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SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	AS93008809
Company Name	PACIFIC ONLINE SYSTEMS CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	107302018000469
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

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SEC Registration Number

PACIFIC ONLINE SYSTEMS
CORPORATION AND SUBSIDIARIES

(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	584-1700
(Contact Person)	(Company Telephone Number)

1 2 / 3 1	17 - Q	
Month *Day* (Fiscal Year)	(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	₱47 million	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2018**

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

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

5. **Metro Manila, Philippines** 6. _________________ (SEC Use Only)
   Province, Country or other jurisdiction of Industry Classification Code
   Incorporation or organization

7. **28/F, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City** **1605**
   Address of principal office Postal Code

8. **632/584-1700**
   Registrant's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock, ₱1.00 par value	**422,433,981**
	Amount of Debt Outstanding
	P47.0 Million

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

a.) Consolidated Statements of Income for the six (6) months ended June 30, 2018 and June 30, 2017;
b.) Consolidated Statements of Comprehensive Income for the six (6) months ended June 30, 2018 and June 30, 2017;
c.) Consolidated Statements of Financial Position as of June 30, 2018 and Audited Statements of Financial Position as of December 31, 2017;
d.) Consolidated Statements of Changes in Equity for the six (6) months ended June 30, 2018 and June 30, 2017; and
e.) Consolidated Statements of Cash Flows for the six (6) months ended June 30, 2018 and June 30, 2017.

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

Comparable Discussion on Material Changes in Results of Operations for the Six Month-Period Ended June 30, 2018 vs. June 30, 2017

Revenues

For the first half of 2018, Pacific Online Systems Corporation (the "Company") combined with its subsidiaries (the "Group") earned total revenues of P1.10 billion, representing an increase of P46 million, or 4%, over total revenues of P1.05 billion during the same period in 2017. The net growth in revenues consisted of a 53% increase in distribution revenues due to the acquisition of nine (9) entities engaged in retail distribution of PCSO products in July 2017, and a 4% decrease in lottery equipment rental revenues due to lower Lotto sales nationwide. .

Costs and Expenses

The Group incurred total operating expenses of P863.7 million, which is 19% or P138.4 million higher than last year's P725.3 million for the first half of the year. The increase in costs and expenses is attributable to the following:

- Rent and utilities increased by P47.1 million (116%); Personnel costs increased by P60.2 million (44%); Travel and accommodation increased by P2.3 million (7%); and other expenses increased by P5.7 million (76%), mainly due to the acquisition of nine (9) companies by its retail distribution business unit (LCC) in July 2017;

- Software and license fees increased by P8.0 million (7%) due to an increase in the number of installed terminals whose software and license fees are based on a minimum fee per terminal rather than based on sales;

- Operating supplies increased by P15.6 million (17%) due to increase in number of Keno terminals installed and in cost of paper used for bet slips and lottery tickets;

- Depreciation and amortization charges increased by P12.8 million (14%) due to depreciation of new online lottery system equipment and other fixed assets acquired in 2017;

- Communication costs increased by P11.8 million (22%) due to additional communication links for new Keno installations;

- Entertainment, amusement and recreation expense increased by P1.0 million (19%) due to higher spending in business representation;

- Professional fees increased by P0.6 million (15%) due to higher recertification ISO audit fees incurred during the current period.

- Advertising and promotion expense increased by P0.6 million (14%) due to higher spending in marketing activities for both Keno and retail distribution operations.

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

- Consultancy fees decreased by P6.1 million (19%) and Management fees decreased by P12.6 million (35%) due to the lower Lotto sales and earnings, which are the bases of the fees paid;

- Repairs and maintenance decreased by P9.6 million (17%) due to less repairs and maintenance works undertaken during the current period;

Other Income (Charges)

Other income (net of other charges) of P76.9 million increased by P37.5 million (95%) for the period ended June 30, 2018 versus last year's P39.3 million. This change is mainly due to the P24.7 million royalty income for its instant ticket brand and trademarks, and the P9.3 million increase in dividend income from its stock investment holdings.

