



110282019000779



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

Barcode Page

The following document has been received:

Receiving Officer/Encoder : Buen Jose Mose - COS

Receiving Branch : SEC Head Office

Receipt Date and Time : October 28, 2019 12:15:43 PM

Received From : Head Office

Company Representative

Doc Source

Company Information

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

Document Information

Document ID 110282019000779
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code 17-Q
Period Covered September 30, 2019
No. of Days Late 0
Department CFD
Remarks

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 **8584-1700**

(Contact Person)

(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

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

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 nine (9) months ended, September 30, 2019 and September 30, 2018;
- b.) Consolidated Statements of Comprehensive Income for the nine (9) months, ended September 30, 2019 and September 30, 2018;
- c.) Consolidated Statements of Financial Position as of September 30, 2019 and Audited Statements of Financial Position as of December 31, 2018;
- d.) Consolidated Statements of Changes in Equity for the nine (9) months ended, September 30, 2019 and September 30, 2018; and
- e.) Consolidated Statements of Cash Flows for the nine (9) months ended, September 30, 2019 and September 30, 2018.

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

Results of Operations for the Period Ended September 30, 2019 vs. September 30, 2018

Revenues

For the first nine months of 2019, Pacific Online Systems Corporation (the "Company") consolidated with its subsidiaries (the "Group"), earned total revenues of P766.4 million, which is P790.0 million, or 51%, lower than last year's revenues of P1,556.4 million. This is due mainly to the decline in Lotto and Keno sales resulting from contractual and regulatory changes. Specifically, upon effectivity of the TRAIN Law, the following additional taxes were imposed: (i) 20% documentary stamp tax (DST) on Lotto and Keno ticket prices; and (ii) 20% prize tax on lottery winnings above P10,000. These taxes effectively reduced the payout ratio which adversely affected Lotto and Keno sales. Another adverse factor is the expansion of PCSO's Small Town Lottery (STL) operations which carry an undue advantage over Lotto and Keno given that the 20% DST is not being imposed or collected on STL ticket sales. The suspension of Keno games and Scratch ticket sales for two months from July 28 to September 27, 2019 further lowered revenues of our subsidiaries, Total Gaming Technologies, Inc. and Lucky Circle Corporation

Costs and Expenses

The Group incurred total operating expenses of P988.7 million, which is 21% or P257.1 million lower than last year's P1,245.7 million for the nine months of the year. The decrease in costs and expenses is attributable to the following:

- Personnel costs decreased by P36.6 million (13%) due to reduced manpower and corresponding benefit costs;
- Software and license fees decreased by P48.4 million (29%) and Management Fees decreased by P34.3 million (100%) due to lower Lotto and Keno sales and earnings, which are the bases of the fees paid;
- Operating supplies decreased by P106.2 million (75%) due mainly to the exclusion of lotto paper in the new ELA with PCSO starting August 2018;
- Communications decreased by P10.1 million (11%) due to termination of inactive accounts and two (2) months temporary disconnection of Keno communication links;
- Consultancy fees decreased by P30.3 million (100%) due to termination of consultancy agreement effective August 2018;

- Rent, utilities and outside services decreased by P15.9 million (12%) due to reduced outside services utilization, closure of some retail outlets and the effect of adopting the PFRS 16 or Right to Use Asset (ROU) on leases;
- Marketing and promotions expense decreased by P2.8 million (54%) due to lower spending for Keno marketing activities; and
- Other expenses decreased by P9.5 million (37%) due to lower other incidental business expenses incurred.

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

- Travel and accommodation increased by P15.5 million (30%) due to various business trips during the period;
- Repairs and maintenance increased by P20.8 million (34%) due to higher volume of terminal repairs; and
- Professional fees increased by P3.0 million (37%) due to accrual of lawyers' fees for various services rendered and engagement of additional professionals.

