deposits and guarantee bonds.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

<u>Business Model Assessment</u>
The Group makes an assessment of the objectives of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reason for such sales and its expectation about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated in a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether Contractual Cash Flows are Solely Payments of Principal and Interest
For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms;

- terms that limit the Group's claim to cash flows for specified assets (e.g. non-recourse asset arrangements); and

- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

Reclassification of Financial Assets and Liabilities
Financial Assets. When, and only when, the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties.

A change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated a business line.

Financial Liabilities. The Group shall not reclassify any financial liability.

Financial Liabilities at Amortized Cost. This category pertains to financial liabilities that are not designated at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Group's trade and other current liabilities and loan payable.

<u>Derecognition of Financial Assets and Liabilities</u>
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 rights to receive cash flows from the asset expired;
- the Group retains the rights 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 rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where 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 has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group uses the expected credit losses model ("ECL") which is applied to all equity instruments measured at amortized cost or FVOCI as well as to issued loan commitments and most financial guarantee contracts. The ECL is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses. Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or which have low credit risk at the reporting date. For these items, 12-month ECL are recognized. The 12-months ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these items, lifetime expected credit losses are recognized which is the weighted average credit losses with the probability of default as the weight. Stage 3 includes financial assets that are credit impaired at the reporting date. For these items, lifetime expected credit losses are recognized. No impairment loss is recognized on equity investments.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The carrying amount of the asset is reduced is through use of an allowance account. The impairment loss for the period is recognized in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

Spare Parts and Supplies
Spare parts and supplies are valued at the lower of cost and net realizable value. Cost includes all costs attributable to acquisition and is determined using the first-in, first-out method for spare parts and supplies. Net realizable value is the current replacement cost for spare parts and supplies. The carrying amount of spare parts and supplies is reviewed at each reporting date to reflect the accurate valuation in the consolidated financial statements. Spare parts and supplies identified to be obsolete and unusable are written-off and charged as expense for the period.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

When major repairs and maintenance are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

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

The assets' residual values, useful lives and depreciation and amortization methods are reviewed and adjusted if appropriate, at each reporting date, to ensure that the period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Impairment of Nonfinancial Assets Excluding Goodwill
The Group assesses at each reporting date whether there is an indication that property and equipment, right-of-use assets and intangible assets with definite useful life may be impaired. If any such indication exists and 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 cash-generating unit's fair value less costs to sell or 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 group 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 determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. 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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred under 'Costs and expenses' account in the consolidated statements of income.

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.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss is recognized in the consolidated comprehensive income. 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 in profit or loss. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

<u>Goodwill</u>
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, at least annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

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, 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 Group 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*.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash generating unit or group of cash generating units 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 of and the portion of the cash-generating unit retained. Impairment loss with respect to goodwill is not reversed.

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.

Non-controlling Interest

The acquisitions of non-controlling interest are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interest are based on a proportionate amount of the net assets of the subsidiary.

Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. No gain or loss on such changes is recognized in profit or loss; instead, it is recognized in equity. Also no change in the carrying amounts of assets (including goodwill) or liabilities is recognized as a result of such transactions.

Intangible Assets

Development expenditure 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 intangible asset 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 assts less their estimated residual values using the straight-line method over their estimated useful lives, and generally recognized in profit or loss. The estimated useful life is 2 - 3 years. Amortization methods, useful lives and residual valeqs are revieweq at each reporting date and adjusted if appropriate.

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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and those risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Capital Stock

Common stocks are classified as equity. Incremental costs directly attributable to the issuance of common stocks are recognized as deduction from equity, net of any tax effects.

Treasury Stock
When capital stock recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury stock. When the treasury stock is sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus is recognized as additional paid in capital (APIC), while the resulting deficit is applied against the APIC arising from the issuance of treasury stock. Any remaining deficit is applied against retained earnings.

Stock Dividend Distributable
Common stock dividend distributable is classified as equity. This account represents stock dividend declared by the BOD but not yet distributed to Group's stockholders.

Fair Value Reserve
Fair value reserve represents the cumulative change in the fair value of investments in stocks until they are derecognized. Movements in the reserve are set out in the consolidated statements of changes in equity.

Retained Earnings
Retained earnings include profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are declared. Interim dividends are deducted from equity when they are paid. Retained earnings are appropriated for the cost of treasury stock acquired. When the appropriation is no longer needed, it is reversed. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Operating Segments
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group's 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.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, trade and other receivables and property and equipment. Segment liabilities include all operating liabilities and consist principally of trade and other current liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Revenue/Income

Revenue from Contracts with Customers. The Group recognizes revenue/income when it transfers control over a good or service. Revenue/Income is measured at the transaction price which the entity expects to be entitled in exchange for a good or service. Information about the nature and timing of the satisfaction of performance obligations, significant payment terms and recognition policies follow.

Equipment Rental. Revenue is recognized based on a percentage of gross sales of the lessee's online lottery operations, as computed by the lessee in accordance with the agreement, or a fixed annual rental per terminal in commercial operation, whichever is higher. Minimum lease payment from the fixed annual rental is recognized on a straight-line basis and any excess of the percentage of gross sales is contingent rent recognized in the period earned.

Commission and Distribution Income. Revenue from the distribution of lottery tickets such as lotto, keno, sweepstakes and instant scratch tickets to customers, including retailers and sub-distributors, is recognized upon delivery of the tickets to the customers. Revenue is computed based on a percentage of lottery ticket sales in accordance with the agreement.

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.

License Fee Income. Income is recognized at the point in time at which the license transfers to the customer and when the customer is able to use and benefit from the license. The license fee is measured at the transaction price, adjusted for the effects of a significant financing component to an amount that reflects the cash selling price when the license transferred to the customer.

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

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

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

Other Income. Income is recognized when earned.

Costs and Expenses
Costs and expenses are recognized when incurred and are reported in the consolidated statements of income in the periods to which they relate.

Expenses are also recognized in the consolidated statements of income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized in the consolidated statements of income on the basis of a direct association between costs incurred and the earnings of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Leases
The Group has applied PFRS 16 using the modified retrospective approach with the cumulative effect of initially applying the Standard recognized at January 1, 2019, the date of initial application, and therefore the comparative information has not been restated and continues to be reported under PAS 17 and Philippine Interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*. The details of accounting policies under PAS 17 and Philippine Interpretation IFRIC 4 are disclosed separately.

Definition of a Lease
Previously, the Group determined at contract inception whether an arrangement was or contained a lease under Philippine Interpretation IFRIC 4. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to PFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and Philippine Interpretation IFRIC 4 were not reassessed for whether there is a lease under PFRS 16. Therefore, the definition of a lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Policy Applicable from January 1, 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into, on or after January 1, 2019.

As a Lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group used a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and

- used hindsight when determining the lease term.

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

As a Lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies PFRS 15 to allocate the consideration in the contract.

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the lease term of the lease. 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 rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from PFRS 16.

Policy Applicable before January 1, 2019
For contracts entered into before January 1, 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

    a. the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

b. the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

c. facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a Lessee
In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's consolidated statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

As a Lessor
When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the lease term of the lease. 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 rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is 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 employees and the obligation can be estimated reliably.

Retirement Cost
The Parent Company, LCC and TGTI have noncontributory defined benefits retirement plans covering substantially all of its qualified employees.

The Group's defined benefits obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefits liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined benefit obligation or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit obligation or asset, taking into account any changes in the net defined benefit obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

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

Foreign Currency Transactions
Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. All exchange rate differences including those arising from translation or settlement of monetary items at rates different from those at which they were initially recorded are recognized in the consolidated statements of income in the year such differences arise.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

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

Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax losses - Net Operating Loss Carry Over (NOLCO) and minimum corporate income tax (MCIT), to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in statement of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Value-added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

Basic/Diluted Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted-average number of issued and outstanding common shares during the period.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

The current and prior-period amounts for basic and diluted EPS are adjusted for transactions that, other than the conversion of potential ordinary shares, adjust the number of ordinary shares outstanding without a corresponding change in resources. This includes stock dividends that do not have cash alternative, from which additional shares issued are treated as if they had been issued since the beginning of the earliest period presented, necessitating retrospective adjustments to EPS.

Related Parties
Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to the consolidated financial statements 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 consolidated financial position at the 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 the consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

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

Evaluating Revenue Recognition, Contract Term and Existence of Significant Financing Component

<u>Revenue Recognition</u>
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.

<u>Contract Term</u>
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 designs/variants.

<u>Significant Financing Component</u>
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 time. The financing component is recognized as interest income when the licensee pays in arrears.

Estimates and Assumptions
The key 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. Actual results could differ from such estimates.

Allowance for Impairment Losses on Trade and Other Receivables. The Group maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. 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 receivable, the length of relationship with the customers, the customer's payment behavior and known market factors. The Group reviews the allowance on a continuous basis.

The Group uses the expected credit losses model in estimating the level of allowance, which includes forecasts of future events and conditions. A credit loss is the difference between the cash flows that are due in accordance with the contract and the cash flows 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 expected credit losses and the 12-month expected credit losses are similar. In addition, management assessed the credit risk of the receivables as at the reporting date as low, therefore the Group did not have to assess whether a significant increase in credit risk has occurred.

