



111122014001729



## SECURITIES AND EXCHANGE COMMISSION

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### Company Information

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SEC Registration No. PW00000803  
Company Name MANILA JOCKEY CLUB INC.  
Industry Classification  
Company Type Stock Corporation

### Document Information

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PW803  
S.E.C. Registration Number

MANILA JOCKEY CLUB, INC.

( Company's Full Name )

14 TH FLOOR STRATA 100 BLDG.  
F. ORTIGAS JR. ROAD  
ORTIGAS CENTER, PASIG CITY

( Business Address : No. Street City / Town / Province )

ATTY. HEATHER EZRA ANNANG  
Contact Person

687-9889  
Company's Telephone Number

QUARTERLY REPORT ENDED SEPTEMBER 30, 2014

12 31  
Month Day  
Fiscal Year

17-Q  
FORM TYPE

06 30  
Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended : September 30, 2014
2. Commission identification number : PW803
3. BIR Tax Identification No. : 203-000-786-765
4. Exact name of issuer as specified in its charter : MANILA JOCKEY CLUB, INC.
5. Province, country or other jurisdiction of incorporation or organization :  
Philippines
6. Industry Classification Code: XXXXXXXXXX (SEC Use Only)
7. Address of issuer's principal office : San Lazaro Leisure and Business Park  
Governor's Drive, Brgy. Lantic  
Carmona Cavite  
  
Postal Code : 1003
8. Issuer's telephone number, including area code : (632) 687-9889
9. Former name, former address and former fiscal year, if changed since last report:  
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4  
and 8 of the RSA  

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	996,161,286
11. Are any or all of the securities listed on a Stock Exchange?  
Yes  No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [X] No [ ]

**PART I--FINANCIAL INFORMATION**

Item 1. Financial Statements.

- Please see attached -


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

- Please see attached -

**SIGNATURES**

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

Issuer : **MANILA JOCKEY CLUB, INC.**

Signature and Title :  HEATHER EZRA C. ANNANG – Corporate Information Officer  
Date : November 14, 2014

Principal Financial/Accounting Officer/Controller :  IRENE C. HABITAN  
Date : November 14, 2014

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013**

	UNAUDITED SEPTEMBER 2014	AUDITED DECEMBER 2013
	(In Philippine Peso)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	246,467,685	263,755,702
Receivables (Notes 8 and 27)	217,308,351	233,955,121
Inventories (Note 9)	96,050,041	99,364,673
Other current assets (Note 10)	6,369,014	4,785,666
<b>Total Current Assets</b>	<b>566,195,091</b>	<b>601,861,162</b>
<b>Noncurrent Assets</b>		
Real estate receivables - net of current portion (Note 8)	148,599,151	150,661,281
Investments in associates and joint ventures (Notes 11 and 14)	2,314,007,013	2,314,472,531
Available-for-sale (AFS) financial assets (Note 12)	20,537,247	21,242,951
Property and equipment - net (Notes 13 and 31)	1,044,201,589	1,015,436,610
Investment properties (Notes 11, 14, 16 and 27)	1,013,889,296	1,023,209,265
Other noncurrent assets (Notes 1, 6 and 15)	32,760,480	34,403,555
<b>Total Noncurrent Assets</b>	<b>4,573,994,775</b>	<b>4,559,426,193</b>
<b>TOTAL ASSETS</b>	<b>5,140,189,867</b>	<b>5,161,287,355</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term loans and borrowings (Notes 14 and 16)	77,437,500	86,437,500
Accounts payable and other liabilities (Notes 11, 13 and 17)	376,746,089	315,427,564
Income tax payable (Note 26)	3,290,016	2,821,738
Current portion of interest-bearing loans and borrowings (Notes 13, 14 and 16)	3,571,429	14,285,714
Due to related parties (Notes 14 and 27)	38,640,000	38,640,000
Subscription payable	42,808,835	42,808,835
<b>Total Current Liabilities</b>	<b>542,493,869</b>	<b>500,421,351</b>
<b>Noncurrent Liabilities</b>		
Interest-bearing loans and borrowings - net of current portion (Notes 13, 14 and 16)	14,285,714	14,285,715
Accrued retirement benefits (Note 22)	39,329,197	35,061,172
Deferred income tax liabilities - net (Note 26)	264,792,769	264,792,769
<b>Total Noncurrent Liabilities</b>	<b>318,407,681</b>	<b>314,139,656</b>
<b>Total Liabilities</b>	<b>860,901,549</b>	<b>814,561,007</b>
<b>Equity</b>		
Attributable to equity holders of the parent company:		
Capital stock (Note 28)	996,171,169	948,734,898
Additional Paid In Capital (Note 28)	27,594,539	27,594,539
Actuarial remeasurement on retirement plan liabilities (Note 22)	24,875,348	24,875,348
Net changes in fair values of AFS financial assets (Note 11)	9,013,593	9,013,593
Retained earnings (Note 28):		
Appropriated	17,180,917	17,180,917
Unappropriated	3,206,741,813	3,321,616,115
Treasury shares	(7,096)	(7,096)
	<b>4,281,570,283</b>	<b>4,349,008,314</b>
Noncontrolling interests	(2,281,966)	(2,281,966)
<b>Total Equity</b>	<b>4,279,288,317</b>	<b>4,346,726,348</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,140,189,867</b>	<b>5,161,287,355</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013**

	<b>UNAUDITED</b>	
	<b>SEPTEMBER 2014</b>	<b>SEPTEMBER 2013</b>
	(In Philippine Peso)	
<b>REVENUES</b>		
Club races	55,886,981	56,158,115
Real estate	10,789,080	23,787,290
Rent income (Notes 13 and 14)	25,266,436	21,582,570
Food and beverages	3,798,233	3,307,956
Others	1,250,143	14,965,429
	<b>96,990,873</b>	<b>119,801,360</b>
<b>COSTS OF SALES AND SERVICES (Note 18)</b>		
Club races	43,489,765	41,852,888
Real estate	1,353,085	1,661,406
Rent	11,138,865	12,244,927
Food and beverages	3,495,210	4,559,630
Others	1,240,260	14,908,606
	<b>60,717,185</b>	<b>75,227,457</b>
	<b>36,273,687</b>	<b>44,573,903</b>
Selling expense	(1,964,066)	(1,189,476)
General and administrative expenses (Note 19)	(43,819,119)	(49,454,448)
Interest income (Notes 7, 8, 23 and 27)	802,679	3,749,183
Finance costs (Notes 16, 24 and 27)	(885,503)	(1,164,219)
Equity in net earnings of associates and joint ventures (Note 11)	4,299,027	-
Other income (charges) - net* (Notes 8, 12, 25 and 27)	5,074,753	27,899,492
<b>INCOME / (LOSS) BEFORE INCOME TAX</b>	<b>(218,541)</b>	<b>24,414,435</b>
<b>PROVISION FOR (BENEFIT FROM INCOME TAX) (Note 26)</b>		
Current	3,386,840	534,228
Deferred	-	-
	<b>3,386,840</b>	<b>534,228</b>
<b>NET INCOME / (LOSS)</b>	<b>(3,605,381)</b>	<b>23,880,207</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Net changes in fair values of AFS financial assets (Note 12)	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(3,605,381)</b>	<b>23,880,207</b>
Total comprehensive income attributed to:		
Equity holders of the parent company	(3,605,381)	29,566,564
Noncontrolling interests	-	(5,686,357)
	<b>(3,605,381)</b>	<b>23,880,207</b>
<b>Basic/Diluted Earnings Per Share</b>	<b>(0.004)</b>	<b>0.031</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

	<b>UNAUDITED</b>	
	<b>SEPTEMBER 2014</b>	<b>SEPTEMBER 2013</b>
	(In Philippine Peso)	
<b>REVENUES</b>		
Club races	158,816,785	162,319,498
Real estate	19,826,038	59,569,960
Rent income (Notes 13 and 14)	65,127,754	67,438,932
Food and beverages	9,215,922	4,358,834
Others	16,636,761	32,170,715
	<b>269,623,260</b>	<b>325,857,939</b>
<b>COSTS OF SALES AND SERVICES (Note 18)</b>		
Club races	125,932,493	128,437,797
Real estate	3,442,315	20,289,135
Rent	27,062,548	35,166,883
Food and beverages	11,595,718	8,044,048
Others	16,564,282	32,005,762
	<b>184,597,356</b>	<b>223,943,625</b>
	<b>85,025,904</b>	<b>101,914,314</b>
Selling expense	(3,693,601)	(4,068,390)
General and administrative expenses (Note 19)	(134,759,055)	(175,671,244)
Interest income (Notes 7, 8, 23 and 27)	12,164,373	6,190,907
Finance costs (Notes 16, 24 and 27)	(2,878,419)	(3,653,822)
Equity in net earnings of associates and joint ventures (Note 11)	12,050,247	-
Other income (charges) - net* (Notes 8, 12, 25 and 27)	17,188,034	38,704,495
<b>INCOME / (LOSS) BEFORE INCOME TAX</b>	<b>(14,902,517)</b>	<b>(36,583,739)</b>
<b>PROVISION FOR (BENEFIT FROM INCOME TAX) (Note 26)</b>		
Current	5,099,242	7,738,525
Deferred	-	-
	<b>5,099,242</b>	<b>7,738,525</b>
<b>NET INCOME / (LOSS)</b>	<b>(20,001,759)</b>	<b>(44,322,264)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Net changes in fair values of AFS financial assets (Note 12)	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(20,001,759)</b>	<b>(43,374,241)</b>
Total comprehensive income attributed to:		
Equity holders of the parent company	(20,001,759)	(30,874,062)
Noncontrolling interests	-	(13,448,202)
	<b>(20,001,759)</b>	<b>(44,322,264)</b>
<b>Basic/Diluted Earnings Per Share</b>	<b>(0.020)</b>	<b>(0.033)</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**  
(In Philippine Peso)

**SEPTEMBER 2014**

	Capital Stock (Note 28)	Additional Paid In Capital (Note 28)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 12)	Actuarial Remeasurement on Retirement Benefits	Retained Earnings - Appropriated (Note 28)	Retained Earnings - Unappropriated (Note 28)	Treasury shares	Subtotal	Noncontrolling Interests	Total
<b>BALANCES AT JANUARY 1, 2014</b>	948,734,898	27,594,539	9,013,593	24,875,348	17,180,917	3,321,616,115	(7,096)	4,349,008,314	(2,281,966)	4,346,726,348
Net income for the period	-	-	-	-	-	(20,001,759)	-	(20,001,759)	-	(20,001,759)
Investment of minority interest	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	948,734,898	27,594,539	9,013,593	24,875,348	17,180,917	3,301,614,356	(7,096)	4,329,006,555	(2,281,966)	4,326,724,589
Cash dividends declared and paid (Note 28)	-	-	-	-	-	(47,436,272)	-	(47,436,272)	-	(47,436,272)
Stock dividend declared	47,436,271	-	-	-	-	(47,436,271)	-	-	-	-
<b>BALANCES AT SEPTEMBER 30, 2014</b>	<b>996,171,169</b>	<b>27,594,539</b>	<b>9,013,593</b>	<b>24,875,348</b>	<b>17,180,917</b>	<b>3,206,741,813</b>	<b>(7,096)</b>	<b>4,281,570,283</b>	<b>(2,281,966)</b>	<b>4,279,288,317</b>

See accompanying Notes to Consolidated Financial Statements.

**SEPTEMBER 2013**

	Capital Stock	Additional paid in capital	Unrealized gain on AFS investments	Remeasurement of employee benefit	Retained Earnings - Appropriated	Retained Earnings - Unappropriated	Treasury shares	Subtotal	Noncontrolling Interests	Total
<b>BALANCES AT JANUARY 1, 2013</b>	862,487,439	27,594,539	18,707,911	41,546,784	17,180,917	1,340,831,992	(7,096)	2,308,342,486	139,342,675	2,447,685,161
Net income for the year	-	-	-	-	-	(60,440,626)	-	(60,440,626)	(7,761,845)	(68,202,471)
Effect of PAS 19R	-	-	-	-	-	-	-	-	-	-
Investment of minority interest	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	523,500,000	523,500,000
Total comprehensive income for the period	-	-	-	-	-	(60,440,626)	-	(60,440,626)	515,738,155	455,297,529
Cash dividends declared and paid (Note 28)	-	-	-	-	-	(43,123,899)	-	(43,123,899)	-	(43,123,899)
<b>BALANCES AT SEPTEMBER 30, 2013</b>	<b>862,487,439</b>	<b>27,594,539</b>	<b>18,707,911</b>	<b>41,546,784</b>	<b>17,180,917</b>	<b>1,237,267,467</b>	<b>(7,096)</b>	<b>2,204,777,961</b>	<b>655,080,830</b>	<b>2,859,858,791</b>

See accompanying Notes to Consolidated Financial Statements.



**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013**

	UNAUDITED SEPTEMBER 2014	UNAUDITED SEPTEMBER 2013
	(In Philippine Peso)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(218,541)	24,414,435
Adjustments for:		
Depreciation (Note 20)	22,972,565	27,682,123
Interest income (Note 23)	(802,679)	(3,749,183)
Finance costs (Note 24)	885,503	1,164,219
Amortization of franchise fee (Note 18)	448,500	448,500
Operating income before working capital changes	23,285,347	49,960,094
Decrease (increase) in:		
Receivables	16,650,246	(30,126,776)
Inventories	1,345,456	1,661,406
Other current assets	(2,274,719)	(27,708,391)
Increase (decrease) in:		
Accounts payable and other liabilities	59,930,438	(23,134,911)
Accrued retirement benefits (Note 22)	3,241,672	2,998,412
Cash generated from operations	102,178,441	(26,350,166)
Income taxes paid, including creditable withholding and final taxes	(903,401)	(534,228)
Net cash provided by operating activities	101,275,040	(26,884,394)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	(60,962,854)	(183,763,984)
Proceeds from:		
Sale/disposal of investment property	-	10,000,000
Interest received (Note 23)	802,679	3,749,183
Decrease/(Increase) in other noncurrent assets	290,173	425,976
Increase in investment in associates and joint ventures	533,019	-
Net cash provided by (used in) investing activities	(59,336,983)	(169,588,825)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase/(Decrease) in deposit for future stock subscription	-	218,750,000
Payments of:		
Short-term loans and borrowings (Note 16)	(3,000,000)	(2,000,000)
Long-term loans and borrowings	(3,571,429)	(3,571,428)
Due to related parties (Note 27)	-	(210,705)
Proceeds from:		
Investment of minority interest	-	29,295,478
Taxes paid on issuance of shares	-	(369,491)
Interest paid	(885,503)	(1,164,219)
Net cash used in financing activities	(7,456,931)	240,729,636
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>34,481,126</b>	<b>44,256,416</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE QUARTER</b>	<b>211,986,559</b>	<b>618,373,297</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE QUARTER (Note 7)</b>	<b>246,467,685</b>	<b>662,629,713</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