Other Income (Charges)

Other income (net of other charges) of P25.4 million decreased by P80.7 million (76%) for the period ended September 30, 2019 versus last year's P106.0 million. This net change is mainly due to decrease in brand and trademark license income for POSC's Scratchit™ that was booked in 2018, but no longer recognized as such in 2019 as per adoption of PFRS 15 and decrease in excess VAT booked as other income in 2018 due to lower lottery sales.

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

Due to a P790.0 million (51%) decline in revenues, the Group incurred an operating loss of P222.2 million, which is lower by P533.0 million (172%) from last year's P310.7 million operating income. The decrease in costs by P257.0 million (21%) softened the impact of the loss. Thus, after other income of P25.4 million and taxes of P4.8 million, the Group realized a net loss of P201.7 million, which is lower by P495.0 million (169%), from a net income of P293.3 million during the same period last year.

A P52.4 million fair value loss on investment in stocks resulted to a net comprehensive loss of P254.1 million, or a P274.4 million (1,352%) decline from last year's gain of P20.3 million.

Financial Condition as of September 30, 2019 vs. December 31, 2018

The Group's total assets of P1.89 billion as of September 30, 2019 decreased by P213.7 million or 10% from P2.10 billion as of December 31, 2018. The decrease in total assets is largely attributable to the following:

- Cash decreased by P202.0 million (35%) mainly due to lower online lottery revenue;
- Investment in stocks decreased by P52.4 million (12%) due to the fair value loss recognized during the period;
- Retirement benefit asset decreased by P1.2M (16%) due to accrual of retirement expense for the period January to September 2019, net of additional retirement fund contribution; and
- Other noncurrent assets decreased by P53.7 (26%) mainly due to reclassification from noncurrent to current assets of accrued license fee income from brand and trademark license (BTL) as per adoption of PFRS15 and the withdrawal of P20 million cash bond.

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

- Other current assets increased by P38.8 million (27%) due additional prepaid income tax and other prepaid expenses;
- Property and equipment increased by P40.4 million (16%) due to a P179.0 million in fixed assets acquisition less P142.9 million depreciation expense during 2019; and
- Right of use (ROU) asset increased by P13.2 million due to the adoption of the new accounting standard IFRS16 effective January 1, 2019; and

The Group's total liabilities at P382.8 million increased by P40.4 million, or 12% from P342.5 million as of December 31, 2018. The increase in total liabilities is explained as follows:

- Trade and other current liabilities increased by P60.7 million (25%) mainly due to short- term bridge loans to meet working capital requirements; and
- Lease liability increased by P13.8 million due to the right-of-use (ROU) asset as per adoption of the new accounting standard IFRS16.

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

- Obligations under capital lease decreased by P11.1 million (31%) and installment payable decreased by P9.2 million due payment of maturing obligation;
- Withholding taxes payable decreased by P0.5 million (7%) due to lower expenses subject to withholding taxes;
- Income tax payable decreased by P9.1 million (96%) due to payment of year-end income tax and lower provision of income tax for 2019; and
- Deferred tax liabilities decreased by P4.3 million (12%) due to deferred income tax recognized during the period.

Total equity as of September 30, 2019 of P1.507 billion decreased by P254.1 million from the P1.761 billion equity as of yearend 2018 mainly due to the P254.1 million net comprehensive loss for the period.

Cash Flows for the Nine Months Ended September 30, 2019 vs. September 30, 2018

The Group's cash balance as of September 30, 2019 of P369.2 million was lower by P160.1 million (30%), as compared to P529.3 million in 2018, due to a lower revenue and acquisition of various fixed assets in 2019.

