



107262019005244



## SECURITIES AND EXCHANGE COMMISSION

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Doc Source

### Company Information

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

### Document Information

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Document ID 107262019005244  
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered June 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

(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

Remarks: Please use BLACK ink for scanning purposes

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, 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)  
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
<b>Common Stock, ₱1.00 par value</b>	<b>895,330,946</b>
	Amount of Debt Outstanding
	<b>n/a</b>

11. Are any or all of these securities listed on the Philippine Stock Exchange  
Yes  No
12. Indicate by check mark whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 1 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):  
Yes  No
- (b) has been subject to such filing requirements for the past 90 days.  
Yes  No

## 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, 2019 and June 30, 2018;
- b.) Consolidated Statements of Comprehensive Income for the six (6) months, ended June 30, 2019 and June 30, 2018;
- c.) Consolidated Statements of Financial Position as of June 30, 2019 and Audited Statements of Financial Position as of December 31, 2018;
- d.) Consolidated Statements of Changes in Equity for the six (6) months ended, June 30, 2019 and June 30, 2018; and
- e.) Consolidated Statements of Cash Flows for the six (6) months ended, June 30, 2019 and June 30, 2018.

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

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

##### Revenues

For the first half of 2019, Pacific Online Systems Corporation (the "Company") consolidated with its subsidiaries (the "Group"), earned total revenues of P558.8 million, which is P539.1 million, or 49%, lower than last year's revenues of P1,097.9 million. The decline in revenues was caused by lower Lotto and Keno sales resulting from contractual and regulatory changes and the expansion of PCSO's Small Town Lottery (STL) operations in the VisMin region. PCSO implemented the TRAIN Law's documentary stamp tax (DST) by increasing the Lotto and Keno ticket prices by 20% and by collecting the 20% prize taxes on lottery winnings above P10,000 from its players. These taxes have discouraged a significant number of Lotto and Keno players from buying more lottery tickets. STL, on the other hand, substantially cannibalized the lotto digit sales as STL offers lower ticket prices and higher payout percentages versus the online lotto games.

##### Costs and Expenses

The Group incurred total operating expenses of P668.6 million, which is 22% or P192.1 million lower than last year's P860.8 million for the six months of the year. The decrease in costs and expenses is attributable to the following:

- Personnel costs decreased by P19.3 million (10%) due to reduced manpower and corresponding benefit costs;
- Software and license fees decreased by P25.8 million (22%) and Management Fees decreased by P21.7 million (93%) due to lower Lotto and Keno sales and earnings, which are the bases of the fees paid;
- Operating supplies decreased by P77.3 million (71%) due mainly to the exclusion of lotto paper in the new ELA with PCSO starting August 2018;
- Communications decreased by P5.4 million (8%) due to termination of inactive communication links;
- Travel and accommodation decreased by P4.2 million (12%) due to reduced number of business trips;
- Consultancy fees decreased by P26.4 million (100%) due to termination of consultancy agreement effective August 2018;

- Rent, utilities and outside services decreased by P11.5 million (13%) due to reduced outside services utilization and effect of adopting the PFRS 16 or Right to Use Asset (ROU) on leases;
- Taxes and licenses decreased by P4.4 million (18%) due lower business taxes based on lower revenues;
- Entertainment, amusement and recreation decreased by P2.5 million (40%) due to reduced other incidental business expenses;
- Professional fees decreased by P0.8 million (11%) due to lower professional fees paid; and
- Marketing and promotions expense decreased by P2.6 million (54%) 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 P4.7 million (5%) due to the effect of adopting the PFRS 16 or ROU on leases, wherein rent expense is reclassified as depreciation; and
- Repairs and maintenance increased by P4.9 million (12%) due to higher volume of terminal repairs.

