SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

☐ Preliminary Information Statement

☑ Definitive Information Statement

2. Name of Registrant as specified in its charter

MANILA JOCKEY CLUB, INC.

3. Province, country or other jurisdiction of incorporation or organization

Metro Manila, Philippines

4. SEC Identification Number

PW803

5. BIR Tax Identification Code

000-786-765-000

6. Address of principal office

San Lazaro Leisure Park, Brgy. Lantic, Carmona, Cavite

Postal Code

1003

7. Registrant's telephone number, including area code

(02) 687-9889

8. Date, time and place of the meeting of security holders

June 29, 2018, 9:00 AM at the Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite

9. Approximate date on which the Information Statement is first to be sent or given to security holders

Jun 7, 2018

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

NA

Address and Telephone No.

NA

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON	996,170,748

13. Are any or all of registrant's securities listed on a Stock Exchange?

☑ Yes ☐ No

If yes, state the name of such stock exchange and the classes of securities listed therein:

PHILIPPINE STOCK EXCHANGE, COMMON

Manila Jockey Club, Inc.
MJC

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting
References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	Jun 29, 2018
Type (Annual or Special)	Annual
Time	9:00 AM
Venue	Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite
Record Date	May 2, 2018

Inclusive Dates of Closing of Stock Transfer Books

Start Date	N/A
End date	N/A

Other Relevant Information
Attached is the Definitive Information Statement of Manila Jockey Club, Inc., received by the Securities and Exchange Commission.

Filed on behalf by:

Name	Chino Paolo Roxas
Designation	Corporate Information Officer and Compliance Officer

COVER SHEET

PW803

MANILA JOCKEY CLUB, INC.

(Company's Full Name)

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

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

ATTY. CHINO PAOLO Z. ROXAS	687-9889
Contact Person	Company's Telephone Number

DEFINITIVE INFORMATION STATEMENT 2018

12	31	20-IS	06	30
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

MANILA JOCKEY CLUB, INC.

INFORMATION STATEMENT

Pursuant to Section 20 of the Securities Regulations Code

For Annual Stockholders' Meeting
On June 29, 2018

Turf Club, San Lazaro Leisure and Business Park
Carmona, Cavite

WE ARE NOT ASKING YOU FOR A PROXY and
YOU ARE REQUESTED NOT TO SEND US A PROXY

MANILA JOCKEY CLUB, INC.

ORTIGAS CENTER OFFICE
14th FLOOR, STRATA 100 BUILDING
EMERALD AVENUE, ORTIGAS CENTER
PASIG CITY 1605, PHILIPPINES
Tel: (632) 687-9889; Telefax: (632) 6316366
E-mail: www.manilajockey.com
RACING SINCE 1867

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 29 2018
MARKET REGULATION DEPT.
TIME 4:53 p

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

May 18, 2018

Dear Stockholder:

Notice is hereby given that the Annual Stockholders' Meeting of the Manila Jockey Club, Inc. ("the Corporation") will be held at the Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite on **June 29, 2018 (*Friday*)** at **9:00 A.M.** to consider the following:

1. Call to order
2. Proof of notice and determination of existence of quorum
3. Approval of the minutes of the previous annual stockholders' meeting held on June 30, 2017
4. President's Report
5. Approval of the Annual Report and the Audited Financial Statements of the Company for the period ended December 31, 2017
6. Approval and ratification of all acts, contracts, investments and resolutions of the Board, Committees and Management since the last annual stockholders' meeting
7. Election of the members of the Board of Directors
8. Appointment of External Auditor
9. Amendment of the Company's Amended Articles of Incorporation to change the primary purpose
10. Other Matters
11. Adjournment

Stockholders of record as of May 02, 2018 shall be entitled to attend and vote at said meeting.

