

COVER SHEET

AS093-008809

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

(Contact Person)

584-1700

(Company Telephone Number)

12 31
Month Day
(Fiscal Year)

17-Q
(Form Type)

Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

54

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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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 March 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 6. (SEC Use Only)
7. 28/F, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City 1605
8. (632) 584-1700
9. Not applicable
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Table with 2 columns: Title of Each Class, Number of Shares of Common Stock Outstanding, Amount of Debt Outstanding. Values: Common Stock, P1.00 par value; 422,433,981; n/a

- 11. Are any or all of these securities listed on the Philippine Stock Exchange
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):
(b) has been subject to such filing requirements for the past 90 days.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- a.) Consolidated Statements of Income for the three (3) months ended, March 31, 2019 and March 31, 2018;
- b.) Consolidated Statements of Comprehensive Income for the three (3) months, ended March 31, 2019 and March 31, 2018;
- c.) Consolidated Statements of Financial Position as of March 31, 2019 and Audited Statements of Financial Position as of December 31, 2018;
- d.) Consolidated Statements of Changes in Equity for the three (3) months ended, March 31, 2019 and March 31, 2018; and
- e.) Consolidated Statements of Cash Flows for the three (3) months ended, March 31, 2019 and March 31, 2018.

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

Results of Operations for the Period Ended March 31, 2019 vs. March 31, 2018

Revenues

For the first quarter of 2019, Pacific Online Systems Corporation (the "Company") consolidated with its subsidiaries (the "Group"), earned total revenues of P293.8 million, which is P266 million, or 47%, lower than last year's revenues of P559.8 million. The decrease in revenues was due mainly to lower Lotto and Keno sales resulting from contractual and regulatory changes. Lotto and Keno sales both went down with the implementation of the TRAIN Law's documentary stamp tax (DST) which increased the Lotto and Keno ticket prices by 20%. Additionally, 20% prize taxes on winnings above P10,000 were collected, which has discouraged Lotto and Keno players from buying more lottery tickets. Moreover, the expansion of PCSO's Small Town Lottery (STL) operations in VisMin, significantly ate into Lotto digit games sales. STL offers lower ticket prices and higher payout percentages versus the online Lotto games. As expected, the commission income of the Group's retail units were also affected with the decline in online lottery sales nationwide.

Costs and Expenses

The Group incurred total operating expenses of P344.6 million, which is 19% or P79.6 million lower than last year's P424.2 million for the three months of the year. The decrease in costs and expenses is attributable to the following:

- Personnel costs decreased by P8.7 million (9%) due to reduced manpower and non-accrual of staff benefit costs;
- Software and license fees decreased by P13.2 million (22%) and Management Fees decreased by P16.0 million (95%) due to lower Lotto and Keno sales and earnings, which are the bases of the fees paid;
- Operating supplies decreased by P29.4 million (64%) due mainly to no Lotto paper expense incurred starting August 2018, as part of the new ELA condition that PCSO will shoulder Lotto paper;
- Consultancy fees decreased by P14.0 million (100%) due to termination of consultancy agreement effective August 2018;
- Rent, utilities and outside services decreased by P7.0 million (16%) due to reduced outside services utilization and effect of adopting the PFRS 16 or Right to Use Asset (ROU) on leases;

- Entertainment, amusement and recreation decreased by P1.7 million (32%) and Other expenses decreased by P4.6 million (46%) due to lower other incidental business expenses incurred; and
- Marketing and promotions expense decreased by P0.9 million (43%) due to lower spending for Keno marketing activities.

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

- Depreciation and amortization increased by P3.3 million (6%) due to the effect of adopting the PFRS 16 or ROU on leases, wherein rent expense is reclassified as depreciation;
- Repairs and maintenance increased by P8.8 million (46%) due to more repairs and maintenance work undertaken for the office and warehouse premises during the current period;
- Taxes and licenses increased by P2.4 million (26%) due to the P4.5 million documentary stamp tax (DST) payment made for POSC's increase in capitalization as a result of stock dividends declared; offset by lower business taxes due to lower revenues
- Professional fees increased by P0.4 million (18%) due to earlier payment of audit fees.