#### **Other Income (Charges)**

Other income (net of other charges) of P43.2 million decreased by P30.7 million (42%) for the period ended June 30, 2019 versus last year's P73.9 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 P539.1 million (49%) decline in revenues, the Group incurred an operating loss of P109.9 million, which is lower by P347.0 million (146%) from last year's P237.1 million operating income. The decrease in costs by P192.1 million (22%) softened the impact of the loss. Thus, after other income of P43.2 million and taxes of P9.6 million, the Group realized a net loss of P76.3 million, which is lower by P294.2 million (135%), from a net income of P217.9 million during the same period last year.

A P1.3 million fair value gain on investment in stocks resulted to a net comprehensive loss of P75.0 million, or a P67.8 million (942%) decline from last year's loss of P7.2 million.

#### **Financial Condition as of June 30, 2019 vs. December 31, 2018**

The Group's total assets of P1.94 billion as of June 30, 2019 decreased by P165.4 million or 8% 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 P63.1 million (22%) due to lower online lottery revenue;
- Property and equipment decreased by P91.2 million (35%) due to a P101.3 million depreciation expense and P10.1 million in fixed assets acquisition during 2019;
- Retirement benefit asset decreased by P3.6M (46%) due to accrual of retirement expense for the period January to June 2019; and
- Other noncurrent assets decreased by P22.8 (11%) 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 in marketable securities of P9.0 million (6%) due to the mark-to-market gain for the period and the recognition of P12.0 million right of use (ROU) asset as per adoption of the new accounting standard IFRS16.

The Group's total liabilities at P252.1 million decreased by P90.4 million, or 26% 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 P73.8 million (30%) due to payment of maturing payables;
- Obligations under capital lease decreased by P9.4 million (27%) mainly due to the effect of adopting the new accounting standard PFRS16;
- Withholding taxes payable decreased by P1.6 million (27%) due to lower expenses subject to withholding taxes; and
- Deferred tax liabilities decreased by P4.0 million (10%) due to deferred income tax recognized during the period.

The decreases above were offset by the increase in lease liability of P12.5 million due the right-of-use (ROU) asset as per adoption of the new accounting standard IFRS16.

Total equity as of June 30, 2019 of P1.686 billion decreased by P75.0 million from the P1.760 billion equity as of yearend 2018 mainly due to the P76.3 million net loss for the period.

#### **Cash Flows for the Six Months Ended June 30, 2019 vs. June 30, 2018**

The Group's cash balance as of June 30, 2019 of P563.8 million was higher by P68.0 million (14%), as compared to P495.8 million in 2018, due to a higher beginning balance in 2019, plus no acquisitions of investment in stocks, and no payment of cash dividends during the period under review.

#### **Discussion and Analysis of Material Events and Uncertainties Known to Management**

The Company's existing Equipment Lease Agreement (ELA) with PCSO for lotto operations is due to expire on July 31, 2019. There is an ongoing negotiation with PCSO to further extend the ELA until the contract for the nationwide lottery system 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 June 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:

<b>Liquidity &amp; Financial Leverage Ratios</b>	<b>The manner by which the Company calculates the performance indicators</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
Current ratio	Current assets over current liabilities	5.18:1	4.00:1
Debt to equity ratio	Total liabilities over total equity	0.15:1	0.19:1
Asset-to-equity ratio	Total assets over total equity	1.15:1	1.19:1
Solvency ratio	Total assets over total liabilities	7.69:1	6.14:1

<b>Profitability Ratios</b>	<b>The manner by which the Company calculates the performance indicators</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
Operating income (loss) margin	Operating income (loss) over revenues	(19.66%)	21.60%
Net profit (loss) margin	Net income (loss) over revenues	(13.66%)	19.85%
Return on equity	Net income (loss) over total equity	(4.53%)	12.38%
Return on assets	Net income (loss) over total assets	(3.94%)	10.36%

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

	Jun. 30, 2019	Dec. 31, 2018
Cash in banks	P558,887,669	P564,886,238
Accounts receivable*	254,138,386	334,550,292
Marketable securities	164,678,603	155,704,892
Refundable deposits	35,950,895	34,930,697
Investments in stocks	457,039,190	455,705,930
Guarantee bonds**	32,000,000	42,000,000
<b>Total credit exposure</b>	<b>P1,502,694,743</b>	<b>P1,587,778,049</b>