Stockholders who will not, are unable to, or do not expect to attend the meeting in person may, at their option, designate their authorized representatives by means of Proxy. The Proxy instrument must be duly notarized and must be submitted to the Office of the Corporate Secretary at 12/F Strata 100 Building, F. Ortigas Road, Ortigas Center, 1605, Pasig City not later than June 23, 2018.

To expedite the registration of your attendance, please bring any valid form of identification with a photograph such as a passport, driver's license, or Company ID.

By Authority of the Board of Directors.

Ferdinand A. Domingo

ATTY. FERDINAND A. DOMINGO
Corporate Secretary

PLEASE NOTE THAT THE CORPORATION IS NOT SOLICITING PROXIES

The nomination and election of the members of the Board of Directors should be in accordance with the nomination forms, procedure and requirements as set forth in the Corporation's Revised Manual on Corporate Governance. Any stockholder may obtain the required nomination form and must submit their nominations to the Nomination Committee or the Corporate Secretary at the following address not later than May ____, 2018.

NOMINATION COMMITTEE
12/F Strata 100 Building
F. Ortigas Road, Ortigas Center, Pasig City
Philippines, 1605

ATTY. FERDINAND A. DOMINGO
Corporate Secretary
12/F Strata 100
F. Ortigas Road, Ortigas Center, Pasig City
Philippines, 1605

All nominations shall be in writing duly signed by the nominating stockholders or their duly authorized (in writing) representatives, with the written acceptance and conformity of their nominees. The Nomination must indicate whether the nominees are intended to be independent directors and shall contain the nominee's age, educational attainment, full disclosure of work and/or business experience and/or affiliations. The Directors and Independent Directors shall be elected from among the Corporation's stockholders. All nominees for Directors and Independent Directors must possess the minimum requirements/qualifications and none of the disqualifications prescribed under paragraphs D and E, Article 3 the Revised Manual on Corporate Governance and the rules and regulations issued by the Securities and Exchange Commission and other regulatory agencies having jurisdiction over the Corporation, and any other relevant circular or memorandum.

Please be guided accordingly.

Ferdinand A. Domingo

ATTY. FERDINAND A. DOMINGO
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC Form 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Sheet
   [✓] Definitive Information Statement

2. Name of Registrant as specified in its charter: **MANILA JOCKEY CLUB, INC.**

3. Province, Country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines**

4. SEC Identification Number: **PW803**

5. BIR Tax Identification Number: **000-786-765-000**

6. Address of principal office: **San Lazaro Leisure Park**
   Brgy. Lantic, Carmona, Cavite, 1003

7. Registrant's telephone number, including area code: **(02) 687-9889**

8. Date, Time and Place of the meeting of security holders:

   June 29, 2018, Friday at 9:00 a.m.
   Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **June 7, 2018**

10. Securities registered pursuant to Section 8 and 12 of the Securities Regulation Code or Sections 4 and 8 of the Revised Securities Act (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class Outstanding	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	**996,170,748**

11. Are any or all of registrant's securities listed on the Philippines Stock Exchange?

    Yes ✓ No ____

If yes, disclose the name of such Stock Exchange and the class of securities listed therein: **Philippine Stock Exchange – Common Shares**

MANILA JOCKEY CLUB, INC.

INFORMATION STATEMENT

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

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of Security Holders (the "Annual Meeting")

(a)	Date:	**June 29, 2018, Friday**
	Time:	**9:00 A.M.**
	Place:	**Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite**
	Principal Office:	**San Lazaro Leisure Park, Carmona Cavite**

(b) Approximate date on which the Information Statement will first be sent or given to Security Holders:

June 7, 2018

Item 2. Dissenters' Right of Appraisal

The Corporation Code provides that a stockholder has the right to dissent and demand payment of the fair value of his shares in case of any amendment of the Articles of Incorporation which has the effect of changing or restricting the rights of any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence or in case of sale, lease, exchange, transfer, mortgage or other disposition of all or substantially all of the corporate property and assets or and in case of merger or consolidation. The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for payment of the fair market value of shares.