Discussion and Analysis of Material Events and Uncertainties Known to Management

The Company's existing Equipment Lease Agreement (ELA) with PCSO for lotto operations expired on July 31, 2019 and a supplemental ELA was entered into last August 1, 2019, extending the term to a maximum of one year. It is not yet certain if PCSO is still planning to hold a rebidding of its nationwide online lottery system within the year

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 September 30, 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	30 September 2019	31 December 2018
Current ratio	Current assets over current liabilities	2.92:1	4.00:1
Debt to equity ratio	Total liabilities over total equity	0.25:1	0.19:1
Asset-to-equity ratio	Total assets over total equity	1.25:1	1.19:1
Solvency ratio	Total assets over total liabilities	4.94:1	6.14:1

Profitability Ratios	The manner by which the Company calculates the performance indicators	30 September 2019	30 September 2018
Operating income (loss) margin	Operating income (loss) over revenues	(29.00%)	19.96%
Net profit (loss) margin	Net income (loss) over revenues	(26.32%)	18.85%
Return on equity	Net income (loss) over total equity	(13.39%)	16.66%
Return on assets	Net income (loss) over total assets	(10.68%)	13.95%

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 September 30, 2019 and December 31, 2018 without taking into account any collateral and other credit enhancements:

	Sep. 30, 2019	Dec. 31, 2018
Cash in banks	P364,357,899	P564,886,238
Accounts receivable*	244,870,475	334,550,292
Marketable securities	157,471,301	155,704,892
Refundable deposits	35,640,716	34,930,697
Investments in stocks	403,325,770	455,705,930
Guarantee bonds**	12,000,000	42,000,000
Total credit exposure	P1,217,666,161	P1,587,778,049

*Inclusive of noncurrent portion of accrued license fee income of P104.2 million and P130.1 million and exclusive of advance payments of P56.2 million and P80.6 million as at September 30, 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 September 30, 2019 and December 31, 2018:

	September 30, 2019		
	Neither Past Due nor Impaired	Impaired	Total
Accounts receivable	P93,585,495	P -	P93,585,495
Accrued receivables*	150,451,632	-	150,451,632
Guarantee bonds**	12,000,000	-	12,000,000
Refundable deposits	35,640,716	-	35,640,716
Other receivables	833,349	-	833,349
	P292,511,192	P -	P292,511,192

* Inclusive of noncurrent portion of license fee income of P104.2 million and exclusive of advance payments of P56.2 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	-	34,930,697
Other receivables	3,093,387	-	3,093,387
	P411,480,989	P -	P411,480,989

* Inclusive of noncurrent portion of license fee income of P130.1 million and exclusive of advance payments of P80.6 million.

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

Receivables that are past due but not impaired are still collectible based on the assessment of debtor's ability to pay and collection agreement.

The table below shows the credit quality of the Group's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties:

	September 30, 2019			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks	P364,357,899	P -	P -	P364,357,899
Accounts receivable*	94,418,843	150,451,632	-	244,870,475
Refundable deposits	-	35,640,716	-	35,640,716
Guarantee bonds	-	-	12,000,000	12,000,000
At FVPL:				
Marketable securities	157,471,301	-	-	157,471,301
At FVOCI:				
Investments in stocks	403,325,770	-	-	403,325,770
	P1,019,573,813	P186,092,348	P12,000,000	P1,217,666,161

* Inclusive of noncurrent portion of accrued license fee income amounting to P104.2 million and exclusive of advance payments of P56.2 million.

	December 31, 2018			
	Grade A	Grade B	Grade C	Total
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

September 30, 2019	Increase (Decrease) in Equity Price	Effect on Consolidated Income before
		Income Tax
	5%	P7,873,565
	(5%)	(7,873,565)
December 31, 2018		
	5%	P7,785,245
	(5%)	(7,785,245)

Investment in Stocks

September 30, 2019	Increase (Decrease) in Equity Price	Effect on Consolidated Income before
		Income Tax
	5%	(P20,166,289)
	(5%)	20,166,289
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:

	September 30, 2019				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
Trade and other current liabilities*	P292,788,423	P1,422,486	P -	P10,000,000	P304,210,889
Obligations under finance lease**	5,053,496	10,524,254	8,738,147	-	24,315,897
Lease liability**	2,538,131	4,585,682	2,210,058	4,424,455	13,758,326
	P300,380,050	P16,532,402	P10,948,205	P14,424,455	P342,285,112

* Excluding statutory liabilities amounting to P1.6 million.

