



## **NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

**TO: ALL STOCKHOLDERS**

NOTICE is hereby given that there will be an annual meeting of the stockholders of **PACIFIC ONLINE SYSTEMS CORPORATION** on May 28, 2021 (Friday), at 11:00 a.m. The meeting will be conducted virtually and registration and voting can be accessed at the link provided in the Company's website at <https://www.loto.com.ph/investor-relations/Annual-or-Special-Stockholders-Meeting/Virtual-ASM>

Items in the agenda of the meeting are as follows:

### **AGENDA**

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Approval of the Minutes of the Previous Annual Stockholders' Meeting
5. Approval of 2020 Operations and Results
6. Ratification of All Acts of the Board of Directors and Officers
7. Election of Directors
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

The close of business on **April 30, 2021** has been fixed as the record date for the determination of the stockholders entitled to notice of and vote at said meeting and any adjournment thereof.

Due to the COVID-19 Pandemic and continuing government regulations limiting mobility and mass gatherings, the Company will not be conducting a physical annual stockholders' meeting. In lieu thereof, the annual stockholders' meeting will be held virtually through an online webinar platform for stockholders to attend by remote communication. They can join by registering online at [asmregister.loto.com.ph](http://asmregister.loto.com.ph) on or before 5:00 p.m. on May 21, 2021. The identities of those registering to participate online will be going through a process of verification, after which an email from the Company will be sent to them giving instructions as to how they will be able to watch the livestream of the annual stockholders' meeting

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

- (i) by submitting duly accomplished proxies to the Office of the Corporate Secretary at 2704 East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City or via electronic copy by emailing [corporatesecretary@pacificonline.com.ph](mailto:corporatesecretary@pacificonline.com.ph) on or before 5:00 p.m. on May 21, 2021.

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

- (ii) by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at [asmregister.loto.com.ph](http://asmregister.loto.com.ph). The e-voting portal will be open until 9:00 in the morning of May 28, 2021.

Validation of proxies is set on May 24, 2021 at 2:00 p.m. The votes already cast using the e-voting platform by that time will also be verified on said date.

City of Pasig, Metro Manila, April 15, 2021.

  
**JASON C. NALUPTA**  
Corporate Secretary

## **RATIONALE FOR AGENDA ITEMS**

### **Agenda Item No. 4. Approval of the Minutes of the Previous Meeting of Stockholders held on June 22, 2020**

Copies of the Minutes of the June 22, 2020 Annual Stockholders' Meeting is currently posted on the Corporation's website (please see link here: <https://loto.com.ph/sites/default/files/ASM%202020%20DRAFT%20MINUTES.pdf>) and can be viewed at any time. Stockholders will be asked to approve the Minutes of the 2020 Annual Stockholders' Meeting.

### **Agenda Item No. 5. Approval of 2020 Operations and Results**

A report on the highlights of the financial performance of the Corporation for the year ended December 31, 2020 will be presented to the Stockholders. A summary of the Corporation's performance for the year is also provided in the "Management Discussion and Analysis of Operating Performance and Financial Condition" section on page 32 hereof.

The Corporation's Audited Financial Statements, for which the external auditors have issued an unqualified opinion, have likewise been reviewed by the Audit Committee and the Board of Directors. A summary of the 2019 AFS shall also be presented to the Stockholders.

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

All actions, proceedings and contracts entered into, as well as resolutions made and adopted by the Board of Directors and of Management from the date of the Stockholders Meeting held on June 22, 2020 to the date of this meeting shall be presented for confirmation, approval, and ratification. The items covered with respect to the ratification of the acts of the Board of Directors and Officers for the past year up to the date of the meeting are those items entered into in the ordinary course of business.

### **Agenda Item No. 7. Election of Directors for 2021 to 2022**

The current members of the Board of Directors, except Mr. Jerry C. Tiu and Mr. Joseph C. Tan, as reviewed, qualified and recommended by the Corporate Governance Committee, have been nominated for re-election. In keeping with good corporate governance recommendations on tenure of independent directors, Mr. Tiu will be replaced by Atty. Ma. Gracia Pulido Tan as candidate for election as independent member of the Board of Directors. The proven expertise and qualifications of the candidates, based on current regulatory standards and the Corporation's own criteria, will help sustain the Company's solid performance that will result to its stockholders' benefit. The profiles of the candidates for election as directors are available in the Company website, as well as in this Information Statement. If elected, they shall serve as Directors for a period of one (1) year from May 28, 2021 or until their successors shall have been duly elected and qualified.

### **Agenda Item No. 8. Appointment of External Auditors**

Management will propose the appointment of the Corporation's External Auditor for 2021-2022. The Stockholders will also be requested to delegate to the Board the authority to approve the appropriate audit fee for 2021.

Stockholders are given the opportunity to raise questions regarding the operations and report of the Corporation as well as other concerns, by emailing [corporatesecretary@pacificonline.com.ph](mailto:corporatesecretary@pacificonline.com.ph) (Subject: Questions for ASM 2021) on or before 9:00 am on May 28, 2021. Questions will be responded to during the question and answer portion of the annual stockholders' meeting before the end of the proceedings. Due to the limited time, however, not all questions may be responded to during the livestream of the annual stockholders' meeting. Questions not addressed at the meeting proper, including those that may be received after the livestream, will be responded to via email by the corporate officers concerned.

**PROXY FORM**

The undersigned stockholder of Pacific Online Systems Corporation (the "Company") hereby appoints the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on May 28, 2021 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Election of Directors.

\_\_\_\_ 1.1. Vote for all nominees listed below:

1.1.1. Willy N. Ocier

1.1.2. Ma. Virginia V. Abo-Hamda

1.1.3. Tarcisio M. Medalla

1.1.4. Henry N. Ocier

1.1.5. Regina O. Reyes

1.1.6. Armin Antonio B. Raquel Santos

1.1.7. Laurito E. Serrano (Independent Director)

1.1.8. Ma. Gracia M. Pulido Tan (Independent Director)

\_\_\_\_ 1.2. Withhold authority for all nominees listed above

\_\_\_\_ 1.3. Withhold authority to vote for the nominees listed below:

\_\_\_\_\_

2. Approval of minutes of previous Annual Stockholders' Meeting.

\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

3. Approval of 2020 Operations and Results

\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Management from date of last Stockholders' Meeting to May 28, 2021.

\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

5. Appointment of external auditor.

\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

6. At their discretion, the proxy named above are authorized to vote upon such other matters as may be properly come before the meeting.

\_\_\_ Yes \_\_\_ No \_\_\_ Abstain

\_\_\_\_\_  
Printed Name of Stockholder

\_\_\_\_\_  
Signature of Stockholder /  
Authorized Signatory

\_\_\_\_\_  
Date

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

**WE ARE NOT SOLICITING PROXIES.**

**SECRETARY'S CERTIFICATE**

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

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

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

"RESOLVED, that \_\_\_\_\_ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of Pacific Online Systems Corporation (Pacific Online) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in Pacific Online and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.

"RESOLVED, FINALLY, That Pacific Online be furnished with a certified copy of this resolution and Pacific Online may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

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

IN WITNESS WHEREOF, I have signed this instrument in on \_\_\_\_\_.

\_\_\_\_\_  
Printed Name and Signature of the  
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on \_\_\_\_\_ in \_\_\_\_\_ Affiant exhibited to me his Competent Evidence of Identity by way of \_\_\_\_\_ issued on \_\_\_\_\_ at \_\_\_\_\_.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2021.



## PACIFIC ONLINE SYSTEMS CORPORATION 2021 ANNUAL STOCKHOLDERS' MEETING

### Guidelines for Participating via Remote Communication and Voting *in Absentia*

The 2021 Annual Stockholders' Meeting (ASM) of Pacific Online Systems Corporation (the “**Company**”) will be held on May 28, 2021 at 11:00 A.M. and the Board of Directors of the Corporation has fixed the end of trading hours of the Philippine Stock Exchange, Inc. on **April 30, 2021** (“**Record Date**”) as the record date for the determination of stockholders entitled to notice of, to attend, and to vote at such meeting and any adjournment thereof.

In view of the continuing mobility restrictions and prohibition on mass gatherings due to the public health emergency, the Board of Directors of the Company has approved and authorized stockholders to participate in the ASM via remote communication and to exercise their right to vote *in absentia* or by proxy.