	UNAUDITED SEPTEMBER 2014	UNAUDITED SEPTEMBER 2013
	(In Philippine Peso)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(14,902,517)	(36,583,739)
Adjustments for:		
Depreciation (Note 20)	66,197,023	73,486,104
Interest income (Note 23)	(12,164,373)	(6,190,908)
Finance costs (Note 24)	2,878,419	3,653,822
Amortization of franchise fee (Note 18)	1,345,500	1,345,500
Gain on sale of AFS financial assets	(1,289,076)	-
Operating income before working capital changes	42,064,975	35,710,779
Decrease (increase) in:		
Receivables	18,708,900	(46,903,223)
Inventories	3,314,632	20,289,135
Other current assets	(1,583,348)	(32,761,085)
Increase (decrease) in:		
Accounts payable and other liabilities	59,368,475	(1,863,440)
Accrued retirement benefits (Note 22)	4,268,025	8,719,515
Cash generated from operations	126,141,659	(16,808,319)
Income taxes paid, including creditable withholding and final taxes	(4,630,964)	(6,385,792)
Net cash provided by operating activities	121,510,695	(23,194,111)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	(83,691,983)	(229,208,789)
Proceeds from:		
Acquisition of AFS financial assets	(2,800,168)	(30,000,000)
Disposal of AFS financial assets	4,794,948	-
Sale/disposal of investment property	-	10,000,000
Interest received (Note 23)	12,164,373	6,190,908
Decrease/(Increase) in other noncurrent assets	297,575	2,312,143
Increase in investment in associates and joint ventures	465,518	-
Net cash provided by (used in) investing activities	(68,769,736)	(240,705,738)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase/(Decrease) in deposit for future stock subscription	-	143,650,000
Payments of:		
Short-term loans and borrowings (Note 16)	(9,000,000)	-
Long-term loans and borrowings	(10,714,285)	(10,714,286)
Due to related parties (Note 27)	-	(5,657,614)
Proceeds from:		
Short-term loans and borrowings (Note 16)	-	30,000,000
Investment of minority interest	-	552,795,478
Taxes paid on issuance of shares	-	(369,491)
Interest paid	(2,878,419)	(3,653,822)
Dividends paid	(47,436,272)	(43,123,899)
Net cash used in financing activities	(70,028,976)	662,926,366
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(17,288,017)	399,026,517
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	263,755,702	274,603,196
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 7)</b>	246,467,685	673,629,713

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**AGING SCHEDULE OF RECEIVABLES**  
**AS OF SEPTEMBER 30, 2014**

(In Philippine Peso)

**A. AGING OF ACCOUNTS RECEIVABLE**

	<b>TOTAL</b>	<b>1-30 DAYS</b>	<b>31-60 DAYS</b>	<b>61-90 DAYS</b>	<b>91-120 DAYS</b>	<b>OVER 120 DAYS</b>
<b>TYPE OF RECEIVABLES</b>						
1 Real estate receivables - net of current portion	85,100,002	36,736,155	296,004	236,004	2,474,454	45,357,385
2 Dividends receivable	29,604,066	816,496	1,686,993	2,328,557	955,366	23,816,655
3 Rent Receivables	23,656,694	4,336,746	1,375,025	655,436	617,700	16,671,788
4 Receivables from off-track betting (OTB) operators	32,010,160	3,663,291	6,110,845	4,996,851	8,467,764	8,771,409
5 Advances and loans to officers and employees	15,656,323	1,616,924	1,890,541	1,389,635	1,467,679	9,291,543
6 Claims for tax credit certificates (TCC)	2,252,054	-	-	-	-	2,252,054
7 Deposit and advances to contractors	1,778,413	-	-	-	-	1,778,413
8 Others	35,947,415	11,322,020	2,577,530	2,383,675	796,412	18,867,781
<b>TOTAL</b>	<b>226,005,127</b>	<b>58,491,632</b>	<b>13,936,936</b>	<b>11,990,159</b>	<b>14,779,375</b>	<b>126,807,027</b>
Less: Allowance for doubtful accounts	8,696,776	-	-	-	-	-
<b>RECEIVABLES - NET</b>	<b>217,308,351</b>	<b>58,491,632</b>	<b>13,936,936</b>	<b>11,990,159</b>	<b>14,779,375</b>	<b>126,807,027</b>

**B. ACCOUNTS DESCRIPTION**

<b>TYPE OF RECEIVABLES</b>	<b>DESCRIPTION</b>	<b>COLLECTION PERIOD</b>
1 Real estate receivables - net of current portion	Sales on real estate operations	Monthly
2 Dividends receivable	Share on the net earnings of a jointly controlled entity	Quarterly
3 Rent Receivables	Receivables on leasing transactions from stables, building and other facilities	Daily/Monthly
4 Receivables from off-track betting (OTB) operators	Receivables from racing operations	Daily/Weekly
5 Advances and loans to officers and employees	Advances granted to and loans availed by officers and employees	Semi-monthly/Monthly
6 Claims for tax credit certificates (TCC)	Claim for refund on tax unduly paid	Annually
7 Deposit and advances to contractors	Claims for deposits paid to contractors	Monthly
8 Others	Various deposits and advances	Daily/Semi-monthly/Monthly

**C. OPERATING CYCLE**

Calendar Year

## **MANAGEMENT DISCUSSION & ANALYSIS OF PLAN OF OPERATIONS**

### **RESULTS OF OPERATIONS**

#### **Revenues**

Racing income for the periods ended September 30, 2014 and 2013 amounted to ₱158.8 million and ₱162.3 million, respectively. The decrease of ₱3.5 million is attributed to lesser number of racing days for the first to third quarters of 2014 which totaled to eighty two (82) racing days compared to ninety (90) racing days for the same period in 2013. The entry of another club engaged in the horseracing business which started operating in February 2013 led to the division of racing days.

The Group recognizes income from real estate sales which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Revenue from real estate is recognized under the percentage of completion (POC) method. Revenue from real estate amounted ₱19.8 million and ₱59.6 million for the periods ended September 30, 2014 and 2013, respectively or a decrease of ₱39.7 million. The unfavorable variance is due to lesser number of units sold during the period ended September 30, 2014 compared to the same period in 2013.

Revenue from the leasing of stables, buildings and other facilities decreased by ₱2.3 million from ₱67.4 million for the period ended September 30, 2013 to ₱65.1 million for the same period in 2014. The lesser number of stables rented in 2014 also contributed to the variance. Income from leasing of gaming facilities dropped in 2014 due to the decline in revenue generated by the casino operations but management hopes that revenue will increase with the additional but new gaming machines.

Revenue from sale of food and beverages increased the Group's total revenues by ₱4.9 million in 2014 from ₱4.4 million for the period ended September 30, 2013 to ₱9.2 million for the same period in 2014. The Parent Company's restaurant business started its operations in April, 2013.

The Group recognizes Other Revenues from its MJC Forex operations having a total sale of foreign currencies amounting to ₱16.6 million for the period ended September 30, 2014 compared to ₱32.2 million for the same period in 2013 decreasing by ₱15.5 million.

Interest income relates to real estate receivables and cash and cash equivalents, including retail treasury bonds. Interest income amounted to ₱12.2 million and ₱6.2 million for the periods ended September 30, 2014 and 2013, respectively, or an increase of ₱6.0 million relating primarily to the real estate operations.

Equity in net earnings of associates and joint ventures is recognized by the Group in 2014 which amounted to ₱12.1 million.

Other income (charges) decreased by ₱21.5 million from ₱38.7 million for the period ended September 30, 2013 to ₱17.2 million for the same period in 2014. The decrease is primarily attributed to the gain recognized in September 2013 on sale of an investment property.

#### **Expenses**

##### **Cost of Sale and Services**

Cost of racing services decreased by ₱2.5 million from ₱128.4 million for the period ended September 30, 2013 to ₱125.9 million for the same period in 2014. The decrease in the number of racing days directly affected the costs to conduct horse racing.

Cost of real estate pertains to the cost of real estate property recognized under the percentage of completion method, if the criteria of full accrual method are not satisfied. Cost of real estate for the period ended September 30, 2014 and September 30, 2013 amounted to ₱3.4 million and ₱20.3 million, respectively. The variance of ₱16.8 million is the net effect of the costs of real estate units sold in 2014 and the costs of real estate units previously sold that were reverted back to inventory account when units are cancelled.

Rental cost of services decreased by ₱8.1 million from ₱35.2 million for the period ended September 30, 2013 to ₱27.1 million for the period ended September 30, 2014. There was no recognition of depreciation expense in 2014 for some stable facilities and equipment as they were already fully depreciated in 2013. The decrease in utility costs contributed to the favorable variance which can be attributed to the decline in the number of stables that were leased during the period.

Cost of food and beverage for the period ended September 30, 2014 amounted to ₱11.6 million and ₱8.0 million for the period ended September 30, 2013. The restaurant business of the Parent Company started its operations in April 2013.

The cost of sales for "Others" amounted to ₱16.6 million and ₱32.0 million for the periods ended September 30, 2014 and 2013, respectively. This relates to the purchase of various foreign currencies by MJC Forex for its foreign currency exchange operations.

### **General Operating Expenses**

General and administrative expenses constitute costs of administering the business. For the period ended September 30, 2014, it amounted to ₱134.8 million or a decrease of ₱40.9 million compared with the same period in 2013 which registered an amount of ₱175.7 million. The decrease in personnel costs and expenses paid to manpower agencies contributed significantly to the decline in general and administrative expenses. This is due to the continuous cost cutting measures being strictly implemented by the Company in its effort to minimize overhead expense. Other expenses that decreased during the period include transportation expenses, meetings and conferences and taxes and licenses, among others.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to ₱3.7 million for the period ended September 30, 2014 compared to ₱4.1 million for the same period in 2013. The decrease ₱0.4 million is due to more units sold during the period ended September 30, 2013 compared to the same period in 2014.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱2.9 million and ₱3.7 million for the periods ended September 30, 2014 and 2013, respectively. The decrease of ₱0.8 million is due to declining principal balances and interest rates on the availed bank loans.

## **CHANGES IN FINANCIAL CONDITION**

### **ASSETS**

#### Total current assets decreased due to the following:

Cash and cash equivalents as of September 30, 2014 amounted to ₱246.5 million compared to its balance as of December 31, 2013 which amounted to ₱263.8 million. The decrease of ₱17.3 million can be ascribed to the payment of cash dividends, major capital expenses as well as other expenditures that were due during the period.

Receivables decreased by ₱16.6 million from its balance of ₱ 234.0 million as of December 31, 2013 compared to its balance as of September 30, 2014 which amounted to ₱217.3 million. The collections on receivables from real estate, rent and from the sale of investment property primarily caused the decrease in 2014.

Inventories relate to real estate units and food and beverage items. Total inventories amounted to ₱96.1 million as of September 30, 2014 and ₱99.4 million as of December 31, 2013. The decrease of ₱3.3 million is mainly due to the cost of real estate units that were sold during the period.

Other current assets increased by ₱1.6 million for the period ended September 30, 2014. The payment by the Parent Company of its employees' HMO caused the increase in prepayments in 2014 from ₱4.8 million as of December 31, 2013 to ₱6.4 million as of September 30, 2014. These prepayments are being amortized monthly.

Total non-current assets increased due to the following:

Real estate receivables - net of current portion decreased by ₱2.1 million from ₱150.7 million as of December 31, 2013 to ₱148.6 million as of September 30, 2014. The re-classification of the non-current portion of real estate receivables to non-current asset resulted to the variance.

Investment in associates and joint ventures as of September 30, 2014 and December 31, 2013 amounted to ₱2.3 billion.

Available-for-sale financial assets as of September 30, 2014 and December 31, 2013 amounted to ₱20.5 million and ₱21.2 million, respectively. The decrease of ₱0.7 million is the net effect of the acquisition and disposal of marketable securities during 2014.

Property and equipment increased by ₱28.8 million from its December 31, 2013 balance of ₱1.015 billion to ₱1.044 billion as of September 30, 2014. The increase is the net effect of acquisitions of various machineries and equipment during 2014 and the recognition of depreciation expense from first to third quarters of 2014.

Investment properties as of September 30, 2014 amounted to ₱1.014 billion and ₱1.023 billion as of December 31, 2013. The decrease of ₱9.0 million relates to the depreciation recognized on the BPO building (retail and developed office) located at Sta. Cruz, Manila.

Other non-current assets as of September 30, 2014 amounted to ₱32.8 million. Compared with its balance as of December 31, 2013 of ₱34.4 million, it decreased by ₱1.6 million due mainly to the amortization of franchise fee January to September 2014.

## **LIABILITIES AND EQUITY**

Total current liabilities increased due to the following:

Short-term loans and borrowings amounted to ₱77.4 million as of September 30, 2014 and ₱86.4 million as of December 31, 2013. It decreased by ₱9.0 million due to partial payments made on principal balances of the availed bank loans that matured during the period.

Accounts payable and other liabilities as of September 30, 2014 amounted to ₱376.7 million or an increase of ₱61.3 million compared to its December 31, 2013 balance of ₱315.4 million. The increase primarily came from the acquisition of new gaming slots for the casino operations of the Group wherein payment for the liability will be thru revenue sharing as agreed by the parties.

As of September 30, 2014 and December 31, 2013, income tax payable balances are ₱3.3 million and ₱2.8 million, respectively. The increase amounting to ₱0.5 million is net effect of the provision made by the Parent Company covering the period ended September 30, 2014 and payments made during the period.

During the period ended September 30, 2014, partial settlements amounting to ₱10.7 million were made by the Parent Company on matured principal balances of its long term loans with a local bank. The balances of the account as of September 30, 2014 and December 31, 2013 are ₱3.6 million and ₱14.3 million, respectively.

As of September 30, 2014 and December 31, 2013, due to related parties amounted to ₱38.6 million. This refers to the advances made by Biohitech from its affiliate, Biohitech Korea (BHK).

There was no movement on the subscription payable account which amounted to ₱42.8 million as of September 30, 2014 and December 31, 2013.

Total non-current liabilities increased due to the following:

Accrued retirement benefit as of September 30, 2014 amounted to ₱39.3 million or an increase of ₱ 4.3 million compared with its December 31, 2013 balance of ₱35.1 million. It is the net effect of the retirement expense recognized for the period ended September 30, 2014 and remittances made to the retirement fund account.

Total equity decreased due to:

Capital stock increased by 5% or ₱47.4 million due to the 5% stock dividends that was approved by the Board in April 2014 and by the stockholders in June 2014. The stocks were issued in August 2014.

Unappropriated retained earnings as of September 30, 2014 amounted to ₱3.207 billion and ₱3.322 billion as of December 31, 2013. The decrease of ₱114.9 million is attributed to the net loss of the Group for the period ended September 30, 2014 and to the declaration and payment of the five percent (5%) cash dividends during 2014.

**OTHERS**

No known trends, events, commitments or uncertainties that will have an effect on the company's liquidity. The company is not expecting anything that will have a material favorable or unfavorable impact on the company's current operation. All the figures reflected or presented during the reporting period arose from normal conditions of operation. There are no known seasonal or cyclical factors that will materially affect the racing operation of the MJCI.

**Top Five (5) key performance indicators:**

MJCI looks closely at the following to determine its over-all performance:

	<u>2014</u>	<u>2013</u>
Sales to Revenue Ratio	0.59	0.50
Sales to Expenses Ratio	0.83	0.80
Earnings Per Share	(0.02)	2.22
Current Ratio	1.04	1.20
Asset to Liability Ratio	5.97	6.34

Sales to total revenue ratio is computed by dividing the income from horse racing amounting to ₱ 158.8 million and ₱162.3 million for the periods ended September 30, 2014 and 2013, respectively by total sales/revenues of the company amounting to ₱269.6 million and ₱325.9 million for the periods ended September 30, 2014 and 2013, respectively.

Sales to expenses ratio is computed by dividing total sales/revenues amounting to ₱269.6 million and ₱325.9 million for the periods ended September 30, 2014 and 2013, respectively over expenses totaling to ₱325.9 million and ₱407.3 million for the same periods.

Earning per share is computed by dividing net income / (loss) attributable to equity holders of the Parent Company amounting to (₱20.0 million) and (₱30.9 million) for the periods ended September 30, 2014 and 2013, respectively against the weighted average number of outstanding common shares totaling to 996.2 shares and 948.7 million shares as of September 30, 2014 and 2013, respectively.