There is no matter to be taken up at the Annual Meeting which may give rise to a dissenter's right of appraisal.

Item 3. Interest of Certain Persons in Matters to be Acted Upon

(a) No director or officer of the Company since the beginning or the last fiscal year, or any nominee for election as director, or any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the Annual Meeting, other than election to office.

(b) No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company at the Annual Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Voting securities entitled to vote at the Annual Meeting

As of May 2, 2018, there are 996,170,748 shares of the Company's common stock outstanding and entitled to vote at the Annual Meeting.

(b) Record Date

Only stockholders of record at the close of business on **May 2, 2018** (the "**Record Date**") acting in person or by proxy on the day of the Annual Meeting are entitled to notice of, and to vote at, the Annual Meeting.

(c) Election of directors

Cumulative voting is allowed for election of members of the Board of Directors. Please refer to Item 19.

(d) Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of Record Date, May, 2, 2018, the following are the persons or groups known to the Company to be directly or indirectly the record and/or beneficial owner of more than 5% of the Company's voting securities:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	PCD Nominee Corporation 37F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City Stockholder	PCD Participants*	Filipino	502,435,991	50.44%

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	ARCO Equities, Inc. 12/F, Strata 100 Building F. Ortigas Jr., Ortigas Center Pasig City Stockholder	Alfonso R. Reyno, Jr., Alfonso Victorio G. Reyno III and Christopher G. Reyno are the controlling shareholders	Filipino	130,795,366	13.12%
Common	Alfonso R. Reyno, Jr. 12/F, Strata 100 Building F. Ortigas Jr., Ortigas Center Pasig City Stockholder	Same as Record Owner	Filipino	65,947,940	6.62%
Common	Exequiel D. Robles Sta. Lucia Realty East Grandmall 3/F, Bldg 2, Marcos Highway cor. Felix Avenue, Cainta, Rizal Stockholder	Same as Record Owner	Filipino	56,911,100	5.71%

*ARCO Equities, Inc. owns 92,989,856 shares or 9.51%, and Alfonso R. Reyno, Jr. owns 37,481,822 shares or 3.76%, which are lodged under PCD Nominee Corporation.

As of Record Date, May 2, 2018, the number of shares held by foreign stockholders is 36,607,988 common shares, or 3.67% of the Company's total issued and outstanding shares.

(2) Security Ownership of Management

As of Record Date, May 2, 2018, the following are the securities beneficially owned by all directors and officers of the Company:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	%
Common	Reyno, Alfonso R., Jr.	103,429,762 (Direct)	Filipino	10.38%
Common	Reyno, Alfonso Victorio G., III	5,249,999 (Direct)	Filipino	0.53%
Common	Reyno, Christopher G.	5,249,999 (Direct)	Filipino	0.53%
Common	Tan, Pedro O.	2,319,001 (Direct)	Filipino	0.23%
Common	Morales, Ma. Luisa T.	19 (Direct)	Filipino	0.00%
Common	Santos-Tan, Mariza	5,190 (Direct)	Filipino	0.00%
Common	Valdepeñas, Victor B.	1 (Direct)	Filipino	0.00%
Common	Espiritu, John Anthony B.	1 (Direct)	Filipino	0.00%
Common	Fernandez, Victor C.	1 (Direct)	Filipino	0.00%
Common	Carpio, Lucas, Jr.	1 (Direct)	Filipino	0.00%
Common	Domingo, Ferdinand A.	3,548,030 (Direct)	Filipino	0.35%
Common	Lemuel M. Santos	134,594 (Direct)	Filipino	0.01%

Directors and executive officers as a group hold a total of 119,936,598 common shares, equivalent to approximately 12.03% of the Company's issued and outstanding capital stock.

(3) Voting Trust Holders of 5% or More

No person holds 5% or more of the issued and outstanding shares of stock of the Company under a voting trust or similar agreement.

(4) Changes in Control

There were no material changes in the control of the Company since the beginning of the Company's last calendar year.