Allowance for impairment losses on trade and other receivables amounted to P2.1 million and nil as at December 31, 2019 and 2018, respectively. Trade and other receivables amounted to P172.5 million and P285.1 million as at December 31, 2019 and 2018, respectively (Note 9).

Estimated Useful Lives of Property and Equipment. The useful life of each of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment and intangible asset with useful life would increase the recorded operating expenses and decrease noncurrent assets. There were no changes in estimated useful lives in 2019 and 2018.

The carrying amount of property and equipment as at December 31, 2019 and 2018 amounted to P107.4 million and P259.9 million, respectively (Note 12).

Impairment of Non-financial Assets (except Goodwill) and Deferred Tax Assets. PFRSs require that an impairment review be performed on property and equipment and when certain impairment indicators are present. Determining the recoverable amount of property and equipment requires the estimation of future cash flows expected to be generated from the continued use and ultimate disposition of such assets or fair value less costs to sell, whichever is higher. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and resulting in impairment loss.

Management assessed that there are no impairment indicators affecting the Group's property and equipment and deferred tax assets as at December 31, 2019 and 2018.

Impairment of Goodwill. The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and to choose a suitable discount rate to calculate the present value of those cash flows.

Management considered the profitability of LCC and Nine Entities in estimating the expected cash flows as at December 31, 2019, and the effect of change in FRI's exclusivity arrangement with its principal in estimating the expected cash flows as at December 31, 2018. The key assumptions used in the impairment test of goodwill are discussed in Note 13 to the consolidated financial statements.

Impairment loss on goodwill amounted to P17.0 million and P110.9 million in 2019 and 2018 respectively. The carrying amount of goodwill amounted to nil and P17.0 million as at December 31, 2019 and 2018 (Note 13).

Retirement Cost. 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 the interest rates on government bonds that are denominated in the currency 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. The present value of defined benefit obligation amounted to P128.8 million and P72.9 million as at December 31, 2019 and 2018, respectively (Note 22).

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; and
- 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 P36.5 million in 2018. The accreted interest income amounted to P8.6 million and P12.6 million in 2019 and 2018, respectively (Note 21).

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management expects future operations will generate sufficient taxable income that will allow all or part of the deferred tax assets to be utilized. During 2019, the Group also has derecognized and unrecognized deferred tax assets amounting to P6.3 million and P17.0 million respectively.

Deferred tax assets (liabilities) - net amounted to P52.5 million and (P37.3 million) as at December 31, 2019 and 2018 respectively (Note 19).

Contingencies. The Group currently has few tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsels handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

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

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

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

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

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

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

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

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

Measurement of Fair Values. A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Finance Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, if any. The CFO regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the CFO assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

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 methods and assumptions used to estimate fair values for financial assets and liabilities are discussed in Note 24.

The fair value of financial assets amounted to P1.1 billion and P1.6 billion as at December 31, 2019 and 2018, respectively. The fair value of financial liabilities amounted to P360.0 million and P286.7 million as at December 31, 2019 and 2018, respectively (Note 24).

6. 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. 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. Revenues generated from the leasing activities account for 69%, 75%, and 79% of the Group's revenues in 2019, 2018 and 2017, 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.

Information regarding the results of each reportable segment is shown below:

	2019			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P681,483,767	P -	P -	P681,483,767
Commission and distribution income	-	308,381,639		308,381,639
Total revenue	P681,483,767	P308,381,639	P -	P989,865,396
Segments Results				
Income (loss) before income tax	(P375,765,509)	(P130,886,208)	P111,264,045	(P395,387,672)
Income tax expense (benefit)	(64,714,860)	(9,700,448)		(74,415,308)
Net income (loss)	(P311,050,659)	(P121,186,760)	P111,264,045	(P320,972,374)
Segment assets	P1,949,630,084	P434,910,553	(P672,311,208)	P1,712,229,429
Deferred tax assets - net	P27,277,145	P24,547,842	P676,408	P52,501,395
Segment assets (excluding deferred tax assets)	P1,922,352,939	P410,362,711	(P672,987,616)	P1,659,728,034
Segment liabilities	P320,033,751	P229,854,430	(P150,278,105)	P399,610,076
Other information				
Capital expenditures	P19,359,959	P10,176,519	P -	P29,536,478
Depreciation and amortization	159,503,099	59,850,342	-	219,353,441
Finance charges	4,357,236	2,665,702	-	7,022,938
Interest income	1,129,011	420,504	-	1,549,515

	2018			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,448,317,611	P -	P -	P1,448,317,611
Commission and distribution income	-	487,626,385	-	487,626,385
Total revenue	P1,448,317,611	P487,626,385	P -	P1,935,943,996
Segment Results				
Income before income tax	P648,369,793	P37,268,884	(P202,760,076)	P482,878,601
Income tax expense	164,514,930	14,315,656	-	178,830,586
Net income	P483,854,863	P22,953,228	(P202,760,076)	P304,048,015
Segment assets	P2,320,565,897	P464,748,111	(P682,234,627)	P2,103,079,381
Retirement benefits asset - net	P2,252,207	P5,603,346	P -	P7,855,553
Segment assets (excluding retirement benefits asset)	P2,318,313,690	P459,144,765	(P682,234,627)	P2,095,223,828
Segment liabilities	P240,397,559	P148,761,890	(P46,699,841)	P342,459,608
Other Information				
Capital expenditures	P22,839,420	P22,831,736	P -	P45,671,156
Depreciation and amortization	199,435,777	23,764,304	-	223,200,081
Finance charges	8,187,352	-	-	8,187,352
Interest income	1,041,474	433,656	-	1,475,130

	2017			
	Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P1,840,520,991	P -	P -	P1,840,520,991
Commission and distribution income	-	479,472,385	-	479,472,385
Total revenue	P1,840,520,991	P479,472,385	P -	P2,319,993,376
Segment Results				
Income before income tax	P813,332,641	P109,764,385	(P201,350,664)	P721,746,362
Income tax expense	182,532,651	46,347,723	-	228,880,374
Net income	P630,799,990	P63,416,662	(P201,350,664)	P492,865,988
Segment asset	P2,648,931,231	P501,684,102	(P516,768,255)	P2,633,847,078
Deferred tax assets - net	8,871,062	5,892,215	676,408	15,439,685
Retirement benefits assets (liabilities) - net	(5,404,438)	6,761,711	-	1,357,273
Segment assets*	P2,645,464,607	P489,030,176	(P517,444,663)	P2,617,050,120
Segment liabilities	P552,781,694	P166,332,310	(P105,341,796)	P613,772,208
Other Information				
Capital expenditures	P139,620,636	P45,818,842	P -	P185,439,478
Depreciation and amortization	201,055,902	24,388,376	-	225,444,278
Finance charges	10,859,855	-	-	10,859,855
Interest income	632,797	220,847	-	853,644

*Excluding deferred tax assets - net and retirement benefits asset.

7. Cash and Cash Equivalents

This account consists of:

	Note	2019	2018
Cash on hand and in banks		P299,209,748	P571,260,258
Cash equivalents		38,261,781	-
	24	P337,471,529	P571,260,258

Cash in banks and cash equivalents earn interest at the respective bank deposit rates. Interest income from cash in banks amounted to P1.5 million, P1.5 million, and P0.9 million in 2019, 2018 and 2017, 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.

The movements in marketable securities are as follows:

	Note	2019	2018
Balance at beginning of year		P155,704,892	P178,482,842
Acquisitions		-	-
Disposals		-	(10,874,865)
Mark-to-market loss		(15,248,311)	(11,903,085)
Balance at end of year	24	P140,456,581	P155,704,892

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 P4.7 million, P5.0 million, and P5.7 million in 2019, 2018 and 2017, respectively.

9. Trade and Other Receivables

	Note	2019	2018
Accounts receivable	2	P126,602,764	P235,290,703
Accrued license fee income - current portion	24	40,062,153	37,892,591
Advances:			
Officers and employees		4,575,259	4,909,898
Contractors and suppliers		2,249,254	3,847,376
Other receivables		1,159,570	3,080,387
		174,649,000	P285,063,895
Less allowance for impairment loss		2,147,391	-
		P172,501,609	P285,063,895

Accounts receivable is generally on a 30-to-60-day credit terms. The risks associated on this account are disclosed in Note 24.

Accounts receivable includes advance payments for instant scratch tickets amounting to nil and P71.8 million as at December 31, 2019 and 2018, respectively.

The movements in allowance for impairment losses as at December 31 are as follows:

	Note	2019	2018
Balance at beginning of year		P -	P -
Impairment losses recognized during the year	18	2,147,391	-
Balance at end of year		P2,147,391	P -

Allowance recognized during the year pertains to the accounts receivables from suppliers.