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

The Group realized an operating income of P234.1 million, which is lower by P92.4 million (28%) from P326.6 million during the same period last year. The increase in costs and expenses was higher than the increase in revenues in absolute amounts. Consequently, the net income of P217.9 million for the first half of the year is lower by P44.9 million (17%), from last year's P262.8 million.

A net P225 million fair value loss on investment in stocks resulted to a comprehensive loss of P7.1 million for the period ended June 30, 2018. This translates to a decrease of P454.1 million (102%) from last year's P447.0 million fair value gain for the same period.

Comparable Discussion on Material Changes in Financial Condition – June 30, 2018 vs. December 31, 2017

The Group's total assets of P2.40 billion as of June 30, 2018 decreased by P233.5 million or 9% from P2.63 billion as of December 31, 2017. The decrease in total assets is largely attributable to the following:

- Marketable securities decreased by P10.8 million (6%) due to the unrealized mark-to-market loss amounting to P0.7M million and disposal of some marketable securities;

- Investments in stocks decreased by P190.9 million (26%) due to the fair value loss amounting to P225 million, net of about P34.2 million additional investment in stocks purchased January to June 2018;

- Property and equipment decreased by P104.0 million (24%) due to the depreciation of additional fixed assets purchased in 2017; and

- Retirement benefit asset decreased by P1.4M (100%) due to the retirement expense for the period;

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

- Cash increased by P48.6 million (11%) due to the acquisition of the nine (9) entitites engaged in retail distribution by LCC;

- Deferred tax asset increased by P3.8 million (24%) due to additional provision of deferred income tax for the period for the Group, which includes the deferred taxes of the new subsidiaries;

The Group's total liabilities at P659.9 million increased by P46.1 million, or 8% from P613.8 million as of December 31, 2017. The increase in total liabilities is mainly due to the following:

- Trade and other current liabilities increased by P58.0 million (12%) due to the P130.0 million cash dividends due in August 2018 net of payments of other payables;

- Income tax payable increased by P16.0 million (55%) due to additional provision of income taxes for the period; and

- Installment payable increased by P1.3 million (47%) due to additional employee loans availed.

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

- Obligations under capital lease decreased by P27.4 million (70%) due to amortization of obligations under capital lease for the current period; and

- Withholding taxes payable decreased by P3.0 million (27%) due to remittance of taxes withheld.

Total equity as of June 30, 2018 of P1.741 billion was lower by P279.6 million (14%) versus the P2.020 billion equity as of yearend 2017. The net decrease in total equity resulted from the P217.9 million net income earned for the period, reduced by the P225.0 million fair value loss on investment in stocks, by P16.6 million additional treasury shares acquired in 2018 and by P255.9 million cash dividends paid in May 2018.

Comparable Discussion on Material Changes in Cash Flows for the Six Months Ended June 30, 2018 vs. June 30, 2017

The Group's cash balance as of June 30, 2018 of P495.8 million was higher by P224 million, as compared to P271.7 million in 2017 due mainly to the consolidation of the nine (9) subsidiaries acquired by LCC in July 2017.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Company's existing lease agreement with PCSO is due to expire after July 31, 2018. In 2017, PCSO initiated the bidding for a new Nationwide Online Lottery System (NOLS) which, however, was eventually cancelled after a legal action was instituted to prevent the bidding. To date, the bidding for NOLS has not been resumed. However, should the bidding for NOLS be eventually resumed and concluded within 2018, and an award for a new equipment lessor is made, the incumbent provider, POSC, will most likely be given a minimum of one (1) year, for system transition/conversion prior to take over by the new lessor.

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

1. Known trends, demands, commitments, events or uncertainties that would have a material impact on the Group;
2. Material commitments for capital expenditures that are reasonably expected to have a material impact on the Group's short-term or long-term liquidity;
3. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
4. Significant elements of income or loss that did not arise from the Group's continuing operations;
5. Seasonal aspects that had a material impact on the Group's results of operations;

6. Material changes in the financial statements of the Group for the periods ended December 31, 2017 to June 30, 2018, except those mentioned above;
7. Any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