Item 5. Directors and Executive Officers

(a) The Board of Directors

The following are the members of the Board:

Position	Names	Citizenship	Age
Chairman	Alfonso R. Reyno, Jr.	Filipino	73
Vice Chairman	Mariza Santos-Tan	Filipino	59
Director	Alfonso Victorio G. Reyno III	Filipino	47
Director	Pedro O. Tan	Filipino	80
Director	Christopher G. Reyno	Filipino	42
Director	Lucas C. Carpio, Jr.	Filipino	70
Director	Ma. Luisa T. Morales	Filipino	73
Director	John Anthony B. Espiritu	Filipino	54
Director	Ferdinand A. Domingo	Filipino	65
Independent Director	Victor B. Valdepeñas	Filipino	71
Independent Director	Victor C. Fernandez	Filipino	73

Set forth below are the business experience of the Board during the last five years:

ALFONSO R. REYNO, JR., Filipino, was born on July 8, 1944. He graduated from the University of the Philippines in 1965 with a degree of Bachelor of Arts, Political Science and finished his Bachelor of Laws degree in the same school in 1969. He formerly occupied the following government positions: Deputy Minister of Defense (*1984-1986*), Member of the Batasang Pambansa (*1984-1986*), Vice Governor of Cagayan (*1980-1984*), Member of the Board of Trustees of the Cagayan State University (*1979-1986*). He is affiliated with and occupies the following positions in various institutions, during the last five (5) years viz: Chairman and CEO, Manila Jockey Club, Inc. (*March 1, 1997 to Present*); Chairman and President, Arco Management & Development Corporation, Arco Equities, Inc., Arco Ventures, Inc. (*1995 to Present*), Bonaventure Development Corporation (*1983 to Present*); Managing Partner, Reyno Tiu Domingo & Santos Law Offices (*1976 to Present*); Chairman and President of MJC Investments Corporation (*2009 to present*). He resides at No. 4 Pili Road, South Forbes Park, Makati City.

MARIZA SANTOS-TAN, Filipino, was born on May 29, 1958 at Quezon City. She graduated from the San Sebastian College with a degree, Bachelor of Science in Commerce. At present, she is affiliated with and occupies the following positions in various institutions in the last five (5) years, viz: Director, Consolidated Insurance Co., Inc.; Unioil Resources and Holdings Co., Inc.; Vice Chairman and Director, Manila Jockey Club, Inc.; Vice-President and Corporate Secretary, Sta. Lucia Realty Development, Inc.; Director and Corporate Secretary, Sta. Lucia East Grandmall and Orchard Golf and Country Club; President, Royale Tagaytay Golf and Country Club. She is currently a Vice Chairman of MJC Investments Corporation, She resides at Cluster 351A Alexandra Condominium, Meralco Avenue, Pasig City, Metro Manila.

ALFONSO VICTORIO G. REYNO III, Filipino, was born on March 9, 1970, is a lawyer by profession. He is affiliated with and occupies the following position in various institutions in the last five (5) years viz: President and COO, Manila Jockey Club, Inc. (*March 1, 1997 to Present*); viz: President, Arco Ventures, Inc. (*1995 to Present*), Director, Arco Management & Development Corporation, Bonaventure Development Corporation. Arco Equities, Inc. (*1995 to present),* Junior Associate, ACCRA Law Offices (*1997-1999*), Junior Partner, Reyno Tiu Domingo & Santos Law Offices (*1999 to present*); Director of MJC Investments Corporation (*2009 to present*). He resides at 23B South Tower Condominium, Pacific Plaza Tower, Fort Bonifacio, Taguig City.