10. Other Current and Noncurrent Assets

Current Assets

	Note	2019	2018
Creditable withholding taxes		P99,767,274	P59,092,139
Prepayments		71,897,116	11,249,590
Spare parts and supplies at cost	2	37,430,916	60,978,544
Input VAT		5,170,008	3,618,513
Cash bond	2, 24	-	10,000,000
		P214,265,314	P144,938,786

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

Noncurrent Assets

	Note	2019	2018
Software development		P104,546,455	P -
Accrued license fee income - net of current portion		96,563,502	130,123,122
Prepaid service & maintenance		40,227,273	-
Refundable deposits	24	35,424,164	34,930,697
Guaranteed deposits	2, 24	12,000,000	32,000,000
Others		1,537,676	8,573,722
		P290,288,060	P205,627,541

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

Guaranteed deposits pertains to cash bonds held in escrow account as part of the agreement with PCSO (Note 2).

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.

Prepaid service and maintenance pertains to advance payment for technical and training support service.

11. Investments in Stocks

The movements in investments in stocks are as follows:

	Note	2019	2018
Balance at beginning of year		P465,706,930	P727,998,290
Acquisitions		-	34,490,020
Disposals		-	-
Fair value loss		(108,076,050)	(306,782,380)
Balance at end of year	24	P347,630,880	P455,706,930

There were no acquisitions or disposals in 2019 for the above investments. The fair value loss on investments in stocks is reported as "Other Comprehensive Income (Loss)" in the consolidated statements of comprehensive income.

The gain on sale of investments in stocks was reclassified from the "Fair value reserve" account to "Retained earnings" account in the 2018 consolidated statement of changes in equity.

Dividend income amounted to P27.0 million, P24.1 million, and P14.9 million in 2019, 2018 and 2017, respectively.

12. Property and Equipment

The movements in the account are as follows:

	Note	Lottery Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Transportation Equipment	Total
Cost						
January 1, 2018		P1,204,903,581	P86,026,218	P198,555,042	P80,840,148	P1,570,324,989
Acquisitions		13,087,211	3,359,836	16,131,806	11,052,436	46,671,156
Reclassifications		(4,891,543)	17,297,346	(17,743,582)	137,779	-
Disposals		(301,639,578)	(2,443,047)	(7,899,714)	(14,156,621)	(331,008,258)
December 31, 2018		911,789,344	99,270,113	185,047,654	77,853,744	1,284,960,587
Acquisitions		7,709,064	2,984,937	4,808,346	8,900,163	23,536,474
Reclassifications		(163,499,020)	-		-	(163,499,020)
Disposals		(13,280,206)	(87,530)	(3,782,611)	(11,742,906)	(28,873,586)
December 31, 2019		742,709,119	102,167,520	201,111,969	75,077,001	1,122,494,738
Accumulated Depreciation and Amortization						
January 1, 2018		P830,721,990	P72,888,038	P132,109,044	P46,628,769	P1,132,347,841
Depreciation and amortization	18	176,528,001	5,799,867	26,815,363	14,191,850	273,200,081
Reclassifications		(5,105,376)	12,377,877	(7,369,614)	87,113	-
Disposals		(301,374,133)	(7,443,047)	(7,899,514)	(13,796,521)	(330,483,215)
December 31, 2018		700,870,733	83,639,885	143,442,073	47,101,110	1,026,054,807
Depreciation and amortization	18	114,080,540	9,705,117	34,492,864	14,937,094	173,210,615
Reclassifications		(154,873,751)		44,983	(44,983)	(154,873,751)
Disposals		(13,280,206)	(87,500)	(3,782,611)	(11,801,047)	(28,721,334)
December 31, 2019		[illegible]	93,303,302	174,224,015	50,487,164	1,014,798,747
Carrying Amount						
December 31, 2019		P95,992,966	P8,864,328	P26,873,873	P25,514,836	P107,419,991
December 31, 2018		P150,918,622	P16,630,428	P52,584,676	P30,082,634	P258,876,280

Lottery equipment acquired under finance lease as of January 1, 2019 were reclassified to right-of-use assets.

13. Goodwill

Goodwill acquired through business combinations has been allocated to distribution and retail activities, a cash-generating unit (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 represents the fair value of expected synergies from the acquisition of LCC in 2007 and the Nine Entities in 2017.

	2019	2018
LCC	P -	P13,363,484
Nine Entities	-	3,682,782
	P -	P17,046,266

Goodwill from Acquisition of LCC and 9 Entities
The recoverable amount of goodwill from the acquisition of LCC by LotoPac and Nine Entities by LCC was determined based on a 5-year value-in-use calculation using actual past results and observable market data.

Growth rates and operating margins used to estimate future performance are equally based on past performance and experience of growth rates and operating margins achievable in the relevant industry. The expected cash flows are discounted by applying a suitable Weighted Average Cost of Capital (WACC). The discount rate applied to pretax cash flow projections was 14.1% and 1% for the terminal growth rate.

Impairment loss on goodwill amounted to P17.0 million, P110.9 million and nil in 2019, 2018 and 2017, respectively.

14. Trade and Other Current Liabilities

	Note	2019	2018
Accounts payable		P75,397,172	P154,248,020
Accrued expenses:			
Professional fees		25,181,800	26,405,592
Communications		11,996,294	9,488,430
Rental and utilities		5,670,542	6,596,642
Management fees		-	1,274,775
Consultancy, software and license fees payable		17,207,081	37,585,238
Output tax		494,845	494,845
Others		8,284,497	8,979,724
	24	P144,231,951	P245,071,456

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

Consultancy, software and license fees, and management fees payable relate to the following agreements:

a. Consultancy Agreements
The Group hired the services of several consultants for its gaming operations. Consultancy fees are based on a certain percentage of the sales of certain variants of PCSO lottery. Consultancy fees amounted to nil, P30.3 million, and P65.6 million in 2019, 2018 and 2017, respectively (Note 18).

b. Scientific Games
On February 15, 2005, the Parent Company entered into a contract with Scientific Games, a company incorporated under the laws of the Republic of Ireland, for the supply of computer hardware and operating system software. Under the terms of the "Contract for the Supply of the Visayas-Mindanao Online Lottery System," Scientific Games will provide 900 online lottery terminals and terminal software necessary for the Parent Company's leasing operations.

In consideration, the Parent Company 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 Parent Company's ELA with PCSO is in effect.

On October 2, 2012, the Parent Company and Scientific Games amended the contract to extend the period from April 1, 2013 until August 31, 2015, and provide for the supply of additional terminals.

On November 20, 2015, the Parent Company and Scientific Games further amended the contract to extend the period from September 1, 2015 until July 31, 2018 and provide for the supply of 1,500 brand new terminals to the Parent Company. The amendment also removed the provision for the Inactive Terminal Fee of US$25.00 per terminal per month for any additional terminals not connected to the software provided by Scientific Games.

In August 2018, the contract with Scientific Games was further amended to extend the period until July 31, 2019.

On September 4, 2019, the contract with Scientific Games was further amended to extend the period until July 31, 2020.

Software and license fees amounted to P22.0 million, P37.8 million, and P52.9 million in 2019, 2018 and 2017, respectively (Note 18).

c. Intralot
i. On March 13, 2006, the Parent Company entered into a contract with Intralot (Intralot Greece), a company incorporated under the laws of Greece, for the supply of online lottery system necessary for the operation of a new online lottery system effective December 8, 2006. Under the terms of the "Contract for the Supply of the Visayas-Mindanao Online Lottery System," Intralot will provide the Parent Company the hardware, operating system software and terminals and the required training. In consideration, the Parent Company shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation or a fixed amount of US$110 per terminal per month, whichever is higher. The contract shall continue as long as the Parent Company's ELA with PCSO is in effect.

On July 10, 2008, Intralot entered into an agreement with Intralot Inc. (Intralot USA), a subsidiary domiciled in Atlanta, Georgia, USA, wherein Intralot Greece assigned to Intralot USA the whole of its contract with the Parent Company, including all its rights and obligations arising from it. The Parent Company will pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's online lottery operations or US$110.00 per terminal whichever is higher.

On September 6, 2013, the Parent Company and Intralot further amended the contract for the supply of additional terminals to enable the Parent Company to expand its online lottery operations. Effective April 1, 2013, the Parent Company and Intralot agreed to lower the percentage of revenues paid by the former to the latter.

In April 2016, the Parent Company and Intralot again amended the contract for the latter to supply additional reconditioned or refurbished lotto terminals to the former and extend the term of the contract until August 31, 2018.

On September 25, 2018, the contract with Intralot was further amended to extend the period until July 31, 2019.

On July 1, 2019, the contract with Intralot was further amended to extend the period until July 31, 2020.

Software and license fees amounted to P71.6 million, P96.4 million, and P80.7 million in 2019, 2018 and 2017, respectively (Note 18).

ii. On April 1, 2004, TGTI entered into a contract with Intralot for the supply of online lottery system necessary for the operation of a new online lottery system effective until September 30, 2020. In consideration, the TGTI shall pay Intralot a pre-agreed percentage of the revenue generated by the terminals from PCSO's conduct of online lottery operation. On July 2008, the contract was amended such that instead of receiving monthly remuneration calculated as a percentage of the gross receipts of TGTI from its ELA with PCSO, Intralot will now receive monthly remuneration calculated on a percentage basis of the gross receipts of PCSO from its online keno games.