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

Liquidity & Financial Leverage Ratios	The manner by which the Company calculates the performance indicators	**30 June 2018**	31 December 2017
Current ratio	Current assets over current liabilities	**2.10:1**	2.16:1
Debt to equity ratio	Total liabilities over total equity	**0.38:1**	0.30:1
Asset-to-equity ratio	Total assets over total equity	**1.38:1**	1.30:1
Solvency ratio	Total assets over total liabilities	**3.64:1**	4.29:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	**30 June 2018**	30 June 2017
Gross profit margin	Operating income over revenues	**21.33%**	**31.04%**
Net profit margin	Net income over revenues	**19.85%**	**24.99%**
Return on equity (annualized)	Net income over total equity	**25.04%**	**26.02%**
Return on assets (annualized)	Net income over total assets	**18.16%**	**19.96%**
Price/Earnings Ratio	Price per Share over EPS	**21.64**	**18.90**

PART II - OTHER INFORMATION

Financial Instruments

Financial Risk Management Objectives and Policies
The Group's principal financial instruments are composed of cash in banks, marketable securities, investment in stocks, deposits, guarantee bonds, trade and other current liabilities, obligations under finance lease. 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 trade receivables arise from the ELA with PCSO and the OMOA 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 terms specified in the ELA and OMOA 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, trade and other receivables, 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 June 30, 2018 and December 31, 2017 without taking into account any collateral and other credit enhancements:

	Note	**Jun. 30, 2018**	Dec. 31, 2017
Cash in banks	*7*	**P489,980,363**	P441,177,172
Trade and other receivables - net*	*9*	**507,969,633**	499,003,826
Marketable securities	*8*	**167,697,633**	178,482,842
Deposits **	*10*	**28,176,850**	27,954,758
Investments in stocks	*11*	**537,122,230**	727,998,290
Guarantee bonds**		**35,000,000**	35,000,000
Total credit risk exposure		**P1,765,946,709**	P1,909,616,888

** Excluding Advances to contractors and suppliers*
*** Included as part of "Other noncurrent assets and other current assets" in the consolidated statements of financial position*

The table below shows the aging analysis of receivables as at June 30, 2018 and December 31, 2017:

	June 30, 2018		
	Neither Past Due nor Impaired	**Impaired**	**Total**
Trade receivables	**P492,709,092**	**P -**	**P492,709,092**
Advances:			
Officers and employees	**10,391,291**	**-**	**10,391,291**
Contractors and suppliers	**13,301,830**	**-**	**13,301,830**
Other receivables	**4,869,250**	**-**	**4,869,250**
Deposits	**28,176,850**	**-**	**28,176,850**
Guarantee bonds	**35,000,000**	**-**	**35,000,000**
	P584,448,313	**P -**	**P584,448,312**

	December 31, 2017		
	Neither Past Due nor Impaired	Impaired	Total
Trade receivables	P492,662,488	P -	P492,662,488
Advances:			
Officers and employees	3,269,065	-	3,269,065
Contractors and suppliers	4,299,449	-	4,299,449
Other receivables	3,072,273	-	3,072,273
Deposits	27,954,758	-	27,954,758
Guarantee bonds	35,000,000	-	35,000,000
	P566,258,033	P -	P566,258,033

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:

	June 30, 2018			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash in banks	**P489,980,363**	**P -**	**P -**	**P489,980,363**
Trade and other receivables*	**358,078,533**	**145,021,850**	**4,869,250**	**507,969,633**
Marketable securities	**167,697,633**	**-**	-	**167,697,633**
Deposits	**-**	**28,176,850**	-	**28,176,850**
Investments in stocks	**537,122,230**	**-**	-	**537,122,230**
Guarantee bonds	**35,000,000**	**-**	**-**	**35,000,000**
	P1,587,878,759	**P173,198,700**	**P4,869,250**	**P1,765,946,709**

**Excluding advances to contractors and suppliers*

	December 31, 2017			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash in banks	**P441,177,172**	**P -**	**P -**	**P441,177,172**
Trade and other receivables*	**350,909,702**	**145,021,850**	**3,072,274**	**499,003,826**
Marketable securities	**178,482,842**	**-**	-	**178,482,842**
Deposits	**-**	**27,954,758**	-	**27,954,758**
Investments in stocks	**727,998,290**	**-**	-	**727,998,290**
Guarantee bonds	**35,000,000**	**-**	**-**	**35,000,000**
	P1,733,568,006	**P 172,976,608**	**P3,072,274**	**P1,909,616,888**

**Excluding advances to contractors and suppliers*

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.