\*Inclusive of noncurrent portion of accrued license fee income of P110.2 million and P130.1 million and exclusive of advance payments of P72.8 million and P80.6 million as at June 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 June 30, 2019 and December 31, 2018:

	June 30, 2019		
	Neither Past Due nor Impaired	Impaired	Total
Accounts receivable	P103,663,844	P -	P103,663,844
Accrued receivables*	149,385,825	-	149,385,825
Guarantee bonds**	32,000,000	-	32,000,000
Refundable deposits	35,950,895	-	35,950,895
Other receivables	1,088,718	-	1,088,718
	<b>P322,089,282</b>	<b>P -</b>	<b>P322,089,282</b>

\* Inclusive of noncurrent portion of license fee income of P110.2 million and exclusive of advance payments of P72.8



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:

	June 30, 2019			Total
	Grade A	Grade B	Grade C	
At amortized cost:				
Cash in banks	P558,887,669	P -	P -	P558,887,669
Accounts receivable*	104,752,561	149,385,825	-	254,138,386
Refundable deposits	-	35,950,895	-	35,950,895
Guarantee bonds	-	-	32,000,000	32,000,000
At FVPL:				
Marketable securities	164,678,603	-	-	164,678,603
At FVOCI:				
Investments in stocks	457,039,190	-	-	457,039,190
	P1,285,358,023	P185,336,720	P32,000,000	P1,502,694,743

\*Inclusive of noncurrent portion of accrued license fee income amounting to P110.2 million and exclusive of advance payments of P72.8 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
June 30, 2019	5%	P8,233,930
	(5%)	(8,233,930)
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
June 30, 2019	5%	P22,851,960
	(5%)	(22,851,960)
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:

	June 30, 2019				Total
	Less than 3 Months	3 - 6 Months	6 - 12 Months	More than 12 Months	
Trade and other current liabilities*	P158,998,227	P -	P -	P10,000,000	P168,998,227
Obligations under finance lease**	4,914,409	10,248,080	10,802,428	-	25,962,917
Lease liability**	2,949,216	2,490,254	5,071,474	1,940,558	12,451,502
	P166,861,852	P12,736,334	P15,873,902	P11,940,558	P207,412,646

\* Excluding statutory liabilities amounting to P2.2 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	9,689,731	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 June 30, 2019 and December 31, 2018, assets and liabilities denominated in US\$ include cash in banks amounting to P24.4 million (\$476,464 million) and P20.5 million (\$391,254), and consultancy and software and license fees payable amounting to P21.6 million (\$422,732) and P37.6 million (\$716,411), respectively.

In translating foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were P51.20 and P52.46 to US\$1, the Php to US\$ exchange rates, as at June 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
June 30, 2019		
5%	(P137,554)	(P96,288)
(5%)	137,554	96,288
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 June 30, 2019 and December 31, 2018:

	Jun. 30, 2019		Dec. 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At Amortized Cost:				
Cash	P 563,795,169	P 563,795,169	P 571,260,257	P 571,260,257
Accounts receivable*	254,138,386	254,138,386	334,550,292	334,550,292
Refundable deposits	35,950,895	35,950,895	34,930,697	34,930,697
Guarantee bonds	32,000,000	32,000,000	42,000,000	42,000,000
At FVPL:				
Marketable securities	164,678,603	164,678,603	155,704,892	155,704,892
At FVOCI:				
Investments in stocks	457,039,190	457,039,190	455,705,930	455,705,930
	<u>P1,507,602,243</u>	<u>P1,507,602,243</u>	<u>P1,594,152,068</u>	<u>P1,594,152,068</u>

<b>Financial Liabilities</b>				
<b>At Amortized Cost:</b>				
Trade and other current liabilities**	P168,998,227	P168,998,227	P242,160,015	P242,160,015
Obligations under finance lease (inclusive of noncurrent portion)	25,962,917	25,962,917	35,374,474	35,374,474
Lease liability (inclusive of noncurrent portion)	12,451,502	12,451,502	-	-
Installment payable (inclusive of noncurrent portion)	-	-	9,205,042	9,205,042
	<b>P207,412,646</b>	<b>P207,412,646</b>	<b>P286,739,531</b>	<b>P286,739,531</b>

\*Inclusive of noncurrent portion of accrued license fee income of P110.2 million and P130.1 million and exclusive of advance payments of P72.8 million and P80.6 million as at June 30, 2019 and December 31, 2018, respectively.