On March 22, 2011, the contract was further amended for Intralot to supply additional online keno terminals to TGTI and reduced the percentage charged by Intralot to TGTI or US$60.00 per terminal per month on an average basis, whichever is higher. TGTI also undertook a letter of guarantee amounting to P20.0 million not later than March 28, 2011 in order for TGTI to secure the payment of Intralot's remuneration. The said guarantee was previously recognized under "Other noncurrent assets" in the consolidated statements of financial position.

Software and license fees amounted to P42.7 million, P61.6 million, and P58.1 million in 2019, 2018 and 2017, respectively (Note 18).

d. Management Agreement

The Parent Company has a Management Agreement with AB Gaming and Leisure Exponent Specialist, Inc. for the latter to provide investment and management counsel and to act as manager and overseer of the Parent Company's operations. In consideration for these services, the Parent Company shall pay a monthly fee of P0.1 million and an amount equivalent to a certain percentage of the Company's earnings before interest, taxes, depreciation and amortizatipe (EBITDA).

TGTI has Management Agreement with AB Gaming and Leisure Specialist, Inc (AB Gaming) for its online keno operations. In consideration, TGTI will pay AB Gaming a management fee equivalent to a certain percentage of TGTI's earnings before interest, taxes, depreciation and amortization.

Management fees amounted to nil, P44.7 million and P69.9 million in 2019, 2018 and 2017, respectively (Note 19).

15. Loan Payable

On December 18, 2019, the Parent Company availed of a P150.0 million unsecured loan from Asia United Bank with an interest rate of 5.25% per annum, payable in monthly installments for a period of one (1) year

16. Equity

a. Capital Stock

	2019		2018	
	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK				
Authorized,				
Common shares - P1 par value	2,288,000,000	P2,288,000,000	500,000,000	P500,000,000
Issued:				
Balance at beginning of year	447,665,473	447,665,473	447,665,473	447,665,473
Issuance during the year	447,665,473	447,665,473	-	-
Balance at end of year	895,330,946	895,330,946	447,665,473	447,665,473
Treasury stock:				
Balance at beginning of year	25,233,492	285,267,558	23,755,492	268,660,770
Effect of stock dividend	25,233,492	-		
Purchases during the year	-	-	1,478,000	16,606,788
	50,466,984	285,267,558	25,233,492	285,267,558
Outstanding shares	844,863,962	P610,063,388	422,431,981	P162,397,915

On August 14, 2018, the Board of Directors approved the amendment in the Parent Company's articles of incorporation to increase its authorized capital stock from P500 million divided into 500 million common shares to P2,288 million divided into 2,288 million common shares. The increase in the authorized capital stock was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock was approved by the SEC on February 28, 2019.

b. Stock Dividend Distributable

On August 14, 2018, the Board of Directors declared a 100% stock dividend to the Parent Company's stockholders which the record and payment dates will be set subject to the approval of the SEC of the Parent Company's increase in its authorized capital stock. The stock dividend will be issued out of the increase in authorized capital stock. The stock dividend declaration was approved at the special meeting of the stockholders held on September 25, 2018. The increase in authorized capital stock was subsequently approved by SEC last February 28, 2019. On March 15, 2019, the SEC approved the record date of March 29, 2019 and the payment date of on or before April 29, 2019 for the Parent Company's 100% stock dividend.

c. **Dividends**

No cash or stock dividends were declared in 2019.

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

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

In 2017, the BOD, upon recommendation of management, declared the following cash dividends:

Declaration	Record Date	Payment	Per Share	Amount
May 2, 2017	May 17, 2017	May 31, 2017	P0.30	P126,984,494
May 2, 2017	August 11, 2017	August 31, 2017	0.30	126,508,211
December 6, 2017	January 5, 2018	January 31, 2018	0.20	84,781,995
				P338,274,700

d. Treasury Stock

On July 11, 2008, the BOD authorized the Parent Company to buy back up to 2,000,000 shares from the public as a means of preserving the value of the Parent Company's shares and maintaining investor confidence. In addition, on October 14, 2008, the BOD approved to extend its share buy-back program up to a maximum of 10% of the Parent Company's outstanding capital stock.

The movements in treasury stock are as follows:

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

e. Retained Earnings

	Note	**2019**	2018
Unappropriated		**P855,178,425**	P969,822,935
Appropriated:			
TGTI	*a*	**-**	200,000,000
LCC	*b*	**-**	30,000,000
		-	230,000,000
		P855,178,425	P1,199,822,935

a. On October 24, 2017, the BOD of TGTI, upon recommendation of management, approved the appropriation of P200,000,000 out of TGTI's unappropriated retained earnings for future expansion programs. In 2019, the appropriation was reversed.

b. On December 5, 2017 and, the BOD of LCC, upon recommendation of management, approved the appropriation of P30,000,000 out of LCC's unappropriated retained earnings for renovation of existing retail outlets and construction of new ones in 2018. In 2019, the appropriation was reversed as LCC decided to delay the renovations of the outlets and opening of new sites and purchase of office and computer equipment.

17. Related Party Transactions

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance: Advances to Related Parties	Outstanding Balance: Advances from Related Parties	Terms	Conditions
TGTI							
• Advances	2019	a	(P1,928,118)	P -	P2,087,914	On demand, non-interest bearing	Unsecured
	2018	a	-	-	16,586,229		
• Dividend income received	2019	b	-	-	-		
	2018	b	6,717,636	-	-		
• Dividends paid	2019	b	-	-	-		
	2018	b	90,044,558	-	-		
• Treasury Stock	2019	c	-	-	-		
	2018	c	174,284,130	-	-		
• Reimbursements	2019	a	31,239,391	-	-		
	2018	a	75,824,181		-		
FRI							
• Advances	2019	a	(10,000,000)	-	-	On demand, non-interest bearing	Unsecured
	2018	a	-		10,000,000		
LOTO PAC							
• Advances	2019	a	156,997		[illegible]	On demand, non-interest bearing	Unsecured
	2018	a	117,455	-	841,459		
LCC & [illegible] Entities							
• Dividends paid	2019		-	-	-		
	2018		39,066,776	-	-		
• Advances	2019	a	79,287,819	986,866	106,379,941	On demand, non-interest bearing	Unsecured
	2018	a	-	-	29,056,496		
• Rental expense	2019	d	76,552,787	-	-		
	2018	d	82,247,217	-	-		
• Security deposits	2019	d	22,828,104	-	-		
	2018	d	23,104,664	-	-		
TOTAL	2019			P986,865	P112,070,430		
TOTAL	2018			P -	P57,386,018		

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

In consideration for lease services, TGTI pays a fixed fee per keno terminal.

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

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

b. The Parent Company received cash dividends from TGTI and LCC.

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

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

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

The total receivables and payables eliminated amounted to P1.5 million and P139.3 million, respectively.

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

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

The compensation of the Group's key management personnel is included in the "Personnel costs" as disclosed in Note 18 to the consolidated financial statements.

18. Costs and Expenses

	Note	2019	2018	2017
Personnel costs		**P314,086,424**	P345,490,508	P262,964,539
Depreciation and amortization	*12*	**219,363,441**	223,200,081	225,444,278
Rent and utilities	*20*	**163,959,364**	214,003,791	164,356,377
Software and license fees	*14*	**136,317,926**	195,747,032	191,656,399
Communications		**129,697,749**	125,035,510	121,106,618
Repairs and maintenance		**113,263,948**	72,500,789	55,210,127
Travel and accommodation		**83,475,380**	72,535,071	68,941,900
Operating supplies	*2*	**54,871,681**	159,806,141	217,063,894
Marketing and promotion		**48,013,069**	36,989,441	71,317,276
Taxes and licenses		**35,967,898**	32,732,310	39,334,232
Entertainment, amusement and representation		**26,583,939**	19,565,548	15,463,481
Professional fees		**15,054,919**	14,752,874	13,567,826
Provision for impairment loss	*5*	**2,147,391**	-	25,000,000
Management fees	*14*	**-**	44,665,897	89,859,146
Consultancy fees	*14*	**-**	30,312,175	85,571,479
Others		**28,298,361**	25,151,024	45,510,885
		P1,370,091,622	P1,614,488,192	P1,652,402,460

Personnel costs are as follows:

	Note	2019	2018	2017
Salaries and wages		**P238,721,271**	P268,125,674	P214,117,350
Other short-term employee benefits		**57,099,687**	65,181,414	37,665,329
Post-employment benefits	*22*	**18,265,466**	12,183,420	11,181,850
		P314,086,424	P345,490,508	P262,964,539