### REGISTRATION

The conduct of the meeting will be streamed live, and stockholders may attend the meeting by registering from May 10, 2021 until May 21, 2021, 5:00 p.m. via [asmregister.loto.com.ph](http://asmregister.loto.com.ph) and by submitting the following requirements and documents, subject to verification and validation:

1. Individual Stockholders
  - 1.1. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others in order to validate the registration of the shareholder (up to 2MB)
  - 1.2. Stock certificate number
  - 1.3. Active e-mail address/es
  - 1.4. Active contact number/s, with area and country codes
2. Multiple Stockholders or with joint accounts
  - 2.1. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others in order to validate the registration of the shareholders (up to 2MB)
  - 2.2. Stock certificate number/s
  - 2.3. Active e-mail addresses of the stockholders
  - 2.4. Active contact numbers, with area and country codes
  - 2.5. Digital copy of an authorization letter executed by all named holders, authorizing a holder to vote for and on behalf of the account
3. Corporate Stockholders
  - 3.1. Digital copy of the Secretary's Certificate (or equivalent for non-resident) attesting to the authority of the representative to vote for and on behalf of the corporation
  - 3.2. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID,

- senior citizen ID, among others to validate the registration of the authorized representative (no more than 2MB)
- 3.3. Active e-mail address/es of the authorized representative
  - 3.4. Active contact number of an authorized representative, with area and country codes
4. PCD Participants/Brokers
- 4.1. Digital copy of the Secretary's Certificate (or equivalent for non-resident) attesting to the authority of the representative to vote for and on behalf of the PCD participant/broker
  - 4.2. Digital copy of the certificate of shareholdings issued by the PCD/broker
  - 4.3. Clear digital copy of the front and back portion of a valid government-issued identification card/s (ID/s), which include the passport, driver's license, SSS ID, senior citizen ID, among others to validate the registration of the authorized representative (no more than 2MB)
  - 4.4. Active e-mail address/es of the authorized representative
  - 4.5. Active contact number of the authorized representative, with area and country codes

**Important Reminders:**

- **Please refrain from sending duplicate and inconsistent information/documents as these can result in failed registration. All documents/information shall be subject to verification and validation by the Company.**
- **Please be informed that by providing us with the above documents, you consent to the Company's processing of your personal data in accordance with the Data Privacy Act for the purpose of validating your credentials and registration to participate and vote at the Company's annual stockholders' meeting.**

**ONLINE VOTING**

1. Log-in to the voting portal by clicking the link, and using the log-in credentials, sent to the email address of the shareholder to the Company.
2. Upon accessing the portal, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended to the Notice of Meeting.
  - 2.1 A stockholder has the option to vote "Yes", "No", or "Abstain" on each agenda item for approval.
  - 2.2 For the election of directors, the stockholder has the option to vote for all nominees, withhold vote for any of the nominees, or vote for certain nominees only.

*Note: A stockholder may vote such number of his/her shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected (9 directors) multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholder.*

3. Once the stockholder has finalized his vote, he can proceed to submit his vote by clicking the “Submit” button.
4. The stockholder can still change and re-submit votes, provided, such new votes are submitted within the Voting Period using the same log-in credentials. Previous votes will be automatically overridden and replaced by the system with the new votes cast.

### **ASM LIVESTREAM**

The ASM will be broadcasted live and stockholders who have successfully registered will be provided access to participate via remote communication. Instructions on how to access the livestream will be sent to their emails upon registration.

### **OPEN FORUM**

During the virtual meeting, after all items in the agenda have been discussed, the Company will have the Question and Answer Portion, during which, the meeting’s moderator will read and where representatives of the Company shall answer questions and comments received from stockholders, as time will allow.

Stockholders may send their questions in advance by sending an email bearing the subject “Questions for ASM 2021” to [corporatesecretary@pacificonline.com.ph](mailto:corporatesecretary@pacificonline.com.ph) on or before 9:00 am on May 28, 2021. A section for stockholder comments/questions or a “chatbox” shall also be provided in the livestreaming platform.

Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by the Company via email.

*For any concerns, please email us at [corporatesecretary@pacificonline.com.ph](mailto:corporatesecretary@pacificonline.com.ph).*

*For complete information on the annual meeting, please visit <https://www.loto.com.ph/investor-relations/Annual-or-Special-Stockholders-Meeting/Virtual-ASM>.*

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS**

**Information Statement Pursuant to Section 20  
of the Securities Regulation Code**

1. Check the appropriate box  
     Preliminary Information Statement  
     Definitive Information Statement
2. Name of Registrant as specified in its charter: **PACIFIC ONLINE SYSTEMS CORPORATION**
3. Province, country or other jurisdiction of incorporation or organization: **Pasig City, Metro Manila, Philippines**
4. SEC Identification Number: **AS093-008809**
5. BIR Tax Identification Number: **003-865-392-000**
6. Address of principal office: **28th Floor, East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City**
7. Registrant's telephone number, including area code: **(632) 8584-1700**
8. Date, time, and place of the meeting of security holders:  
  
    **Date** : **May 28, 2021 (Friday)**  
    **Time** : **11:00 o'clock in the morning**  
    **Platform** : **Videoconferencing via Zoom Webinar**
9. Approximate date on which the Information Statement is to be sent or given to security holders: **April 30, 2021**
10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b><u>Common Stock</u></b>	<b><u>₱1.00 par value</u></b> <b><u>895,330,946 shares (as of March 31, 2021)</u></b>

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

Yes  No

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

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



## A. GENERAL INFORMATION

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

- (a) Date - **May 28, 2021 (Friday)**
- Time - **11:00 o'clock in the morning**
- Platform - **Videoconferencing via Zoom Webinar**

The approximate date on which the Information Statement will be sent or given to security holders is on **April 30, 2021**.

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

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

### Item 2. Dissenters' Right of Appraisal

The matters to be voted upon in the Annual Stockholders' Meeting on **May 28, 2021** are not among the instances enumerated in Sections 41 and 80 of the Revised Corporation Code whereby the right of appraisal (defined as the right of any stockholder to dissent and demand payment of the fair value of his shares) may be exercised. The instances where the right of appraisal may be exercised are as follows:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the Company's property and assets;
3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and
4. In case of merger or consolidation.

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

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares; Provided, that the failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made; Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; Provided further, that upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

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

- (a) No person who has been a director or officer or any nominee for election as director of the Company or associate of such persons, have substantial interest, direct or indirect, in any matter to be acted upon, other than the election of directors for the year 2021-2022.
- (b) The Company is not aware of any director or security holder who intends to oppose any action to be taken by the Company during the stockholders' meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

### **Item 4. Voting Securities and Principal Holders Thereof**

- (a) As of March 31, 2021, the Company has **895,330,946** common shares outstanding and each share is entitled to one vote.
- (b) The record date with respect to the determination of the stockholders entitled to notice of and vote at the Annual Stockholders' Meeting is **April 30, 2021**.
- (c) With respect to the election of nine (9) directors, each stockholder may vote such number of shares for as many as Nine (9) persons he may choose to be elected from the list of nominees, or he may cumulate the said shares and give one candidate as many votes as the number of his shares multiplied by Nine (9) shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by Nine (9).
- (d) Security ownership of certain record and beneficial owners and management.

#### (1) Security Ownership of Certain Record and Beneficial Owners

The following persons or group are known to the Company as direct owners of more than five percent (5%) of the Company's voting securities as of March 31, 2021:

<b>Title of Class</b>	<b>Name and Address of Record Owner and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
Common	<b>PREMIUM LEISURE CORPORATION</b> <sup>(1)</sup> 5/F Tower A, Two E-Com Center, Mall of Asia Complex, Pasay City Parent Company	PREMIUM LEISURE CORPORATION	Filipino	448,560,806	50.10
Common	<b>PCD NOMINEE CORPORATION</b> <sup>(2)</sup> G/F Makati Stock Exchange 6767 Ayala Avenue, Makati City Filipino/Non-Filipino N/A	Various	Filipino and Non-Filipino	327,381,777	36.57
Common	<b>WILLY N. OCIER</b> 28/F East Tower, PSE Centre Exchange Road, Ortigas Center, Pasig City Filipino Chairman and President	Willy N. Ocier	Filipino	80,803,500	9.02

<sup>(1)</sup>The majority shareholder of Premium Leisure Corporation is Belle Corporation.