\*\*Excluding statutory liabilities of P2.2 million and P2.9 million as at June 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
<b>Marketable Securities</b>				
Jun. 30, 2019	P164,678,603	P -	P -	P164,678,603
Dec. 31, 2018	155,704,892	-	-	155,704,892
<b>Investments in Stocks</b>				
Jun. 30, 2019	457,039,190	-	-	457,039,190
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 June 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 June 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 June 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: July 26, 2019



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

Date: July 26, 2019

**PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position**

	June 30, 2019	December 31, 2018
	Unaudited	Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	P563,795,169	P571,260,258
Marketable securities	164,678,603	155,704,892
Trade and other receivables – net	221,992,402	285,063,895
Other current assets	145,332,158	144,938,786
<b>Total Current Assets</b>	<b>1,095,798,332</b>	<b>1,156,967,831</b>
<b>Noncurrent Assets</b>		
Investments in stocks	457,039,190	455,705,930
Property and equipment – net	168,715,904	259,876,260
Right of use asset - net	12,028,883	-
Goodwill	17,046,266	17,046,266
Retirement benefits asset – net	4,210,023	7,855,553
Other noncurrent assets	182,861,585	205,627,541
<b>Total Noncurrent Assets</b>	<b>841,901,851</b>	<b>946,111,550</b>
<b>TOTAL ASSETS</b>	<b>P1,937,700,183</b>	<b>P2,103,079,381</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other current liabilities	P171,236,750	P245,071,466
Current portion of obligations under finance lease	20,492,160	19,379,463
Withholding taxes payable	4,466,745	6,096,017
Income tax payable	4,706,260	9,415,467
Current portion of lease liability	10,510,944	-
Current portion of installment payable	-	9,205,042
<b>Total Current Liabilities</b>	<b>211,412,859</b>	<b>289,167,455</b>
<b>Noncurrent Liabilities</b>		
Obligations under finance lease - net of current portion	5,470,757	15,995,011
Deferred tax liabilities	33,260,350	37,297,139
Lease liability – net of current portion	1,940,558	-
<b>Total Noncurrent Liabilities</b>	<b>40,671,665</b>	<b>53,292,150</b>
<b>TOTAL LIABILITIES</b>	<b>252,084,524</b>	<b>342,459,605</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
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	(287,393,661)	(288,726,921)
Retirement benefits reserve	538,390	538,390
Retained earnings	1,099,096,428	1,199,822,935
	1,679,555,222	1,753,714,977
<b>Non-controlling Interests</b>	<b>6,060,437</b>	<b>6,904,799</b>
<b>Total Equity</b>	<b>1,685,615,659</b>	<b>1,760,619,776</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,937,700,183</b>	<b>P2,103,079,381</b>

**PACIFIC ONLINE SYSTEMS CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Income (Unaudited)  
For the three months ended June 30, 2019 and 2018