19. Income Tax

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

	2019	2018	2017
Income (loss) before income tax	**(P395,387,671)**	P482,878,601	P721.746,362
Income tax expense at statutory income tax rate (30%)	**(P118,616,301)**	P144,863,580	P216,523,909
Additions to (reductions in) income tax:			
Nondeductible expenses	**21,996,444**	5,433,994	15,653,680
Unrecognized NOLCO	**17,048,687**	-	-
Nontaxable income	**(9,497,187)**	(6,724,733)	(6,087,628)
Derecognized NOLCO	**6,270,418**	-	-
Impairment loss on goodwill	**5,113,880**	33,280,199	-
Mark-to-market loss (gain) on marketable securities	**4,574,493**	3,570,928	(147,361)
Income subjected to final tax	**(512,443)**	(553,175)	(215,749)
Gain on sale of marketable securities	-	(464,468)	-
Others	**(793,288)**	1,424,263	3,153,523
	(P74,415,297)	P179,830,586	P228,880,374

The components of the Group's deferred tax recognized in other comprehensive income are as follows:

	2019	2018	2017
Amount charged (credited) to profit or loss	**(P82,018,677)**	P47,432,314	(P1,160,984)
Amount charged (credited) to other comprehensive income	**(7,779,857)**	5,304,510	578,076
	(P89,798,534)	P52,736,824	(P582,908)

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

As at December 31, 2019

	Beginning	Movements	Ending
Items Recognized in Profit or Loss			
Unamortized past service cost	P10,002,926	P1,985,835	P11,988,761
Allowance for impairment losses on trade and other receivables	4,045,557	140,595	4,186,152
NOLCO	2,602,457	69,258,693	71,861,150
Accrued expenses	2,417,100	(1,349,256)	1,067,844
Unrealized foreign exchange gain	265,884	56,176	322,060
Prepayments	(310,551)	(404,900)	(715,451)
Retirement benefits liability (asset)	(5,642,271)	2,911,534	(2,730,737)
Accrued license fee income	(50,404,696)	9,420,000	(40,984,696)
	(37,023,594)	82,018,677	44,995,083
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	(273,545)	7,779,857	7,506,312
	(P37,297,139)	P89,798,534	P52,501,395

As at December 31, 2018

	Beginning	Movements	Ending
Items Recognized in Profit or Loss			
Unamortized past service cost	P8,462,746	P1,540,180	P10,002,926
Allowance for impairment losses on trade and other receivables	4,045,557	-	4,045,557
NOLCO	1,466,822	1,135,635	2,602,457
Accrued expenses	2,788,503	(371,403)	2,417,100
Unrealized foreign exchange gain	476,920	(211,036)	265,884
Prepayments	(310,551)	-	(310,551)
Retirement benefits asset	(6,521,277)	879,006	(5,642,271)
Accrued license fee income	-	(50,404,696)	(50,404,696)
	10,408,720	(47,432,314)	(37,023,594)
Items Recognized in Other Comprehensive Income			
Remeasurement of retirement benefits	5,030,965	(5,304,510)	(273,545)
	P15,439,685	(P52,736,824)	(P37,297,139)

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of that date.

The TRAIN Law, which took effect on January 1, 2018, represents Package 1 of the comprehensive tax reform program of the current administration that aims to correct gaps in the present tax system, allowing it to be more effective and equitable. Below are the salient points of the TRAIN Law:

a. Reduction in personal income taxes
b. Changes in capital income taxes
    - Final withholding tax on interest from foreign-currency deposits increased to 15% (from 7.5%)
    - Capital gains tax on unlisted/untraded shares increased to 15% (from 5%/10%)
    - Stock transaction tax on listed/traded shares increased to 6/10 of 1% (from ½ of 1%)
c. Amendments to other taxes
    c.1 Value-added tax (VAT)
    - Certain VAT zero-rated transactions to become subject to 12% VAT upon implementation of VAT refund system
    - VAT exemption threshold for sale of goods and services increased to Php3M (from Php1.9M)
    - Included in VAT-exempt transactions, among others: Transfers of properties pursuant to a tax-free merger; Association dues, membership fees, and other assessments and charges collected by homeowners associations and condominium corporations

    c.2 Increased documentary stamp taxes (DST) rates by 50% to 100%

    c.3 Excise taxes
    - Revised excise taxes on cigars and cigarettes, manufactured oils and other fuels, petroleum products, automobiles, and minerals
    - Expanded scope of excise tax to include non-essential services and sweetened beverages

Although most of the changes will affect individuals, the TRAIN Law also introduced changes to income tax, VAT and excise taxes.

20. Lease Commitments

Leases as Lessee (PFRS 16)

The Group leases office space, outlets and warehouses. The leases typically run for a period of 2-5 years, with an option to renew the lease after that date. Previously, these leases were classified as operating leases under PAS 17.

i. Right-of-use assets

Right-of-use assets related to leased properties whose lease terms are more than 12 months.

	Note	Offices, Outlets and Warehouses	Equipment	Total
Balance at January 1, 2019		P70,434,636	P8,625,269	P79,059,904
Depreciation charge for the year	18	(37,508,557)	(8,625,269)	(46,133,826)
Additions to right-of-use assets		17,371,992	-	17,371,992
Balance at December 31, 2019		P50,298,070	P -	P50,298,070

ii. **Lease liabilities**

	2019
Balance at January 1, 2019	P66,318,240
Reclassification from finance lease*	35,374,474
Interest charge for the year	7,022,938
Payments made	(60,485,647)
Additions to lease liabilities	17,372,000
Balance at December 31, 2019	**P67,602,005**

current and non-current portion

iii. Amounts to be recognized in profit or loss

	Note	2019
2019 - Leases under PFRS 16		
Interest on lease liability		P7,022,938
Depreciation expense	*18*	46,133,826
Rent expense relating to short-term leases	*18*	92,024,069
2018 - Operating Leases under PAS 17		
Rent expense		P214,003,791
Total cash outflows for leases in 2019		P145,180,833

21. Other Income (Loss)

"Others" under Other income consists of:

	Note	2019	2018	2017
Excess input VAT		(P28,913,770)	P32,627,219	P28,754,377
Accreted Interest Income	2, 5	8,600,002	12,556,482	-
Service income		5,306,307	5,163,930	11,835,830
Gain on sale of:				
Marketable securities		-	1,548,225	-
Property equipment		839,812	1,038,518	155,142
Foreign exchange losses		(1,180,826)	(845,519)	(1,887,440)
Others		6,207,807	4,341,626	2,471,165
		(P9,050,668)	P56,430,481	P41,329,074

On September 1, 2005, the Commissioner of Bureau of Internal Revenue (BIR) signed Revenue Regulations (RR) No. 16-2005, which took effect on November 1, 2005. The RR, among others, introduced the following changes:

a. The government or any of its political subdivisions, instrumentalities or agencies, including government-owned or controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or of services taxed at 12% VAT pursuant to Sections 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5% of the gross payment thereof; and

b. The 5% final VAT withholding rate represents the net VAT payable of the seller. The remaining 7% effectively accounts for the standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs, in lieu of the actual input VAT. Should actual input VAT exceed 7% of gross payments, the excess may form part of the seller's expense or cost. On the other hand, if actual input VAT is less than 7% of gross payment, the difference must be closed to income.

   The Group recognizes the excess of standard input VAT over actual input VAT as income or expense which is presented as "Excess input VAT" in the consolidated statements of income.

Others consist of mainly miscellaneous income, bank charges, and seller's prize from winning tickets exceeding P10,000.

22. Retirement Plan

The Parent Company, TGTI, LCC and Nine Entities have funded, noncontributory defined benefits plans covering substantially all of its regular employees. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

The Retirement Plans of the Parent Company, LCC and TGTI provide a retirement benefit equal to 22.5 days' pay for every year of credited service. The Plans meet the minimum retirement benefit specified under Republic Act 7641.

The retirement plans of the Parent Company, LCC and TGTI are administered by a trustee bank under the supervision of a Retirement Plan Committee (Committee), as appointed by the Companies in the Trust Agreement. The Trustee is responsible for the investment strategy of the retirement plans.

During 2019, the Group amended their plan asset to include the death and disability benefits which resulted to the recognition of past service cost.