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

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

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

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

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

## (2) Security Ownership of Directors and Management

The following table shows the shares beneficially owned by the directors and executive officers of the Company as of March 31, 2021:

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership			Citizenship	Percent of Class
		Direct	Indirect	Total		
Common	Willy N. Ocier	71,819,550	8,983,950	80,803,500	Filipino	9.02
Common	Virginia V. Abo-Hamda	2,000	0	2,000	Filipino	0.00
Common	Tarcisio M. Medalla	200	100	300	Filipino	0.00
Common	Regina O. Reyes	300	0	300	Filipino	0.00
Common	Henry N. Ocier	6,000	1,203,000	1,209,000	Filipino	0.13
Common	Jerry C. Tiu	200	250	450	Filipino	0.00
Common	Laurito E. Serrano	1,600	800	2,400	Filipino	0.00
Common	Armin B. Raquel-Santos	200	0	200	Filipino	0.00
Common	Joseph C. Tan	200	0	200	Filipino	0.00
Common	Romeo J. Roque, Jr	6,000	0	6,000	Filipino	0.00
Common	Mischel Gabrielle O. Mendoza	390,000	195,000	585,000	Filipino	0.06
	<b>All Directors and Executive Officers as a group</b>	<b>72,226,250</b>	<b>10,383,100</b>	<b>82,609,350</b>		<b>9.23</b>

## (3) Voting Trust Holders of 5% or More

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

## Changes in Control

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

## **Item 5. Directors and Executive Officers**

### **Directors and Executive Officers**

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

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

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

<b>Name</b>	<b>Position</b>
Joseph C. Tan	Chairman
Laurito E. Serrano	Member
Jerry C. Tiu	Member

### **Board of Directors**

The present members of the Board of Directors (“BOD”) were elected during the annual stockholders’ meeting held on June 22, 2020. The term of the current members of the BOD shall be until the next stockholders’ meeting on May 28, 2021. The following are the incumbent members of the Board of Directors (“BOD”) of the Company:

**Willy N. Ocier**, Filipino, 64, is the Chairman and President of the Company and a Director since July 29, 1999. He is an Executive Director and Co-Vice Chairman of Belle Corporation, Highlands Prime, Inc. and Tagaytay Highlands International Golf Club, Inc. He is also the Chairman of the Board and Director of Premium Leisure Corp. as well as with APC Group, Inc., and Premium Leisure and Amusement, Inc. He serves as the Chairman of Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc. and The Spa and Lodge Inc. He is a Director of Leisure & Resorts World Corporation, Vantage Equities Inc., and Abacore Capital

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

**Tarcisio M. Medalla**, Filipino, 72, is a Director of the company since December 10, 2001. He is currently the Chairman and President of listed firm Paxys, Inc. He is also a Director of All Asia Customer Services Holdings Ltd., the principal shareholder of Paxys, Inc. He graduated with a Bachelor of Science degree in Commerce (Major in Accounting) from De La Salle University. He attended the Advanced Management Program (AMP) at Harvard Business School. He is a Certified Public Accountant.

**Henry N. Ocier**, Filipino, 61, is a Director of the company since June 29, 2009. He serves as Senior Manager for Corporate Social Responsibility for Belle Corporation. He currently holds the position of President & General Manager of Guatson International Travel and Tours, Inc. He graduated with a Bachelor of Science degree in Business Economics from De La Salle University.

**Regina O. Reyes**, Filipino, 56, elected as Director last July 21, 2016. She is currently the President and CEO of listed firm, Abacore Capital Holdings, Inc., and President of private company, Click Communications, Inc. She also served as a Solicitor at the Office of the Solicitor General, Provincial Administrator of the Province of Marinduque, and a member of the House of Representatives, representing the lone district of Marinduque, from 2013 to June 2016. In Congress, she was Vice Chairman of the Committee on National Defense and Security and was a member of several key committees, including Appropriations, Justice, Health, and Natural Resources. Ms. Reyes earned her Foreign Service degree from Georgetown University, USA and her Bachelor of Laws degree from the Ateneo de Manila University Law School. Ms. Reyes is a member of both the Philippine Bar and the State Bar of California.

**Ma. Virginia V. Abo-Hamda**, Filipino, 61, is a Director and Chief Financial Officer of the Company. She joined Pacific Online in September 2009 as Vice President of Instant Tickets Division and was promoted as SVP for Corporate Planning & Business Development in 2013. Prior to this, she worked as a Consultant for AB Leisure Exponent, Inc. (1999-2009), and AB Gaming & Leisure Specialist Inc. (2003-2009). Ms. Abo-Hamda served as General Accounting Manager for D'Agostino Supermarkets, Inc. New York, USA from 1990 to 1996 and as Senior Financial Analyst for Kraft-General Foods International, New York, USA from 1988 to 1989. She worked with Carlos J. Valdes & Co., CPAs from 1981 to 1986, in its Management Services Division as an Associate Consultant. She graduated Summa Cum Laude with a Bachelor of Science degree in Commerce (Major in Accounting) from College of the Holy Spirit. Ms. Abo-Hamda passed the CPA board exams in 1980 at 16<sup>th</sup> place. She earned her Master's degree in Business Administration (Concentration in Finance) from Fordham University, New York, USA.

**Armin Antonio B. Raquel Santos**, Filipino, 53, is currently the President and Chief Executive Officer of Premium Leisure Corp. (PLC) and concurrently the Executive Vice President – Integrated Resorts of Belle Corporation. He is a Director of Tagaytay Highlands International Golf Club, Inc. and Trustee and Vice President of Melco Crown Philippines Foundation Corporation. He was former Chief Finance Officer of Aboitizland, Inc., Cebu Industrial Park, Inc. and Mactan Economic Zone II and First Philippine Electric Company. He was also former Governor of the Board of Investments (BOI), served as Assistant Secretary with the Department of Trade and Industry (DTI), Vice Chairman and CEO of Philippine Retirement Authority (PRA), Executive Vice President of Philippine International Trading Corporation (PITC), and Deputy Administrator of Subic Bay Metropolitan Authority (SBMA). His experience includes stints with multinational companies; Securities 2000 Inc. (Singapore Technologies Group) and First Chicago Trust Company of New York. He holds a Master of Arts in Liberal Studies from Dartmouth College, U.S.A. and Bachelor of Science in Business Administration Major in Finance from Iona College, U.S.A.

#### ***Independent Directors***

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

**Laurito E. Serrano**, Filipino, 60, is a Director of the company since May 23, 2014. Mr. Serrano concurrently serves as Independent Director of Atlas Consolidated Mining and Development Corporation, Rizal Commercial Banking Corporation, 2GO Group Inc., and Axelum Resources Corp. He is also a director in

privately-held MRT Development Corporation. As independent director in listed entities, Mr. Serrano serves as chairman or member of such companies' audit, compliance, and risk committees. Mr. Serrano is a former partner of the Corporate Finance Consulting Group of SGV & Co. He is a Philippine Certified Public Accountant and has a Master's degree in Business Administration from the Harvard Graduate School of Business. His area of specialization is Financial Advisory and Corporate Finance in a broad range of clients and industry sectors.

**Jerry C. Tiu**, Filipino, 64, is an Independent Director of the company since February 21, 2007 and was appointed as the Lead Independent Director last May 31, 2017. He is a Director and the President of Tagaytay Highlands Community Condominium Association, Inc., Tagaytay Midlands Community Homeowners' Association, Inc., and Greenlands Community Homeowners' Association, Inc. He is likewise the President of the following companies: Tagaytay Highlands International Golf club, Inc., The Country Club at Tagaytay Highlands, Inc., Tagaytay Midlands Golf Club, Inc., and The Spa & Lodge at Tagaytay Highlands, Inc. He is a former Director of the Manila Polo Club. He holds a Bachelor of Science degree in Commerce (Major in Marketing) from University of British Columbia.

**Atty. Joseph C. Tan**, Filipino, 63, was the Founding Partner of MOST Law Firm from September 2006 to present. He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He is currently an Independent Director of 2GO Group, Inc., Premium Leisure, Corp., Pacific Online Systems Corporation and LMG Chemicals Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA (Class of 1978). He also holds a Bachelor of Laws degree from the Ateneo de Manila College of Law, Makati City, graduating with honors (Class of 1985).

## **New Nominees**

All incumbent directors are nominated for re-election at the annual stockholders' meeting on May 28, 2021, except Mr. Jerry C. Tiu (independent director) and Atty. Joseph C. Tan (independent director).

In line with corporate governance recommendations on tenure of independent directors, Mr. Tiu will end his service as independent director of the Company after his current term ends. Atty. Tan, on the other hand, ceased to be a member of the Board on 15 April 2021 when he passed on.

Atty. Ma. Gracia M. Pulido Tan has been nominated for election as independent directors vice Mr. Tiu.

**Atty. Ma. Gracia M. Pulido Tan**, 65, is the former Chairperson of the Commission on Audit, Undersecretary of Finance and Commissioner of the Presidential Commission on Good Government. She is currently a Trustee of the International Budget Partnership, an international NGO based in Washington DC, USA. She is an Independent Director of Asia United Bank, a director of several Philippine corporations, a tax consultant and legal adviser of some private clients, and an accredited Arbitrator of the Construction Industry Arbitration Commission, Philippines, and Philippine Dispute Resolution Center, Inc., Philippines. Atty. Tan served as Chairperson of the United Nations Independent Audit Advisory Committee, the first Filipino to have been elected to this 5-member Committee. She is also a professor at the University of the Philippines for Mandatory Continuing Legal Education. Backed by four decades of professional work in the Philippines and abroad as private law and accounting practitioner, government official, arbitrator and international consultant, she is an expert in the fields of legal, finance, audit, governance, dispute resolution and administration. She graduated from the University of the Philippines in 1977 with a degree in Bachelor of Science in Business Administration and Accountancy and in 1981 with Bachelor of Laws. In 1987, she obtained her Master of Laws (Tax) from the New York University.