** Inclusive of noncurrent portion

	December 31, 2018				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
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	9,686,731	21,048,508	-	35,374,474
Installation payable	9,205,042	-	-	-	9,205,042
	P228,644,368	P9,686,731	P31,048,508	P17,356,924	P286,736,531

* 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 September 30, 2019 and December 31, 2018, assets and liabilities denominated in US\$ include cash in banks amounting to P38.1 million (\$734,760) and P20.5 million (\$391,254), and consultancy and software and license fees payable amounting to P14.6 million (\$281,189) and P37.6 million (\$716,411), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P51.79 and P52.46 to US\$1, the Php to US\$ exchange rates, as at September 30, 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
September 30, 2019		
5%	P1,174,522	P822,166
(5%)	(1,174,522)	(822,166)
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 September 30, 2019 and December 31, 2018:

	Sep. 30, 2019		Dec. 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash	P 369,191,709	P 369,191,709	P 571,260,257	P 571,260,257
Accounts receivable*	244,870,475	244,870,475	334,550,292	334,550,292
Refundable deposits	35,640,716	35,640,716	34,930,697	34,930,697
Guarantee bonds	12,000,000	12,000,000	42,000,000	42,000,000
At FVPL:				
Marketable securities	157,471,301	157,471,301	155,704,892	155,704,892
At FVOCI:				
Investments in stocks	403,325,770	403,325,770	455,705,930	455,705,930
	P1,222,499,971	P1,222,499,971	P1,594,152,068	P1,594,152,068

Financial Liabilities				
At Amortized Cost:				
Trade and other current liabilities**	P304,210,889	P304,210,889	P242,160,115	P242,160,115
Obligations under finance lease (inclusive of noncurrent portion)	24,315,897	24,315,897	35,374,474	35,374,474
Lease liability (inclusive of noncurrent portion)	13,758,326	13,758,326	-	-
Installment payable (inclusive of noncurrent portion)	-	-	9,205,042	9,205,042
	P342,285,112	P342,285,112	P286,739,631	P286,739,631

*Inclusive of noncurrent portion of accrued license fee income of P104.2 million and P130.1 million and exclusive of advance payments of P56.2 million and P80.6 million as at September 30, 2019 and December 31, 2018, respectively.

**Excluding statutory liabilities of P1.6 million and P2.9 million as at September 30, 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				
Sep. 30, 2019	P157,471,301	P -	P -	P157,471,301
Dec. 31, 2018	155,704,892	-	-	155,704,892
Investments in Stocks				
Sep. 30, 2019	403,325,770	-	-	403,325,770
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 does 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 issuances, repurchases and repayments of debt and equity securities.
5. There were no material events that occurred subsequent to September 30, 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 September 30, 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 September 30, 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. OCIER
Chairman of the Board
and President

Date: October 28, 2019


M.A. VIRGINIA V. ABO-HAMDA
Chief Financial Officer

Date: October 28, 2019

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position

	September 30, 2019	December 31, 2018
	Unaudited	Audited
ASSETS		
Current Assets		
Cash	P369,191,709	P571,260,258
Marketable securities	157,471,301	155,704,892
Trade and other receivables – net	286,530,766	285,063,895
Other current assets	183,787,405	144,938,786
Total Current Assets	996,981,181	1,156,967,831
Noncurrent Assets		
Investments in stocks	403,325,770	455,705,930
Property and equipment – net	300,254,242	259,876,260
Right of use asset - net	13,241,434	-
Goodwill	17,046,266	17,046,266
Retirement benefits asset – net	6,630,023	7,855,553
Other noncurrent assets	151,890,647	205,627,541
Total Noncurrent Assets	892,388,382	946,111,550
TOTAL ASSETS	P1,889,369,563	P2,103,079,381
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other current liabilities	P305,798,030	P245,071,466
Current portion of obligations under finance lease	20,653,272	19,379,463
Withholding taxes payable	5,648,324	6,096,017
Income tax payable	359,642	9,415,467
Current portion of lease liability	9,336,457	-
Current portion of installment payable	-	9,205,042
Total Current Liabilities	341,795,725	289,167,455
Noncurrent Liabilities		
Obligations under finance lease - net of current portion	3,662,625	15,995,011
Deferred tax liabilities	32,952,656	37,297,139
Lease liability – net of current portion	4,421,869	-
Total Noncurrent Liabilities	41,037,150	53,292,150
TOTAL LIABILITIES	382,832,875	342,459,605
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	895,330,946	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
Fair value reserve	(341,107,081)	(288,726,921)
Retirement benefits reserve	538,390	538,390
Retained earnings	973,992,053	1,199,822,935
	1,500,737,427	1,753,714,977
Non-controlling Interests	5,799,261	6,904,799
Total Equity	1,506,536,688	1,760,619,776
TOTAL LIABILITIES AND EQUITY	P1,889,369,563	P2,103,079,381