PEDRO A. TAN, Filipino, was born on November 13, 1937. He graduated from the Far Eastern University with a degree of Bachelor of Science in Business Administration. He is affiliated with and occupies the following positions in various institutions in the last five (5) years, viz: President, General Manager and Director, Triplex Enterprises, Inc. and Gibson Manufacturing Co., Inc.; President and Director, Burlington Philippines Industries, Inc., Evergrow Industries, Inc., and HPT Industries, Inc.; Treasurer and Director, Zipporah Holding Corporation, Blue Ridge Mineral Corporation, Highland Securities Philippines and Liberty Telecoms Holdings, Inc. Currently a director of MJC Investments Corporation. He resides at 2255 Pasong Tamo Street, Makati City, Metro Manila.

CHRISTOPHER G. REYNO, Filipino, was born on October 30, 1975. He graduated from De La Salle University in 1997 with a degree of Bachelor of Arts major in Liberal Arts. He is affiliated with and occupies the following positions in various institutions during the last five years, viz: Director, ARCO Management & Development Corporation; Director ARCO Ventures, Inc.; Director, ARCO Equities, Inc.; Director, Bonaventure Development Corporation and Technical Assistant, Board of Directors of the Philippine National Bank. He resides at No. 4 Pili Road, South Forbes Park, Makati City.

LUCAS C. CARPIO, JR., Filipino, was born on August 18, 1947. He graduated from De La Salle College with a degree of Bachelor of Arts in Political Science - History and finished his Bachelor of Laws degree in the Ateneo de Davao University in 1975. He is affiliated with and occupied the following positions in various institutions in the last five (5) years, viz: Assistant City Fiscal, Davao City; Manager - Litigation Group, Security Bank and Trust Company; Junior Associate, Yulo and Bello Law Offices; Managing Partner, Carpio and Bello Law Offices. He resides at 22 Uruguay Street, Better Living Subdivision, Parañaque City.

MA. LUISA T. MORALES, Filipino, was born on June 21, 1944. She graduated from Assumption College with a Bachelor of Arts degree in Commerce. She is affiliated with and is a Director of Tormil Realty Corporation during the last five years. She resides at No. 3 Pili Road, South Forbes Park, Makati City.

JOHN ANTHONY B. ESPIRITU, Filipino, was born on July 12, 1963. He graduated from University of Michigan, Ann Arbor Michigan, United States with a degree of Bachelor of Business Administration in May 1985. He also obtained from said university and masteral degree in Business Administration in May 1990. He occupied and is currently holding the following position during the last five (5) year: President/Director of EBE Land, Inc. (January 1997 to present); Chairman /Publisher of the Philippine news, San Francisco, California (*November 2004 to present*); Director of Asia-Pacific Medical Corp of Saipan, Northern Marianas Islands (*June 1998 to present*). He resides at Penthouse B, Ritz Towers, Ayala Avenue, Makati City.

FERDINAND A. DOMINGO, Filipino, was born on June 22, 1952. He graduated from the University of the Philippines in 1972 with a degree of Bachelor of Arts and Political Science and finished his Bachelor of Laws degree in the same school in 1977. In the last five (5) years or more he is affiliated with and occupies the following positions in various institutions, viz: Senior Partner, Reyno Tiu Domingo & Santos Law Offices (*September 1, 1991 to Present*); Corporate Secretary and General Counsel of MJC Investments Corporation (*2009 to present*); Director, CICI General Insurance Corporation (*May 2001 to Present*); Director, United Overseas Bank (*May 2001 to July 2002*); Corporate Secretary, Westmont Bank (*May 17, 2000 to January 16, 2004*); Director, PNB Holdings Ltd. and PNB Hongkong Branch (*1998 to February 2000*); Bank Attorney, Philippine National Bank (*1978-1984*); Corporate Secretary, Philippine Racing Club, Inc. (*1994-1997*); Legal Counsel and Corporate Secretary, National Steel Corporation (*May 3, 1995 to March 1997*). He resides at No. 14 Lopez Jaena Street, Ayala Heights, Quezon City.