<u>Equity Price Risk</u>
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 within the guidelines set 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

June 30, 2018	
Increase (Decrease) in Equity Price	**Effect on Consolidated Net Income**
5%	**P8,384,882**
(5%)	**(8,384,882)**

December 31, 2017	
Increase (Decrease) in Equity Price	Effect on Consolidated Net Income
5%	P8,924,142
(5%)	(8,924,142)

Investments in Stocks

June 30, 2018	
Increase (Decrease) in Equity Price	**Effect on Consolidated Comprehensive Income**
5%	**P26,856,112**
(5%)	**(26,856,112)**

December 31, 2017	
Increase (Decrease) in Equity Price	Effect on Consolidated Comprehensive Income
5%	**P36,399,915**
(5%)	**(36,399,915)**

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:

	June 30, 2018				
	Less than 3 Months	**3 - 6 Months**	**6 - 12 Months**	**More than 12 Months**	**Total**
Trade and other current liabilities*	**P376,553,856**	**P -**	**P -**	**P147,918,633**	**P524,472,489**
Obligations under finance lease**	**5,404,437**	**2,213,802**	**4,427,605**	**35,374,474**	**47,420,317**
Installment payable**	**988,311**	**988,311**	**1,976,622**	**2,762,995**	**6,716,238**
	P382,946,603	**P3,202,113**	**P6,404,226**	**P186,056,102**	**P578,609,044**

** Excluding statutory liabilities amounting to P26.5 million.*
*** Inclusive of current portion*

	December 31, 2017				
	Less than 3 Months	**3 - 6 Months**	**6 - 12 Months**	**More than 12 Months**	**Total**
Trade and other current liabilities*	**P348,681,890**	**P -**	**P -**	**P121,445,297**	**P470,127,187**
Obligations under finance lease**	**13,860,420**	**17,051,056**	**8,577,034**	**35,374,474**	**74,862,984**
Installment payable**	**670,207**	**670,207**	**1,340,414**	**2,762,995**	**5,443,823**
	P363,212,517	**P17,721,263**	**P9,917,448**	**P159,582,766**	**P550,433,994**

** Excluding statutory liabilities amounting to P22.8 million.*
*** Inclusive of current portion*

Foreign Currency Risk

The Group has transactional currency exposures. Such exposure arises from cash in banks and payables to certain external providers which are denominated in U.S. dollar (US$). The Group's financial instruments denominated in foreign currency are US$ cash deposits maintained in reputable commercial banks to finance its obligations pertaining to software license fees, revenue share, consultancy fees and purchase of equipment overseas.

As at June 30, 2018 and December 31, 2017, assets and liabilities denominated in US$ include cash in banks amounting to P14.3 million (US$0.3 million) and P33.4 million (US$0.6 million), and revenue share and software license fees payable amounting to P37.7 million (US$0.7 million) and P55.7 million (US$1.0 million), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P53.52 and P49.92 to US$1, the Php to US$ exchange rates, as at June 30, 2018 and December 31, 2017, 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
June 30, 2018		
5%	**(P958,227)**	**(P670,759)**
(5%)	**958,227**	**670,759**
December 31, 2017		
5%	(P754,779)	(P528,345)
(5%)	754,779	528,345

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

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 June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash	**P495,761,821**	**P495,761,821**	P447,130,976	P447,130,976
Trade and other receivables - net	**521,271,463**	**521,271,463**	503,303,275	503,303,275
Marketable securities	**167,697,633**	**167,697,633**	178,482,842	178,482,842
Investments in stocks	**537,122,230**	**537,122,230**	727,998,290	727,998,290
Deposits	**28,176,850**	**28,176,850**	27,954,758	27,954,758
Guarantee bonds	**35,000,000**	**35,000,000**	35,000,000	35,000,000
	P1,785,029,996	**P1,785,029,996**	P1,919,870,141	P1,919,870,141
Financial Liabilities				
Trade and other current liabilities*	**P524,472,489**	**P524,472,489**	P470,127,187	P470,127,187
Obligations under finance lease (inclusive of current portion)	**47,420,317**	**47,420,317**	74,862,983	74,862,983
Installment payable (inclusive of current portion)	**9,299,223**	**9,299,223**	5,443,823	5,443,823
	P581,192,029	**P581,192,029**	P550,433,993	P550,433,993

** Excluding statutory liabilities amounting to P26.5 million and P22.8 in 2018 and 2017, respectively.*

The carrying amounts of cash, trade and other receivables, deposits and trade and other current liabilities approximate their fair values due to the short-term nature of the transactions.