Current ratio is computed by dividing current assets amounting to ₱566.2 million as of September 30, 2014 and ₱601.9 million as of December 31, 2013 over current liabilities amounting to ₱542.5 million and ₱500.4 million as of September 30, 2014 and December 31, 2013, respectively.

Total assets as of September 30, 2014 and December 31, 2013 amounted to ₱5.1 billion and ₱5.2 billion, respectively while the corresponding total liabilities as of the same periods amounted ₱860.9 million and ₱814.6 million. Dividing total assets over total liabilities resulted to a ratio of 5.97:1 as of September 30, 2014 and 6.34:1 as of December 31, 2013.



## **MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

Manila Jockey Club, Inc. (the "Parent Company") and Subsidiaries (collectively, the "Group") was incorporated in the Philippines on March 22, 1937 and was listed with the Philippine Stock Exchange (PSE) on October 11, 1963.

In 1987, the SEC approved the extension of the Parent Company's corporate life for another fifty years starting March 22, 1987.

The Parent Company is presently engaged in the construction, operations and maintenance of a racetrack located in Cavite, Philippines and in the holding or conducting of horse races therein with bettings both directly or indirectly by means of mechanical, electric and/or computerized totalizator. It has a congressional franchise granted on November 23, 1997 under Republic Act (R.A.) No. 8407 to hold such races and to maintain the race track (see Note 15). The Parent Company is also engaged in the development and sale of condominium units and residential properties and lease of an office building through joint venture arrangements with certain developers.

Under R.A. No. 8407, the Parent Company shall pay annually to the National Treasury a franchise tax equivalent to 25% of its gross earnings from horse races in lieu of all taxes, except income tax, that are imposed by the national or local government on the activities covered by the franchise. Starting 2001, the Parent Company pays value-added tax (VAT) in lieu of the franchise tax by virtue of the provision of R.A. No. 7716 or the Expanded VAT Law.

#### **Subsidiaries, Joint Ventures, Associates and Special Purpose Entity**

The Parent Company holds 100% interest in SLLP Holdings, Inc. (SLLPHI) and San Lazaro resources and Development Corporation (SLRDC), which are both incorporated and domiciled in the Philippines. Starting April 2007, the Parent Company holds a 50% interest in Biohitech Philippines, Inc. (Biohitech), a company incorporated and domiciled in the Philippines. As of September 30, 2014, these subsidiaries have not yet started commercial operations.

Under a Memorandum of Agreement dated July 24, 2008, the Parent Company subscribed to 107,360,137 common shares of stock of MJC Investments Corporation (MIC) at a subscription price of ₱1.00 per share. MIC is a publicly listed company formerly known as Aries Prime Resources, Inc. In 2012, the Parent Company subscribed to additional 600.8 million shares of MIC in exchange for a parcel of land with a fair value of ₱600.8 million. MIC is an affiliate company with the Parent Company owning 28.32% equity interest therein.

The Parent Company incorporated on August 16, 2010 and holds a 100% interest in MJC Forex Corporation (MFC), a company incorporated and domiciled in the Philippines and engaged in the business of money changing or currency exchange and dealing and brokering in all currencies with local or foreign individuals and other entities. MFC started its business operations on May 29, 2012.

On July 23, 2013, the Parent Company formed and organized another wholly owned domestic corporation, Gametime Sports & Technologies, Inc. The primary purpose of Gametime is to design, conceptualize, operate and provide technological service and advancements and/or alternative technological facilities for sports and recreational gaming through multiple platforms.

On September 23, 2013, another wholly owned domestic corporation was organized, the Manilacockers Club, Inc. Its primary purpose is to engage in the business of cockfighting which include but not limited to the construction, establishment and operation of cockpits, the conduct and broadcast of cockfights, and the accepting of bets thereon through conventional and electronic means.

The Parent Company also has a special-purpose entity (SPE), New Victor Technology Limited (NVTL), which is incorporated in Hongkong and domiciled in the Philippines. The business purpose of NVTL is to purchase slot machines for lease to the Philippine Amusement and Gaming Corporation (PAGCOR), which operates the casino of the Parent Company located within the Turf Club at Carmona.

The Parent Company has a 33% ownership in Techsystems, Inc. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of September 30, 2014, Techsystems has not yet started commercial operations.

On March 29, 2012, a Shareholders' Agreement was executed between the Parent Company and GMA-NMI for the establishment of the new company named Gamespan, Inc., a joint venture corporation. Gamespan shall operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. On June 20, 2012, Gamespan was incorporated to implement the Shareholder's Agreement but as of September 30, 2014, it has not started its commercial operations yet.

The registered office address of the Parent Company is San Lazaro Leisure Park, Brgy. Lantic, Carmona, Cavite.

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## **2. Basis of Preparation and Statement of Compliance**

### Basis of Preparation

The consolidated financial statements are prepared using the historical cost basis, except for available-for-sale financial assets, which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), the Parent Company's functional and presentation currency, and rounded off to the nearest Peso, except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee and the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the Philippine Securities and Exchange Commission (SEC).

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## **3. Summary of Significant Changes in Accounting Policies and Disclosures**

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended PFRS, amended PAS, new and amended Philippine Interpretations based on IFRIC interpretations which became effective on January 1, 2013. Unless otherwise indicated, the adoption of the applicable new and amended

standards and interpretation do not have a material impact on the Group's consolidated financial statements.

The Accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended standards as of January 1, 2013:

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments)*

These amendments requires an entity to disclose information about rights of set-off and related arrangements (such as collateral arrangements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to enforceable master netting arrangement or 'similar arrangement', irrespective of whether they are set-off in accordance with PAS 32. The amendments requires entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The recognized amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar arrangement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

As the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment did not have an impact on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation – Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced in PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of PFRS 10 had no impact on the consolidated financial statements because the Group has assessed that all subsidiaries that were not consolidated in accordance with the old PAS 27 will continue to be consolidated in accordance with PFRS 10.

- PFRS 11, *Joint Arrangements*

PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The adoption of this standard did not have a material impact on its financial position or performance since the Group is accounting for its joint venture using the equity method on its consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PAS 12 are not comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The Group has no unconsolidated structures entities. Management also assessed that there are no subsidiaries with noncontrolling interest that are individually material to the Group. Disclosures on judgments on determination of control over subsidiaries and joint control over joint venture are provided in Note 5 of the consolidated financial statements.

▪ **PFRS 13, *Fair Value Measurement***

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair values, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 32.

▪ **PAS 1, *Presentation of Items of Other Comprehensive Income (Amendments)***

The amendments to PAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments affect presentation only and have no impact on the Group's financial position or performance.

▪ **PAS 19 (Revised), *Employee Benefits***

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

Prior to the adoption of the Revised PAS 19, the Group recognizes actuarial gains and losses as income or expense when the net cumulative unrecognized gains or losses for each individual plan at the end previous periods exceeds 10 percent of the higher of the defined benefit obligation and the fair value of the plan assets. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and past service costs, if any, in profit or loss in the period they occur.

The Group applied the amendments retrospectively. The effects of the adoption of the Revised PAS 19 are detailed below:

	As December 2013	at 31, As at December 31, 2012
Increase (decrease) in:		
<u>Statements of financial position</u>		
Accrued retirement benefit	(P34,176,360)	(P40,497,679)

Deferred tax liabilities - net	10,252,908	12,149,304
Actuarial gains on retirement benefits	24,875,348	28,429,500
Retained earnings	(951,896)	(81,125)
	2013	2012
<u>Statements of comprehensive income</u>		
Net retirement cost	₱1,243,959	₱361,684
Income tax expense	373,188	108,505
Net income	(870,771)	(253,179)
Other comprehensive income, net of tax	(3,554,152)	9,011,972

- *PAS 27, Separate Financial Statements (as revised in 2011)*  
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have significant impact on the separate financial statements of the entities in the Group.
- *PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)*  
As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

Annual Improvements to PFRs (2009-2011 cycle)

*The Annual Improvements to PFRS (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. These amendments to the following standards, which the Group adopted, have no impact to the financial statements:

- PFRS 1, *First-time Adoption of PFRS – Borrowing Costs*;
- PAS 1, *Presentation of Financial Statements – Clarification of the Requirement for Comparative Information*;
- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*;
- PAS 32, *Financial Instruments: Presentation – Tax Effects of Distributions to Holders of Equity Instruments*; and

PAS 34, *Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities*.

*Future Changes in Accounting Policies*

Standards issued but not yet effective up to the date of issuance of the financial statements are listed below. Unless otherwise stated, the adoption of the applicable standards will not have an impact on the financial statements. The Group intends to adopt the applicable standards and interpretations when they become effective.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)*

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria of settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

- **PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets (Amendments)***  
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.
- **PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments)***  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
- **PFRS 10 PFRS 12 and PFRS 27, *Investment Entities (Amendments)***  
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit and loss.
- **Philippine Interpretation IFRIC 21, *Levies (IFRIC 21)***  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- **PFRS 9, *Financial Instruments***  
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.
- **Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate***

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The standard has no impact on the Group's financial position and performance.

#### Annual Improvements to PFRSs (2010-2013 cycle)

The Annual Improvements to PFRSs (2010-2013 cycle), which are expected to have no impact to the financial statements of the Group, contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Conditions*;
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*;
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*;
- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*;
- PFRS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*;
- PAS 24, *Related Party Disclosures – Key Management Personnel*;
- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of accumulated Amortization*

#### Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle), which are expected to have no impact to the financial statements of the Group, contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of PFRS – Meaning of 'Effective PFRSs'*;
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*;
- PFRS 13, *Fair Value Measurement – Portfolio Exception*;
- PFRS 40, *Investment Property*.

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## **4. Summary of Significant Accounting and Financial Reporting Policies**

### Basis of Consolidation

The consolidated financial statements of the Group include the accounts of the Group where the Parent Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that gives it the current ability to direct the current activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns



When the Group has less than the majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

*Subsidiaries.* Subsidiaries are entities controlled by the Parent Company. Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continues to be consolidated until the date such control ceases.

*Non-controlling interests.* Non-controlling interests represent the portion of profit or loss and assets of Biohitech in 2014 and 2013 that are not held by the group and are presented separately in the consolidated statement of comprehensive income and consolidated balance sheet separate from equity attributable to equity holders of the parent.

An acquisition, transfer or sale of a non-controlling interest is accounted for as an equity transactions. No gain or loss is recognized in an acquisition of a non-controlling interest. If the Group loses control over a subsidiary, it: (i) derecognizes the assets (including goodwill) and liabilities of a subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statement of income; and (iii) reclassifies the Parent Company's share of components previously recognized in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate.

*Transactions Eliminated on Consolidation.* All intragroup transactions and balances including income and expenses, and unrealized gains and losses are eliminated in full.

*Accounting Policies of Subsidiaries.* The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as those of the Parent Company.

*Functional and Presentation Currency.* The Group's consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

#### Business Combinations and Goodwill

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.



If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and net assets and goodwill is recognized in the consolidated statement of comprehensive income.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

#### Financial Assets and Financial Liabilities

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

Financial assets are classified into the following categories:

- a. Financial assets at FVPL
- b. Loans and receivables
- c. Held-to-maturity (HTM) investments

d. AFS financial assets

Financial liabilities, on the other hand, are classified into the following categories:

- a. Financial liabilities at FVPL
- b. Other financial liabilities

As of September 30, 2014 and December 31, 2013, the Group has no financial assets or financial liabilities at FVPL and HTM investments.

The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every balance sheet date.

a. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included in this category are the Group's cash in banks and cash equivalents, receivables and deposits (presented as part of "Other noncurrent assets" in the consolidated balance sheet) as of September 30, 2014 and December 31, 2013.

b. *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of investments classified as AFS financial assets are recognized as other comprehensive income, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to profit or loss. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the consolidated statement of comprehensive income and in equity is included in profit or loss.

Unquoted AFS financial assets that do not have ready market prices are measured at cost, less allowance for impairment, if any, since their fair market value cannot be reliably measured.

The Group's AFS financial assets consist of investments in quoted and unquoted equity securities, preferred shares and club membership shares as of September 30, 2014 and December 31, 2013.

c. *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g., payables and accruals) or borrowings (e.g., loans and obligations arising from finance lease). The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium (or discount) and any directly attributable transaction costs. Gains and losses on amortization and accretion are recognized in profit or loss.

Included in this category are the Group's short-term and long-term loans and borrowings, accounts payable and other liabilities, due to related parties and subscription payable as of September 30, 2014 and December 31, 2013.

#### De-recognition of Financial Assets and Financial Liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### Day 1 Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

#### Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*Assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in profit or loss under "Other income (charges) - net" account. Any subsequent reversal of an impairment loss is recognized in profit or loss under "Other income (charges) - net" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

*Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the current market rate of return for a similar financial asset.

*AFS financial assets*

In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized as other comprehensive income and in equity.

### Inventories

Inventories include real estate inventories and food and beverages inventory, which are valued at the lower of cost and net realizable value.

Costs consist of all expenditures incurred which are directly attributable to the acquisition, development and construction of the real estate properties. The carrying values of revalued real estate properties as of January 1, 2004 transferred to real estate inventories in 2005 were considered as the assets' deemed cost as of the said date in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*. Interests on loans (borrowing costs) incurred during the development or construction phase were also capitalized as part of the cost of the real estate inventories.

Net realizable value is the fair value less cost to sell in the ordinary course of business less the estimated costs of completion.

### Investments in Associate and Joint Venture

Investment in associate in which the Group exercises significant influence and which is neither a subsidiary nor a joint venture of the Group is accounted for under the equity method of accounting.

A joint venture is a type of joint arrangement whereby the parties that have a joint control of the arrangement have rights to the net assets of the joint venture. The Group's investment in a joint venture is accounted for using the equity method.

Under the equity method, the cost of investment in associate and joint venture is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate and joint venture. Goodwill, if any, relating to an associate or joint venture is included in the carrying value of the investment and is not amortized or separately tested for impairment. The consolidated statement of comprehensive income reflect the share of the results of operations of the associate and joint venture. Where there has been a change recognized directly in the equity of the associate and the joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized profits or losses resulting from the transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate and joint venture.

The reporting dates of the associate, the joint venture and the Parent Company are identical and the accounting policies of the associate and joint venture conform to those used by the Group for like transaction and events in similar circumstances.

Upon loss of joint control over the joint venture and loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture and the associate upon loss of joint control and significant influence, respectively, and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

### Fair Value Measurement

The Group measures financial instruments and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value measurement of a non-financial asset or liability is measured using the assumptions that market participants act in their economic best interest.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets and liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant for the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For a assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Property and Equipment

Property and equipment (except for land) is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Land is stated at cost less any accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, nonrefundable taxes, any related capitalizable borrowing costs and other directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation commences when an asset is in its location and condition capable of being operated in the manner intended by the management. Depreciation ceases at the earlier of the date that the asset is classified as held for sale in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	No. of Years
Land improvements	5 to 25
Building and improvements	5 to 25
Machinery and equipment	3 to 10

Transportation equipment	5 to 10
Furniture and fixtures	5

The assets' estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is charges to current operations.

When assets are sold or retired, their costs and accumulated depreciation, including any accumulated impairment in value, are eliminated from the accounts. Any gain or loss resulting from their disposal is included in profit or loss.

Construction in progress is stated at cost. This includes cost of construction, borrowing costs incurred during the development or construction phase and other direct costs. Borrowing costs are capitalized until the property is completed and becomes operational. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use. The capitalized interest is amortized over the estimated useful life of the related assets.