Other Income (Charges)

Other income (net of other charges) of P33.7 million decreased by P46.2 million (58%) for the period ended March 31, 2019 versus last year's P79.9 million. This change is mainly due to the P12.0 million brand and trademark license income for POSC's Scratchit™ that was booked in 2018, but is no longer recognized as such in 2019 as per adoption of PFRS 15; and the P29.6 million lower mark to market (MTM) gain on marketable securities.

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

Due to a P266.0 million (48%) decline in revenues, the Group incurred an operating loss of P50.8 million, which is lower by P186.4 million (137%) from last year's P135.5 million operating income. Said operating loss included a P79.6 million (19%) decrease in costs and expenses. After other income of P33.7 million and taxes of P2.2 million, the Group realized a net loss of P19.3 million, which is lower by P183.3 million (112%), from a net income of P164.0 million during the same period last year.

A P20.8 million fair value gain on investment in stocks resulted to a comprehensive income of P1.5 million, or a P54.3 million (97%) decline from last year's P55.8 million.

Financial Condition as of March 31, 2019 vs. December 31, 2018

The Group's total assets of P2.08 billion as of March 31, 2019 decreased by P27.8 million or 1% from P2.10 billion as of December 31, 2018. The decrease in total assets is largely attributable to the following:

- Trade and other receivables decreased by P13.9M (5%) due to lower online lottery revenue;
- Property and equipment decreased by P44.1 million (17%) due to a P51.6 million depreciation expense and P7.4 million in fixed assets acquisition during 2019;
- Retirement benefit asset decreased by P2.4M (30%) due to additional accrual of retirement expense in December 2018; and
- Other noncurrent assets decreased by P12.9 million (6%) mainly due to reclassification from noncurrent to current assets of accrued license fee income from BTL as per adoption of PFRS15.

The decreases above were offset by the increase of investments in stocks of P20.8 million (5%) due to the fair value gain for the period and the recognition of P15.8 million right of use (ROU) asset as per adoption of the new accounting standard PFRS16.

The Group's total liabilities at P313.1 million decreased by P29.4 million, or 9% from P342.5 million as of December 31, 2018. The decrease in total liabilities is explained as follows:

- Trade and other current liabilities decreased by P23.7 million (10%) due to payment of maturing payables;
- Obligations under capital lease increased by P11.3 million (32%) mainly due to the effect of adopting the new accounting standard PFRS16;
- Withholding taxes payable decreased by P0.4 million (6%) due to lower expenses subject to withholding taxes;
- Deferred tax liabilities decreased by P7.2 million (19%) due to income tax of accrued license fee income collected offset by additional deferred tax asset for the period.

Total equity as of March 31, 2019 of P1.762 billion increased by P1.5 million from the P1.760 billion equity as of yearend 2018. The net increase in total equity resulted from the P20.8 million fair value gain on investment in stocks, offset by the P19.3 million net loss for the period.

Cash Flows for the Three Months Ended March 31, 2019 vs. March 31, 2018

The Group's cash balance as of March 31, 2019 of P575.3 million was higher by P67.1 million (12%), as compared to P508.2 million in 2018, due to non-acquisition of investment in stocks and a higher cash balance beginning in 2019.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Company's existing lease agreement with PCSO for Lotto operations is due to expire on July 31, 2019. However, to date, the PCSO has yet to revive the bidding process, which was initiated in 2017 but eventually cancelled after a legal action was initiated to prevent the bidding. Without the NOLS bidding, the Company expects that its lease agreement will be further extended by PCSO up to and until, at least, eighteen (18) months after the contract for NOLS has been awarded to a new provider.