## **Executive Officers**

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

**Romeo J. Roque, Jr.**, Filipino, 52, is Vice President for Agent Management of the Company. He joined the Company in February 5, 1996. He served as Product Support Manager for Infonet Solutions, Inc. from 1995 to 1996 and as Systems Engineer for ATS Software Pte. Ltd. in Singapore from 1993 to 1995. He previously

worked for Electroworld as Systems Consultant from 1991 to 1993. He graduated with a degree in Bachelor of Science in Computer Engineering from University of San Carlos. He was credited with Master in Business Administration academic units from the University of the Philippines.

**Christopher C. Villaflor**, Filipino, 44, is the Vice President for Central System and Network Management of the Company since 2016. He joined the Company in March 2000 as a Bench Engineer. From June 2004 to October 2009, he served as the Systems Administrator for the Data Center Operations overseeing the lottery administration and maintenance for the Visayas and Mindanao regions. In 2009 he was promoted as Senior Manager of the Data Center Operations and in August 2017, he moved up as Assistant Vice President overseeing the Central System Management Department of the Online Lottery Division. Mr. Villaflor has extensive experience in the area of system design, development and testing on both the UNIX (OpenVMS, SunOS/Solaris) environment and Microsoft Windows. He has had formal trainings on Oracle 10g Programming PL/SQL and Data Administration, AIX Unix System Administration and Operational Planning using Software Engineering for SDLC. He graduated with a degree in Bachelor of Science in Computer Engineering from the University of San Carlos in 1998.

**Ma. Concepcion T. Sangil**, Filipino, 63, is the Vice President for Human Resources Management of the Company. She has a total of 37 years professional experience, initially as a Management Consultant for over 17 years specializing in project management, institutional strengthening, organizational development, change management processes, management and operations audit, systems development and business re-engineering. She was also exposed to actual hands-on operations and management of a micro-lending institution, as an executive officer for over 8 years and later as Head of the Human Resource Division for a multi car brand dealership and multi-media company for 10 years. She graduated from St. Paul College of Manila with a degree of Bachelor of Science in Commerce, major in Accounting. She earned an MA in Urban and Regional Planning from the School of Urban and Regional Planning, University of the Philippines. She was an accredited court mediator by the Supreme Court and a certified life coach.

**Atty. Jason C. Nalupta**, Filipino, 49, is the Corporate Secretary of the Corporation. He is also currently the Corporate Secretary of listed firms A. Brown Company, Inc., Asia United Bank, Belle Corporation, and Crown Asia Chemicals Corporation. He also serves as a Director and/or Corporate Secretary or Assistant Corporate Secretary of several private companies, including Sino Cargoworks Agencies, Inc., Mercury Ventures, Inc., Total Gaming Technologies, Inc., Parallax Resources, Inc., SLW Development Corporation, Metropolitan Leisure & Tourism Corporation, Sagesoft Solutions, Inc., Radenta Technologies, Inc., Xirus, Inc., Glyphstudios, Inc., Grabagility, Inc., Basic Leisure Networks, Inc., Stage Craft International, Inc. and Sta. Clara International Corporation. He is a Partner at Tan Venturanza Valdez Law Offices specializing on corporate, securities, and business laws. Atty. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from the Ateneo de Manila University in 1996 and 1992, respectively. Atty. Nalupta was admitted to the Philippine Bar in 1997.

#### **Family Relationships**

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

#### **Significant Employees**

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

#### **Stock Option Plan**

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

The purchase price of the shares shall not in any case be less than the Fair Market Value of the Company's shares at the time of grant, and, in no case, be less than the Offer Price at which the Company's shares are

initially offered for sale to the public. Further, the purchase price shall be subject to adjustment for subsequent stock dividends or splits.

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

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

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

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

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

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

As at December 31, 2020 and 2019, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

### **Involvement in Certain Legal Proceedings**

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

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



## Certain Relationships and Related Transactions

The transactions and balances with related parties are as follows:

Category/Transaction	Year	Note	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Advances to Related Parties	Advances from Related Parties		
<b>TGTI</b>							
▪ Advances	<b>2020</b>	a	<b>P3,657,573</b>	P -	<b>P6,315,487</b>	On demand, noninterest bearing	Unsecured
	2019	a	(3,928,115)	-	2,657,914		
▪ Reimbursements	<b>2020</b>	a	<b>17,989,687</b>	-	-	On demand, noninterest bearing	Unsecured
	2019	a	31,259,301	-	-		
<b>FRI</b>							
▪ Advances	<b>2020</b>	a	-	-	-	On demand, noninterest bearing	Unsecured
	2019	a	(10,000,000)	-	-		
<b>LOTO PAC</b>							
▪ Advances	<b>2020</b>	a	<b>(986,855)</b>	-	-	On demand, noninterest bearing	Unsecured
	2019	a	150,967	-	986,855		
<b>LCC &amp; Nine Entities (sold)</b>							
▪ Advances	<b>2020</b>	a	-	-	-	On demand, noninterest bearing	Unsecured
	2019	a	79,287,018	986,855	108,375,661		
▪ Rental expense	2020	b	-	-	-	On demand, noninterest bearing	Unsecured
	2019	b	76,662,787	-	-		
▪ Security deposits	2019	b	-	-	-	On demand, noninterest bearing	Unsecured
	2019	b	22,929,104	-	-		
<b>TOTAL</b>	<b>2020</b>			<b>P -</b>	<b>P6,315,487</b>		
<b>TOTAL</b>	<b>2019</b>			<b>P986,855</b>	<b>P112,020,430</b>		

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

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

The Parent Company granted non-interest bearing cash advances to LotoPac, LCC and FRI for working capital requirements. The P10.0 million advances to FRI was converted to equity in 2019.

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

Under the terms of the lease agreement, LCC and Nine Entities are required to pay rentals equivalent to a

fixed rate per month and security deposits corresponding to three (3) months rent. These deposits consist of amounts paid in advance which can be collected in cash upon termination of the lease.

### Disagreement with Directors

The following table shows the aggregate compensation received by the directors and executive officers of the Company for calendar years 2020 and 2019, as well as the estimated aggregate compensation for calendar year 2021.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Willy N. Ocier Chairman & President				
Ma. Virginia V. Abo-Hamda Director & Chief Financial Officer				
Romeo J. Roque, Jr. VP-Agent Management				
Ma. Concepcion T. Sangil VP- Human Resources Management				
Christopher C. Villaflor VP- Central System & Network Management				
Total for the Executive Officers as a group	2021 (Estimate)			P20,510,576
	2020			P20,108,986
	2019			P13,343,054
Total for the Directors and Executive Officers as a group	2021 (Estimate)			P23,664,096
	2020			P23,150,722
	2019			P16,109,720
Total for President and 4 most highly compensated Executive Officers	2021 (Estimate)			P15,111,594
	2020			P14,005,288
	2019			P11,861,950

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

	2020	2019	2018
	<i>(In Millions)</i>		
Short-term employee benefits	<b>P20.1</b>	P27.6	P32.0
Post-retirement benefits	<b>1.8</b>	2.3	2.3
	<b>P21.9</b>	29.9	P34.3

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

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

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

## **Warrants and Options Outstanding**

### **Warrants**

The Corporation has not issued any form of warrants.

### **Stock Option Plan**

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

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

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

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

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

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

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

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

As at December 31, 2020 and 2019, there were no options outstanding or granted upon expiration of the exercisable options on May 6, 2011.

### **Item 7. Independent Public Accountants**

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

R. G. Manabat & Co. audited the Company's statement of financial position as at December 31, 2020, the statement of comprehensive income, statement of changes in stockholders' equity and statement of cash flows for the same period, together with the summary of significant accounting policies and other explanatory notes. R. G. Manabat & Co.'s responsibility is to express an opinion on these financial statements based on their audit. The audits were conducted in accordance with Philippine Standards on Auditing. The partner who handled the Company's external audit was Mr. Enrico E. Baluyut.

The Company's Board of Directors in the annual shareholders' meeting on June 22, 2020 recommended, and the shareholders approved, the appointment of R. G. Manabat & Co. as the Company's independent public accountant for the fiscal year ending December 31, 2020.

In the Company's three (3) most recent fiscal years, there has been no change in auditor and there has been no disagreement on accounting and financial disclosures. Since LCC was divested in February 2020 no audit fees for LCC will be incurred for the year 2020.