#### Investment Properties

The Group's investment properties consist of land not used in operations and land and building held for lease. Investment properties are measured initially at cost, including transaction costs. The revalued amount of the land is taken as their deemed cost in accordance with PFRS 1 as of the date of adoption.

Investment properties, except land, are subsequently measured at cost less accumulated depreciation and any accumulated impairment in value. Land is subsequently carried at cost less any impairment in value.

Depreciation of investment properties commences once they become available for use and is calculated on a straight-line basis over the estimated useful life of 25 years. Depreciation ceases at the earlier of the date that the asset is classified as held for sale in accordance with PFRS 5 and the date the asset is derecognized. The estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from the items of investment property.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use or no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the consolidated balance sheet) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains as investment property and is not reclassified as owner-occupied property during the redevelopment.



Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

#### Franchise Fee

The franchise fee, presented as part of "Other noncurrent assets" in the consolidated balance sheet, is accounted for at cost less accumulated amortization and any accumulated impairment in value. Costs incurred for the renewal of the Parent Company's franchise for another 25 years starting November 23, 1997 have been capitalized and are amortized over the period covered by the new franchise. The carrying value of the franchise is reviewed for impairment when there are indicators of impairment and any impairment loss is recognized in profit or loss.

#### Impairment of Nonfinancial Assets

The Group assesses at each balance sheet date whether there is an indication that its interest in a jointly controlled entity, property and equipment, investment properties, goodwill, franchise fee and investment in an associate may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying value of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value not be recoverable.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units') to which the goodwill relates. Recoverable amount is the higher of the cash-generating unit's (or group of cash-generating units') fair value less costs to sell and its value in use. However, it is not always necessary to determine both the cash-generating unit's (or group of cash-generating units') fair value less costs to sell and its value in use. If either of these amounts exceed the goodwill's carrying amount, the cash-generating unit is not impaired and it is not necessary to estimate the other amount.

Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.



The Group performs its annual impairment test of goodwill as of December 31 of each year.

#### Capital Stock

Capital stock represents the portion of the paid in capital representing the total par value of the shares issued. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

The Parent Company's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized as additional paid-in capital.

#### Deposit for Future Stock Subscription

Deposit for future stock subscription represents amounts received that will be applied as payment in exchange for a fixed number of the Company's own equity instruments, and presented in the equity section of the balance sheet. These are measured at cost and are reclassified to capital stock upon issuance of shares.

In accordance with Financial Reporting Bulletin No. 6 issued by the SEC, the following elements should be present as of the balance sheet date in order for the Deposits for Future Subscriptions (DFS) to qualify as equity:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is a BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as liability.

#### Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions and effects of changes in accounting policy.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders, after adjustments for any unrealized items, which are considered not available for dividend declaration.

Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

#### Dividend Distribution

Dividends are recognized as a liability and deducted from equity when declared by the BOD of the Parent Company. Dividends for the year that are declared after the balance sheet date are dealt with as a non-adjusting event after the balance sheet date.

#### Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income attributable to equity holders of the Parent Company for the year by the weighted average number of common shares

outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to equity holders of the Parent Company for the year by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The Parent Company currently does not have potential dilutive common shares.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as an agent in its club racing operations and as principal in all other arrangements (i.e., real estate sales and rental services). The following specific recognition criteria must also be met before revenue is recognized:

##### *Commission income from club races*

Revenue is recognized as earned based on a percentage of gross receipts from ticket sales from horse racing operations in accordance with the Parent Company's franchise agreement.

##### *Real estate sales*

Revenue from the sale of condominium units and residential properties from the joint venture, where there are material obligations under the sales contract to provide improvements after the property is sold, is recognized under the percentage-of-completion method. Under this method, revenue on sale is recognized as the related obligations are fulfilled.

Revenue on sales of real estate properties where a sufficient down payment has been received, the collectability of the sales price is reasonably assured, the refund period has expired, the receivables are not subordinated and the seller is not obligated to complete improvements, is accounted for under the full accrual method. If the criterion of full accrual method were not satisfied, any cash received by the Group is considered as trade payable and buyers' deposits and included as part of "Accounts payable and other liabilities" in the consolidated balance sheet.

##### *Rental income from stables, building and other facilities*

Revenue from the lease of stables, building and other facilities is recognized in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

##### *Interest income*

Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

##### *Dividend income*

Revenue is recognized when the Group's right to receive the payment is established.

#### Cost of Sales and Services and Expenses

Cost of club races, cost of rental services and expenses are recognized in the consolidated statement of comprehensive income at the date they are incurred.

Cost of real estate sales pertains to the cost of the land and is recognized under the percentage-of-completion method, if the criteria of the full accrual method are not satisfied.

Selling expense pertains to the marketing fees related to the real estate sales. General and administrative expenses constitute cost of administering the business.

#### Other Comprehensive Income

Items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year are recognized as other comprehensive income and are presented as other comprehensive income in the consolidated statement of comprehensive income. Other comprehensive income of the Group pertains to gains and losses on remeasuring AFS financial assets.

#### Retirement Benefits Cost

The Group has non-contributory funded defined benefit plans, administered by trustees, covering substantially all of its regular employees.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employee's projected salaries.

Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and re-measurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in the profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not re-classified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit plan or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market prices available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined asset is limited to the present value of economic benefits available on the form of refunds from the plan or reductions in future contributions to the plan.

#### Leases

The determination of whether the arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

- b. a renewal option is exercised or extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to reassessment for scenario (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

#### *The Group as a lessee*

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

#### *The Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

#### Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred.

#### Taxes

##### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

##### *Deferred tax*

Deferred tax is recognized using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are

reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the related deferred taxes relate to the same taxable entity and the same taxation authority.

Income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

#### *Value Added Tax (VAT)*

Revenue, expenses and assets are recognized net of the amount of VAT except where the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

#### Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at balance sheet date. All foreign exchange gains and losses are recognized in profit or loss.

#### Provisions and Contingencies

Provisions are recognized when: (1) the Group has a present obligation (legal or constructive) as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and its amount is estimable.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on the Group's operating segments is presented in Note 30 to the consolidated financial statements.

#### Events After the Balance Sheet Date

Post year-end events that provide additional information about the Group's financial position at the balance sheet date (adjusting events), if any, are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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### 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from the estimates and assumptions used. The effects of any change in estimates or assumptions are reflected in the consolidated financial statements when these become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements.

#### *Determination if control exists in an investee company*

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Management has determined that by having 54.42% ownership in MIC and 50.00% ownership in Biohitech, it has control by virtue of its power to cast the majority of votes at meetings of the BOD and control of the entity is by that BOD.

In 2013, after the investments made by the Strategic Investors in MIC, management has determined that it has lost control in MIC and retained only significant influence.

#### *Determination if joint control exists in a jointly venture*

Joint control is the contractually agreed sharing of control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The strategic financial and operating decisions of the San Lazaro BPO Complex Joint Venture (San Lazaro JV) are being managed by a Tenant Review Committee, which is composed of representatives from the venturers. Management has determined that it has joint control since the strategic financial and operating decisions of the San Lazaro JV are made jointly by the venturers through the said committee.

Further, the strategic financial and operating decisions of Gamespan, Inc. (Gamespan) are being managed by its BOD composed of seven directors nominated equally by the Parent Company and GMA- New Media, Inc. and another director commonly nominated by both parties. Management has determined that it has joint control over Gamespan since the strategic financial and operating decisions of the entity are made jointly by the venturers through its BOD.

#### *Classification of financial instruments*

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of the instruments. The substance of financial instruments, rather than their legal form, governs their classification in the consolidated balance sheet. The Group determines the classification on initial recognition and re-evaluates this designation at every balance sheet date, as appropriate. The Group's classifications of financial instruments are shown in Note 32 to the consolidated financial statements.

*Classification of leases*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease agreements which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items are accounted for as finance leases. Otherwise, these are considered as operating leases.

a. *Operating lease commitments - the Group as a lessor*

The Group has entered into lease agreements on certain items of its property and equipment and investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties since there will be no transfer of ownership of the leased properties to the lessees. Accordingly, the lease agreements are accounted for as operating leases (see Notes 14, 15 and 32).

b. *Operating lease commitments - the Parent Company as lessee*

The Parent Company has entered into a lease agreement for the lease of office and parking lots where it has determined that the risks and rewards related to the leased assets are retained by the lessor since there will be no transfer of ownership of the leased properties to the Parent Company. As such, the lease agreement was accounted for as an operating lease (see Note 31).

*Impairment of noncurrent nonfinancial assets, except goodwill*

The Group assesses at each balance sheet date whether there is any indication that its interest in a joint venture, property and equipment, investment properties, franchise fee and investment in an associate may be impaired. Indication of impairment include: (a) decline in the asset's market value that is significantly higher than would be expected from normal use; (b) evidence of obsolescence or physical damage; (c) internal reports indicate that the economic performance of the asset will be worse than expected; etc. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

There were no indicators of impairment present on the noncurrent nonfinancial assets, as such, there were no impairment losses recognized for the periods ended September 30, 2014 and December 31, 2013 for interest in a jointly controlled entity and franchise fee. Total carrying value of the Group's interest in a jointly controlled entity, property and equipment and franchise fee as of September 30, 2014 and December 31, 2013 are disclosed in Notes 12, 14 and 16 to the consolidated financial statements.

No impairment losses were recognized for the periods ended September 30, 2014 and 2013 for investment properties.

*Recognition of deferred tax assets*

The Group reviews the carrying amount of the deferred tax assets at each balance sheet date and adjusts to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

As of September 30, 2014 and December 31, 2013, the Parent Company's deferred tax assets and subsidiaries' unrecognized deferred tax assets are disclosed in Note 26 to the consolidated financial statements.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Determination of fair value of financial instruments*

Financial assets and financial liabilities, on initial recognition, are accounted for at fair value. The fair values of financial assets and financial liabilities on initial recognition are normally the transaction prices. In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. The Group has quoted financial assets carried at fair value referred with prices in active markets. There are no financial assets and financial liabilities carried at fair value derived from valuation techniques.

As of September 30, 2014 and December 31, 2013, the fair values of financial assets and financial liabilities are disclosed in Note 32 to the consolidated financial statements.

*Estimation of allowance for doubtful accounts*

The allowance for doubtful accounts relating to receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total allowance to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is made.

The amount and timing of recorded expenses for any period could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for doubtful accounts will increase its recorded operating expenses and decrease its current assets.

As of September 30, 2014 and December 31, 2013 the carrying value of receivables (including noncurrent portion of real estate receivables), net and allowance for doubtful accounts are disclosed in Note 8 to the consolidated financial statements.

*Determination of net realizable value of real estate inventories*

The Group's estimates of the net realizable values of real estate inventories are based on the most reliable evidence available at the time the estimates are made of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of the net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

As of September 30, 2014 and December 31, 2013, the cost of the real estate inventories and carrying value of the real estate inventories are disclosed in Note 9 to the consolidated financial statements.



*Estimation of percentage of completion*

The Group estimates the percentage of completion of ongoing projects for purposes of accounting for the estimated costs of development as well as real estate revenue to be recognized. The percentage of completion is based on the technical evaluation of the project engineers. As of September 30, 2014 and 2013, costs of real estate sales are disclosed in Note 18 to the consolidated financial statements.

*Estimation of impairment of AFS financial assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more of original cost and 'prolonged' as greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities.

As of September 30, 2014 and December 31, 2013, the aggregate carrying value of the Group's AFS financial assets is disclosed in Note 12 to the consolidated financial statements. The Group believes that its AFS financial assets are not impaired. Accordingly, no impairment loss was recognized for the periods ended September 30, 2014 and 2013.

*Estimation of the useful lives of property and equipment and investment properties (excluding Land)*

The Group estimates the useful lives of property and equipment and investment properties based on the internal technical evaluation and experience with similar assets. Estimated useful lives of property and equipment and investment properties (the period over which the assets are expected to be available for its intended use) are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets.

As of September 30, 2014 and December 31, 2013, the net book value of depreciable property and equipment are disclosed in Note 13 to the consolidated financial statements. The net book value of depreciable investment property as of September 30, 2014 and December 31, 2013 are disclosed in Note 14 to the consolidated financial statements.

*Provisions*

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. No provisions were recognized for the periods ended September 30, 2014 and 2013.

*Estimation of retirement benefits cost and obligations*

The determination of the obligation and retirement benefits cost is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 22 to the consolidated financial statements and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. Actual results that differ from the Parent Company's assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Parent Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

As of September 30, 2014 and December 31, 2013, unrecognized net actuarial gains, accrued retirement benefits are disclosed in Note 22 to the consolidated financial statement. Retirement

benefits cost for the periods ended September 30, 2014 and 2013 are disclosed in Note 22 to the consolidated financial statements.

## 6. Business Combination, Goodwill and Property for Share Exchange

On April 16, 2008, the BOD gave authority to the Parent Company's management to enter into a MOA with MIC for the transfer of some assets of the Parent Company to the latter under a property for share exchange, subject to agreed conditions. These assets refer to certain properties and gaming equipment.

There were no changes in the disclosures from July 24, 2008 to October, 2012 as disclosed in reports previously submitted to the Securities and Exchange Commission regarding the execution of conditions of the MOA and other pertinent transactions related thereto between the Parent company and MIC.

### Entry of a New Investors Group

In 2013, the Parent Company allowed a group of Strategic Investors to subscribe to MIC's shares of stock. The Board of Directors and stockholders of MIC approved the subscription by the Strategic Investors to 1.325 billion shares of stock of MIC at ₱1 per share for an aggregate consideration of ₱1.325 billion. The subscription was taken from the increase in the authorized capital stock of MIC. The subscription was made in two tranches. The first tranche amounting to ₱450.0 million was subscribed and issued on January 18, 2013 while the second tranche amounting to ₱875.0 million was subscribed and issued on October 3, 2013. Both subscriptions were fully paid by the investors.

With this transaction, the Parent Company still has significant influence over MIC through its equity holding of 28.32% in MIC. As a result, the following assets and liabilities were derecognized at their book value as of January 18, 2013 from the consolidated balance sheets of the Group:

	Book value	Fair value
<b>Assets</b>		
Cash and cash equivalents	₱483,892,026	₱483,892,026
Receivables	113,484,393	113,484,393
Other current assets	2,034,395	2,034,395
Property and equipment	122,216,860	610,676,786
Other noncurrent assets	72,096,000	72,096,000
	<u>793,723,674</u>	<u>1,282,183,600</u>
<b>Liabilities</b>		
Accounts payable and other liabilities	12,979,820	12,979,820
Income tax payable	3,500	3,500
	<u>12,983,220</u>	<u>12,983,320</u>
<b>Net Assets</b>	<b>780,740,354</b>	<b>1,269,200,280</b>
Goodwill	75,816,953	7,108,078,686
Uncontrolled interest		(3,384,750,000)
		<u>₱4,992,528,966</u>

### Impairment Testing of Goodwill

The Group performed its annual impairment testing of goodwill related to the acquisition of MIC amounting to ₱75.8 million. The recoverable amount was determined based on the fair value less costs to sell. The fair value less costs to sell was based on available data from observable market prices of the shares of stock of MIC less incremental costs for disposing of the asset. The

recoverable amount of MIC, including the goodwill, is higher than the Group's share in MIC's net assets plus goodwill, thus, no impairment loss was recognized in 2012 and 2011.

The calculation of the recoverable amount used on fair value less costs to sell is most sensitive to the market price of the shares in the active market. Management believes that no reasonably possible change in the market price would cause the carrying value of the Group's share in MIC's net assets and goodwill to materially exceed its recoverable amount.