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)
For the nine months ended September 30, 2019 and 2018

	Nine Months Ended Sep 30		This Quarter	
	2019	2018	2019	2018
REVENUE				
Equipment rental	P530,301,534	P1,179,957,892	P161,255,106	P324,705,412
Commission and distribution income	236,112,074	376,472,210	46,395,417	133,845,213
	766,413,608	1,556,430,102	207,650,523	458,550,625
COSTS AND EXPENSES				
Personnel costs	253,978,780	290,613,096	76,513,985	93,802,969
Software and license fees	120,241,104	168,614,832	29,223,259	51,745,990
Operating supplies	36,368,544	142,574,364	5,425,097	34,349,049
Depreciation and amortization	149,491,691	152,882,974	40,439,588	48,522,246
Communications	84,962,814	95,069,920	24,546,957	29,207,775
Travel and accommodation	66,722,292	51,194,895	35,719,663	15,937,761
Consultancy fees	-	30,312,175	-	3,943,616
Rent, utilities and outside services	114,941,079	130,847,779	38,608,536	43,064,757
Management fees	-	34,280,626	(1,634,426)	10,908,148
Repairs and maintenance	82,529,455	61,669,611	37,442,728	21,440,702
Taxes and licenses	36,873,146	35,861,749	17,274,086	11,862,148
Entertainment, amusement and recreation	12,392,949	12,326,040	8,570,237	5,963,203
Professional fees	11,278,912	8,231,520	4,758,784	863,757
Marketing and promotions	2,408,126	5,234,567	255,566	509,603
Others	16,470,218	25,998,688	2,884,978	12,829,182
	988,659,110	1,245,712,836	320,029,038	384,950,906
OPERATING INCOME (LOSS)	(222,245,502)	310,717,266	(112,378,515)	73,599,719
OTHER INCOME (CHARGES)				
Dividend income	31,657,224	29,082,445	4,710,000	2,125,000
Interest income	1,360,063	742,751	372,124	307,297
Finance charges	(3,653,320)	(4,397,398)	(905,735)	(1,222,516)
Mark-to-market gain (loss) on marketable securities	1,766,409	(2,523,101)	(7,207,302)	(1,862,756)
Gain (loss) on sale of: <ul style="list-style-type: none"> Marketable securities 	-	2,224,652	-	-
Property and equipment	49,998	506,997	10,000	60,000
Foreign exchange gain (loss)	(429,354)	(421,734)	(49,915)	(357,138)
Others – net	(5,389,906)	80,800,986	(14,754,139)	33,076,022
	25,361,114	106,015,598	(17,824,967)	32,125,909
INCOME (LOSS) BEFORE INCOME TAX	(196,884,388)	416,732,864	(130,203,482)	105,725,628
INCOME TAX EXPENSE (BENEFIT)				
Current	4,818,540	127,441,914	(4,837,931)	31,711,554
Deferred	-	(4,047,784)	-	(1,426,636)
	4,818,540	123,394,130	(4,837,931)	30,284,918
NET INCOME (LOSS)	(P201,702,928)	P293,338,734	(P125,365,551)	P75,440,710
Attributable to:				
Equity holders of the Parent Company	(200,597,390)	291,253,597	(125,104,375)	75,014,253
Non-controlling interests	(1,105,538)	2,085,137	(261,176)	426,457
	(P201,702,928)	P293,338,734	(P125,365,551)	P75,440,710
Basic/Diluted Earnings Per Share				
Attributable to Equity Holders of the Parent Company	(P0.2374)	P0.6887	(P0.1481)	P 0.1772