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

The fair values of guarantee bonds, deposits and obligations under finance lease, and installment payable approximate their carrying amount 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				
Jun. 30, 2018	**P167,697,633**	**P -**	**P -**	**P167,697,633**
Dec. 31, 2017	178,482,842	-	-	178,482,842
Investments in Stocks				
Jun. 30, 2018	**537,122,230**	**-**	**-**	**537,122,230**
Dec. 31, 2017	727,998,290	-	-	727,998,290

There were no transfers between Levels in 2018 and 2017.

Other Required Disclosures

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

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

   <u>Early Adoption of a New Standard</u>

   ▪ *PFRS 9 Financial Instruments (2014)* is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group previously adopted this standard early starting January 1, 2015.

   <u>Adoption of New or Revised Standards, Amendments to Standards and Interpretations</u>
   The Group has adopted the following amendments to standards starting January 1, 2017 and accordingly, change its accounting policies. The adoption of these amendments to standards did not have any significant imprint oon the Group's consolidated financial statements.

   ▪ *Disclosure initiative (Amendments to PAS 7 Statement of Cash Flows).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

   ▪ *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes).* The amendments clarify that:

     - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
     - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

     - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

     - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- *Annual Improvements to PFRSs 2014 - 2016 Cycle*. This cycle of improvements contains amendments to three standards. The following are the improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2017:

  - Clarification of the scope of the standard (Amendments to PFRS 12 *Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

Standards Issued but Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. 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, 2018

- *PFRS 15 Revenue from Contracts with Customers replaces PAS 11 Construction Contracts, PAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt this new standard on revenue on the required effective date. The management assessed that PFRS 15 does not have a significant impact on the financial statements.

- Philippine Interpretation IFRIC-22 *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Effective January 1, 2019

- *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.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 Income Taxes when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

Prepayment Features with Negative Compensation (Amendments to PFRS 9). The amendments cover the following areas:

- *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

2. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A"), there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.

3. There were no material changes in estimates of amounts reported in prior periods that have material effects in the current interim period.

4. Except as disclosed in the MD & A, there were no other issuance, repurchases and repayments of debt and equity securities.

5. There were no material events that occurred subsequent to June 30, 2018 and up to the date of this report that need disclosure herein.

6. Except as disclosed in the MD & A, there were no changes in the composition of the Group since June 30, 2018, such as business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, and discontinued operations.

7. There were no changes in contingent liabilities or contingent assets since June 30, 2018.

8. There exist no material contingencies and other material events or transactions affecting the current interim period.

SIGNATURES

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

Issuer: **PACIFIC ONLINE SYSTEMS CORPORATION**

WILLY N. OCIER	**MA. VIRGINIA V. ABO-HAMDA**
Chairman of the Board and President	Chief Financial Officer
Date: July 25, 2018	Date: July 25, 2018