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Defined Benefits Liability (Asset)		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Balance at beginning of year	**P72,912,774**	P84,212,651	P73,976,755	**P80,768,327**	P85,569,924	P74,299,987	**(P7,855,553)**	(P1,357,273)	(P323,232)
Acquisition of Nine Entities		-	716,002		-	-		-	716,002
Recognized in Profit or Loss									
Current service cost	**9,816,655**	12,297,526	11,438,381	-	-		**9,816,655**	12,297,526	11,438,381
Past service cost	**9,357,392**			-			**9,357,392**	-	-
Interest expense	**5,750,268**	4,749,206	3,980,142	-	-		**5,750,268**	4,749,206	3,980,142
Interest income	-	-	-	**7,123,506**	4,998,686	4,309,150	**(7,123,506)**	(4,998,686)	(4,309,150)
Interest on effect of asset ceiling	-	-	-	**(464,657)**	(135,374)	(72,487)	**464,657**	135,374	72,487
	24,924,315	17,046,732	15,418,523	**6,658,849**	4,863,312	4,236,663	**18,265,466**	12,183,420	11,181,860
Remeasurements Recognized in Other Comprehensive Income									
Actuarial (gains) losses arising from:									
Experience adjustments	**(681,139)**	(691,375)	(2,846,877)	-	-	-	**(681,139)**	(691,375)	(2,846,877)
Changes in financial assumptions	**33,150,515**	(22,323,512)	(2,475,821)	-	-	-	**33,150,515**	(22,323,512)	(2,475,821)
Changes in demographic assumptions	**(1,548,460)**	(5,235,516)	(575,931)	-	-	-	**(1,548,460)**	(5,235,516)	(575,931)
Return on plan asset excluding interest	-	-	-	**(293,111)**	(7,194,150)	(3,170,012)	**293,111**	7,194,150	3,170,012
Effect of asset ceiling	-	-	-	**5,281,172**	(3,374,553)	(801,697)	**(5,281,172)**	3,374,553	801,697
	30,920,916	(28,250,403)	(5,898,629)	**4,988,061**	(10,568,703)	(3,971,709)	**25,932,855**	(17,681,700)	(1,926,920)
Others									
Benefits paid	-	(96,206)	-	-	(96,206)	-		-	-
Contributions paid	-	-	-	**6,500,000**	1,000,000	11,004,983	**(6,500,000)**	(1,000,000)	(11,004,983)
	-	(96,206)	-	**6,500,000**	903,794	11,004,983	**(6,500,000)**	(1,000,000)	(11,004,983)
Balance at end of year	**P128,758,005**	P72,912,774	P84,212,651	**P98,915,237**	P80,768,327	P85,569,924	**P29,842,768**	(P7,855,553)	(P1,357,273)

The changes in the effect of asset ceiling are as follows:

	2019	2018
Balance at beginning of period	**P5,884,879**	P2,374,952
Remeasurement gain on the change in the effect of asset ceiling	**(5,281,172)**	3,374,555
Interest expense on effect of asset ceiling	**464,657**	135,372
Balance at end of period	**P1,068,364**	P5,884,879

The fair value of plan assets consists of the following:

	2019	2018
Cash and cash equivalents	**P6,482,730**	P2,742,797
Debt instruments - government bonds	**49,620,862**	44,713,835
Debt instruments - other bonds	**2,994,707**	34,209,897
Unit investment trust funds	**38,169,995**	2,478,901
Others	**1,666,943**	(3,377,103)
	P98,915,237	P80,768,327

All debt instruments and unit investment trust funds have quoted prices in active markets. The 2018 figures were adjusted to align with 2019 breakdown.

The Parent Company, TGTI and LCC expect to contribute P10.0 million, P5.0 million and P1.5 million to the benefit plan in 2020.

The principal assumptions used in determining the retirement liability of the Group are shown below:

	2019		
	Parent Company	LCC	TGTI
Discount rate	**5.25%**	**5.10%**	**5.22%**
Future salary increase	**8.00%**	**5.00%**	**8.00%**

	2018		
	Parent Company	LCC	TGTI
Discount rate	8.06%	8.04%	7.53%
Future salary increase	8.00%	5.00%	8.00%

Assumptions for mortality rates are based on The 2001 CSO Table - Generational (Scale AA, Society of Actuaries). Assumptions for disability rates are based on The Disability Study, Period 2 Benefit 5 (Society of Actuaries).

As at December 31, 2019, the weighted average duration of the retirement liability of the Group is 12.4 years to 30.8 years.

Maturity analysis of total benefit payments of the Group:

Period	Expected Benefit Payments Parent Company	LCC	TGTI	Total
2020	P15,759,746	P3,305,656	P9,188,153	P28,253,555
2021	3,795,865	57,149	-	3,853,014
2022	1,549,034	91,928	-	1,640,962
2023	3,237,372	315,258	270,629	3,823,259
2024	913,768	177,638	-	1,091,426
2025-2029	25,982,001	5,677,095	-	31,659,096

As at December 31, 2018, the reasonable possible changes to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below:

	1 Percent Increase	1 Percent Decrease
Discount rate	(14,485,000)	17,877,142
Future salary increase rate	17,308,756	(14,348,550)

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market risk.

Asset-liability Matching (ALM)
The Group does not perform any ALM study. The overall investment policy and strategy of the retirement plan is based on the Group's suitability assessment, as provided by its trust bank in compliance with the Bangko Sentral ng Pilipinas (BSP) requirements.

29. Diluted Earnings Per Share (DEPS)

The following table presents information necessary to calculate basic and diluted EPS during the year:

	2019	2018	2017
Issued - beginning of year	P447,665,473	P447,665,473	P447,665,473
Treasury shares at beginning of the year	(25,233,492)	(23,755,492)	(4,983,946)
Outstanding at beginning of year, before stock dividends	422,431,981	423,909,981	442,681,527
100% stock dividends			
All issued shares	447,665,473	447,665,473	447,665,473
On treasury shares	(25,233,492)	(23,755,492)	(4,983,946)
Retrospective Effect of Stock dividends	422,431,981	423,909,981	442,681,527
Outstanding at beginning of year, after stock dividends (a)	844,863,962	847,819,962	885,363,054

	2019	2018	2017
Effect of acquisition of treasury shares on weighted average, before effect of stock dividends	P -	(P1,113,439)	(P15,256,425)
Effect of 100% stock dividends	-	(1,113,439)	(15,256,425)
Effect of acquisition of treasury shares, after stock dividends (b)	P -	(P2,226,878)	(P30,512,850)
Weighted average number of shares outstanding during the year for Basic EPS and Diluted EPS (a+b)	P844,863,952	P845,593,084	P854,850,204
Net income (loss) attributable to equity holders of the Parent Company (c)	(319,411,018)	302,659,366	490,101,221
Basic EPS and Diluted EPS (c/b)	(P0.3781)	P0.3579	P0.5733

Basic EPS is calculated by dividing the net income for the period by the weighted average number of shares outstanding during the year.

During 2019, the Group issued a 100% stock dividend to its shareholders. The earnings per share presented is computed with retrospective application of the stock dividends to the earliest period presented.

Diluted EPS is calculated in the same manner as basic EPS adjusted for dilutive instruments. The calculation for 2017 includes the effect of the 100% stock dividend declared during the year. The increase in authorized capital stock was approved by the SEC on February 28, 2019. (Note 16).

24. Financial Instruments

Financial Risk Management Objectives and Policies

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

Credit Risk

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

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

The table below shows the maximum exposure to credit risk for the Group's financial assets as at December 31, 2019 and 2018 without taking into account any collateral and other credit enhancements:

	Note	2019	2018
Cash in banks and cash equivalents	*7*	**P332,660,313**	P564,886,238
Trade and other receivables - net*	*9*	**212,681,594**	334,550,292
Marketable securities	*8*	**140,456,581**	155,704,892
Refundable deposits	*10*	**35,424,154**	34,930,697
Investments in stocks	*11*	**347,630,680**	455,705,930
Guarantee bonds**		**12,000,000**	42,000,000
Total credit exposure		**P1,081,273,522**	P1,587,778,049

**Inclusive of noncurrent portion of accrued license fee income amounting to P96.6 million and P130.1 million and exclusive of advances amounting to P58.2 million and P90.6 million as at December 31, 2019 and 2018, respectively.*

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

The table below shows the aging analysis of receivables other financial assets as at December 31, 2019 and 2018:

	2019		
	Neither Past Due nor Impaired	**Impaired**	**Total**
Trade and other receivables - net	**P75,106,370**	**P -**	**P75,106,370**
Accrued receivable*	**136,615,655**	**-**	**136,615,655**
Guarantee bonds**	**12,000,000**	**-**	**12,000,000**
Refundable deposits	**35,424,154**	**-**	**35,424,154**
Other receivables	**1,159,570**	**-**	**1,159,570**
	P260,305,749	**P -**	**P260,305,749**

** Inclusive of noncurrent portion of license fee income of P96.6 million and exclusive of advance payments of P58.2 million.*

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

	2018		
	Neither Past Due nor Impaired	Impaired	Total
Trade and other receivables - net*	P163,441,252	P -	P163,441,252
Accrued receivables*	168,015,653	-	168,015,653
Guarantee bonds	42,000,000	-	42,000,000
Refundable deposits	34,930,697	-	34,930,697
Other receivables	3,093,387	-	3,093,387
	P411,480,989	P -	P411,480,989

* Inclusive of noncurrent portion of license fee income of P130.1 million and exclusive of advance payments of P80.6 million.
** Includes the cash bond under "Other current assets" in the consolidated statements of financial position.

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

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

	2019			
	Grade A	Grade B	Grade C	Total
At amortized cost:				
Cash in banks and cash equivalents	P332,880,313	P -	P -	P332,880,313
Trade and other receivables - net*	76,265,939	136,615,655	-	212,881,594
Refundable deposits	-	35,424,154	-	35,424,154
Guarantee bonds	-	-	12,000,000	12,000,000
At FVPL:				
Marketable securities	140,456,581	-	-	140,456,581
At FVOCI:				
Investments in stocks	347,630,880	-	-	347,630,880
	P897,233,713	P172,039,809	P12,000,000	P1,081,273,522

* Inclusive of noncurrent portion of accrued license fee income amounting to P98.6 million and exclusive of advance payments of P58.2 million.