	Six Months Ended Jun 30		This Quarter	
	2019	2018	2019	2018
<b>REVENUE</b>				
Equipment rental	P369,046,428	P855,252,481	P169,440,109	P415,398,021
Commission and distribution income	189,716,658	242,626,997	95,520,255	122,686,600
	<b>558,763,086</b>	<b>1,097,879,478</b>	<b>264,960,364</b>	<b>538,084,621</b>
<b>COSTS AND EXPENSES</b>				
Personnel costs	177,464,796	196,810,127	89,141,585	99,793,655
Software and license fees	91,017,845	116,868,842	44,390,036	56,988,611
Operating supplies	30,943,447	108,225,315	14,387,034	62,278,118
Depreciation and amortization	109,052,102	104,360,729	53,469,489	52,046,133
Communications	60,415,857	65,862,145	27,767,814	33,742,848
Travel and accommodation	31,002,630	35,257,134	15,816,266	20,533,762
Consultancy fees	-	26,368,560	-	12,387,625
Rent, utilities and outside services	76,332,544	87,783,022	39,709,914	44,165,949
Management fees	1,634,426	23,372,478	756,067	6,499,847
Repairs and maintenance	45,086,727	40,228,909	17,011,473	20,941,262
Taxes and licenses	19,599,060	23,999,601	8,189,370	14,976,579
Entertainment, amusement and recreation	3,822,712	6,362,838	193,853	1,055,616
Professional fees	6,520,129	7,367,763	3,959,995	5,197,229
Marketing and promotions	2,152,559	4,724,964	952,166	2,628,528
Others	13,585,240	13,169,505	8,272,405	3,280,639
	<b>668,630,073</b>	<b>860,761,930</b>	<b>324,017,469</b>	<b>436,516,400</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(109,866,987)</b>	<b>237,117,547</b>	<b>(59,057,105)</b>	<b>101,568,221</b>
<b>OTHER INCOME (CHARGES)</b>				
Dividend income	26,947,224	26,957,445	-	261,419
Interest income	987,938	435,455	513,335	234,981
Finance charges	(2,747,585)	(3,174,881)	(1,551,210)	(1,514,070)
Mark-to-market gain (loss) on marketable securities	8,973,711	(660,345)	6,498,161	(32,742,364)
Gain (loss) on sale of:				
Marketable securities	-	2,224,652	-	-
Property and equipment	39,998	446,997	19,998	269,998
Foreign exchange gain (loss)	(379,439)	(64,595)	(616,311)	357,642
Others - net	9,364,232	47,724,962	4,648,605	27,136,160
	<b>43,186,080</b>	<b>73,889,689</b>	<b>9,512,578</b>	<b>(5,996,235)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(66,680,906)</b>	<b>311,007,236</b>	<b>(49,544,527)</b>	<b>95,571,986</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>				
Current	9,656,471	95,730,360	4,424,537	42,922,873
Deferred	-	(2,621,148)	3,030,718	(1,245,797)
	<b>9,656,471</b>	<b>93,109,212</b>	<b>7,455,255</b>	<b>41,677,076</b>
<b>NET INCOME (LOSS)</b>	<b>(P76,337,377)</b>	<b>P217,898,024</b>	<b>(P56,999,782)</b>	<b>P53,894,910</b>
<b>Attributable to:</b>				
Equity holders of the Parent Company	(75,493,015)	216,239,344	(56,143,968)	53,098,072
Non-controlling interests	(844,362)	1,658,680	(855,814)	796,838
	<b>(P76,337,377)</b>	<b>P217,898,024</b>	<b>(P56,999,782)</b>	<b>P53,894,910</b>
<b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company</b>	<b>(P0.0894)</b>	<b>P0.5110</b>	<b>(P0.0665)</b>	<b>P0.1254</b>



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

	Six Months Ended Jun 30		This Quarter	
	2019	2018	2019	2018
<b>NET INCOME (LOSS)</b>	<b>(P76,337,377)</b>	<b>P217,898,024</b>	<b>(P56,999,782)</b>	<b>P53,894,910</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will never be reclassified to profit or loss				
Fair value gain (loss) on investment in shares of stock	1,333,260	(225,046,080)	(19,523,780)	(116,848,870)
Remeasurements of retirement benefits, net of tax	-	-	-	-
	1,333,260	(225,046,080)	(19,523,780)	(116,848,870)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(P75,004,117)</b>	<b>(P7,148,056)</b>	<b>(P76,523,562)</b>	<b>(P62,953,960)</b>
<b>Attributable to:</b>				
Equity holders of the Parent Company	(74,159,755)	(8,806,736)	(75,667,748)	(63,750,798)
Non-controlling interests	(844,362)	1,658,680	(855,814)	796,838
	<b>(P75,004,117)</b>	<b>(P7,148,056)</b>	<b>(P76,523,562)</b>	<b>(P62,953,960)</b>