## 7. Cash and Cash Equivalents

	September 2014	December 2013
Cash on hand	₱13,936,580	₱11,382,802
Cash in banks	210,041,470	151,188,886
Cash equivalents	22,489,635	101,184,014
	<b>₱246,467,685</b>	<b>₱263,755,702</b>

Cash in banks generally earn interest at the respective bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months and earn interest at the respective short-term deposit rates.

Interest income earned amounted to ₱1.2 million and ₱8.5 million for the periods ended September 30, 2014 and 2013, respectively (see Note 23).

## 8. Receivables

	September 2014	December 2013
Real estate receivables - current portion	₱85,100,002	₱137,773,047
Receivables from off-track betting (OTB) operators	32,010,160	1,193,961
Dividends receivable (see Note 11)	29,604,066	17,088,300
Rent receivables (see Notes 13 and 14)	23,656,694	26,628,846
Advances and loans to officers and employees	15,656,323	9,427,855
Claims for tax credit certificates (TCC)	2,252,054	2,252,054
Deposits and advances to contractors (see Note 13)	1,778,413	1,778,413
Receivable from sale of investment property	-	20,000,000
Others	35,947,416	26,509,421
	226,005,128	242,651,897
Less: Allowance for doubtful accounts	8,696,776	8,696,776
	<b>₱ 217,308,351</b>	<b>₱233,955,121</b>

### Real Estate Receivables

The real estate receivables of the Parent Company are as follows:

	September 2014	December 2013
Current	₱85,100,001	₱137,773,047
Noncurrent	148,599,151	150,661,281
Total	<b>₱233,699,153</b>	<b>₱288,434,328</b>

Interest income earned from real estate receivables amounted to ₱10.7 million and (₱3.0) million for the periods ended September 30, 2014 and 2013, respectively (see Note 23).

Claims for TCC

As of September 30, 2014, the ₱2.3 million tax refund which the Parent Company accrued in its books still remains as a receivable as the *writ of execution* issued by the Trial Court has not been implemented yet as of the period ended.

Allowance for Doubtful Accounts

The following table shows the roll forward of the allowance for doubtful accounts pertaining to rent receivables as of September 30, 2014 and December 31, 2013:

	September 2014	December 2013
Balance at beginning of year	₱8,696,776	₱6,000,000
Provision for during the period (Note 19)	-	7,188,405
Amounts written off	-	(4,491,629)
<b>Balance at the end of the period</b>	<b>₱8,696,776</b>	<b>₱8,696,776</b>

Allowance for doubtful accounts was based on specific assessment made by the management.

The Parent Company directly wrote-off receivables amounting to ₱0.2 million in 2013. No write-off was made during the period ended September 30, 2014.

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**9. Inventories**

	September 2014	December 2013
Real estate		
Sta. Cruz property - at cost	₱81,875,436	₱82,811,334
Memorial lots - at net realizable value	9,004,652	11,618,882
Carmona property - at cost	4,737,890	4,630,076
Food and beverages	432,063	304,381
	<b>₱96,050,041</b>	<b>₱99,364,673</b>

No impairment loss was recognized during the periods ended September 30, 2014 and in 2013.

The Parent Company entered into agreements with certain real estate developers to develop properties of the Parent Company located in Sta. Cruz, Manila and Carmona, Cavite into residential complexes. Significant provisions of the agreements are discussed below.

Sta. Cruz Property

On February 26, 2005, the Parent Company entered into Joint Development Agreements (JDAs) with Avida Land Corporation (Avida) and Alveo Land Corporation [Alveo, formerly Community Innovations, Inc. (CII)] for the development of 5.2 hectares and 1.3 hectares (the "Project Areas"), respectively, of the Parent Company's 11.6-hectare property located in Sta. Cruz, Manila, into a primary residential complex consisting of condominium buildings and townhouses (the "Project"). Under the JDAs, the Parent Company agreed and contributed to the Project its rights, title and interest in and to the Project Areas while Avida and Alveo agreed and provided the necessary capital to finance the Project and expertise to develop the Project Areas. In return for their respective contributions to the Project, the Parent Company, Avida and Alveo received their respective allocation as described in the JDAs. As of September 30, 2014, the project is still ongoing.

Carmona Property

On February 24, 2004, the Parent Company entered into a Joint Venture Agreement (JVA) with Century Communities Corporation (CCC) for the development of 17.09 hectares of the Parent Company's 33-hectare property in Carmona, Cavite into an exclusive residential subdivision with some commercial areas.

Marketing expense, presented as “Selling expense” in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost of the developer/ venture in accordance with the JDA/ JVA. The amount of marketing cost for the periods ended September 30, 2014 and 2013 amounted to ₱3.7 million and ₱4.1 million, respectively.

Food and beverages

The Parent Company started its restaurant business in April, 2013.

**10. Other Current Assets**

	September 2014	December 2013
Prepayments	₱4,478,192	₱4,674,157
Input VAT	1,844,668	72,906
Others	46,154	38,603
	<b>₱ 6,369,014</b>	<b>₱4,785,666</b>

**11. Investment in Associates and Joint Ventures**

Investment in associates and joint ventures consist of:

	September 2014	December 2013
<b>Investment in Associates</b>		
MIC	₱ 2,297,470,914	₱2,301,520,445
Techsystems	-	-
	<b>₱ 2,297,470,914</b>	<b>₱2,301,520,445</b>
<b>Investment in joint ventures</b>		
Gamespan	9,792,161	9,792,161
SLLBPO	6,743,938	3,159,925
	<b>16,536,099</b>	<b>12,952,086</b>
	<b>₱ 2,314,007,013</b>	<b>₱2,314,472,531</b>

Investment in Associates

MIC. Investment in MIC pertains to the Group’s 28.32% interest in MIC. As of September 30, 2014 and December 31, 2013, the movements are as follows:

	September 2014	December 2013
Balance at beginning of year	₱ 2,301,520,445	₱4,992,528,966
Equity in net earnings (loss) for the period	(4,049,531)	11,129,438
Impairment loss of associate charged to goodwill	-	(2,679,879,083)
	<b>₱ 2,297,470,914</b>	<b>₱2,301,520,445</b>

The summarized financial information of MJC Investments as of and for the period ended September 30, 2014 and December 31, 2013 is as follows:

	September 2014	December 2013
Total assets	₱2,402,037,390	₱2,390,239,507
Total liabilities	109,435,833	82,410,895
Equity	2,292,601,558	2,307,828,612
Income	8,569,448	10,917,012

	September 2014	December 2013
Expenses	22,868,641	41,906,319
Net income (loss)	(14,299,193)	30,989,307

*Techsystems*. The investment in an associate, Techsystems, Inc. (Techsystems), pertains to the acquisition cost of ₱1.0 million representing 33% ownership by the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of September 30, 2014, Techsystems has not yet started commercial operations.

As of September 30, 2014 and December 31, 2013, the accumulated equity in net losses of an associate amounted to ₱1.0 million and the investment in Techsystems has no carrying amount.

The summarized financial information of Techsystems as of and for the periods ended September 30, 2014 and December 31, 2013 are as follows:

	September 2014	December 2013
Total assets	₱-	₱-
Total liabilities	5,168,617	5,167,650
Capital deficiency	(5,168,617)	(5,167,650)
Income	-	-
Expenses	-	1,000
Net income (loss)	-	(1,000)

#### Investment in joint ventures

*San Lazaro Joint Venture*. On December 12, 2008, the Parent Company entered into a JVA with Ayala Land, Inc. (ALI) to create the San Lazaro Joint Venture, an unincorporated taxable joint venture (JV) and a jointly controlled entity, for the purpose of leasing, managing and administering the developed office units in the building complex at the Sta. Cruz property (the Building Complex). The Building Complex was also constructed and developed under a JDA with ALI (see Note 14).

Under the JVA, the Parent Company and ALI contributed and pooled together under one operation and management their respective allocated developed office units and an initial operating cash requirement in accordance with their respective interest in the JV of 70% for ALI and 30% for the Parent Company. Rent income derived from the lease of the developed office units shall first be applied to the payment of the expenses incurred by the JV in the operation, management and maintenance of the leasable areas. Thereafter, the net rental income of the JV shall be divided between ALI and the Parent Company as cash dividends on a quarterly basis in proportion with their respective interests in the JV.

The movement of the equity in (liability to) joint venture of the San Lazaro JV as of September 30, 2014 and December 31, 2013 presented under "Accounts Payable and other Liabilities" in the consolidated balance sheet is as follows:

	September 2014	December 2013
Balance at beginning of year	₱3,159,925	(₱1,657,756)
Equity in net earnings for the period	16,099,778	21,905,981
Share on dividends declared during the period	(12,515,765)	(17,088,300)
Balance at end of the period (see Note 17)	₱6,743,938	₱3,159,925

The summarized financial information of the San Lazaro JV as of and for the periods ended September 30, 2014 and December 31, 2013 are as follows:

	September 2014	December 2013
Current assets	₱213,541,378	₱154,617,532

Noncurrent assets	6,143,128	1,433,440
Current liabilities	145,325,680	109,448,602
Noncurrent liabilities	40,491,329	29,929,094
Equity	33,867,498	16,673,276
Income	99,100,912	86,379,273
Expenses	45,434,984	54,662,669
Net income	53,665,928	31,716,604

The Parent Company has no share in any contingent liabilities or capital commitments of the JV as of September 30, 2014 and December 31, 2013. There are also no accumulated earnings that are restricted as of September 30, 2014 and December 31, 2013.

Further, management has determined that it has joint control over Gamespan since the strategic financial and operating decisions of the entity are made jointly by the venturers through its BOD.

Gamespan. On February 17, 2011, the Parent Company and GMA New Media, Inc (GMA-NMI) entered into a Memorandum of Understanding to form a private domestic corporation for the purpose of engaging in the business of providing technological advancement and services to others for sports and recreational gaming. The new company shall own and operate the totalizator and shall be granted the exclusive broadcast rights to all the races and other games operated by the Parent Company. The new company shall likewise be the exclusive technological service provider for future formation of sports and recreational gaming initiatives of both parties.

On March 29, 2012, a Shareholders' Agreement was executed between the Parent Company and GMA-NMI for the establishment of the new company named Gamespan, Inc., a joint venture corporation. It stipulates that the parties agreed to own equal shares of Gamespan and will both be jointly involved in the management and supervision of the administrative and operational concerns of Gamespan as stipulated in the share. It also stipulates that the Parent Company shall have 8.5% share on horse racing bets, as provided by its franchise, generated from the new betting systems such as SMS, internet protocol or Web and other emerging technologies. The Shareholders' Agreement shall continue to take effect until terminated pursuant to the incorporation policy or by mutual agreement of parties.

Gamespan shall operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation.

On June 20, 2012, Gamespan, Inc. was incorporated and the Parent Company subscribed 250,000 common shares and paid subscription amounting to ₱10.0 million. It has not yet started its operations as of September 30, 2014.

The financial information of Gamespan as of December 31, 2013 is as follows:

	September 2014	December 2013
Current assets	₱-	₱20,184,979
Noncurrent assets	-	29,167
Current liabilities	-	629,824
Noncurrent liabilities	-	-
Equity	-	19,584,322
Income	-	-
Expenses	-	415,678
Net loss	-	415,678

As of reporting date, we assume that no new financial information as of and for the period ended September 30, 2014 since it has no operations yet.

The movement of the equity in joint venture in Gamespan as of September 30, 2014 and December 31, 2013 are as follows:

	September 2014	December 2013
Balance at beginning of year	P9,792,161	P10,000,000
Equity in net earnings for the period	-	(207,839)
<b>Balance at end of the period (see Note 17)</b>	<b>P9,792,161</b>	<b>9,792,161</b>

## 12. AFS Financial Assets

	September 2014	December 2013
Quoted equity securities	P8,323,950	P9,029,654
Treasury bond	7,000,000	7,000,000
Club membership shares:		
Quoted	4,580,000	4,580,000
Unquoted	193,500	193,500
Preferred shares:		
Quoted	69,750	69,750
Unquoted	370,047	370,047
	<b>P20,537,247</b>	<b>P21,242,951</b>

The reconciliation of the carrying amounts of AFS financial assets is as follows:

	September 2014	December 2013
Balance at beginning of year	P21,242,951	P30,937,269
Additions during the period	2,800,166	-
Disposals during the period	(3,505,871)	-
Mark-to-market gains during the period	-	(9,694,318)
Amounts written off	-	-
<b>Balance at end of the period</b>	<b>P20,537,247</b>	<b>P21,242,951</b>

The Group's AFS financial assets are carried at fair value with net cumulative gains amounting to P9.0 million as of September 30, 2014 and December 31, 2013, reflected in the equity section of the consolidated balance sheet.

The movements in "Net cumulative changes in fair values of AFS financial assets" are as follows:

	September 2014	December 2013
Balance at beginning of year	P9,013,593	P18,707,911
Mark-to-market gains during the year	-	(9,694,318)
Write offs during the period	-	-
<b>Balance at end of year</b>	<b>P9,013,593</b>	<b>P9,013,593</b>

The fair values of quoted AFS financial assets were determined based on published prices in the active market. AFS financial assets that are unquoted and do not have ready market prices are measured at cost, less allowance for impairment, if any, since their fair value cannot be reliably measured.

Dividend income from these investments amounted to P0.8 million for the period ended September 30, 2014 and nil in 2013 (see Note 25). Interest income on Treasury bond amounted to P0.3 million for the periods ended September 30, 2014 and 2013 (see Note 23).



### 13. Property and Equipment

September 2014						
	January 1	Additions	Disposals	Reclassifications and Adjustments	September 30	
<b>Cost</b>						
Land	₱304,869,383	₱-	₱-	₱-		₱304,844,383
Land improvements	337,492,757	768,641	-	-		338,261,398
Building and improvements	653,338,416	8,266,979	-	-		661,605,395
Machinery and equipment	486,071,333	68,585,931	-	(9,673)		554,647,591
Transportation equipment	28,974,488	830,000	-	-		29,804,488
Furniture and fixtures	21,864,114	2,935,166	-	-		24,799,280
	<b>1,832,585,201</b>	<b>81,386,717</b>	-	<b>(9,673)</b>		<b>1,913,962,245</b>
<b>Accumulated depreciation</b>						
Land improvements	139,302,268	10,061,339	-	-		149,363,607
Building and improvements	256,367,159	20,789,111	-	-		277,156,270
Machinery and equipment	397,754,720	13,739,591	-	-		411,494,311
Transportation equipment	22,844,590	1,733,348	-	-		24,577,938
Furniture and fixtures	18,315,331	1,225,411	-	-		19,540,742
	<b>834,584,068</b>	<b>47,548,800</b>	-	-		<b>882,132,868</b>
<b>Net book value</b>	<b>998,001,129</b>	<b>33,837,917</b>	-	<b>(9,673)</b>		<b>1,031,829,377</b>
Construction in progress	17,435,481	2,305,266	-	(7,368,535)		12,372,212
	<b>₱1,015,436,610</b>	<b>₱36,143,183</b>	<b>₱-</b>	<b>(₱7,378,208)</b>		<b>₱ 1,044,201,589</b>

December 2013						
	January 1	Additions	Disposals	Effect of deconsolidation	December 31	
<b>Cost</b>						
Land	₱417,209,456	₱-	₱-	(₱112,340,073)		₱304,869,383
Land improvements	337,046,417	446,340	-	-		337,492,757
Building and improvements	650,575,949	2,762,467	-	-		653,338,416
Machinery and equipment	474,192,634	11,878,699	-	-		486,071,333
Transportation equipment	28,014,666	2,575,893	(1,616,071)	-		28,974,488
Furniture and fixtures	20,994,331	844,489	-	-		21,864,107
	<b>1,928,033,453</b>	<b>18,507,888</b>	<b>(1,616,071)</b>	<b>(112,340,073)</b>		<b>1,832,585,194</b>
<b>Accumulated depreciation</b>						
Land improvements	125,991,451	13,310,817	-	-		139,302,268
Building and improvements	228,555,498	27,811,661	-	-		256,367,158
Machinery and equipment	369,982,553	27,772,167	-	-		397,754,722
Transportation equipment	20,388,398	2,577,397	121,205	-		22,844,590
Furniture and fixtures	16,678,171	1,637,160	-	-		18,315,330
	<b>761,596,071</b>	<b>73,109,202</b>	<b>121,205</b>	-		<b>834,584,068</b>
<b>Net book value</b>	<b>1,166,437,382</b>	<b>(54,601,314)</b>	<b>(1,494,866)</b>	<b>(112,340,073)</b>		<b>998,001,127</b>
Construction in progress	23,120,034	4,192,233	-	(9,876,786)		17,435,481
	<b>₱1,189,557,416</b>	<b>(₱50,409,081)</b>	<b>(₱1,494,866)</b>	<b>(₱122,216,859)</b>		<b>₱1,015,436,610</b>

#### Depreciation Charges

The amount of depreciation is as follows:

	September 2014	September 2013
Cost of club races (see Note 18)	₱ 28,646,544	₱ 29,720,805
Cost of rental services (see Note 18)	15,762,594	21,331,524
Cost of sales - food and beverages (see Note 18)	371,339	304,806
General and administrative expenses (see Note 19)	12,096,577	12,808,998
	<b>₱ 56,877,054</b>	<b>₱ 64,166,133</b>

#### Construction in Progress

“Construction in progress” pertains to accumulated costs incurred in the development of the Carmona property as part of the Parent Company’s expansion.