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the nine months ended September 30, 2019 and 2018

	Nine Months Ended Sep 30		This Quarter	
	2019	2018	2019	2018
NET INCOME (LOSS)	(P201,702,928)	P293,338,734	(P125,365,551)	P75,440,710
OTHER COMPREHENSIVE INCOME				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	(52,380,160)	(273,049,440)	(53,713,420)	(48,003,360)
Remeasurements of retirement benefits, net of tax	-	-	-	-
	(52,380,160)	(273,049,440)	(53,713,420)	(48,003,360)
TOTAL COMPREHENSIVE INCOME (LOSS)	(P254,083,088)	P20,289,294	(P179,078,971)	P27,437,350
Attributable to:				
Equity holders of the Parent				
Company	(252,977,550)	18,204,156	(178,817,795)	27,010,893
Non-controlling interests	(1,105,538)	2,085,137	(261,176)	426,457
	(P254,083,088)	P20,289,294	(P179,078,971)	P27,437,350

PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2019 and 2018

	For the nine months ended Sep. 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(P196,884,388)	P416,732,864
Adjustments for:		
Depreciation and amortization	149,491,691	152,882,974
Dividend income	(31,657,224)	(29,082,445)
Retirement cost	7,725,530	5,400,000
Finance charges	3,653,320	4,397,398
Unrealized foreign exchange loss (gain)	429,354	421,734
Interest income	(1,360,063)	(742,751)
Fair value gain on marketable securities	(1,766,409)	2,523,101
Gain on sale of:		
Marketable securities	-	(2,224,652)
Property and equipment	(49,998)	(506,997)
Operating income before working capital changes	(70,418,187)	549,801,225
Decrease (increase) in:		
Trade and other receivables	(1,466,871)	60,039,465
Other current assets	(38,848,619)	(30,826,129)
Other noncurrent assets	53,736,894	28,873,736
Increase (decrease) in:		
Trade and other current liabilities	60,297,210	(91,398,504)
Withholding taxes payable	(447,693)	(5,114,452)
Interest received	1,360,063	742,751
Income tax paid	(18,218,847)	(118,205,550)
Retirement contributions	(6,500,000)	(1,000,000)
Net cash flows provided by operating activities	(20,506,050)	392,912,544
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment in stocks	-	(34,490,020)
Property and equipment	(178,977,546)	(12,980,026)
Right-of-use asset	(24,133,561)	-
Proceeds from sale of:		
Marketable securities	-	12,349,517
Property and equipment	49,998	506,997
Dividends received	31,657,224	29,082,445
Net cash flows provided by investing activities	(171,403,885)	(5,531,087)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend paid by Parent Company	-	(251,539,683)
Cash dividend paid to Non-controlling Interests	-	(951,441)
Acquisition of treasury shares	-	(171,642,418)
Increase (decrease) in obligations under finance lease	(11,058,578)	(34,991,362)
Increase (decrease) in installment payable	(9,205,042)	3,317,101
Increase (decrease) in lease liability	13,758,326	-
Finance charges paid	(3,653,320)	(4,397,398)
Net cash flows used in financing activities	(10,158,614)	(305,169,571)
NET INCREASE (DECREASE) IN CASH	(202,068,549)	82,211,886
CASH AT BEGINNING OF YEAR	571,260,258	447,130,976
CASH AT END OF PERIOD	P369,191,709	P529,342,862