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, 2018 to March 31, 2019, except those mentioned above;

7. Any events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation; and
8. Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

Key Performance Indicators

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

Liquidity & Financial Leverage Ratios	The manner by which the Company calculates the performance indicators	31 March 2019	31 December 2018
Current ratio	Current assets over current liabilities	4.26:1	4.00:1
Debt to equity ratio	Total liabilities over total equity	0.18:1	0.19:1
Asset-to-equity ratio	Total assets over total equity	1.18:1	1.19:1
Solvency ratio	Total assets over total liabilities	6.63:1	6.14:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	31 March 2019	31 March 2018
Operating income (loss) margin	Operating income (loss) over revenues	(17.29%)	24.21%
Net profit (loss) margin	Net income (loss) over revenues	(6.58%)	29.30%
Return on equity	Net income (loss) over total equity	(1.10%)	9.32%
Return on assets	Net income (loss) over total assets	(0.93%)	7.80%

PART II - OTHER INFORMATION

Financial Instruments

Financial Risk Management Objectives and Policies

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

Credit Risk

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

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

The table below shows the maximum exposure to credit risk for the Group's financial assets as at March 31, 2019 and December 31, 2018 without taking into account any collateral and other credit enhancements:

	Mar. 31, 2019	Dec. 31, 2018
Cash in banks	P570,370,711	P564,886,238
Accounts receivable*	308,342,405	334,550,292
Marketable securities	158,180,442	155,704,892
Refundable deposits	35,519,096	34,930,697
Investments in stocks	476,562,970	455,705,930
Guarantee bonds**	32,000,000	42,000,000
Total credit exposure	P1,580,975,624	P1,587,778,049

*Inclusive of noncurrent portion of accrued license fee income of P120.2 million and P130.1 million and exclusive of advance payments of P73.7 million and P80.6 million as at March 31, 2019 and December 31, 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 March 31, 2019 and December 31, 2018:

	March 31, 2019		
	Neither Past Due nor Impaired	Impaired	Total
Accounts receivable	P138,444,177	P -	P138,444,177
Accrued receivables*	158,778,533	-	158,778,533
Guarantee bonds**	22,000,000	-	22,000,000
Refundable deposits	35,519,096	-	35,519,096
Other receivables	11,119,695	-	11,119,695
	P375,861,501	P -	P375,861,501

* Inclusive of noncurrent portion of license fee income of P120.2 million and exclusive of advance payments of P73.7 million.

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

December 31, 2018			
	Neither Past Due nor Impaired	Impaired	Total
Accounts receivable	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	-	31,828,575
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:

	March 31, 2019			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks	P570,370,711	P -	P -	P570,370,711
Accounts receivable*	149,563,872	158,778,533	-	308,342,405
Refundable deposits	-	35,519,096	-	35,519,096
Guarantee bonds	-	-	32,000,000	32,000,000
At FVPL:				
Marketable securities	158,180,442	-	-	158,180,442
At FVOCI:				
Investments in stocks	476,562,970	-	-	476,562,970
	P1,354,677,995	P194,297,629	P32,000,000	P1,580,975,624

*Inclusive of noncurrent portion of accrued license fee income amounting to P120.2 million and exclusive of advance payments of P73.7 million.

	December 31, 2018			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks	P564,886,238	P -	P -	P564,886,238
Accounts receivable*	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.

Equity Price Risk

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

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

Marketable Securities

	Increase (Decrease) in Equity Price	Effect on Consolidated Income before Income Tax
March 31, 2019		
	5%	P7,909,022
	(5%)	(7,909,022)
December 31, 2018		
	5%	P7,785,245
	(5%)	(7,785,245)

Investment in Stocks

	Increase (Decrease) in Equity Price	Effect on Consolidated Income before Income Tax
March 31, 2019		
	5%	P23,828,149
	(5%)	(23,828,149)
December 31, 2018		
	5%	P36,456,475
	(5%)	(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:

March 31, 2019					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P209,882,169	P -	P -	P10,000,000	P219,882,169
Obligations under finance lease**	8,521,873	15,017,888	21,241,857	1,940,558	46,722,176
	P218,404,042	P15,017,888	P21,241,857	P11,940,558	P266,604,345

* Excluding statutory liabilities amounting to P1.5 million.

** Inclusive of noncurrent portion

December 31, 2018					
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	Total
Trade and other current liabilities*	P214,803,091	P -	P10,000,000	P17,356,924	P242,160,015
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	P17,356,924	P286,739,531

* Excluding statutory liabilities amounting to P2.9 million.