#### Capitalized Borrowing Costs

Land improvements, building and improvements and machinery and equipment include capitalized borrowing costs incurred in connection with the construction and development of the said properties amounting to ₱68.6 million in 2005. No interest on loans was capitalized for the periods ended September 30, 2014 and 2013. Undepreciated capitalized interest relating to property and equipment as of September 30, 2014 and December 31, 2013 amounted to ₱43.9 million.

#### Carmona Property

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from KPPI Land Corporation (KPPI) valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. As of December 31, 2009, total payments made by the Parent Company amounted to ₱433.7 million. No payments were made during 2014 and 2013. The outstanding balance of ₱89.9 million as of September 30, 2014 and December 31, 2013 is included under “Accounts payable and other liabilities” in the consolidated balance sheets (see Note 17).

In 2002, the Parent Company entered into several contracts with different private entities related to its expansion program in Carmona. Contracts include the construction of the Turf Club, as well as, the construction and development of the racetrack, site grading, and development of access roads, water distribution and fire protection works necessary to bring the site in operation. Under the terms of the contracts, the Parent Company is required to make a 15% deposit and retain an amount equivalent to 10% on each of the progress billings made by the contractors. As of September 30, 2014 and December 31, 2013, the unapplied portion of the deposits to contractors shown as part of “Receivables” in the consolidated balance sheets (see Note 8).

The amount retained by the Parent Company out of the progress billings made by the contractors amounted to ₱1.8 million as of September 30, 2014 and December 31, 2013 and its outstanding obligations to the contractors amounted to ₱48.6 million as of September 30, 2014 and December 31, 2013. The amounts are presented under “Accounts payable and other liabilities” in the consolidated balance sheets (see Note 17).

#### Assets Under Operating Lease

- The Parent Company has various operating lease agreements for its cluster stables with horse owners. The lease agreements provide for fixed monthly payments which are subject to rental escalations and renewal options. The carrying value of the cluster stables, included under “Building and improvements” account, that are leased out on these operating leases amounted to ₱30.5 million of September 30, 2014 and ₱31.8 million as of December 31, 2013, respectively. Rent income from stable rentals for the periods September 30, 2014 and 2013 amounted to ₱33.1 million and ₱35.5 million, respectively.
- The Parent Company has operating lease agreements with concessionaires to lease certain areas within the company premises in Carmona. Rent income from concessionaires amounted to ₱0.5 million and ₱1.4 million for the periods ended September 30, 2014 and 2013, respectively.
- The Parent Company has a lease agreement with PAGCOR whereby the latter agrees to lease an area of 189.231 square meters within the Turf Club at Carmona for its casino operations and related activities. Rent income from PAGCOR amounted to ₱0.9 million for the periods ended September 30, 2014 and 2013.

- On June 21, 2005, NVTL, through the Parent Company, entered into a lease agreement with PAGCOR for the lease of 200 slot machines and the network system linking these machines, which are included under "Machine and equipments" account. In 2006, NVTL purchased the slot machines for lease to PAGCOR amounting to ₱120.9 million. Monthly rental rate to PAGCOR is equivalent to 35% of the slot machines' gross revenue after players' winnings and all applicable taxes. The start of the lease coincides with the opening of the Turf Club on December 8, 2006. During the period ended September 30, 2014, NVTL purchased new slot machines amounting to ₱63.7 million. The remaining costs of the new machines shall be paid thru revenue sharing between NVTL and the supplier.

#### 14. Investment Properties

	September 2014	December 2013
<b>Land:</b>		
Sta. Cruz property - unused portion (see Note 16)	₱359,631,580	₱359,631,580
Sta. Cruz property - held for lease	238,168,692	238,168,692
Carmona property	109,750,785	109,750,785
Undivided interest in a parcel of land	56,723,976	56,723,976
Rizal property	-	-
	<b>764,275,033</b>	<b>764,275,033</b>
<b>Building:</b>		
Developed office units (Note 11)	211,107,946	218,926,759
Retail development area	38,506,316	40,007,473
	<b>249,614,262</b>	<b>258,934,232</b>
	<b>₱ 1,013,889,296</b>	<b>₱1,023,209,265</b>

The movements in the carrying amount of investment properties in as of September 30, 2014 and December 31, 2013 are shown below:

	September 2014		
	Land	Building	Total
<b>Cost</b>			
Balance at beginning of year	₱764,275,033	₱310,665,629	₱1,074,940,662
Disposals	-	-	-
Balance at end of period	764,275,033	310,665,629	1,074,940,662
<b>Accumulated Depreciation and Impairment Loss</b>			
Balance at beginning of year	-	(51,731,397)	(51,731,397)
Depreciation for the year	-	(9,319,969)	(6,213,313)
Balance at end of year	-	(61,051,366)	(57,944,710)
<b>Net book value</b>	<b>₱764,275,033</b>	<b>₱ 249,614,262</b>	<b>₱ 1,016,995,952</b>

	December 2013		
	Land	Building	Total
<b>Cost</b>			
Balance at beginning of year	₱777,709,684	₱310,665,629	₱1,088,375,313
Disposals	(13,434,651)	-	(13,434,651)
Balance at end of period	764,275,033	310,665,629	1,074,940,662
<b>Accumulated Depreciation and Impairment Loss</b>			
Balance at beginning of year	-	(39,304,772)	(39,304,772)
Depreciation for the year	-	(12,426,625)	(12,426,625)
Balance at end of year	-	(51,731,397)	(51,731,397)

	December 2013		
	Land	Building	Total
Net book value	₱764,275,033	₱258,934,232	₱1,023,209,265

The Carmona property with carrying value of ₱109.8 million and the 5.1 hectare property in Sta. Cruz with carrying value of ₱359.6 million as of September 30, 2014 and December 31, 2013 are used by the Parent Company as collateral for its long-term loans obtained from a local bank (see Note 16). In 2012, restriction on the Sta. Cruz property was released by the bank.

#### Philippine Economic Zone Authority (PEZA) zones

*Carmona property.* Presidential Proclamation No. 1517, signed on May 26, 2008, created and designated several parcels of land of the private domain situated at Barangay Lantic, Municipality of Carmona, Province of Cavite as Tourism Economic Zone pursuant to R.A No. 7916 as amended by R.A No. 8748.

The registration as an Ecozone Developer/Operator shall entitle the Parent Company to establish, develop, construct, administer, manage and operate a Special Economic Zone to be known as San Lazaro Leisure and Business Park (SLLBP) with an area of 542,294 square meters.

*Sta. Cruz Property.* Presidential Proclamation No. 1727, dated February 13, 2009, created and designated several parcels of land owned by the Parent Company at the site of the former San Lazaro racetrack in Sta. Cruz, Manila consisting of 74,244 square meters, as a tourism economic zone with information technology component and to be known as the San Lazaro Tourism and Business Park.

Pursuant to the proclamation, the Parent Company and the PEZA signed the Registration Agreement to entitle the Parent Company to develop and operate the aforementioned special economic zone on February 29, 2009. A certificate of registration was thereafter issued.

#### Sta. Cruz Property - Held for Lease

On March 26, 2007, the Parent Company entered into a JDA with ALI (amended and supplemented on July 18, 2007) for the construction, financing, development and operation of a building complex on the parcel of land located at Sta. Cruz, Manila. The Building Complex shall consist of two office buildings with a retail development area to primarily cater to business process outsourcing companies.

Under the JDA, the Parent Company agreed to contribute the necessary cash to fully finance the construction and development of the retail development area and its corresponding share (30%) of the development of the office units. In return for their respective contributions, the parties will distribute and allocate the developed units among themselves (see Note 11). As of September 30, 2014 and December 31, 2013, the Parent Company's contribution to the JDA amounting to ₱ 310.7 million is presented as the cost of "Building" under "Investment properties" in the consolidated balance sheets.

On December 12, 2008, the Parent Company and ALI executed a Deed of Partition for the distribution and allocation of the developed units. The entire retail development area and the appurtenant parking lots were allocated to the Parent Company in return for its contribution for the construction and development of the said area. For the Parent Company's contribution in the construction and development of the office building, the Parent Company was allocated with developed office building with gross leasable area of 5,793 square meters located at various floors and the appurtenant parking lots.

Capitalized borrowing costs incurred in connection with the construction and development of the Building Complex amounted to ₱8.0 million in 2008. The capitalization rate used to determine

the amount of borrowing costs eligible for capitalization was 7.37% in 2008. No interest on loans was capitalized during the periods ended September 30, 2014 and 2013. Undepreciated capitalized interest relating to the Building Complex as of September 30, 2014 and December 31, 2013 amounted to ₱6.7 million and ₱7.8 million, respectively.

#### Rizal Property

In 2013, the Rizal property was sold by the Parent Company for a total consideration of ₱30.0 million, resulting to a gain amounting to ₱13.4 million.

#### Assets Under Operating Lease

In 2009, the Parent Company entered into lease agreements with various tenants for the retail development area of the aforementioned Building Complex. Portions of the area are rented out at different rates per square meter with lease terms ranging from three to five years. Rent income from the retail development area amounted to ₱9.7 million and ₱4.9 million for the periods ended September 30, 2014 and 2013, respectively.

In 2010, the Parent Company and ALL, through the San Lázaro JV, entered into lease agreements with various tenants for the developed office units in the Building Complex. The equity in the net earnings of the JV amounted to ₱16.1 million for the period ended September 30, 2014.

### 15. Other Noncurrent Assets

	September 2014	December 2013
Franchise fee (see Note 1)	₱ 14,833,339	₱16,17,8398
Deferred input VAT (see Note 6)	8,743,423	9,267,193
Deposits	5,571,709	5,351,653
Meralco cash bond deposits	3,299,680	3,299,680
Philippine Long Distance Telephone Company deposits	75,900	75,900
Others	236,429	230,290
	<b>₱32,760,480</b>	<b>₱34,403,555</b>

#### Franchise Fee

Movements in the carrying amounts of franchise fees as of September 30, 2014 and December 31, 2013 are shown below:

	September 2014	December 2013
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of the period	28,671,161	26,877,161
Amortization during the period (see Note 18)	1,345,500	1,794,000
Balance at end of period	30,016,661	28,671,161
	<b>₱ 14,833,339</b>	<b>₱16,178,839</b>

### 16. Short-term and Long-term Loans and Borrowings

#### Short-term Loans

As of September 30, 2014 and December 31, 2013, outstanding balance of short-term loans and borrowings amounted to ₱77.4 million and ₱86.4 million, respectively. These loans were obtained for working capital requirements and bear average interest of 3.25% during 2014 and 2013. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

Interest on these short term loans for the period ended September 30, 2014 amounted to ₱2.1 million.

Long-term Loans

	September 2014	December 2013
Bank loans	₱ 17,857,143	₱28,571,429
Less: current portion	3,571,429	14,285,714
Noncurrent portion	₱14,285,714	₱14,285,714

Interest on these long term loans for the period ended September 30, 2014 amounted to ₱0.5million.

The Parent Company obtained loans from a local bank amounting to ₱100.0 million in 2008 for working capital requirements. These loans bear interest of 4.25% per annum in 2014. These loans will mature in November 2015. These loans are payable in equal quarterly installments and interest rates are subject to quarterly repricing. Principal balances of these loans amounting to ₱10.7 million were paid during the periods ended September 30, 2014 and 2013.

**17. Accounts Payable and Other Liabilities**

	September 2014	December 2013
Due to KPPI (see Note 13)	₱89,900,000	₱89,900,000
Accounts payable (see Note 13)	85,371,914	43,359,168
Due to contractors (see Note 13)	48,563,671	48,563,671
Dividends payable	39,903,196	2,878,325
Cash bond on OTB operators	32,611,081	32,547,769
Documentary stamps payable	24,423,527	30,297,828
Accrued expenses	18,159,787	14,348,677
Probable losses	8,343,827	8,343,827
Due to concessionaires	7,819,445	6,707,770
Taxes on winnings	6,372,590	7,387,574
Trade payable and buyers' deposits	5,278,750	6,203,814
VAT payable	3,050,916	3,678,580
Due to OTB operators	2,179,200	2,968,499
Retention payable (see Note 13)	1,775,464	1,824,907
Amusement taxes on horse prizes	1,229,616	1,190,599
Due to Philracom	389,052	1,219,969
Due to horseowners	-	4,886,178
Others	1,374,052	9,120,409
	<b>₱376,746,089</b>	<b>₱315,427,564</b>

Trade payable and buyers' deposits represent cash received by the Parent Company from real estate sales where the criterion of full accrual method on revenue recognition is not satisfied.

Others include withholding taxes payable, employees' bond and due to Dangerous Drugs Board and Carmona Hospital, among others.

**18. Cost of Sales and Services**

Cost of club races consists of:

	September 2014	September 2013
Personnel costs (see Note 21)	₱37,524,188	₱40,260,075

	September 2014	September 2013
Depreciation (see Note 13)	28,646,544	29,720,805
Commission	16,888,380	17,503,411
Utilities	15,127,594	10,565,596
Travel and transportation	4,338,930	4,098,965
Supplies	3,714,637	2,555,967
Contracted services	3,450,564	4,656,313
Taxes and licenses	2,582,057	974,436
Rent	2,517,570	2,412,143
Repairs and maintenance	2,167,756	2,578,681
Security services	1,688,144	1,644,058
Meetings and conferences	1,649,612	5,207,916
Amortization of franchise fee (see Note 15)	1,345,500	1,345,500
Gas, fuel and oil	1,105,108	872,841
Others	3,185,909	4,041,090
	<b>₱125,932,493</b>	<b>₱128,437,797</b>

Cost of real estate sales consists of properties sold amounting to ₱3.4 million and ₱20.3 million for the periods ended September 30, 2014 and 2013, respectively.