	2018			
	Grade A	Grade B	Grade C	Total
At amortized cost				
Cash in banks	P564,886,238	P -	P -	P564,886,238
Trade and other receivables net*	166,534,639	168,015,653	-	334,550,292
Refundable deposits	-	34,930,697	-	34,930,697
Guarantee bonds	-	-	42,000,000	42,000,000
At FVPL:				
Marketable securities	155,704,892	-	-	155,704,892
At FVOCI				
Investments in stocks	455,705,930	-	-	455,705,930
	P1,342,831,699	P202,946,350	P42,000,000	P1,587,778,049

*Inclusive of noncurrent portion of accrued license fee income amounting to P130.1 million and exclusive of advance payments of P80.6 million.

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

Estimating ECL

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets as at December 31, 2019 by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost				
December 31, 2019	12-Month ECL	Lifetime ECL not Credit Impaired	Total	ECL	Carrying Amount
Cash in banks and cash equivalents	P332,880,313	P -	P332,880,313	P -	P332,880,313
Trade and other receivables - net*	215,028,985	-	215,028,985	(2,147,391)	212,881,594
Refundable security deposits	35,424,154	-	35,424,154	-	35,424,154
Guarantee bonds	12,000,000	-	12,000,000	-	12,000,000
	P595,333,452	P -	P595,333,452	(P2,147,391)	P593,186,061

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

	Financial Assets at Amortized Cost				
December 31, 2018	12-Month ECL	Lifetime ECL not Credit Impaired	Total	ECL	Carrying Amount
Cash in banks and cash equivalents	P564,886,238	P -	P564,886,238	P -	P564,886,238
Trade and other receivables - net*	334,550,292	-	334,550,292	-	334,550,292
Refundable security deposits	34,930,697	-	34,930,697	-	34,930,697
Guarantee bonds	42,000,000	-	42,000,000	-	42,000,000
	P976,367,227	P -	P976,367,227	P -	P976,367,227

**Inclusive of noncurrent portion of accrued license fee income amounting to P130.1 million and exclusive of advance payments of P80.6 million*

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience. Any adjustments to the loss rates for forecasts of future economic conditions are not expected to be material. The Group applies the simplified approach in providing for ECL prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

Cash in banks and cash equivalents are considered of good quality as these pertain to deposits in reputable banks.

Impairment on cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash has low credit risk based on the external credit ratings of the counterparties.

Receivables and refundable security deposits are considered of good quality since these are transacted with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade.

Marketable Securities and Investment in Stocks are considered good quality since these are invested in companies listed in the PSE.

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

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

Marketable Securities

	Increase (Decrease) in Equity Price	Effect on Consolidated Income before Income Tax
2019		
	5%	**P7,022,829**
	(5%)	**(7,022,829)**
2018		
	5%	P7,785,245
	(5%)	(7,785,245)

Investments in Stocks

	Increase (Decrease) in Equity Price	Effect on Comprehensive Net Income
2019		
	8%	**P27,810,470**
	(8%)	**(27,810,470)**
2018		
	8%	P36,456,475
	(8%)	(36,456,475)

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

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

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

	Note	2019 Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	14	P61,145,802	P52,988,181	P634,800	P27,627,805	P142,396,858
Loans payable	15	37,500,000	75,000,000	37,500,000	-	150,000,000
Lease liabilities**	20	9,736,270	18,392,709	30,224,143	9,248,884	67,602,005
		P108,382,072	P146,380,869	P68,358,943	P36,876,689	P359,998,563

Excluding statutory liabilities amounting to P1.6 million
*** Inclusive of noncurrent portion*

	2018 Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P214,603,091	P -	P10,000,000	P17,358,924	P242,180,045
Obligations under finance lease**	4,636,235	9,689,731	21,048,508	-	35,374,474
Installment payable**	9,205,042	-	-	-	9,205,042
	P228,644,368	P9,689,731	P31,048,508	P17,358,924	P286,739,531

** Excluding statutory liabilities amounting to P2.9 million*
*** Inclusive of noncurrent portion*

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

As at December 31, 2019 and 2018, assets and liabilities denominated in US$ include cash in banks amounting to P51.8 million ($1,022,373) and P20.5 million ($391,254), and consultancy and software and license fees payable amounting to P17.2 million ($339,792) and P37.6 million ($716,411), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P50.64 and P52.46 to US$1, the Php to US$ exchange rates, as at December 31, 2019 and 2018, respectively.

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

Increase (Decrease) in US$ Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2019		
5%	**(P1,728,296)**	**(P1,209,807)**
(5%)	**1,728,296**	**1,209,807**
2018		
5%	(691,698)	(484,188)
(5%)	691,698	484,188

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

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

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

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

As at December 31, 2019 and 2018, the Group is compliant with the minimum public float requirement by the PSE.

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

There were no changes in the Company's approach to capital management during the year. As at December 31, 2019 and 2018, the Company is compliant with the minimum public float requirement by PSE.

The Group's current ratio, calculated as total current assets over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at December 31, 2019 and 2018 are as follows:

Current Ratio

	2019	2018
Current assets	P864,686,033	P1,156,967,831
Current liabilities	360,318,424	289,167,455
Current ratio	2.40:1.00	4.00:1.00

Debt-to-Equity Ratio

	2019	2018
Total liabilities	P399,410,076	P342,459,605
Total equity	1,313,419,353	1,760,619,776
Debt-to-equity ratio	0.30:1.00	0.19:1.00

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at December 31, 2019 and 2018:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost				
Cash and cash equivalents	P337,471,429	P337,471,429	P571,260,257	P571,260,257
Trade and other receivables*	212,881,684	212,881,684	334,550,292	334,550,292
Refundable deposits	35,424,164	35,424,164	34,930,697	34,930,697
Guarantee bonds	12,000,000	12,000,000	42,000,000	42,000,000
At FVPL:				
Marketable securities	140,458,581	140,458,581	155,704,892	155,704,892
At FVOCI:				
Investments in stocks	347,630,880	347,630,880	455,705,930	455,705,930
	P1,085,866,738	P1,085,866,738	P1,594,152,068	P1,594,152,068

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At Amortized Cost				
Trade and other current liabilities**	P142,396,558	P142,396,558	P242,160,015	P242,160,015
Loan payable	150,000,000	150,000,000		
Lease liabilities (inclusive of noncurrent portion)	67,602,005	67,602,005	-	-
Obligations under finance lease (inclusive of noncurrent portion)	-	-	35,374,474	35,374,474
Installment payable (inclusive of noncurrent portion)	-	-	9,205,042	9,205,042
	P359,998,563	P359,998,563	P286,739,531	P286,739,531

Inclusive of noncurrent portion of accrued license fee income amounting to P98.8 million and P130.1 million and exclusive of advances amounting to P58.2 million and P80.6 million as at December 31, 2019 and 2018, respectively.

***Excluding statutory liabilities of P1.8 million and P2.5 million in 2019 and 2018, respectively*

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

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

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

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

	Level 1	Level 2	Level 3	Total
Marketable Securities				
2019	**P140,486,581**	**P -**	**P -**	**P140,486,581**
2018	155,704,892	-	-	155,704,892
Investments in Stocks				
2019	**347,630,860**			347,630,860
2018	455,705,830	-	-	455,705,830

There were no transfers between Levels in 2019 and 2018.

25. Events After the Financial Reporting Period

On February 6, 2020, the management of Parent Company and Loro Pacific has approved the plan to sell LCC and Nine Entities (LCC Group) in light of the need for the Company to focus on its core business and subsequently on February 13, 2020, the sale of LCC Group was completed with a third party. The total assets and total liabilities of the LCC Group as at December 31, 2019 are P290,905,660 and P189,902,249 respectively. The total revenue and net loss of LCC Group for the year ended December 31, 2019 are P282,915,868 and P121,137,728 respectively. The Company received a consideration amounting to P137,413,459.