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	June 30, 2018 Unaudited	December 31, 2017 Audited
ASSETS		
Current Assets		
Cash	**P495,761,820**	P447,130,976
Marketable securities	**167,697,633**	178,482,842
Trade and other receivables – net	**521,271,463**	503,303,275
Other current assets	**119,094,632**	114,869,444
Total Current Assets	**1,303,825,548**	1,243,786,537
Noncurrent Assets		
Investments in stocks	**537,122,230**	727,998,290
Property and equipment – net	**333,966,735**	437,977,128
Goodwill	**127,980,262**	127,980,262
Deferred tax assets - net	**19,198,134**	15,439,685
Retirement benefits asset – net	**-**	1,357,273
Other noncurrent assets	**78,266,809**	79,307,903
Total Noncurrent Assets	**1,096,534,170**	1,390,060,541
TOTAL ASSETS	**P2,400,359,718**	P2,633,847,078
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	**P550,941,684**	P492,949,158
Current portion of obligations under finance lease	**12,045,843**	39,488,510
Withholding taxes payable	**8,056,499**	11,081,797
Income tax payable	**45,503,124**	29,434,444
Current portion of installment payable	**3,9,53,243**	2,680,828
Total Current Liabilities	**620,500,393**	575,634,737
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	**35,374,474**	35,374,474
Installment payable – net of current portion	**2,762,995**	2,762,995
Retirement benefits liability	**1,242,725**	-
Total Noncurrent Liabilities	**39,380,193**	38,137,469
TOTAL LIABILITIES	**659,880,586**	613,772,206
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**447,665,473**	P447,665,473
Additional paid-in capital	**257,250,677**	257,250,677
Treasury shares	**(285,245,598)**	(268,660,770)
Fair value reserve	**(108,216,270)**	116,829,810
Retirement benefits reserve	**(11,838,800)**	(11,838,800)
Retained earnings	**1,435,620,349**	1,474,292,424
	1,735,235,831	2,015,538,814
Non-controlling Interests	**5,243,301**	4,536,058
Total Equity	**1,740,479,132**	2,020,074,872
TOTAL LIABILITIES AND EQUITY	**P2,400,359,718**	P2,633,847,078

Attachment 2A

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)
For the six months ended June 30, 2018 and 2017

	Six Months Ended Jun 30		**This Quarter**	
	2018	**2017**	**2018**	**2017**
REVENUE				
Equipment rental	P855,252,480	P893,140,698	P415,398,021	P431,272,660
Commission and distribution income	242,626,997	158,760,779	122,686,600	80,539,185
	1,097,879,477	**1,051,901,477**	**538,084,621**	**511,811,845**
COSTS AND EXPENSES				
Personnel costs	196,810,127	136,579,910	99,793,655	72,276,901
Software and license fees	116,868,842	108,828,262	56,988,611	55,650,161
Operating supplies	108,225,315	92,579,078	62,278,118	50,254,488
Depreciation and amortization	104,360,729	91,573,296	52,046,133	45,296,571
Communications	65,862,145	54,068,164	33,742,848	27,619,372
Travel and accommodation	35,257,134	32,915,656	20,533,762	22,424,950
Consultancy fees	26,368,560	32,511,668	12,387,625	15,417,404
Rent and utilities	87,783,022	40,705,251	44,165,949	20,581,402
Management fees	23,372,478	35,970,324	6,499,847	15,493,597
Repairs and maintenance	45,650,519	55,221,286	23,209,281	27,924,933
Taxes and licenses	23,999,601	23,140,408	14,976,579	10,900,602
Entertainment, amusement and recreation	6,362,838	5,334,116	1,055,616	510,986
Professional fees	4,930,670	4,283,827	2,760,136	1,027,435
Advertising and promotion	4,724,964	4,155,567	4,298,524	3,827,150
Others	13,169,503	7,483,573	3,280,638	38,250
	863,746,447	725,350,386	438,017,322	369,244,202
OPERATING INCOME	**234,133,030**	**326,551,092**	**100,067,299**	**142,567,643**
OTHER INCOME (CHARGES)				
Dividend income	26,957,445	17,629,072	261,419	5,745,100
Interest income	435,455	235,221	234,981	117,426
Finance charges	(190,364)	(233,361)	(13,148)	(165,345)
Mark-to-market gain (loss) on marketable securities	(660,345)	11,841,926	(32,742,364)	7,994,299
Gain (loss) on sale of:				
Marketable securities	2,224,652	-	-	-
Property and equipment	446,997	39,999	269.998	29,999
Foreign exchange gain (loss)	(64,595)	(2,556491)	357,642	(2,385,377)
Others – net	47,724,961	12,368,868	27,136,160	5,624,596
	76,874,206	39,325,234	(4,495,312)	16,960,698
INCOME BEFORE INCOME TAX	**311,007,236**	**365,876,325**	**95,571,987**	**159,528,341**
INCOME TAX				
Current	95,730,360	105,545,760	42,922,873	51,048,509
Deferred	(2,621,148)	(2,499,617)	(1,245,797)	(1,339,275)
	93,109,212	103,046,143	41,677,076	49,709,234
NET INCOME	**P217,898,024**	**P262,830,182**	**P53,894,911**	**P109,819,107**
Attributable to:				
Equity holders of the Parent Company	216,239,344	261,397,943	53,098,073	109,103,040
Non-controlling interests	1,658,680	1,432,239	796,838	716,067
	P217,898,024	**P262,830,182**	**P53,894,911**	**P109,819,107**
Basic and Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**P0.5110**	**P0.6065**	**P0.1255**	**P0.2518**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the six months ended June 30, 2018 and 2017