Cost of rental services consists of:

	September 2014	September 2013
Depreciation (see Notes 13, 14 and 20)	₱15,762,594	₱21,331,524
Utilities	4,465,870	5,486,587
Personnel costs (see Note 21)	1,854,084	2,177,649
Contracted services	1,698,301	2,245,200
Security services	1,116,437	1,285,510
Repairs and maintenance	887,077	881,788
Meetings and conferences	746,513	1,393,189
Others	531,671	365,436
	<b>₱27,062,548</b>	<b>₱35,166,883</b>

Cost of food and beverages consists of:

	September 2014	September 2013
Food and beverages	₱4,684,208	2,201,195
Contracted services	2,146,274	2,044,532
Personnel costs (see Note 21)	1,830,592	999,671
Utilities	1,496,170	1,855,021
Depreciation (see Note 13 and 20)	371,339	304,806
Meetings and conferences	334,159	165,459
Supplies	121,366	39,859
Security services	57,974	96,102
Gas, fuel and oil	36,850	32,640
Repairs and maintenance	30,164	83,310
Rent (see Note 31)	26,760	5,357
Others	459,861	216,096
	<b>₱11,595,718</b>	<b>8,044,048</b>

Cost of "Others" relates to the purchase of foreign currencies by MJC Forex. It amounted to ₱16.6 million for the period ended September 30, 2014 and ₱32.0 million for the same period in 2013.

## 19. General and Administrative Expenses

	September 2014	September 2013
Personnel costs (see Note 21)	P53,182,899	P78,194,801
Utilities	14,831,810	12,657,288
Depreciation (see Note 13)	12,096,577	12,808,998
Contracted services	11,240,484	12,645,473
Repairs and maintenance	5,704,959	4,226,277
Meetings and conferences	5,137,717	8,599,269
Professional fees	5,019,819	5,523,598
Rent (see Note 31)	4,589,830	5,230,991
Taxes and licenses	4,042,273	13,764,260
Security services	3,612,583	4,145,628
Gas, fuel and oil	3,197,960	2,775,237
Transportation and travel	1,924,498	4,599,565
Membership dues	1,089,608	674,398
Commission	1,061,809	916,384
Advertising	875,394	583,380
Directors' fee	804,500	2,798,242
Insurance	765,344	895,566
Seminars and trainings	702,179	197,897
Supplies	582,773	764,685
Others	4,296,040	3,669,307
	<b>P134,759,055</b>	<b>P175,671,244</b>

## 20. Depreciation

	September 2014	September 2013
Cost of club races (see Note 18)	P28,646,544	P29,720,805
Cost of rental services (see Note 18)	15,762,594	21,331,524
Cost of sales-food and beverages (see Note 18)	371,339	304,806
General and administrative expense (see Note 19)	12,096,577	12,808,998
	<b>P56,877,054</b>	<b>P64,166,133</b>

## 21. Personnel Costs

	September 2014	September 2013
Salaries and wages	P80,349,184	P101,970,385
Retirement benefits costs (see Note 22)	9,884,442	16,728,915
Other employee benefits	4,158,137	2,932,896
	<b>P94,391,763</b>	<b>P121,632,196</b>



## 22. Retirement Benefits Cost

The Parent Company has two tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation reports are as of December 31, 2013.

Movements in the accrued retirement benefits follow:

	September 2014	December 2013
Balance at beginning of year	P35,061,172	P25,354,867
Net retirement benefit costs for the period	9,884,442	12,966,686
Contributions during the period	(5,456,989)	(7,275,719)
Defined benefit cost recognized in OCI	-	5,554,938
Direct payments	(159,427)	(1,539,600)
Balance at end of period	P39,329,197	P35,061,172

The plan assets of the Company are being held by its trustee banks. The investing decisions of the plan are made by the authorized officers of the Company.

## 23. Interest Income

Interest income related to:

	September 2014	September 2013
Real estate receivables (see Note 8)	P10,675,081	(P2,657,892)
Cash and cash equivalents (see Note 7)	1,167,730	8,513,626
Treasury bond	321,563	335,173
	P12,164,373	P6,190,907

## 24. Finance Costs

Interest expense related to:

	September 2014	September 2013
Loans and borrowings (see Note 16)	P2,835,272	P3,613,115
Bank charges and others	43,147	40,707
	P2,878,419	P3,653,822

## 25. Other Income (Charges)

	September 2014	September 2013
Miscellaneous income	P14,806,847	P6,154,144
Gain on sale of AFS investments	1,289,076	-
Gain on sale/disposal of properties	-	13,384,551

	September 2014	September 2013
Dividend income – AFS investments	792,388	-
Foreign exchange loss - net	(1,599)	22,820
Gain on unclaimed dividends (see Note 31)	-	6,894,464
Dividend income – JV (see Note 12)	-	12,713,141
Others - net	301,322	(464,625)
	<b>₱17,188,034</b>	<b>₱38,704,495</b>

## 26. Income Taxes

- a. The provision for current income tax consists of the following:

	September 2014	September 2013
RCIT	₱4,804,311	₱5,972,107
MCIT	-	-
Final tax on interest income	294,931	1,766,419
	<b>₱5,099,242</b>	<b>₱7,738,526</b>

The current provision for income tax in for the period ended September 30, 2014 represents RCIT of the Parent Company.

- b. The components of the Group's net deferred tax liabilities as of September 30, 2014 and December 31, 2013 are as follows:

	September 2014	December 2013
Deferred tax assets on (recognized in profit or loss):		
Accrued retirement benefits	₱10,518,352	₱10,518,352
Allowance for doubtful accounts	2,609,033	2,609,033
Unamortized past service cost	1,233,799	1,233,799
Impairment loss on real estate inventory	-	-
Provision for inventory write-down	619,218	619,218
Allowance for impairment on investment on associate	300,000	300,000
Rent receivable	200,454	200,454
Unearned income	171,500	171,500
	<b>15,652,356</b>	<b>15,652,356</b>
Deferred tax liabilities on (recognized in profit or loss):		
Unrealized gain from real estate transactions	(70,196,531)	(70,196,531)
Undepreciated capitalized borrowing costs	(15,184,252)	(15,184,252)
Rent receivable	(1,104,677)	(1,104,677)
Accrued interest expense	-	-
Unrealized foreign exchange gain	(1,413)	(1,413)
Deferred tax liabilities on (recognized directly in other comprehensive income):		
Unrealized deemed cost adjustment on real estate properties	(193,958,252)	(193,958,252)
	<b>(280,445,125)</b>	<b>(280,445,125)</b>
	<b>(₱264,792,769)</b>	<b>(₱264,792,769)</b>

## 27. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Entity	Relationship Nature	September 2014		December 2013		Terms	Condition
		Amount	Outstanding Receivable (Payable) Balance	Amount	Outstanding Receivable (Payable) Balance		
Biohitech Korea (BHK)	Affiliate	-	(38,640,000)	-	(38,640,000)	Non-interest bearing	Unsecured, unguaranteed
AMDC	Affiliate	5,958,271	(164,574)	8,111,241	(1,431,711)	Non-interest bearing	Unsecured, unguaranteed
MIC	Associate	53,552,626	-	-	-	Letters of Credit (LC) bearing, on demand	Unsecured, no impairment

- In 2009, Biohitech obtained advances from its affiliate, BHK, to finance the construction of the building housing the fermentation machine and for the importation of additional machines. The advances are due and demandable and non-interest bearing and remain outstanding as of September 30, 2014. The conversion of these advances into shares of stock of Biohitech is still subject for approval by the BOD and has not been finalized as of September 30, 2014.
- The Parent Company has a lease agreement with Arco Management and Development Corporation (AMDC), an affiliate under common control, in the lease of office space and four parking lots (see Note 31).

## 28. Equity

### Capital Stock

The details of the Parent Company's capital stock as of September 30, 2014 and December 31, 2013 are as follows:

	September 2014		December 2013	
	Number of Shares	Amount	Number of Shares	Amount
Common shares - ₱1 par value				
Authorized - 1,000,000,000 shares				
Issued and outstanding (held by 980 and 724 equity holders in 2014 and 2013, respectively)	996,171,169	₱996,171,169	948,734,898	₱948,734,898
	996,171,169	₱996,171,169	948,734,898	₱948,734,898

### Stock Rights Offer

During the annual stockholders' meeting of the Parent Company held last June 18, 2010, the stockholders approved and ratified the stock rights offer as approved by the BOD during its

meeting held on October 28, 2009. The stock rights were offered to existing stockholders at a ratio of one share for every two shares held at par value. The proceeds from the stock rights offer will be used for capital expenditures, retirement of loans and full payment of the subscription payable to MIC.

On April 13, 2011, the PSE approved the Parent Company's application for the additional listing of up to 287,492,659 common shares with par value of ₱1.00 per share to cover the 1:2 stock rights offering. On May 3, 2011, the SEC approved the record date to be May 6, 2011. The shares were subscribed and issued to all stockholders of record as of May 30, 2011 and were listed in the PSE on the same date.

#### Treasury Shares

On January 13, 2011, the Parent Company purchased the delinquent shares from its 2004 stock rights offering totaling 9,462 shares. The amount paid for the acquisition of the treasury shares amounted to ₱7,096.

#### Appropriation of Retained Earnings

The Parent Company's appropriated retained earnings for building improvements on the ensuing years amounted to ₱17.2 million as of September 30, 2014 and December 31, 2013.

#### Declaration of Dividends

The following are the details of the dividends declared:

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividends per share</u>
<b>Cash</b>			
April 8, 2014	May 20, 2014	June 16, 2014	₱0.05
May 30, 2013	June 18, 2013	June 28, 2013	0.05
October 24, 2012	November 12, 2012	November 26, 2012	0.08
March 7, 2012	March 28, 2012	April 18, 2012	0.08
May 25, 2011	June 15, 2011	June 30, 2011	0.05
<b>Stock</b>			
April 8, 2014*	July 14, 2014	August 7, 2014	5%
May 30, 2013	July 18, 2013	August 13, 2013	10%
January 14, 2011	January 19, 2011	February 14, 2011	20%

*\*Date of approval by the Board of Directors. The date of approval by the Stockholders was on September 30, 2014.*

#### Restriction on Retained Earnings

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury amounting to ₱7,096.

#### Deemed Cost Adjustment

The unappropriated retained earnings include the remaining balance of the deemed cost adjustment which arose when the Group transitioned to PFRS in 2005.

The components of the deemed cost adjustment as of September 30, 2014 and December 31, 2013 are as follows:

	<u>September 2014</u>	<u>December 2013</u>
Real estate inventories	<b>₱80,453,494</b>	₱80,453,494
Property and equipment	-	-
Investment properties	<b>597,459,817</b>	597,459,817
Revaluation increment	<b>677,913,311</b>	677,913,311
Deferred income tax liability (see Note 26)	<b>(193,958,252)</b>	(193,958,252)

Deemed cost adjustment	P483,955,059	P483,955,059
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The deemed cost adjustment will be realized through sales for both real estate inventories and land under investment properties. The amount of the deemed cost adjustment and undistributed earnings of the JV included in the balance of the unappropriated retained earnings are restricted and not available for dividend declaration.

Cost of shares held by a subsidiary

In 2012, MIC transferred to SPPC 25,031,656 shares of MJCI pursuant to the provisions of the MOA signed on August 6, 2012 (see Note 6). The transfer resulted in an increase in additional paid in capital amounting to P27.6 million.

## 29. Basic/Diluted Earnings per Share

Basic/diluted earnings per share were computed as follows:

	September 2014	December 2013
Net income attributable to equity holders of the Parent Company	(P20,001,759)	P2,109,187,001
Divided by weighted average number of outstanding common shares	996,171,169	948,734,898
Basic/diluted earnings per share	(P0.020)	P2.223

The Parent Company does not have potential dilutive common shares as of September 30, 2014 and December 31, 2013. Therefore, the basic and diluted earnings per share are the same as of those dates.

## 30. Operating Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided. The Group's three reportable operating segments are the operation and maintenance of race tracks and holding of horse races, the development and sale of real estate properties and rental of stables, building and other facilities. No operating segments were aggregated to form these reportable operating segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income or loss and is measured consistently with the total comprehensive income in the consolidated financial statements.

As of September 30, 2014 and December 31, 2013, the Group has no transactions between reportable segments. The Group measures the segment net income or loss, segment assets and segment liabilities for each reportable segment in a manner similar to the measurement of the Group's total comprehensive income.

The Group's asset-producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Segment Revenue and Expenses

The segment results are as follows:

September 2014

	Club Races	Real Estate	Rent	Food and beverage	Unallocated	Total
Segment revenue	₱158,816,785	₱30,501,119	₱65,127,754	₱9,215,922	₱47,364,334	₱311,025,914
Cost and expenses	(125,932,493)	(7,135,915)	(27,062,548)	(11,595,718)	(154,201,757)	(325,928,431)
Income (loss) before income tax	32,884,292	23,365,204	38,065,206	(2,379,796)	(106,837,423)	(14,902,517)
Provision for income tax	-	-	-	-	(5,099,242)	(5,099,242)
Net income (loss)	₱32,884,292	₱23,365,204	₱38,065,206	(₱2,379,796)	(₱111,936,665)	(₱20,001,759)

September 2013

	Club Races	Real Estate	Rent	Food and beverage	Unallocated	Total
Segment revenue	₱ 162,319,498	₱56,912,068	₱67,438,932	₱4,358,834	₱79,724,010	₱370,753,341
Cost and expenses	(128,437,797)	(24,357,525)	(35,166,883)	(8,044,048)	(211,330,827)	(407,337,080)
Income (loss) before income tax	33,881,701	32,554,543	32,272,049	(3,685,214)	(131,606,818)	(36,583,739)
Provision for income tax	-	-	-	-	(7,738,527)	(7,738,527)
Net income (loss)	₱33,881,701	₱32,554,543	₱32,272,049	(₱3,685,214)	(₱139,345,345)	(₱44,322,266)

Finance costs, unrealized gains on fair value changes of held for trading investments, other income (charges) and income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis and are not provided to the chief operating decision maker at the operating segment level during the periods ended September 30, 2014 and December 31, 2013.

Segment Assets and Liabilities and Other Information

September 2014

	Club Races	Real Estate	Rent	Food and beverage	Unallocated	Total
Assets	841,953,434	1,246,210,268	408,694,609	2,495,471	2,640,836,086	5,140,189,868
Liabilities	126,620,938	316,066,176	117,568,565	-	300,645,870	860,901,549
Capital expenditures	5,773,910	-	66,506,468	328,419	3,714,651	76,323,448
Interest income	-	10,675,081	-	-	1,489,292	12,164,373
Finance cost	-	-	-	-	2,878,419	2,878,419
Depreciation	28,646,544	-	15,762,594	371,339	12,096,577	56,877,054

December 2013

	Club Races	Real Estate	Rent	Food and beverage	Unallocated	Total
Assets	1,006,676,455	1,066,683,038	467,916,817	559,340	2,619,451,705	5,161,287,355
Liabilities	84,264,042	316,991,239	65,544,574	-	347,761,152	814,561,007
Capital expenditures	12,574,273	-	-	1,294,895	8,856,240	22,725,408
September 2013						
Interest income	-	(2,657,892)	-	-	8,848,799	6,190,907
Finance cost	-	-	-	-	3,653,822	3,653,822
Depreciation	29,720,805	-	21,331,524	304,806	12,808,998	64,166,133

**31. Commitments and Contingencies**

The following are the significant commitments and contingencies involving the Group:

a. Operating Lease Commitment - the Parent Company as Lessee

On January 1, 2008, the Parent Company renewed its lease agreement with AMDC, an affiliate, for the lease of office space and four parking lots. The lease is for a period of five years starting 2008 and includes an annual escalation rate of 5%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the Parent Company renewed its lease agreement with AMDC on February 5, 2013 with a monthly rate of ₱427,550 for the year 2013 and ₱450,267 for year 2014.