** Inclusive of noncurrent portion

Foreign Currency Risk

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

As at March 31, 2019 and December 31, 2018, assets and liabilities denominated in US\$ include cash in banks amounting to P35.7 million (\$679,274) and P20.5 million (\$391,254), and consultancy and software and license fees payable amounting to P21.5 million (\$408,825) and P37.6 million (\$716,411), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P52.59 and P52.46 to US\$1, the Php to US\$ exchange rates, as at March 31, 2019 and December 31, 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 than those already affecting profit or loss.

Increase (Decrease) in US\$ Exchange Rate	Effect on Income before Income Tax	Effect on Equity
March 31, 2019		
5%	P711,145	P497,802
(5%)	(711,145)	(497,802)
December 31, 2018		
5%	(P691,698)	(P484,188)
(5%)	691,698	484,188

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as at March 31, 2019 and December 31, 2018:

	Mar. 31, 2019		Dec. 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash	P 575,584,711	P 575,584,711	P 571,260,257	P 571,260,257
Accounts receivable*	308,342,405	308,342,405	334,550,292	334,550,292
Refundable deposits	35,519,096	35,519,096	34,930,697	34,930,697
Guarantee bonds	32,000,000	32,000,000	42,000,000	42,000,000
At FVPL:				
Marketable securities	158,180,442	158,180,442	155,704,892	155,704,892
At FVOCI:				
Investments in stocks	476,562,970	476,562,970	455,705,930	455,705,930
	P1,585,889,624	P1,585,889,624	P1,594,152,068	P1,594,152,068
Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	P219,882,169	P219,882,169	P242,160,015	P242,160,015
Obligations under finance lease (inclusive of noncurrent portion)	46,722,176	46,722,176	35,374,474	35,374,474
Installment payable (inclusive of noncurrent portion)	-	-	9,205,042	9,205,042
	P 266,604,345	P 266,604,345	P286,739,531	P286,739,531

*Inclusive of noncurrent portion of accrued license fee income of P120.2 million and P130.1 million and exclusive of advance payments of P73.7 million and P80.6 million as at March 31, 2019 and December 31, 2018, respectively.

**Excluding statutory liabilities of P1.5 million and P2.9 million as at March 31, 2019 and December 31, 2018, respectively.

The carrying amounts of cash, trade and other receivables (excluding accrued license fee income), deposits and trade and other current liabilities approximate their fair values due to the short-term nature of the transactions.

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 and obligations under finance lease, and installment payable approximate their fair value since the Group does not anticipate that the effect of discounting using the prevailing market rate is significant.

	Level 1	Level 2	Level 3	Total
Marketable Securities				
Mar. 31, 2019	P158,180,442	P -	P -	P158,180,442
Dec. 31, 2018	155,704,892	-	-	155,704,892
Investments In Stocks				
Mar. 31, 2019	476,562,970	-	-	476,562,970
Dec. 31, 2018	455,705,930	-	-	455,705,930

There were no transfers between Levels in 2019 and 2018.

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.

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.

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.

PFRS 16 do not have a material impact on the consolidated financial statements in the period of initial application.

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


- IFRIC 23 Uncertainty over Tax Treatments
 - *Amendments to PFRS 9 Prepayment Features with Negative Compensation*
 - Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards
 - Amendments to References to Conceptual Framework in PFRS standards - effective January 1, 2020.
 - Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)
 - Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Error)
2. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A"), there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
 3. There were no material changes in estimates of amounts reported in prior periods that have material effects in the current interim period.

4. Except as disclosed in the MD & A, there were no other issuance, repurchases and repayments of debt and equity securities.
5. There were no material events that occurred subsequent to March 31, 2019 and up to the date of this report that need disclosure herein.
6. Except as disclosed in the MD & A, there were no changes in the composition of the Group since March 31, 2019, such as business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring, and discontinued operations.
7. There were no changes in contingent liabilities or contingent assets since March 31, 2019.
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. OCHER
Chairman of the Board
and President