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

	For the six months ended Jun. 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(P66,680,906)	P311,007,236
Adjustments for:		
Depreciation and amortization	109,052,102	104,360,729
Dividend income	(26,947,224)	(26,957,445)
Retirement cost	5,145,530	3,600,000
Finance charges	2,747,585	3,174,881
Unrealized foreign exchange loss (gain)	379,439	64,595
Interest income	(987,938)	(435,455)
Fair value gain on marketable securities	(8,973,711)	660,345
Gain on sale of:		
Marketable securities	-	(2,224,652)
Property and equipment	(39,998)	(446,997)
Operating income before working capital changes	13,694,879	392,803,237
Decrease (increase) in:		
Trade and other receivables	63,071,493	(17,968,188)
Other current assets	(393,372)	(4,225,188)
Other noncurrent assets	22,765,956	1,041,091
Increase (decrease) in:		
Trade and other current liabilities	(74,214,155)	57,927,931
Withholding taxes payable	(1,629,272)	(3,025,298)
Interest received	987,938	435,455
Income tax paid	(18,402,467)	(80,798,982)
Retirement contributions	(1,500,000)	(1,000,000)
<b>Net cash flows provided by operating activities</b>	<b>4,381,000</b>	<b>345,190,058</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Investment in stocks	-	(34,170,020)
Property and equipment	(10,133,343)	(350,336)
Right-of-use asset	(19,787,287)	-
Proceeds from sale of:		
Marketable securities	-	12,349,517
Property and equipment	39,998	446,997
Dividends received	26,947,224	26,957,445
<b>Net cash flows provided by investing activities</b>	<b>(2,933,408)</b>	<b>5,233,603</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividend paid by Parent Company	-	(254,911,415)
Cash dividend paid to Non-controlling Interests	-	(951,441)
Acquisition of treasury shares	-	(16,584,828)
Increase (decrease) in obligations under finance lease	(9,411,556)	(27,442,667)
Increase (decrease) in installment payable	(9,205,042)	1,272,415
Increase (decrease) in lease liability	12,451,502	-
Finance charges paid	(2,747,585)	(3,174,881)
<b>Net cash flows used in financing activities</b>	<b>(8,912,681)</b>	<b>(301,792,816)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(7,465,089)</b>	<b>48,630,845</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>571,260,258</b>	<b>447,130,976</b>
<b>CASH AT END OF PERIOD</b>	<b>P563,795,169</b>	<b>P495,761,821</b>

**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
<b>January 1, 2018</b>	<b>P447,665,473</b>	<b>P257,250,677</b>	<b>(P268,660,770)</b>	<b>P -</b>	<b>P116,829,810</b>	<b>(P11,838,800)</b>	<b>P1,474,292,424</b>	<b>P2,015,538,814</b>	<b>P4,536,058</b>	<b>P2,020,074,872</b>
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)
Transactions with owners										
Cash dividends	-	-	-	-	-	-	(254,911,415)	(254,911,415)	-	(254,911,415)
Acquisitions of treasury shares	-	-	(16,584,828)	-	-	-	-	(16,584,828)	-	(16,584,828)
<b>June 30, 2018</b>	<b>P447,665,473</b>	<b>P257,250,677</b>	<b>(P285,245,598)</b>	<b>P -</b>	<b>(P108,216,270)</b>	<b>(P11,838,800)</b>	<b>P1,435,620,353</b>	<b>P1,735,235,835</b>	<b>P6,194,738</b>	<b>P1,741,430,573</b>
<b>January 1, 2019</b>	<b>P447,665,473</b>	<b>P257,250,677</b>	<b>(P285,267,558)</b>	<b>P422,431,981</b>	<b>(P288,726,921)</b>	<b>P538,390</b>	<b>P1,199,822,935</b>	<b>P1,753,714,977</b>	<b>P6,904,799</b>	<b>P1,760,619,776</b>
Change in fair value of investments in stocks	-	-	-	-	1,333,260	-	-	1,333,260	-	1,333,260
Remeasurements of retirement benefits net of tax	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	1,333,260	-	-	1,333,260	-	1,333,260
Net income (loss) for the year	-	-	-	-	-	-	(75,493,015)	(75,493,015)	(844,362)	(76,337,377)
Total comprehensive income (loss) for the year	-	-	-	-	1,333,260	-	(75,493,015)	(74,159,755)	(844,362)	(75,004,117)
Transactions with owners										
Stock dividend payable	447,665,473	-	-	(422,431,981)	-	-	(25,233,492)	-	-	-
<b>June 30, 2019</b>	<b>P895,330,946</b>	<b>P257,250,677</b>	<b>(P285,267,558)</b>	<b>P -</b>	<b>(P287,393,661)</b>	<b>P538,390</b>	<b>P1,099,096,428</b>	<b>P1,679,555,222</b>	<b>P6,060,437</b>	<b>P1,685,615,659</b>