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Audit fee	P1,098,000	P1,848,000	P2,054,000
Tax services	-	600,000	600,000
Other fees			
<b>TOTAL</b>	<b>P1,098,000</b>	<b>P2,448,000</b>	<b>P2,654,000</b>

It is the policy of the Company that any draft audit report must first be reviewed by the Audit Committee prior to said report being endorsed to the Board of Directors for approval. The Audit Committee members are: Mr. Laurito E. Serrano (Chairman), Mr. Jerry C. Tiu, and Mr. Tarcisio M. Medalla. The final draft of the Company's audited financial statements was discussed and reviewed by said Committee. Whereupon said Committee resolved to recommend to the Company's Board of Directors that said financial statements be approved for issuance and disclosure to the public, the PSE and all related governmental agencies. Said audited financial statements were approved by the Company's Board of Directors during its meeting held on February 26, 2021.

#### **Item 8. Compensation Plans**

Please see the previous discussion on the Corporation's Stock Option Plan.

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

No action is to be taken during the 2021 ASM with respect to this item.

#### **Item 10. Modification or Exchange of Securities**

No action is to be taken during the 2021 ASM with respect to this item.

#### **Item 11. Financial and Other Information**

No action is to be taken during the 2021 ASM with respect to this item.

#### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action is to be taken during the 2021 ASM with respect to any transaction involving: (i) merger or consolidation into or with any other person or of any other person into or with the Company; (ii) acquisition by the Company or any of its security holders of securities of another person; (iii) acquisition of any other going business or of the assets thereof; (iv) sale or other transfer of all or any substantial portion of the assets of the Company; or (v) liquidation or dissolution of the Company.

#### **Item 13. Acquisition or Disposition of Property**

No action is to be taken during the 2021 ASM with respect to this item.

#### **Item 14. Restatement of Accounts**

No action is to be taken during the 2021 ASM with respect to the restatement of any asset, capital or surplus account of the Company.

## OTHER MATTERS

### **Item 15. Action with Respect to Reports**

The Company will seek the approval by the stockholders of the Minutes of the Annual Stockholders' Meeting held on June 22, 2020 during which the following were taken up: (1) Call to Order, (2) Proof of Notice of Meeting, (3) Certification of Quorum, (4) Approval of the Minutes of the previous Special Stockholders' Meeting, (5) Approval of 2019 Operations and Results, (6) Ratification of All Acts of the Board of Directors and Officers, (7) Election of Directors, (8) Appointment of External Auditors, (9) Other Matters, and (10) Adjournment.

The Company will also seek approval by the stockholders of the 2020 Operations and Results contained and discussed in the annual report attached and made part of this Information Statement. Approval of the reports will constitute approval and ratification of the acts of management and of the Board of Directors for the past year.

### **Item 16. Matters Not Required to be Submitted**

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

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

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

### **Item 18. Other Proposed Actions**

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

1. Minutes of the Annual Stockholders' Meeting held on June 22, 2020;
2. 2020 Operations and Results;
3. Ratification of All Acts of the Board of Directors and Officers;
4. Election of Directors for 2021-2022;
5. Appointment of External Auditors; and,
6. Other Matters.

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

1. Membership in the relevant board committees;
2. Extension of term of the Company's Equipment Lease Agreement with PCSO;
3. Approval of financial statements, annual and quarterly; and
4. Entering into joint venture.

Management reports which summarize the acts of management for the year 2020 are included in the Company's Annual Report to be made available to the stockholders together with this Information Statement and shall be submitted for approval by the stockholders at the meeting. Accordingly, approval of the Annual Report will constitute approval and ratification of the acts of Management stated therein during the period covered thereby.

### **Item 19. Voting Procedures**

- (a) Actions to be taken at the Annual Stockholders' Meeting shall require the vote of the stockholders representing at least a majority of the Company's outstanding capital stock.
- (c) Two inspectors shall be appointed by the Board of Directors before or at each meeting of the stockholders, at which an election of directors shall take place. If no such appointment shall have been made or if the inspectors appointed by the Board of Directors refused to act or fail to attend, then the appointment shall be made by the presiding officer of the meeting. For

purposes of the Annual Stockholders' Meeting on May 28, 2021, the Corporate Secretary and/or his representative, together with the Audit Partner of the External Auditor and/or his representative, have been designated as inspectors who have been tasked to oversee the counting of votes.

- (d) Stockholders may vote at all meetings either in person or by proxy duly given in writing in favor of any person of their confidence and each stockholder shall be entitled to one vote for each share of stock standing in his name in the books of the corporation; provided, however, that in the election of directors, each stockholder shall be entitled to cumulate his votes in the manner provided for by law. For the purpose of this year's annual stockholders' meeting, which will be held only in a virtual format, the stockholders may only vote through proxies or by remote communication (in absentia). The stockholders are encouraged to participate in the meeting by either of the following:
- i. by submitting duly accomplished proxies to the Office of the Corporate Secretary at 2704 East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City or via electronic copy by emailing [corporatesecretary@pacificonline.com.ph](mailto:corporatesecretary@pacificonline.com.ph) on or before 5:00 p.m. on May 21, 2021.
- For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.
- ii. by registering your votes on the matters to be taken up during the meeting through the e-voting platform set up for the purpose which can be accessed at [asmregister.loto.com.ph](http://asmregister.loto.com.ph). The e-voting portal will be open until 9:00 in the morning of May 28, 2021.
- (e) The method of counting votes shall be in accordance with the general provisions of the Revised Corporation Code. The counting shall be done by the inspectors abovementioned, witnessed and the results verified by a duly appointed independent third-party validator, Alberto, Pascual & Associates.


## SIGNATURES

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

This report is signed in the City of Pasig, Metro Manila on April 15, 2021.

## PACIFIC ONLINE SYSTEMS CORPORATION

By:

  
**WILLY N. OCIER**  
Chairman and President

## **PACIFIC ONLINE SYSTEMS CORPORATION**

### **BUSINESS AND GENERAL INFORMATION**

#### **BUSINESS**

Pacific Online Systems Corporation (“Company”) was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (“SEC”) on November 11, 1993. The Company is primarily engaged in the development, design and management of online computer systems, terminals and software for the Philippine gaming industry. It sources technology from leading global suppliers of integrated gaming systems and leases equipment to the Philippine Charity Sweepstakes Office (PCSO) for its online lotto operations in the Visayas and Mindanao (VISMIND) regions under the terms of an Equipment Lease Agreement (ELA), which was initially entered into on November 25, 1995. It also provides the necessary technical support through a Maintenance Repair Agreement (MRA) that is co-terminus with the ELA. The Company’s ELA with the PCSO was amended in 2004, 2012, 2013, 2015, 2018, and 2019, principally to extend the term thereof, in response to PCSO’s requirements to ensure integrity, sustainability and efficiency in its online lotto operations. In 2019, the ELA was extended for another year and allowed the use of the Company’s terminals for PCSO’s lotto operations in Luzon. The latest amendment to the ELA was made wherein the ELA’s term was extended up to July 31, 2021. The equipment rental revenue earned by the Company with this ELA is based on a percentage of lotto sales generated by the Company’s terminals.

In 2004, the Company acquired 50% of Total Gaming Technologies Inc. (TGTI), which has its own ELA with the PCSO for the latter’s online keno operations nationwide. TGTI’s ELA with PCSO provides for a lease period of ten (10) years commencing on the date of actual commercial operations of at least 200 online keno agents. With October 2010 established as the start of commercial operations for online keno, TGTI’s ELA will expire on September 30, 2020. On September 30, 2020, TGTI’s ELA with PCSO was extended for 6 months until March 31, 2021 to recover losses during the suspension of sales due to the pandemic and the 2019 two-month suspension. TGTI’s equipment rental revenue is based on a percentage of keno ticket sales or a fixed annual rental of P40,000 per terminal, whichever is higher. By 2013, the Company already owns 98.92% of TGTI.

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

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

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

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

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

These entities are engaged in the trading and selling of goods such as lotto, keno, sweepstakes and scratch tickets, on retail basis. The acquisition is in line with the Company's business strategy of expanding its market reach nationwide. On February 13, 2020, the Company and LotoPac sold 100% of LCC in light of the need for the Company to focus on its core business.

As of December 31, 2020, the Company's subsidiaries with its corresponding percentage of its ownership are summarized below:

	Percentage of Ownership	
	Direct	Indirect
Loto Pacific Leisure Corporation ("LotoPac")	100.00	-
Total Gaming Technologies, Inc. ("TGTI")	98.92	-
Falcon Resources, Inc. ("FRI")**		100.00
TGTI Services, Inc. (TGTISI)**		100.00

\*\* Indirectly owned through TGTI

For the year ended December 31, 2020, the Company together with its subsidiaries ("Group") generated P298.53 million gross revenues, primarily through lottery equipment rentals billed to PCSO, and posted a P381.39 million net loss. As of December 31, 2020, the Group had total assets of P1.1 billion and shareholders' equity of P863.14 million.