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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Pacific Online Systems Corporation
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Exchange Road, Ortigas Center
Pasig City, Metro Manila

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Pacific Online Systems Corporation and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 included in this Form 17-A, and have issued our report thereon dated February 20, 2020.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

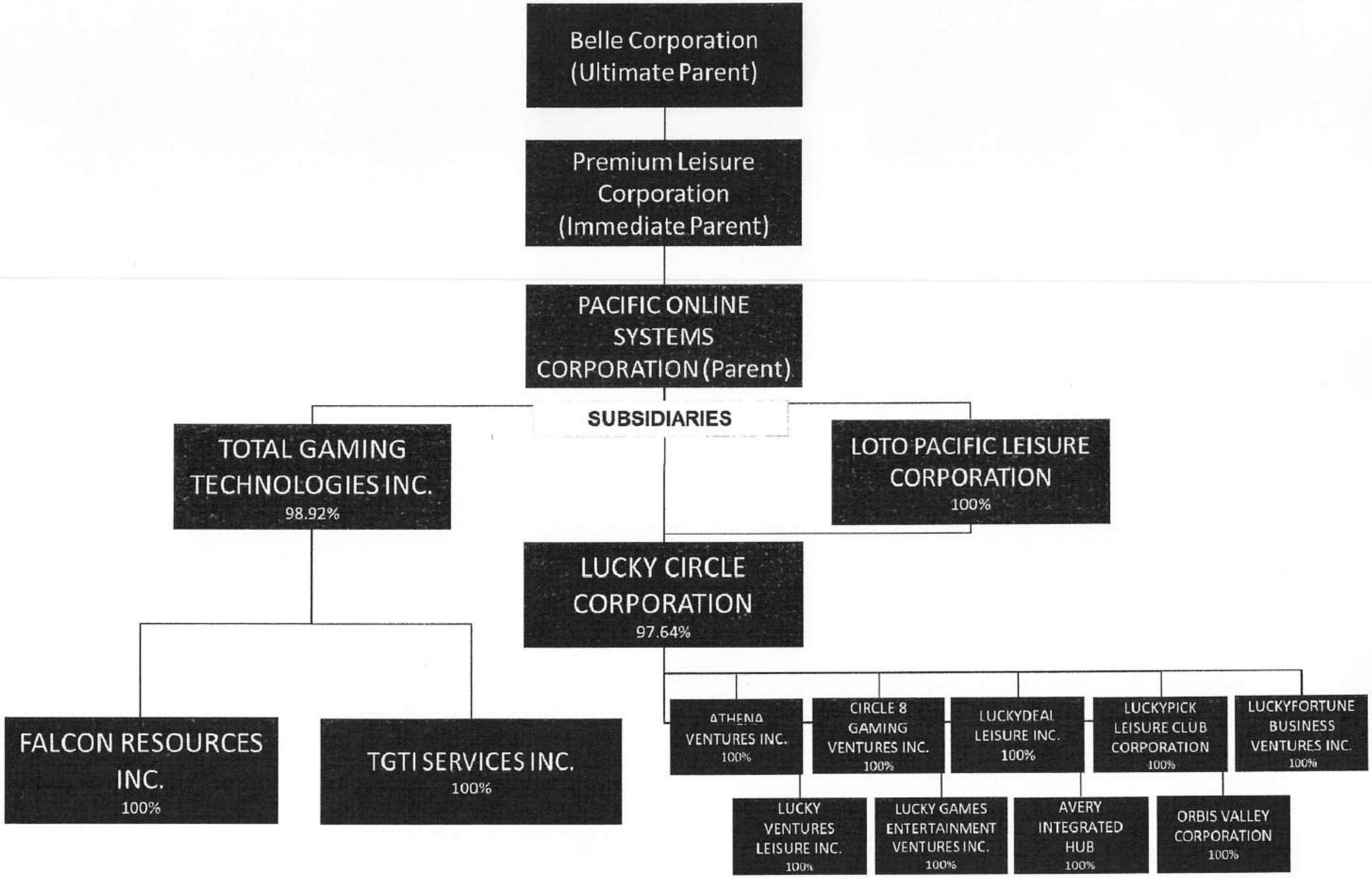
ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-26-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. MKT 8116756
Issued January 2, 2020 at Makati City

February 20, 2020
Makati City, Metro Manila

PACIFIC ONLINE SYSTEMS CORPORATION
As at December 31, 2019
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION

Total Retained Earnings, beginning available for dividend distribution	**P738,418,847**
Add: Net loss during the period closed to Retained Earnings	**(170,435,954)**
Less: Non-actual unrealized income	
Deferred tax benefit	**(63,628,590)**
Add: Non-actual unrealized losses	
Fair value adjustment (M2M loss)	**14,248,311**
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	**403,760**
Sub-total	**(48,976,519)**
Net loss actually earned during the period	**(219,412,473)**
Add:	
Reversal of appropriations	-
Acquisition of treasury shares	-
Realized portion of fair value reserve	-
Less:	
Cash dividend declared	-
Stock dividends declared	-
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DISTRIBUTION	**P519,006,374**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Conglomerate Map
December 31, 2019



PACIFIC ONLINE SYSTEMS CORPORATION
Schedule A. Financial Assets
For the Year Ended December 31, 2019

Type of Financial Assets			Amount	Schedule
Financial Assets at FVPL	Marketable Securities	₱	140,456,581	A-1
Financial assets at FVOC	Investments in Stocks		347,630,880	A-2
Loans and Receivables	Cash equivalents		38,261,781	A-3
	Cash on hand and in banks		299,209,748	
	Trade and other receivables		172,501,609	
	Refundable deposits		34,924,847	
	Guarantee deposits		12,000,000	
		₱	1,044,985,446	

A-1 Marketable Securities

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotations at Balance Sheet Date
APC Group, Inc.	45,821,000	17,870,190	17,870,190
Leisure and Resorts World Corp	10,724,792	25,739,501	25,739,501
Vantage Equities, Inc.	43,376,750	46,846,890	46,846,890
LRWC Preferred	50,000,000	50,000,000	50,000,000
Total		₱ 140,456,581	₱ 140,456,581

A-2 Investment in Shares of Stocks

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotations at Balance Sheet Date
Belle Corporation	66,663,000	132,659,370	132,659,370
Premium Leisure Corporation	377,143,000	214,971,510	214,971,510
Total	**443,806,000**	₱ **347,630,880**	₱ **347,630,880**

A-3 Cash Equivalents

Name of Issuing Entity and Description of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotations at Balance Sheet Date
Asia United Bank		38,261,781	38,261,781
Total		₱ **38,261,781**	₱ **38,261,781**

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Associates)
For the Year Ended December 31, 2019

Name and Designation of Debtor		Beginning Balance		Additions	Deductions					Ending Balance
						Amount Collected		Amount Written-off		
Advances to officers and employees	₱	4,939,898	₱	1,683,928	₱	2,048,567	₱		₱	4,575,259
TOTAL	**₱**	**4,939,898**	**₱**	**1,683,928**	**₱**	**2,048,567**	**₱**	**-**	**₱**	**4,575,259**

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
For the Year Ended December 31, 2019

Name and Designation of Debtor	Balance at Beg. Of Period	Additions	Amount Collected	Amount Written-off	Current	Not Current	Balance at End Of Period
Advances to Subsidiaries:							
Total Gaming Technologies, Inc.	₱ 6,586,031	₱	₱ 3,928,117.00	₱ -	₱	₱ -	₱ 2,657,914
Loto Pacific Leisure Corporation	841,489	150,967	5,601			-	986,855
Falcon Resources, Inc.	10,000,000		10,000,000				-
LCC & Nine Entities	29,958,498	108,375,661	29,958,498				108,375,661
							-
TOTAL	₱ 47,386,018	₱ 108,526,628	₱ 43,892,216	₱ -	₱ -	₱ -	₱ 112,020,430

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule D. Long Term Debt
For the Year Ended December 31, 2019

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-Term	Remarks
	₱ -	₱ -	₱ -	
	NONE			
	₱ -	₱ -	₱ -	

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule E. Indebtedness to Related Parties
For the Year Ended December 31, 2019

Name of Affiliate	Beginning Balance	Ending Balance
	₱	₱
	NONE	
	₱	₱

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule F: Guarantees of Securities of Other Issuers
For the Year Ended December 31, 2019

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee
		₱	₱	
		NONE		
		₱	₱	

PACIFIC ONLINE SYSTEMS CORPORATION
Schedule G. Capital Stock
For the Year Ended December 31, 2019

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Shares	2,288,000,000	895,330,946	-		73,843,750	821,487,196
	2,288,000,000	**895,330,946**	**-**	**-**	**73,843,750**	**821,487,196**

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REPORT ON INDEPENDENT AUDITORS COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
Pacific Online Systems Corporation
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 consolidated financial statements of Pacific Online Systems Corporation and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated February 20, 2020.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies.

This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

R.G. MANABAT & CO.

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Makati City, Metro Manila

Pacific Online Systems Corporation

Schedule showing Financial Soundness Indicators

Key Performance Indicators	Formula *(Amounts in millions)*		2019	2018
Current ratio	Total Current Assets	865	2.4	4.0
	Divide by: Total Current Liabilities	360		
	Current ratio	2.4		
Acid test ratio	Total Current Assets	865	1.81	3.5
	Less: Other current assets	(214)		
	Quick assets	651		
	Divide by: Total Current Liabilities	360		
	Acid test ratio	1.81		
Debt to Equity Ratio	Total Liabilities	399	0.3	0.19
	Stockholders' Equity	1,313		
Asset to Equity Ratio	Total Assets	1,713	1.3	1.19
	Stockholders' Equity	1,313		
Profit before tax margin ratio	Profit (Loss) Before Tax	(P396)	(39.90%)	24.95%
	Total Revenue	990		
EBITDA (Earnings before interest, tax, depreciation & amortization)	Profit (Loss) Before Tax	(P395)	(P169) million	P712 million
	Add: Depreciation Expenses	219		
	Interest Expense	7		
	Foreign Exchange Loss	1		
	Less: Interest Income	1		
	EBITDA	(P169)		
Return on Equity	Net Income (Loss)	(321)	(24.45%)	17.26%
	Total Equity	1,313		
Return on Assets	Net Income (Loss)	(321)	(18.74%)	14.46%
	Total Assets	1,713		