Date: April 29, 2019


MA. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: April 29, 2019

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	March 31, 2019	December 31, 2018
	Unaudited	Audited
ASSETS		
Current Assets		
Cash	P575,284,711	P571,260,258
Marketable securities	158,180,442	155,704,892
Trade and other receivables – net	271,177,873	285,063,895
Other current assets	147,303,920	144,938,786
Total Current Assets	1,151,946,946	1,156,967,831
Noncurrent Assets		
Investments in stocks	476,562,970	455,705,930
Property and equipment – net	215,718,658	259,876,260
Right of use asset - net	15,767,714	-
Goodwill	17,046,266	17,046,266
Retirement benefits asset – net	5,470,023	7,855,553
Other noncurrent assets	192,709,746	205,627,541
Total Noncurrent Assets	923,275,377	946,111,550
TOTAL ASSETS	P2,075,222,323	P2,103,079,381
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	P221,366,372	P245,071,466
Current portion of obligations under finance lease	33,979,190	19,379,463
Withholding taxes payable	5,701,214	6,096,017
Income tax payable	9,169,937	9,415,467
Current portion of installment payable	-	9,205,042
Total Current Liabilities	270,216,713	289,167,455
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	12,742,986	15,995,011
Deferred tax liabilities	30,123,409	37,297,139
Total Noncurrent Liabilities	42,866,389	53,292,150
TOTAL LIABILITIES	313,083,102	342,459,605
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	447,665,473	447,665,473
Additional paid-in capital	257,250,677	257,250,677
Treasury shares	(285,267,558)	(285,267,558)
Stock dividends payable	422,431,981	422,431,981
Fair value reserve	(267,869,881)	(288,726,921)
Retirement benefits reserve	538,390	538,390
Retained earnings	1,180,473,888	1,199,822,935
	1,755,222,970	1,753,714,977
Non-controlling interests	6,916,251	6,904,799
Total Equity	1,762,139,221	1,760,619,776
TOTAL LIABILITIES AND EQUITY	P2,075,222,323	P2,103,079,381

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)
For the three months ended March 31, 2019 and 2018

	Three Months Ended Mar 31		This Quarter	
	2019	2018	2019	2018
REVENUE				
Equipment rental	P199,606,320	P439,854,459	P199,606,320	P439,854,459
Commission and distribution income	94,196,402	119,940,397	94,196,402	119,940,397
	293,802,722	559,794,856	293,802,722	559,794,856
COSTS AND EXPENSES				
Personnel costs	88,323,211	97,016,472	88,323,211	97,016,472
Software and license fees	46,627,809	59,880,231	46,627,809	59,880,231
Operating supplies	16,556,413	45,947,197	16,556,413	45,947,197
Depreciation and amortization	55,582,614	52,314,596	55,582,614	52,314,596
Communications	32,648,043	32,119,297	32,648,043	32,119,297
Travel and accommodation	15,186,363	14,723,372	15,186,363	14,723,372
Consultancy fees	-	13,980,934	-	13,980,934
Rent, utilities and outside services	36,622,630	43,617,074	36,622,630	43,617,074
Management fees	878,359	16,872,632	878,359	16,872,632
Repairs and maintenance	28,075,253	19,287,647	28,075,253	19,287,647
Taxes and licenses	11,409,689	9,023,022	11,409,689	9,023,022
Entertainment, amusement and recreation	3,628,859	5,307,222	3,628,859	5,307,222
Professional fees	2,560,133	2,170,534	2,560,133	2,170,534
Marketing and promotions	1,200,393	2,096,436	1,200,393	2,096,436
Others	5,312,835	9,888,865	5,312,835	9,888,865
	344,612,604	424,245,530	344,612,604	424,245,530
OPERATING INCOME (LOSS)	(50,809,882)	135,549,327	(50,809,882)	135,549,327
OTHER INCOME (CHARGES)				
Dividend income	26,947,224	26,696,026	26,947,224	26,696,026
Interest income	474,604	200,474	474,604	200,474
Finance charges	(1,196,375)	(1,660,811)	(1,196,375)	(1,660,811)
Mark-to-market gain (loss) on marketable securities	2,475,550	32,082,020	2,475,550	32,082,020
Gain (loss) on sale of:				
Marketable securities	-	2,224,652	-	2,224,652
Property and equipment	20,000	176,999	20,000	176,999
Foreign exchange gain (loss)	236,873	(422,237)	236,873	(422,237)
Others - net	4,715,627	20,588,801	4,715,627	20,588,801
	33,673,503	79,885,923	33,673,503	79,885,923
INCOME (LOSS) BEFORE INCOME TAX	(17,136,379)	215,435,250	(17,136,379)	215,435,250
INCOME TAX EXPENSE (BENEFIT)				
Current	5,231,934	52,807,488	5,231,934	52,807,488
Deferred	(3,030,718)	(1,375,351)	(3,030,718)	(1,375,351)
	2,201,216	51,432,137	2,201,216	51,432,137
NET INCOME (LOSS)	(P19,337,595)	P164,003,113	(P19,337,595)	P164,003,113
Attributable to:				
Equity holders of the Parent Company	(19,349,047)	163,141,271	(19,349,047)	163,141,271
Non-controlling interests	11,452	861,842	11,452	861,842
	(P19,337,595)	P164,003,113	(P19,337,595)	P164,003,113
Attributable to Equity Holders of the Parent Company				
Basic Earnings Per Share	(P0.0458)	P0.3850	(P0.0458)	P0.3850
Diluted Earnings Per Share	(P0.0229)	P0.3850	(P0.0229)	P0.3850