	Six Months Ended Jun 30		This Quarter	
	2018	**2017**	**2018**	**2017**
NET INCOME	**P217,898,024**	**262,830,182**	**P53,894,910**	**P121,334,363**
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	(225,046,080)	184,133,150	(116,848,870)	(16,753,210)
Remeasurements of retirement benefits, net of tax	-	-	-	-
	(225,046,080)	184,133,150	(116,848,870)	(16,753,210)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(P7,148,056)**	**P458,478,588**	**(P62,953,960)**	**P104,581,153**
Attributable to:				
Equity holders of the Parent Company	(8,806,736)	457,046,349	(63,750,798)	103,865,086
Non-controlling interests	1,658,680	1,432,239	796,838	716,067
	(P7,148,056)	**P458,478,588**	**(P62,953,960)**	**P104,581,153**

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the six months ended June 30, 2018 and 2017

	For the six months ended Jun. 30	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	311,007,236	365,876,325
Adjustments for:		
Depreciation and amortization	104,360,729	91,573,296
Dividend income	(26,957,445)	(17,629,072)
Retirement cost	3,600,000	10,800,000
Finance charges	190,364	233,361
Unrealized foreign exchange loss (gain)	64,595	2,556,491
Interest income	(435,455)	(235,221)
Mark-to-market loss (gain) on marketable securities	660,345	(11,841,926)
(Gain) loss on sale of:		
Marketable securities	(2,224,652)	-
Property and equipment	(446,997)	(39,999)
Operating income before working capital changes	389,818,720	441,293,255
Decrease (increase) in:		
Trade and other receivables	(17,968,188)	(66,529,940)
Other current assets	(4,225,188)	11,209,624
Increase (decrease) in:		
Trade and other current liabilities	57,927,931	136,747,023
Withholding taxes payable	(3,025,299)	(9,369,422)
Interest received	435,455	235,221
Income tax paid	(80,798,982)	(110,751,967)
Retirement contributions	(1,000,000)	(6,000,000)
Net cash flows provided by operating activities	341,164,449	396,833,794
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Marketable securities	-	(15,628,430)
Investment in stocks	(34,170,020)	(28,794,140)
Property and equipment	(350,336)	(37,970,155)
Proceeds from sale of:		
Marketable securities	12,349,517	-
Investment in stocks	-	169,755,120
Property and equipment	446,997	39,999
Dividends received	26,957,445	17,629,072
Decrease (increase) in other noncurrent assets	1,041,094	(2,428,228)
Net cash flows used in investing activities	6,274,697	102,603,238
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend paid by Parent Company	(254,911,419)	(257,251,748)
Cash dividend paid to non-controlling interests	(951,441)	-
Acquisition of treasury shares	(16,584,828)	(211,593,911)
Decrease (increase) in obligations under finance lease	(27,442,666)	(17,593,294)
Increase in installment payable	1,272,416	-
Interest paid	(190,364)	(233,361)
Net cash flows used in financing activities	(298,808,302)	(486,672,315)
NET INCREASE (DECREASE) IN CASH	**48,630,844**	**12,764,718**
CASH AT BEGINNING OF YEAR	447,130,976	258,944,786
CASH AT END OF PERIOD	**P495,761,820**	**P271,709,504**