VICTOR B. VALDEPEÑAS, Filipino, was born on July 28, 1946. He graduated from the University of the Philippines in 1966 with a degree of Bachelor of Science Major in Economics and finished his Doctor of Philosophy in Economics in the same school in 1972. In the last five (5) years or more he is affiliated with and occupies the following positions in various institutions, viz: Vice President and Country Treasurer of Citibank N.A. (from 1987-1994); Executive Vice President/Treasurer of Unionbank of the Philippines (1993-1997); consultant to the Chairman of National Economic Council; Assistant Director, National Planning Policy Research of National Economic Development Authority; Faculty Member of University of the Philippines; Professorial Lecturer of University of Sto. Tomas; Director of the University of the Philippines Alumni Association (2012-2015). He was the President and Chief Operating Officer of Unionbank of the Philippines. He resides at No. 61 Vernon Street, Filinvest Batasan Hills, Diliman Quezon City.

VICTOR C. FERNANDEZ, Filipino, was born on March 10, 1944. He graduated from University of the Philippines in 1967 with a degree of A.B. major in Economics and finished his Bachelor of Laws degree in the same school in 1971. Graduated ranked no. 10 in the University of the Philippines, College of Law, Class of 1971 with a weighted average of 2.06, took the bar exam after graduation and passed the same with the rating of 86.7% (23rd place). He is affiliated with and occupies the following positions in various institutions during the last five years, viz: Deputy Ombudsman for Luzon, Office of the Ombudsman (*March 2003 to March 2010*); Senior Partner, Fernandez, Pacheco & Dizon Law Office (*1993 to February 2003*); Senior Partner, Fernandez, Velasco & Grapilon Law Offices (*1987 to 1993*); Senior Partner, Fernandez, Ambrocio & Fernandez Law Offices (*1982 to 1987*); Associate, Sen. Estanislao A. Fernandez Law Offices (*1972 to 1981*), Legal Consultant, World Bank - Supreme Court Project on the Review of the Criminal Justice System; Lecturer for both Mandatory Continuing Legal Education (MCLE) and Institute of judicial Academy, University of the Philippines. At present, he is Consultant both for Local Water Utilities Administration (LWUA) and the Commission on Audit (COA).

He is currently one of the independent directors of MJCI. He resides at No. 1570 Princeton Street, Wack-Wack Village, Mandaluyong City.

Nomination of Directors for 2018-2019

The directors of the Company elected at the Annual Meeting shall hold office for one year and until their respective successors have been elected and qualified.

The following are the nominees to the Board of Directors:

1. ALFONSO R. REYNO JR.
2. MARIZA SANTOS-TAN
3. ALFONSO VICTORIO G. REYNO III
4. PEDRO O. TAN
5. CHRISTOPHER G. REYNO
6. LUCAS C. CARPIO, JR.
7. MA. LUISA T. MORALES
8. JOHN ANTHONY B. ESPIRITU
9. FERDINAND A. DOMINGO
10. VICTOR B. VALDEPEÑAS (Independent Director)
11. VICTOR C. FERNANDEZ (Independent Director)

The Company has no reason to believe that any of the aforesaid nominees will be unwilling or unable to serve if elected as a director.

Mr. Lenito Serrano nominated Atty. Victor Fernandez while Mr. Freddie Ceballos nominated Mr. Victor Valdepeñas as Independent Directors of the Company. Messrs. Serrano and Ceballos are not related to either Messrs. Valdepeñas and Fernandez by consanguinity or affinity, and has no professional or business dealings with any of them. Messrs. Valdepeñas and Fernandez are neither officers nor substantial shareholders of the Company.

The nominees for independent directors possess the qualifications and none of the disqualifications of independent directors under relevant rules of the Securities Regulation Code (the "SRC") and its implementing rules and regulations (the "SRC Rules").

The respective business experiences of Messrs. Valdepeñas and Fernandez are set forth above.

The matter of the nomination and election of Independent Directors form part of a set of guidelines for the Nomination Committee. These guidelines define qualifications, disqualifications and procedures for the screening and short listing of candidates nominated to the Board.