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the three months ended March 31, 2019 and 2018

	Three Months Ended Mar 31		This Quarter	
	2019	2018	2019	2018
NET INCOME (LOSS)	(P19,337,595)	P164,003,113	(P19,337,595)	P164,003,113
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	20,857,040	(108,197,210)	20,857,040	(108,197,210)
Remeasurements of retirement benefits, net of tax	-	-	-	-
	<u>20,857,040</u>	<u>(108,197,210)</u>	<u>20,857,040</u>	<u>(108,197,210)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	P1,519,445	P55,805,903	P1,519,445	P55,805,903
Attributable to:				
Equity holders of the Parent Company	1,507,993	54,944,061	1,507,994	54,944,061
Non-controlling interests	11,452	861,842	11,452	861,842
	<u>P1,519,445</u>	<u>P55,805,903</u>	<u>P1,519,445</u>	<u>P55,805,903</u>

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the three months ended March 31, 2019 and 2018

	For the three months ended Mar. 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(P17,136,379)	P215,435,250
Adjustments for:		
Depreciation and amortization	55,582,614	52,314,596
Dividend income	(26,947,224)	(26,696,026)
Retirement cost	2,385,530	2,400,000
Finance charges	1,196,375	1,660,811
Unrealized foreign exchange loss (gain)	(236,873)	422,237
Interest income	(474,604)	(200,474)
Fair value gain on marketable securities	(2,475,550)	(32,082,020)
Gain on sale of:		
Marketable securities	-	(2,224,652)
Property and equipment	(20,000)	(176,999)
Operating income before working capital changes	11,873,889	210,852,723
Decrease (increase) in:		
Trade and other receivables	13,886,022	3,694,226
Other current assets	(2,365,135)	(18,420,117)
Other noncurrent assets	12,917,795	563,854
Increase (decrease) in:		
Trade and other current liabilities	(23,468,222)	(101,208,983)
Withholding taxes payable	(394,8033)	(4,443,778)
Interest received	474,604	200,474
Income tax paid	(9,620,482)	(11,341,513)
Retirement contributions	-	(1,000,000)
Net cash flows provided by operating activities	3,303,668	78,896,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in stocks	-	(31,113,530)
Property and equipment	(7,405,439)	(1,839,056)
Proceeds from sale of:		
Marketable securities	-	12,349,517
Property and equipment	20,000	176,999
Dividends received	26,947,224	26,696,026
Net cash flows provided by investing activities	19,561,786	6,249,955
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	-	(10,144,896)
Increase (decrease) in obligations under finance lease	(8,439,582)	(13,651,790)
Increase (decrease) in installment payable	(9,205,042)	1,354,670
Finance charges paid	(1,196,375)	(1,660,811)
Net cash flows used in financing activities	(18,840,999)	(24,102,827)
NET INCREASE (DECREASE) IN CASH	4,024,453	61,044,013
CASH AT BEGINNING OF YEAR	571,260,258	447,130,976
CASH AT END OF PERIOD	P575,284,711	P508,174,989