Attachment 4

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

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-Controlling Interest	Total Equity
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
Change in fair value of investments in stocks	-	-	-	184,133,150	-	-	184,133,150	-	184,133,150
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	184,133,150	-	-	184,133,150	-	184,133,150
Net income for the year	-	-	-	-	-	261,397,943	261,397,943	1,432,239	262,830,182
Total comprehensive income (loss) for the year	-	-	-	184,133,150	-	261,397,943	445,531,093	1,432,239	446,963,332
Cash dividends	-	-	-	-	-	(257,251,748)	(257,251,748)	-	(257,251,748)
Treasury shares acquired	-	-	(211,593,911)	-	-	-	(211,593,911)	-	(211,593,911)
Treasury shares sold	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(211,593,911)	-	-	(257,251,748)	(468,845,659)	-	(468,845,659)
June 30, 2017	**P447,665,473**	**P257,250,677**	**(P268,413,090)**	**P181,965,410**	**(P13,087,762)**	**P1,326,612,098**	**P1,931,992,807**	**P6,755,770**	**P1,938,748,577**

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-Controlling Interest	Total Equity
January 1, 2018	**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**
Change in fair value of investments in stocks	-	-	-	(225,046,080)	-	-	(225,046,080)	-	(225,046,080)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	(225,046,080)	-	-	(225,046,080)	-	(225,046,080)
Net income for the year	-	-	-	-	-	216,239,344	216,239,344	1,658,680	217,898,024
Total comprehensive income (loss) for the year	-	-	-	(225,046,080)	-	216,239,344	8,806,736	1,658,680	7,148,056
Cash dividends	-	-	-	-	-	(254,911,419)	(254,911,419)	(951,437)	(255,862,856)
Treasury shares acquired	-	-	(16,584,828)	-	-	-	(16,584,828)	-	(16,584,828)
Treasury shares sold	-	-	-	-	-	-	-	-	-
Total transactions with owners in their capacity as owners	-	-	(16,584,828)	-	-	(254,911,419)	(271,496,247)	(951,437)	(272,447,684)
June 30, 2018	**P447,665,473**	**P257,250,677**	**(P285,245,598)**	**(P108,216,270)**	**(P11,838,800)**	**P1,435,620,349**	**P1,735,235,831**	**P5,243,301**	**P1,740,479,132**

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of June 30, 2018

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade receivables			
1.) PCSO – Equipment rentals	P245,767,207	P -	P245,767,207
2.) Trade receivables – others	246,941,885		246,941,885
	492,709,092	-	485,236,622
b.) Other Receivables			
1.) Advances to officers and employees	10,391,291	-	10,391,291
2.) Advances to contractors and suppliers	13,301,830	-	13,301,830
3.) Other receivables	4,869,250	-	4,869,250
	28,562,371	-	28,562,371
Total	**P521,271,463**	**P -**	**P521,271,463**

2.) Description of receivables

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

3.) Normal operating cycle: 365 days

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Segment Information
For the period ended June 30, 2018

The Company is engaged in leasing lottery equipment and system to PCSO (leasing activities), distribution and retail sale of PCSO lottery products (distribution and retail activities).

Information regarding the results of each reportable segment is shown below:

	For the Six Months ended June 30, 2018			
	Equipment Leasing Activities	**Distribution and Retail Activities**	**Eliminations**	**Consolidated**
Revenue				
Equipment rental	P855,252,480	P -	P -	P855,252,480
Commission and distribution income	-	242,626,997	-	242,626,997
Total revenue	**P855,252,480**	**P242,626,997**	**P -**	**P1,097,879,477**
Segments Results				
Income before income tax	407,674,023	7,300,277	(103,967,064)	311,007,236
Income tax expense	88,189,950	4,919,262	-	93,109,212
Net income	**319,484,073**	**2,381,015**	**(103,967,064)**	**217,898,024**
Segment assets	P2,377,961,533	P509,904,951	(P487,506,766)	2,400,359,718
Deferred tax assets – net	12,168,618	7,029,516	-	19,198,134
Segments assets (excluding deferred tax assets - net)	**2,365,792,915**	**502,875,435**	**(487,506,766)**	**2,381,161,584**
Segment liabilities	**547,577,857**	**172,172,143**	**(59,869,414)**	**659,880,586**
Other Information				
Capital expenditures	350,336	-	-	350,336
Depreciation and amortization	92,428,797	11,931,932	-	104,360,729

End of Report