The members of the Nomination Committee are as follows:

1. Alfonso Victorio G. Reyno III - Chairman
2. Ferdinand A. Domingo - Member
3. Victor C. Fernandez - Member (Independent Director)

For this Annual Meeting, the Nomination Committee shall screen and evaluate the candidates for Independent Directors, using the committee's guidelines, pertinent provisions of the Company's Manual on Good Corporate Governance, its By-Laws and relevant issuances under the SRC and the SRC Rules.

On July 30, 2008, the SEC approved the amendments to the Company's By-laws incorporating the procedures for the nomination and election of independent directors in accordance with SRC Rule 38, as amended.

(b) The Executive Officers

The following are the Executive Officers of the Company:

Position	Names	Citizenship	Age
Chief Executive Officer	Alfonso R. Reyno, Jr.	Filipino	73
Chief Operating Officer	Alfonso Victorio G. Reyno III	Filipino	47
Treasurer	Pedro O. Tan	Filipino	80
Chief Finance Officer	Nestor N. Ubalde	Filipino	59
Corporate Secretary and General Counsel	Ferdinand A. Domingo	Filipino	65
Assistant Corporate Secretary	Lemuel M. Santos	Filipino	67
Executive Vice President and Deputy COO for Administration	Peter Francis G. Zagala	Filipino	48
Executive Vice President and Deputy COO for Business Development	Juan Antonio S. Gatuslao	Filipino	50
Corporate Information Officer	Chino Paolo Z. Roxas	Filipino	34

The business experience of Mssrs. Alfonso R. Reyno, Jr., Alfonso Victorio G. Reyno III, Pedro O. Tan and Ferdinand A. Domingo during the last five (5) years is provided above. Set forth below are the business experience of the Company's other executive officers during the last five (5) years:

NESTOR N. UBALDE, Filipino, was born on March 4, 1959. He graduated from the University of East, Manila with a degree of Bachelor of Science in Business Administration and finished his Bachelor of Laws in the same school. In the last five (5) years, he was affiliated with and occupies the following positions in various institutions: Vice President for Finance and Controllership, Africa Israel Investments (ALL) (Philipines), Ins. and Africa Israel Properties (AIP) (Philippines), Inc. (January 2006 to March 2010); Chief Finance Officer, Smartpetro, Inc. (March 2010 to January 2011). He is currently the Chief Finance Officer of MJCI. He resides at cor. Mt. Apo and Mt. Makiling Streets, Grand Valley Subdivisions, Mahabang Parang, Angono, Rizal.

LEMUEL M. SANTOS, Filipino, was born on 3 April 1951. He graduated from the University of the Philippines in 1973 with a degree of Bachelor of Arts and Political Science and finished his Bachelor of Laws degree in the same school in 1977. In the last five (5) years or more, he is affiliated with and occupies the following positions in various institutions, viz: Partner, Reyno, Tiu, Domingo & Santos Law Offices (1991 up to present); Assistant Corporate Secretary, Manila Jockey Club, Inc. (up to present); Corporate Information and Compliance Officer, MJC Investments Inc. (up to present). He resides at 84 D. Tuazon Street, B. F. Homes, Paranaque, 1718 Metro Manila.

PETER FRANCIS G. ZAGALA, Filipino, was born in October 10, 1969 at Davao City. He graduated from the University of the Philippines (A.B., LL.B.). He is affiliated with and occupies the following position in various institutions in the last five (5) years, viz: Corporate Secretary, Arco Management & Development Corporation, Assistant Corporate Secretary, Arco Ventures, Inc. (1995 to present), Bonaventure Development Corporation, Arco Equities, Inc. (1995 to present), Junior Partner, Reyno Tiu Domingo & Santos Law Offices (1999 to present). He is currently the Vice President for Resource Administration of MJCI. He resides at L5 B2 Kiwi St. Ayala Westgrove Heights, Silang Cavite.