### Background on the TGTI Investment

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



common shares and Ten Million (10,000,000) preferred shares, both having a par value of One Peso (P 1.00) per share. On December 20, 2012, the Company's BOD approved the conversion of a major portion of its outstanding advances to TGTI to the latter's equity. TGTI on the other hand will convert a major portion of its outstanding obligation to the Company from liabilities to equity under "Deposit for future stock subscription" account once its application to increase in authorized capital stock is filed with the SEC. On April 8, 2013, SEC approved the request for an increase in authorized capital stock of TGTI. As a result of the conversion of the advances to TGTI and the assignment of Innovative's TGTI shares, the Company owns 173.1 million shares of TGTI, which increased the Company's interest in TGTI to 98.92%

## **Recent Developments**

On February 5, 2021, PCSO published its bid documents for the Five-Year Lease of the PCSO National Lottery System (PLS). PCSO indicated March 29, 2021 as the bid submission and opening date for the PLS. The Company is participating in the bidding.

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

On September 30, 2020, TGTI's ELA with PCSO was extended for 6 months until March 31, 2021 to recover losses during the suspension of sales due to the pandemic and the 2019 two-month suspension. PCSO also approved the change of draw frequency from every 10 minutes to every 5 minutes and implemented it on November 6, 2020. The official document extending the current ELA for another year is expected to be issued by PCSO on March 31, 2021, at the earliest.

On March 17, 2020, selling of PCSO games; i.e. lotto, keno, instant scratch tickets and Small-Town Lottery (STL), was suspended due to the COVID-19 pandemic. Keno sales resumed on July 28, 2020. Sales of lotto jackpot games resumed on August 7, 2020, while 2D and 3D lotto games followed on August 24. 4D and 6D digit sales resumed on January 7 and 8, 2021, respectively.

## **Agreements with the Philippine Charity Sweepstakes Office (PCSO)**

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

### **Pacific Online's Agreements**

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

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

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

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

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

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

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

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

2020 Supplemental ELA. On July 30, 2020, the ELA was amended to extend the term on a month-to-month basis from August 1, 2020 to July 31, 2021.

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

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

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

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

### **TGTI's Equipment Lease Agreement**

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

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

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

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

2020 Supplemental ELA. On December 11, 2020, the ELA was again amended to extend the term for six (6) months, effective October 1, 2020 to March 31, 2021. The amendment also required TGTI to post a cash bond and performance security bond with the aggregate amount of P2.5 million. .

### **LCC Agency Agreement**

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

### **Government Regulation and Environmental Compliance**

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

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

### **Technology Development, Supply and Service Contracts**

From 1996 to 2005, the Company had provided the PCSO a single integrated system for its online lottery operations using the GTECH Legacy system. In 2005, the Company decided to contract Scientific Games to provide its new AEGIS™ system, after having assessed the obsolescence of GTECH's lottery system infrastructure. On November 21, 2005, the Company implemented the migration from the Legacy lottery system into the new AEGIS™ System. In 2006, the Company entered into another contract with Intralot, for the provision of another new system using the LOTOS® application software. Since December 2006, therefore, the Company has been providing the PCSO a two-network system for its VISMIN online lotto operations.

Having two (2) online lottery systems running in parallel has expanded the availability of lottery terminals nationwide and provides a safety net for PCSO's operations. The new technology also helps provide versatility in connectivity given the country's hybrid telecommunications network. These systems are capable of operating nationwide through GPRS, LTE, VSAT and DSL technology which offer diversity in providing options

to sites unserviceable by specific telecommunication providers. Terminal connectivity is now a lot easier due to compatibility of the lottery terminals with widespread mobile phone cell sites in VISMIN. Online connectivity in VISMIN is now available wherever there is a cell site of Globe and Smart Telecoms, as well as VSAT providers for sites unreachable by Globe and Smart.

#### Scientific Games

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

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

#### Intralot

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

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

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

### **The Philippine Lottery Sector**

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

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

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

The PCSO online lotto games are basically two (2) types; i.e., jackpot draw and digit games. The winning numbers for jackpot draw and digit games are determined by a draw machine. For these lotto games, players purchase tickets from PCSO authorized retail outlets and wait for the future drawing of prizes. The jackpot draw games have three draws a week, while digit games have three draws daily. Draw lotto jackpot prizes are generally pari-mutuel or based on the number of winners and amount of total sales generated per game at the time of draw. Lotto digit games and keno prizes are based on a fixed odds payout structure, which does not rely on the number of players and winners per draw. For online keno, winning numbers are drawn via a Random Number Generator (RNG) program and has draws every ten (10) minutes on a daily basis. Keno draw frequency has been changed to five (5) minutes daily on November 6, 2020.

Currently, the PCSO online lotto portfolio consists of five (5) jackpot draw games and four (4) digit games. The jackpot draw games are: 6/42 Lotto, 6/45 Mega Lotto, 6/49 Super Lotto, 6/55 Grand Lotto and 6/58 Ultra Lotto; while the digit games are: 2D, 3D, 4D and 6D. All of the nine (9) lotto games operated by the PCSO are played nationwide. Modifications and enhancements of existing games and/or the introduction of new games are directed by the PCSO.

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

### The Group's Online Lottery Operations and Products

As of December 31, 2020, the Company together with its subsidiary TGTI, had over 3,650 lottery terminals installed nationwide. All online lottery terminals located in PCSO authorized retail outlets are continuously connected to PCSO's central computer system that enables real time recording and monitoring of lottery sales, and validation of winning tickets.

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

<u>Lotto Game</u>	<u>Minimum Jackpot</u>	<u>Draw Frequency</u>
6/42 Lotto .....	P 6,000,000	3x a week - Mondays, Wednesdays & Saturdays
6/45 Mega Lotto ...	P 9,000,000	3x a week - Mondays, Wednesdays & Fridays
6/49 Super Lotto ...	P 16,000,000	3x a week - Tuesdays, Thursdays & Sundays
6/55 Grand Lotto...	P 30,000,000	3x a week - Mondays, Wednesdays & Saturdays
6/58 Ultra Lotto.....	P 50,000,000	3x a week - Tuesdays, Fridays & Sundays
6D Lotto.....	P 150,000	3x a week - Tuesdays, Thursdays & Saturdays
4D Lotto.....	P 10,000	3x a week - Mondays, Wednesdays & Fridays
3D Lotto .....	P 4,500	Thrice daily
2D Lotto .....	P 4,000	Thrice daily

Due to the suspension of lottery operations of over four (4) months due to the COVID19 pandemic, the Company did not spend on development activities in 2020. Company resources were instead utilized to ensure the continuous operations of the lottery system hardware and compliance with health and safety protocols of PCSO and the concerned LGUs. However, investment in development activities was 20% and 2% in 2019 and 2018, respectively.

## **Market Profile**

Approximately 76% of PCSO's lotto sales nationwide was generated by Luzon operations, and about 24% of sales is contributed by the VISMIN regions for the year ended 2020. This may be due to Luzon's higher population density, and higher average disposable income of residents. On the other hand, the VISMIN area faces some challenges due to its geography, more frequent power failures and intermittent telco connectivity.

It is noted that while in Luzon, the jackpot games account for 69% of total lottery sales, the VisMin area shows that it is digit games that dominates the sales of the region, accounting for 77% of total lottery sales.

As of the end of 2020, the Company's total terminal deployment in VISMIN territory covered 69 cities out of 72 total cities and 539 municipalities out of total 791. In Luzon, the Company's lotto terminal deployment, covered 52 cities and 79 municipalities. The Company covers 100% of the VISMIN sales and only 7% in Luzon due to its restricted entry since 2012 up to 2019.

## **Competition**

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

## **Organization and Manpower**

As of December 31, 2020, the Group had a total of 244 employees, of which, 174 belong to Operations and 70 were administrative and other support personnel. None of the employees of the Company have organized themselves into any labor union. The Company also provides its employees additional benefits such as health care, life and accident insurance, retirement plan, training and development programs, and wellness programs, among others.

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

## **Risks**

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

### **1. General Risks**

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

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

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

The Company's ELA with PCSO is currently on a month-to-month basis since August 2020 following the failed bidding in 2019 of its national online lottery system (NOLS). With the PCSO bidding for its nationwide lottery system known as PCSO Lottery System (PLS) being held on March 29, 2021, the

Company is well positioned to be a front runner in said bidding due to its credentials and track record. It is most likely that the Company's contract with PCSO will be extended for, at least, a year due to the transition period required for a new system to be implemented, if any.