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

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Stock Dividend Payable	Fair Value Reserve	Reserve for Retirement Benefits	Retained Earnings	Total	Non-Controlling Interest	Total Equity
January 1, 2018	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
Change in fair value of investments in stocks	-	-	-	-	(108,197,210)	-	-	(108,197,210)	-	(108,197,210)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(108,197,210)	-	-	(108,197,210)	-	(108,197,210)
Net income for the year	-	-	-	-	-	-	163,141,271	163,141,271	861,842	164,003,113
Total comprehensive income (loss) for the year	-	-	-	-	(108,197,210)	-	163,141,271	54,944,061	861,842	55,805,903
Transactions with owners	-	-	-	-	-	-	-	-	-	-
Acquisitions of treasury shares	-	-	(10,144,896)	-	-	-	-	(10,144,896)	-	(10,144,896)
March 31, 2018	P447,665,473	P257,250,677	(P278,805,666)	P -	P8,632,600	(P111,838,800)	P1,637,433,695	P2,060,337,980	P5,397,900	P2,065,735,880
January 1, 2019	P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P288,726,921)	P538,390	P1,199,822,935	P1,753,714,977	P6,904,799	P1,760,619,776
Change in fair value of investments in stocks	-	-	-	-	20,857,040	-	-	20,857,040	-	20,857,040
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	20,857,040	-	-	20,857,040	-	20,857,040
Net income (loss) for the year	-	-	-	-	-	-	(19,349,047)	(19,349,047)	11,452	(19,337,595)
Total comprehensive income (loss) for the year	-	-	-	-	20,857,040	-	(19,349,047)	1,507,993	11,452	1,519,445
March 31, 2019	P447,665,473	P257,250,677	(P285,267,558)	P422,431,981	(P267,869,881)	P538,390	P1,180,473,888	P1,755,222,970	P6,916,251	P1,762,139,221

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of March 31, 2019

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade Receivables			
1.) PCSO – Equipment rentals	P131,105,126	P -	P131,105,126
2.) Accounts receivable	80,037,217	-	80,037,217
3.) Accrued license fee income-current	38,530,782	-	38,530,782
	250,673,125	-	250,673,125
b.) Other Receivables			
1.) Advances to officers and employees	3,392,558	-	3,392,558
2.) Advances to contractors and suppliers	5,992,495	-	5,992,495
3.) Other receivables	11,119,696	-	11,119,696
	20,504,748	-	20,504,748
Total	P271,177,873	P -	P271,177,873

2.) Description of receivables

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

3.) Normal operating cycle: 365 days

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Segment Information
For the period ended March 31, 2019

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 Three Months ended March 31, 2019			
	Equipment Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P199,606,320	P -	P -	P199,606,320
Commission and distribution income	-	94,196,402	-	94,196,402
Total revenue	P199,606,320	P94,196,402	P -	P293,802,722
Segments Results				
Income (loss) before income tax	(2,695,082)	(21,527,261)	7,085,964	(17,136,379)
Income tax expense (benefit)	1,620,000	581,216	-	2,201,215
Net income (loss)	(4,315,082)	(22,108,477)	7,085,964	(19,337,594)
Segment assets	P2,373,926,411	P398,967,786	(P697,671,874)	2,075,222,323
Retirement benefit asset - net	752,207	4,717,816	-	5,470,023
Segments assets (excluding retirement benefit assets - net)	2,373,174,204	394,249,970	(697,671,874)	2,069,752,300
Segment liabilities	245,502,118	105,805,735	(38,224,751)	313,083,102
Other Information				
Capital expenditures	3,505,961	3,899,478	-	7,405,439
Depreciation and amortization	45,116,167	10,466,447	-	55,582,614
Finance charges	(1,196,375)	-	-	(1,196,375)
Interest income	363,837	110,767	-	474,604

End of Report