On January 1, 2011, the Parent Company entered into a new lease agreement with AMDC for the lease of office space at 12<sup>th</sup> floor of Strata 100 Building. The lease is for a period of five years starting 2011 with a yearly escalation of 5%. The monthly rate for year 2014 is ₱ 177,295.

b. Operating Lease Commitment - the Parent Company as Lessor

The Parent Company has a lease agreement with PAGCOR whereby the latter agrees to lease an area of 189.231 square meters within the Turf Club at Carmona for its casino operations and related activities. The renewal of the lease agreement is still in process as of reporting date. Rent income from PAGCOR amounted to ₱0.9 million for the periods ended September 30, 2014 and 2013.

c. Claims and Legal Actions

As of September 30, 2014 and December 31, 2013, there are pending claims and legal actions against or in favor of the Parent Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these financial statements. In the opinion of the Parent Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Parent Company and any liability or loss arising there from would be taken up when the final resolution of the claims and actions are determined.

d. Unclaimed Dividends

Under PR58D of the Rules and Regulations on Horse Racing promulgated by the Philippines Racing Commission (PHILRACOM), the latter claims control over the disposition of unclaimed dividends.

The Parent Company disputed the legality of PR58D in its letters to PHILRACOM dated June 14, 2012 and July 13, 2012. The Parent Company maintained that there is no law authorizing PHILRACOM to determine the proper use or disposition of the unclaimed dividends and PHILRACOM exceed its rule-making authority in issuing PR58D. The Parent Company likewise contended that unclaimed dividends are private funds as these are not included in the amounts that are supposed to be remitted to or held by the Parent Company for the government under its charter.

Furthermore, a *Notice* appears in the dorsal portion of the Parent Company's betting tickets which state that winning tickets must be claimed within thirty days from the date of purchase; otherwise, the prize shall be forfeited in favor of the Parent Company. This provision is a valid agreement between the Parent Company and the bettor under the principle of autonomy of contracts.

As part of its audit of the PHILRACOM, the Commission on Audit (COA) issued an *Independent Auditor's Report* dated March 27, 2013 wherein COA opined that unclaimed dividends of winning bettors should be forfeited in favor of the government and should form

part of the National Treasury. However, in the same report, COA acknowledged the absence of any legislative mandate as regards the disposition of unclaimed dividends. Thus, COA required the PHILRACOM to request for a Declaratory Relief from the Department of Justice to resolve the issue on the nature of unclaimed dividends.

To resolve the foregoing issue, the Parent Company filed a *Petition for Declaratory Relief* on November 6, 2013, which is pending before the Regional Trial Court of Bacoor, Cavite 19.

The Parent Company recognized a provision for probable losses amounting to ₱8.3 million (see Note 17).

### 32. Financial Assets and Financial Liabilities

#### Fair Value Hierarchy

The Group measures the fair value of financial instruments carried at fair value using the following hierarchy:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is observable.

The following tables present the fair value of the Company's AFS, investment properties and loans and borrowings as of September 30, 2014 and December 31, 2013.

<b>September 2014</b>				
	<b>Amounts</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
AFS financial assets	₱20,537,247	₱20,537,247	₱-	₱-
Investment properties	1,013,889,296	-	-1,013,889,296	
Loans and borrowings	95,294,643	-	-	95,294,643

<b>December 2013</b>				
	<b>Amounts</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
AFS financial assets	₱21,242,951	₱21,242,951	₱-	₱-
Investment properties	3,254,880,768	-	-3,254,880,768	
Loans and borrowings	115,122,769	-	-	115,122,769

As of September 30, 2014 and December 31, 2013, the Group's quoted held for trading investments and AFS financial assets measured at fair value under the Level 1 hierarchy totaled ₱ 20.5 million and ₱21.2 million, respectively. There are no financial instruments measured at fair value under the Level 2 and Level 3 hierarchies. There were no transfers between the hierarchy in 2014 and 2013.

### 33. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents, held for trading investments, receivables, AFS financial assets, deposits, accounts payable and other liabilities, interest-bearing loans and borrowings and due to related parties. The main purpose of these financial instruments is to finance the Group's operations.



The main risks arising from the use of these financial instruments include cash flow interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk. The Group's BOD reviews and approves the policies for managing these risks and these are summarized below.

*Cash flow interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's interest-bearing loans and borrowings which carry floating interest rates (see Note 16).

The Group's interest rate risk management policy focuses on reducing the overall interest expense and exposure to changes in interest rates. Risk of changes in market interest rates is related primarily to the Group's interest on financial instruments classified as floating rate as it can cause a change in the amount of interest payments. Interest on financial instruments classified as floating rate is repriced at intervals of less than a year. The financial instruments of the Group that bear fixed interest rates or are noninterest-bearing are not included in the succeeding analyses. The Group invests excess funds in short-term investments in order to mitigate any increase in interest rate on borrowings.

The following table demonstrates the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates, with all other variables held constant, for the periods ended September 30, 2014 and December 31, 2013. There is no impact on the Group's equity other than those affecting profit or loss.

	Increase (decrease) in basis points	Effect on income/(loss) before income tax
2014	+1%	P149,025
	-1%	(149,025)
2013	+1%	(P992,946)
	-1%	992,946

*Equity price risk*

Equity price risk is the risk that the fair values of quoted equity securities will fluctuate because of changes in the level of indices and the value of individual stocks. The Group is exposed to equity price risk because of quoted equity investments held by the Group, which are classified in the consolidated balance sheets as held for trading investments and AFS financial assets.

The following table demonstrates the sensitivity of the Group's equity to a reasonably possible change in the PSE index (PSEi), with all other variables held constant, for the years ended September 30, 2014 and December 31, 2013.

	Increase (decrease) in PSEi	Effect on equity
2014	+14%	P366,507
	-14%	(366,507)
2013	+14%	P 372,882
	-14%	(372,882)

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows from the Group's foreign-currency denominated assets or liabilities may fluctuate due to changes in foreign exchange rates.

The Group's foreign currency risk relates to its foreign currency-denominated cash in banks. The latter pertains to the foreign-currency denominated acquisition of equipment by NVTL. To

manage this risk, management closely monitors the movements in exchange rates and regularly assesses future foreign exchange rate movements.

The Group's outstanding foreign currency-denominated financial asset pertaining to cash in banks as of September 30, 2014 and December 31, 2013 and its Peso equivalent are as follows:

	United States (US) Dollar	Philippine Peso
2014	US\$7,079	₱318,333
2013	US\$93,731	₱4,161,188

As of September 30, 2014, the applicable closing exchange rate was ₱44.966 to US\$1.

The sensitivity of the Group's income before income tax to a reasonably possible change in the US Dollar exchange rate against the Peso, with all other variables held constant, has no significant effect in the financial statements for the periods ended September 30, 2014 and December 31, 2013.

*Credit risk*

Credit risk arises because the counterparty may fail to discharge its contractual obligations. The Group transacts only with related parties and recognized and creditworthy third parties. Receivable balances are monitored on an ongoing basis. Further, management intensifies its collection efforts to collect from defaulting third parties.

The Group's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk in the Group.

The table below shows the maximum gross exposure to credit risk of the Group as of September 30, 2014 and December 31, 2013:

	September 2014	December 2013
Loans and receivables:		
Cash and cash equivalents		
Cash in banks	₱210,041,470	₱151,188,886
Cash equivalents	22,489,635	101,184,014
	<b>232,531,105</b>	<b>252,372,900</b>
Receivables:		
Real estate receivables	233,699,153	288,434,628
Rent receivables	23,656,694	26,628,846
Receivable from sale of investment property	-	20,000,000
Dividends receivable	29,604,066	17,088,300
Receivables from OTB operators	32,010,160	1,193,961
Others	55,634,206	39,967,743
	<b>374,604,279</b>	<b>393,313,178</b>
Deposits*	3,375,580	3,375,580
	<b>₱610,510,964</b>	<b>₱649,061,658</b>

\* Included in "Other noncurrent assets" account in the consolidated balance sheets.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future.

The credit quality of financial assets is managed by the Group using internal credit ratings. The tables below show the credit quality of financial assets based on the Group's credit rating system as of September 30, 2014 and December 31, 2013.

September 2014				
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
<b>Loans and receivables:</b>				
<b>Cash and cash equivalents</b>				
Cash in banks	P210,041,470	P-	P-	P210,041,470
Cash equivalents	22,489,635	-	-	22,489,635
<b>Receivables</b>				
Real estate receivable	233,699,153	-	-	233,699,153
Receivables from OTB operators	32,010,160	-	-	32,010,160
Rent receivables	22,148,324	-	1,508,371	23,656,694
Dividends receivable	29,604,066	-	-	29,604,066
Receivable from sale of investment property	-	-	-	-
Others	48,445,800	-	7,188,405	55,634,206
Deposits*	3,375,580	-	-	3,375,580
	<b>P601,814,187</b>	<b>P-</b>	<b>P8,696,776</b>	<b>P610,510,964</b>

December 2013				
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
<b>Loans and receivables:</b>				
<b>Cash and cash equivalents</b>				
Cash in banks	P151,188,886	P-	P-	P151,188,886
Cash equivalents	101,184,014	-	-	101,184,014
<b>Receivables</b>				
Real estate receivable	288,434,328	-	-	288,434,328
Receivables from OTB operators	1,193,961	-	-	1,193,961
Rent receivables	25,120,475	-	1,508,371	26,628,846
Dividends receivable	17,088,300	-	-	17,088,300
Receivable from sale of investment property	20,000,000	-	-	20,000,000
Others	32,779,338	-	7,188,405	39,967,743
Deposits*	3,375,580	-	-	3,375,580
	<b>P640,364,882</b>	<b>P-</b>	<b>P8,696,776</b>	<b>P649,061,658</b>

\* Included in "Other noncurrent assets" account in the consolidated balance sheets.

The credit quality of the financial assets was determined as follows:

#### *Cash in banks and deposits*

These are considered standard grade based on the nature of the counterparty and the Group's internal rating system. Cash and deposits are limited to highly reputable banks and counterparties duly authorized by the BOD.

#### *Receivables*

Standard grade pertains to receivables from existing and active buyers, OTB operators, lessees, related parties and other counterparties. These receivables have no history of significant default or delinquency in collections but have a reasonable probability of uncollectibility.

Past due but not impaired loans and receivables amounting to nil as of September 30, 2014 and December 31, 2013 are aged more than one year but less than three years.

#### *Liquidity risk*

Liquidity risk is defined as the risk that the Group would not be able to settle or meet its obligations on time or at a reasonable price. The Group's objective is to maintain a balance between continuity of funding and flexibility by regularly evaluating its projected and actual cash flows and through the use of bank loans and extension of suppliers' credit terms. The Group maximizes the net cash inflows from operations to finance its working capital requirements.

The tables below summarize the maturity profile of the Group's financial assets as at September 30, 2014 and December 31, 2013 based on contractual undiscounted payments (principal and interest) and the profile of the financial assets used to manage the Group's liquidity risk.

**September 2014**

	Within 1 year	>1 year <3 years	to 3 years <5 years	to 5 years and more	Total
Loans and borrowings:					
Bank loans*	₱83,677,433	₱14,892,857	₱-	₱-	₱98,570,290
Accounts payable and other liabilities**	315,732,023	-	-	-	315,732,023
Due to related parties	38,640,000	-	-	-	38,640,000
	<b>₱438,049,457</b>	<b>₱14,892,857</b>	<b>₱-</b>	<b>₱-</b>	<b>₱452,942,314</b>

\*Amounts are inclusive of interest amounting to ₱3.3 million.

\*\* Amounts are exclusive of nonfinancial liabilities amounting to ₱61.0 million.

	Within 1 year	>1 year <3 years	to 3 years <5 years	to Total
Cash on hand	₱13,936,580	₱-	₱-	₱13,936,580
Loans and receivables:				
Cash in banks	210,041,470	-	-	210,041,470
Cash equivalents	22,489,635	-	-	22,489,635
Receivables	365,907,501	-	-	365,907,501
Deposits	-	-	3,375,580	3,375,580
	<b>598,438,606</b>	<b>-</b>	<b>3,375,580</b>	<b>601,814,186</b>
AFS financial assets	-	-	20,537,247	20,537,247
	<b>₱612,375,186</b>	<b>₱-</b>	<b>₱23,912,827</b>	<b>₱636,288,014</b>

**December 2013**

	Within 1 year	>1 year <3 years	to 3 years <5 years	to 5 years and more	Total
Loans and borrowings:					
Bank loans*	₱73,786,094	₱14,950,000	₱-	₱-	₱88,736,094
Accounts payable and other liabilities**	229,851,478	-	-	-	229,851,478
Due to related parties	38,640,000	-	-	-	38,640,000
	<b>₱342,277,572</b>	<b>₱14,950,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱357,227,572</b>

\*Amounts are inclusive of interest amounting to ₱4.8 million.

\*\* Amounts are exclusive of nonfinancial liabilities amounting to ₱85.6 million.

	Within 1 year	>1 year <3 years	to 3 years <5 years	to Total
Cash on hand	₱11,382,802	₱-	₱-	₱11,382,802
Loans and receivables:				
Cash in banks	151,188,886	-	-	151,188,886
Cash equivalents	101,184,014	-	-	101,184,014
Receivables	384,616,403	-	-	384,592,140
Deposits*	-	-	3,375,580	3,375,580
	<b>636,989,303</b>	<b>-</b>	<b>3,375,580</b>	<b>640,340,620</b>
AFS financial assets	-	-	21,242,951	21,242,951
	<b>₱648,372,105</b>	<b>₱-</b>	<b>₱24,618,531</b>	<b>₱672,966,373</b>

\* Amounts are exclusive of nonfinancial assets amounting to ₱4.0 million.

### 34. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

The following table summarizes the total capital considered by the Group:

	September 2014	December 2013
Capital stock	P996,171,169	P948,734,898
Additional paid in capital	27,594,539	27,594,539
Net cumulative changes in fair values of AFS financial assets	9,013,593	9,013,593
Remeasurement of retirement benefit	24,875,348	24,875,348
Retained earnings:		
Appropriated	17,180,917	17,180,917
Unappropriated	3,206,741,813	3,321,616,115
Treasury shares	(7,096)	(7,096)
	<b>P4,281,570,283</b>	<b>P4,349,008,314</b>

As of December 31, 2010, the Parent Company is no longer required to maintain debt-to-equity ratio. The Group still monitors its use of capital and capital adequacy by using debt-to-equity ratio. The debt-to-equity ratios as of September 30, 2014 and December 31, 2013 are as follows:

	September 2014	December 2013
Total debt	P860,901,549	P814,561,007
Total equity	4,279,288,317	4,346,726,348
Debt-to-equity ratio	0.20:1	0.19:1

No changes were made in the objectives, policies and processes from the previous years.

### 35. Other Matters

On March 6, 2014, a Memorandum of Agreement (MOA) was executed between Manila Jockey Club, Inc. ("MCJ") and Philippine Football Federation, Inc. ("PFF") to jointly develop a football complex on a portion of MJC's San Lazaro Leisure and Business Park ("SLLBP") in Carmona, Cavite. This is in consonance with MJC's over-all plan to develop SLLBP in a leisure, gaming and entertainment hub.

The football complex shall consist of a pitch of FIFS 2 star international standards, training center and other football support facilities. It is envisioned to be the site of national and international matches and friendlies sanctioned by the Federacion Internationale de Football Association ("FIFA"), Asean Football Federation ("AFF") and Asian Football Confederation ("AFC").

PFF is responsible for the governance, development and promotion of football in the Philippines and the sole controlling body of all provincial football associations. It is a regular member of FIFA, AFF, AFC and Philippine Olympic Committee ("POC").