### 3. Risks Relating to the Company and its Subsidiaries

#### a. Dependence on Suppliers

The Company's lottery operations is anchored on a two-system network. The Company has existing contracts, each distinct and entered into separately, with two global leaders in the lottery industry, namely Scientific Games and Intralot, for the supply of computer supported lottery gaming systems.

In the event that the contracts, whether collectively or individually, are terminated or suspended, operations and business of the Company may be impaired.

#### b. Business Interruption Risk

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

## **PROPERTIES**

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

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

The leased properties for business offices, data center and logistics facilities, reached about 4,153 sqm by year end 2020. About 51% of these properties are located in Luzon, and 49% in VisMin. Majority of the properties in Luzon are found in Metro Manila while those in VisMin are in Cebu. The logistics centers' areas are about 2,857 sqm in total, with 1,479 sqm in Cebu and 1,378 sqm in Metro Manila. Lease terms for most office and warehouse spaces range from two (2) to three (3) years. All lease agreements have provisions for renewal subject to terms and conditions mutually agreed upon by all parties concerned. The lease agreements provide for minimum rental commitment with annual rental escalation rates ranging from 3% to 10%. Three (3) office leases located in Metro Manila were terminated in 2020.

The Company's major assets are lottery equipment, which consists mainly of lottery terminals, data center equipment, software and operating systems.

## **LEGAL PROCEEDINGS**

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

This refers to a complaint for Tortious Interference and payment of Damages filed by TMA Australia Pty. Ltd. and TMA Philippines (the “TMA Group”) against Pacific Online in August 2017. The TMA Group alleged that Pacific Online wrongfully interfered with the implementation of the Contractual Joint Venture Agreement (CJVA) between the TMA Group and PCSO when it entered into several equipment lease agreements with the latter that included a supply of paper provision. The TMA Group also applied for a writ of preliminary

injunction (WPI) against Pacific Online and prayed for damages in the amount of at least One Million Pesos (P1,000,000.00).

On 21 March 2018, the RTC granted the TMA Group's application for WPI, enjoining Pacific Online from continuing to deliver lotto paper to PCSO. During the pendency of this case, the Supreme Court issued a decision in *Philippine Charity Sweepstakes Office v. TMA Group of Companies* (G.R. Nos. 212143, 225457, and 236888, 28 August 2019), stating that the WPI issued by RTC Makati against PCSO directing it to source its paper from TMA was improperly issued, and that the CJVA – the same CJVA in this case before RTC Pasig – could not have been a valid source of rights against PCSO. TMA filed a Motion for Reconsideration, but this was denied by the Supreme Court in a Resolution dated 04 March 2020. Pacific Online then filed a Manifestation and a Supplemental Manifestation asking for the dismissal of the tortious interference case by the TMA Group.

On 08 February 2021, the court dismissed the case against Pacific Online.

## **DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

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

## **MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING PERFORMANCE AND FINANCIAL CONDITION**

### **RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

#### **2020 Compared to 2019**

The Group generated total revenues from operating sources of about P298.53 million for the year ended December 31, 2020, a decrease of P408.42 million (58%) over total revenues of P706.95 million during the same period in 2019. The decrease in revenue was due to the lower lotto and keno sales, which were hampered severely by the closure of all lotto games due to the COVID-19 pandemic and subsequent community quarantine restrictions, which kept lotto games suspended from March to August 2020. Even when lotto and keno games were allowed to open again, many operators kept their business shut for many reasons, including safety reasons or the lower traffic due to quarantine mobility restrictions. Furthermore, Keno's payouts were once again reduced upon resumption of operations, leading to a slow pick-up of sales. In an attempt to improve sales of keno, the PCSO approved the implementation of the 5- minute draws in November 2020.

The Group's total operating expenses, including depreciation and amortization, for the year ended December 31, 2020 decreased by P161.06 million (17%) to P793.63 million, from P954.68 in 2019. The decrease is attributed to the following:

- Personnel costs decreased by P33.28 million (20%) due to implementation of no work no pay policy from May to October 2020, reduced spending on staff welfare activities and attrition of employees.
- Travel and accommodation expense decreased by P46.17 million (62%) brought about by the restricted business trips due to the COVID 19 pandemic, which started in March 2020;
- Rent and utilities expense decreased by P9.80 million (25%) due to termination of three (3) office leases, closed offices during the ECQ period and implementation of skeletal force on-site after the ECQ;
- Communication expense decreased by P34.32 million (30%) due to the rebates given by Telco providers when lottery operations were suspended;
- Repairs and maintenance decreased by P79.44 million (77%) since repairs and maintenance work on terminals and facilities were not possible during the lottery suspension period;



- Advertising and promotion expense decreased by P38.42 million (81%) since all marketing activities were also suspended during the lottery suspension period;
- 
- Taxes and licenses expense decreased by P22.90 million (69%) and software license fees decreased by P95.75 million (70%) due to lower lottery sales;
- Professional fees expense decreased by P6.33 million (52%), due to reduction in consultancy fees brought about by the lottery suspension period; and
- Operating supplies expense decreased by P37.49 million (78%) due to lower consumption of paper resulting from lower lottery sales.

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

- Depreciation and amortization expense increased by P72.14 million (45%) mainly due to the amortization of prepaid software development cost;
- Provision for impairment losses increased by P182.0 million (8475%) due to provision for probable losses on non-trade receivables, operating supplies that may not be compatible with the systems upgrade with the renewal of TGTI ELA, and the pre termination of leases as part of the Group's cost cutting measures;
- Other expenses increased by P5.6 million (1585%) due to the additional spending incurred in complying with health and safety protocols of PCSO and concerned LGUs pertaining to the COVID 19 pandemic.

The net income (loss) from discontinued operation represents the operating results of LCC, which was sold to a third party on February 13, 2020. The P39.83 million net income for 2020 covers the LCC's operating results from January 1 to February 13, 2020 net of the computed gain from sale of the LCC shares. The P120.74 million net loss for 2019 covers a period of twelve (12) months, from January 1 to December 31, 2019.

The Group's net loss after tax of P381.39 million represents a P60.4 million (18.8%) increase from last year's net loss of P320.97 million. The higher net loss in 2020 was a result of over four (4) months suspension of all lottery games, the slow pace of sales recovery, and delayed reopening of the country's economy.

Total assets of the Company decreased by P609.43 million (36%) to P1.10 billion as of December 31, 2020, from P1.71 billion as of December 31, 2019. Decreases in assets are attributable to the following:

- Cash decreased by P175.20 million (52%) mainly due to lower revenues in 2020 and full payment of bank loan;
- Marketable securities decreased by P56.20 million (40%) due to unrealized mark-to-market loss of shares held and sale of LRWC preferred shares in February;
- Trade and other receivables-net decreased by P40.13 million (23%) due mainly to the lower lottery revenues and impairment of receivables from PLMC covering the quarantine period;
- Other current assets decreased by P49.53 million (23%) mainly due to the sale of LCC;
- Investment in stocks went down by P65.81 million (19%) due to lower stock market prices of investments on hand during 2020 versus 2019;
- Right of use asset decreased by P40.18 million (80%) due to the sale of LCC and provision for impairment loss of some ROU asset;
- Property and equipment decreased by P23.92 million (22%) due to depreciation of assets and sale of LCC;
- Other noncurrent assets decreased by P188.38 million (65%) due to the amortization of prepayments of technical and advisory services pertaining to software development;

The decreases in the assets above were offset by the increase in deferred tax assets of P29.91 million (57%) due to additional deferred tax provision resulting from NOLCO;

Total liabilities of P240.26 million was down by P159.15 million (40%) over last year's P399.41 million due principally to the following:

- Loan payable decreased by 100% due to the full payment of P150 million loan from Asia United Bank;
- Withholding taxes payable decreased by P1.48 million (43%) due to sale of LCC and lower withholding taxes resulting from lower operating expenses;
- Income tax payable decreased by P4.27 million (100%) due to payment of 2019 taxes by FRI;
- Lease liabilities decreased by P56.00 million (83%), due to sale of LCC and payment of leases.

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

- Trade and other current liabilities increased by P33.99 million (24%) due to accounts payable for spare parts and terminals purchased and delayed receipt of billings from Intralot and telco suppliers;
- Defined benefit liability increased by P18.60 million (62%) due to additional retirement expense recognized during the year.