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	-	-	-	-	(273,049,440)	-	-	(273,049,440)	-	(273,049,440)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(273,049,440)	-	-	(273,049,440)	-	(273,049,440)
Net income for the year	-	-	-	-	-	-	291,253,597	291,253,597	2,085,137	293,338,734
Total comprehensive income (loss) for the year	-	-	-	-	(273,049,440)	-	291,253,597	18,204,157	2,085,137	20,289,294
Transactions with owners										
Cash dividends	-	-	-	-	-	-	(251,539,688)	(251,539,688)	(951,437)	(251,539,688)
Stock dividends	-	-	-	433,673,087	-	-	(433,673,087)	-	-	-
Treasury shares acquired	-	-	(171,642,417)	-	-	-	-	(171,642,417)	-	(171,642,417)
Treasury shares sold	-	(2,741,712)	157,777,342	-	-	-	-	155,035,630	-	155,035,630
September 30, 2018	P447,665,473	P254,508,965	(P282,525,845)	P433,673,087	(P156,219,630)	(P11,838,800)	P1,080,333,246	P1,765,596,496	P5,669,758	P1,771,266,254
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	-	-	-	-	(52,380,160)	-	-	(52,380,160)	-	(52,380,160)
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(52,380,160)	-	-	(52,380,160)	-	(52,380,160)
Net income (loss) for the year	-	-	-	-	-	-	(200,597,390)	(200,597,390)	(1,105,538)	(201,702,928)
Total comprehensive income (loss) for the year	-	-	-	-	(52,380,160)	-	(200,597,390)	(252,977,550)	(1,105,538)	(254,083,088)
Transactions with owners										
Stock dividend payable	447,665,473	-	-	(422,431,981)	-	-	(25,233,492)	-	-	-
September 30, 2019	P895,330,946	P257,250,677	(P285,267,558)	P -	(P341,107,081)	P538,390	P973,992,053	P1,500,737,427	P5,799,261	P1,506,536,688

PACIFIC ONLINE SYSTEMS CORPORATION
Attachments to Unaudited Financial Statements
Trade and Other Receivables
As of September 30, 2019

1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade Receivables			
1.) PCSO – Equipment rentals	P82,513,018	P -	P82,513,018
2.) Accounts receivable	72,315,985	-	72,315,985
3.) Accrued license fee income-current	46,224,702	-	46,224,702
	201,053,704	-	201,053,704
b.) Other Receivables			
1.) Advances to officers and employees	3,754,096	-	3,754,096
2.) Advances to contractors and suppliers	80,889,618	-	80,889,618
3.) Other receivables	833,349	-	833,349
	85,477,062	-	85,477,062
Total	P286,530,766	P -	P286,530,766

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 September 30, 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 Nine Months ended September 30, 2019			
	Equipment Leasing Activities	Distribution and Retail Activities	Eliminations	Consolidated
Revenue				
Equipment rental	P530,301,534	P -	P -	P530,301,534
Commission and distribution income	-	236,112,074	-	236,112,074
Total revenue	P530,301,534	P236,112,074	P -	P766,413,608
Segments Results				
Income (loss) before income tax	(212,083,817)	(91,932,297)	107,131,726	(196,884,388)
Income tax expense (benefit)	4,818,540	-	-	4,818,540
Net Income (loss)	(216,902,357)	(91,932,297)	107,131,726	(201,702,928)
Segment assets	P2,204,501,599	P305,024,505	(P620,156,541)	1,889,369,563
Retirement benefit asset (liability) – net	2,752,207	3,877,816	-	6,630,023
Segments assets (excluding retirement benefit assets - net)	2,201,749,392	301,146,689	(620,156,541)	1,882,739,540
Segment liabilities	361,901,780	74,304,715	(53,373,618)	382,832,875
Other Information				
Capital expenditures	169,688,038	9,289,509	-	178,977,546
Right-of-use asset	24,133,561	-	-	24,133,561
Depreciation and amortization	121,327,644	28,164,047	-	149,491,691
Finance charges	(3,653,320)	-	-	(3,653,320)
Interest income	1,033,098	326,965	-	1,360,063

End of Report