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

## 1.) Aging of Trade and Other Receivables

	Neither Past Due nor Impaired	Impaired	Total
a.) Trade Receivables			
1.) PCSO – Equipment rentals	P95,026,490	P -	P95,026,490
2.) Accounts receivable	81,425,630	-	81,425,630
3.) Accrued license fee income-current	39,179,783	-	39,179,783
	215,631,903	-	215,631,903
b.) Other Receivables			
1.) Advances to officers and employees	3,264,508	-	3,264,508
2.) Advances to contractors and suppliers	2,007,273	-	2,007,273
3.) Other receivables	1,088,718	-	1,088,718
	6,360,499	-	6,360,499
<b>Total</b>	<b>P221,992,402</b>	<b>P -</b>	<b>P221,992,402</b>

## 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: 360 days

**PACIFIC ONLINE SYSTEMS CORPORATION**  
**Attachments to Unaudited Financial Statements**  
**Segment Information**  
**For the period ended June 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:

	<b>For the Six Months ended June 30, 2019</b>			
	<b>Equipment Leasing Activities</b>	<b>Distribution and Retail Activities</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>				
Equipment rental	P369,046,428	P -	P -	P369,046,428
Commission and distribution income	-	189,716,658	-	189,716,658
<b>Total revenue</b>	<b>P369,046,428</b>	<b>P189,716,658</b>	<b>P -</b>	<b>P558,763,086</b>
<b>Segments Results</b>				
Income (loss) before income tax	(121,175,480)	(38,506,396)	93,000,970	(66,680,906)
Income tax expense (benefit)	8,959,142	697,329	-	9,656,471
<b>Net income (loss)</b>	<b>(130,134,622)</b>	<b>(39,203,725)</b>	<b>93,000,970</b>	<b>(76,337,377)</b>
<b>Segment assets</b>	<b>P2,186,795,856</b>	<b>P375,533,515</b>	<b>(P624,629,188)</b>	<b>1,937,700,183</b>
<b>Retirement benefit asset (liability) - net</b>	<b>(747,793)</b>	<b>4,957,816</b>	<b>-</b>	<b>4,210,023</b>
<b>Segments assets (excluding retirement benefit assets - net)</b>	<b>2,187,543,649</b>	<b>370,575,699</b>	<b>(624,629,188)</b>	<b>1,933,490,160</b>
<b>Segment liabilities</b>	<b>203,714,882</b>	<b>92,085,152</b>	<b>(43,715,510)</b>	<b>252,084,524</b>
<b>Other Information</b>				
Capital expenditures	5,491,378	4,641,965	-	10,133,343
Right-of-use asset	19,787,287	-	-	19,787,287
Depreciation and amortization	90,167,195	18,884,907	-	109,052,102
Finance charges	(2,747,585)	-	-	(2,747,585)
Interest income	747,601	240,337	-	987,938

End of Report