As of December 31, 2020, the Company has:

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

### **Key Performance Indicators**

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

	<b>As of</b>	
	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>
Current Ratio	2.92:1.00	2.40 : 1.00
Debt-to-Equity Ratio	0.28:1.00	0.30 : 1.00
Asset-to-Equity Ratio	1.28:1.00	1.30 : 1.00

	<b>For the year ended</b>	
	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>
Return on Equity	-49.54%	-24.44%
Return on Assets	-38.75%	-18.74%
Interest Coverage Ratio	(74.86):1.00	(86.35) : 1.00
Solvency Ratio	(0.78):1.00	(0.39) : 1.00
Book Value per Share	1.02	2.15

The above performance indicators are calculated as follows:

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

Please note that the Income Statement figures in 2019 discussed in comparison to 2020 in the pages above were based on the "re-presented" Income Statement to show the impact of the discontinued operations on the Group's operating results.

### **2019 Compared to 2018**

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

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

- Personnel costs decreased by P31.4 million (9%) due to freeze hiring and non-replacement of resigned personnel;
- Rent and utilities expense decreased by P53.7 million (25%) due to the effect of adopting the PAS16;
- Consultancy fees decreased by P30.3 million (100%) due to the termination of a couple of management contracts;
- Software license fees decreased by P59.4 million (30%) due to lower lottery sales and lower rates negotiated with Intralot;
- Management fees expense decreased by P44.7 million (100%), due to negative EBITDA;

- Operating supplies expense decreased by P104.9 million (66%) due to overall decrease in Keno sales for which betslips and thermal rolls are still being supplied.

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

- Travel and accommodation expense increased by P10.9 million (15%) mainly due to the increased volume of field visits;
- Repairs and maintenance increased by P40.8 million (56%) due to higher spare parts usage to repair aging terminals;
- Advertising and promotion expense increased by P9.02 million (23%) due to updated marketing collaterals and training support for Keno and LCC agents due to the changes in ticket prices and payouts;
- Taxes and licenses expense increased by P3.24 million (10%) due to the P4.5 million DST paid for stock dividends issued in 2019;
- Entertainment and amusement expense increased by P6.02 million (31%) due to increased other business incidental expenses;
- Other income (net of other charges) decreased by P176.6 million from last year's P161.4 million (109%), mainly due to the impairment loss of LCC goodwill, mark to market loss on marketable securities.

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

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

- Cash decreased by P234.4 million (41%) mainly due to lower revenue in 2019;
- Marketable securities decreased by P15.2 million (10%) due to unrealized mark-to-market loss;
- Trade and other receivables-net decreased by P112.6 million (39%) due mainly to the lower lotto and keno sales as of last quarter of 2019 plus the lower ELA rate on keno sales starting September 2019;
- Investment in stocks went down by P108.1 million (24%) due to lower stock market prices of investments on hand during 2019 versus 2018;
- Goodwill and intangibles decreased by P17.1 million (100%) as a result of the impairment of the LCC and Nine Entities goodwill;
- Retirement benefit asset decreased by P7.9 million (100%) due to reclassification to retirement liability account as a result of higher benefits accrued;
- Property and equipment decreased by P152.2 million (59%) due to depreciation of lottery equipment and other fixed assets.

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

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

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

- Loan payable increased from zero to P140.8 million (1530%) due to a P150 million loan from Asia United Bank;
- Lease liability ROU-current increased by P41.5 million (100%), due to the effect of adopting the new accounting standard PFRS 16- Leases;
- Defined benefit liability increased by P29.2 million (from 0 in 2018) due to the accrual of retirement expense for 2019;
- Lease liability ROU-noncurrent portion increased by P9.2 million (from 0 in 2018) due to the effect of adopting the new accounting standard PFRS 16- Leases.

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

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

### **Key Performance Indicators**

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

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

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

The above performance indicators are calculated as follows:

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

## Plans and Prospects

Due to the COVID-19 Pandemic, the Group's lottery operations were halted for more than 4 months in 2020. Though operations have resumed, the sales generated are not yet at par with pre-pandemic levels. The Group foresees the next year to still be a very challenging period as health restrictions/protocols have not yet been softened in various jurisdictions, but is optimistic that it will be able to generate more favorable financial results than the past year as players and agents adjust to the new normal.

The PCSO commenced the re-bidding for its nationwide online lottery system, known as PCSO Lottery System (PLS) on February 5, 2021. Opening of bids is scheduled for March 29, 2021 and, barring any unforeseen events, the PCSO should be able to select the winning bidder and issue its Notice to Proceed sometime in June 2021. The Company is participating in the bidding and is confident that it is able to meet all the requirements of the bidding's Terms of Reference (TOR) given its track record of over 20 years in the lottery business and its technology partners that are global leaders in the gaming industry. Moreover, the Company has also maintained its ISO certification for Quality Management System (ISO 9001) and Information Security Management (ISO/IEC 27001), with SGS as its certifying body since 2015. Whatever the outcome of the bid will be, the TOR mandates the winning bidder to be ready to go on line within fourteen (14) months from receipt of the Notice to Proceed. With this, it is expected that the current lottery system being provided by the Company to PCSO will continue to be in use during this transition period from the current system to the new system.

The ELA of TGTI, the Group's keno business unit, is due to expire on March 31, 2021. PCSO officers, however, has indicated that PCSO intends to undertake a bidding for a new lottery system for Keno sometime in 2022. With this, it is expected that the ELA of TGTI will also be extended, subject to existing guidelines from the Government Procurement Policy Board, to allow PCSO time to undertake the bid.

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

## FINANCIAL STATEMENTS

The audited Financial Statements and Supplementary Schedules as of and for the year ended December 31, 2020 listed in the accompanying index to Financial Statements and Supplementary Schedules are filed as part of this Form 20-IS.

### MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Market Information

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

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

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

The movements in treasury shares are as follows:

	December 31, 2020		December 31, 2019	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of the year	50,466,984	P285,267,558	25,233,492	P285,267,558
Effect of stock dividend	-	-	25,233,492	-
Acquisitions	-	-	-	-
Balance at end of the year	50,466,984	P285,267,558	50,466,984	P285,267,558

#### Dividends

No cash or stock dividends were declared in 2020.

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

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

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

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

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

### Stock Prices

As of the trading date, April 13, 2021 the stocks of the Company closed at P2.05 per share. The Company's stock price was pegged at a high of P2.08 and at a low of P2.03 as of the same date. The stock prices as of quarter end date for 2020 are as follows:

<b>2020</b>	<b>High</b>	<b>Low</b>
First Quarter	1.52	1.49
Second Quarter	1.99	1.85
Third Quarter	1.91	1.80
Fourth Quarter	2.11	2.05

As of December 31, 2020, the Company's market capitalization amounted to P1,889,148,296 based on the closing price of P2.11 per share. Likewise, its market capitalization as of March 31, 2021 amounted to P1,835,428,439 based on the closing price of P2.05 per share.

### Security Holders

As of March 31, 2021, Pacific Online had 56 shareholders, corresponding to total common shares outstanding of 895,330,946. The top 20 stockholders as of the same date are listed below:

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



15. TAGUBA, LUCILA A.	20,000	0.0022
16. SY, CAROLINE TANCUAN	20,000	0.0022
17. SY, HANS JR. TANCUAN	20,000	0.0022
18. SY, HARVEY CHRISTOPHER TANCUAN	20,000	0.0022
19. SY, HOWARD CONRAD TANCUAN	20,000	0.0022
20. PEREZ, JOSE DEXTER F.	18,000	0.0020

### Recent Sale of Unregistered Securities

There have been no sales of unregistered securities since 2012.

### Voting Rights

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

### Dividend Rights of Common Shares

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

### Appraisal Rights

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

1. In case any amendment of the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the Company's properties and assets;
3. In case the Company decides to invest its funds in another corporation or business outside of its primary purpose; and
4. In case of merger or consolidation.

### COMPLIANCE WITH THE MANUAL ON CORPORATE GOVERNANCE

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

A review of the various established Board level committees and its respective charters were done for the year 2020. Short descriptions of the committees are as follows:

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

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

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

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

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

In spite of the pandemic’s restrictions on mass gatherings, the Company was still able to comply with the SEC guidelines on disclosures and holding of its Annual Stockholder’s Meeting. The virtual format on webinars and conference calls has made it possible for the Company to continue to perform its functions during the quarantine period.

The Enterprise Risk Matrix of the Company was updated to include risks brought about by the COVID-19 pandemic, and the closure of operations that it led to. Furthermore, Atty. Joseph Tan was appointed as a member of the Board Risk Committee.

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

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

#### **UNDERTAKING TO PROVIDE COPIES OF THE ANNUAL REPORT**

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

**JASON C. NALUPTA**  
**CORPORATE SECRETARY**  
PACIFIC ONLINE SYSTEMS CORPORATION  
28<sup>th</sup> FLOOR EAST TOWER, PSE CENTRE  
EXCHANGE ROAD, ORTIGAS CENTER, PASIG CITY  
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