JUAN ANTONIO S. GATUSLAO, Filipino, was born in October 28, 1967 at Bacolod City. He graduated from University of the Philippines Diliman with a B.A major in Humanities 1989 and a Masters of Business Administration (MBA), with distinction, at De La Salle University Graduate School of Business in 2007. In the last 5 years or more he has been affiliated with and occupied the following position in various institutions: Presently EVP for Real Estate and Business Development of MJCI and concurrent Vice-Chairman of the board and Head of Operation of MCCI (a wholly owned subsidiary of MJCI). Vice President for Operation of MJC Investment Corp. (2013). Executive Vice President & Deputy COO Manila Jockey Club, Inc. (2010). Senior Assistant Vice President & Project General Manager, ETON Properties Philippines, Inc. (2007). Senior Assistant Vice President, Sales & Marketing Group Keppel Philippines Properties, Inc. (2000) Marketing & Investment Officer DMCI Project Developers, Inc. (a wholly owned subsidiary of DMCI) (1996). He resides at No. 30 Washington St. Parkwood Green Executive Phase 2, Maybunga, Pasig City.

CHINO PAOLO Z. ROXAS, Filipino, was born on November 28, 1983. He graduated from the Ateneo de Manila University with a degree of Bachelor of Laws (LLB) under the Juris Doctor (J.D.) Program. He was formerly affiliated with Bernas Law Office from 2008-2010. He is currently the Corporate Information Officer and Compliance Officer of Manila Jockey Club, Inc. He resides at 44 Leo Street, Villarica Subdivision, Cainta Rizal.

(c) Family Relationships

Alfonso Victorio G. Reyno, III and Christopher G. Reyno are the sons of Alfonso R. Reyno, Jr.

Aside from the abovementioned, no other members of the Board of Directors nor any Executive Officer of the Company is related by affinity or consanguinity.

(d) Involvement in Certain Legal Proceedings

To the knowledge and/or information of the Company, the present members of the Board of Directors or the Executive Officers are not, presently, or during the last five (5) years, involved or have been involved in criminal, bankruptcy or insolvency investigations or proceedings.

(e) Certain Relationships and Related Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group 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.

	Nature	Amount 2017	Amount 2016	Receivable/ (Payable) 2017	Receivable/ (Payable) 2016	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office Space	₱11,780,277	₱11,431,401	₱–	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	–	(14,734,481)	(14,734,481)	(14,734,481)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances	1,161	873,851	4,982,104	4,980,943	Noninterest-bearing	Unsecured, no impairment
Techsystems	Advances	9,034	8,333	27,200	18,166	Noninterest-bearing	Unsecured, no impairment

a. The Company has a lease agreement with AMDC covering the lease of office space and parking lots.

b. Compensation of key management personnel of the Company amounted to ₱66.0 million, ₱62.2 million and ₱65.3 million in 2017, 2016 and 2015, respectively. The Company has no standard arrangement with regard to the remuneration of its directors. In 2017 and 2016, the BOD received a total of ₱9.8 million. Advances to officers and employees amounted to ₱14.7 million, ₱14.9 million and ₱6.2 million in 2017, 2016 and 2015, respectively.

(f) Disagreement with a Director

No director has resigned or declined to stand for re-election to the Board since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Item 6. Compensation of Directors and Executive Officers

Information as to the aggregate compensation paid or accrued during the last two years and estimated to be paid in the ensuing year to the Company's Chief Executive Officer (CEO) and three (3) most highly compensated executive officers is presented below. Also included in the tabular presentation is the compensation paid to or accrued for other officers and directors.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
The CEO and three most highly compensated Executive Officers:	2018*	9,810,000	179,247	-
	2017	9,810,000	179,247	-

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
• CEO and Chairman - Alfonso R. Reyno, Jr. • President and COO - Alfonso Victorio G. Reyno, III • Vice Chairman - Mariza Santos-Tan • Treasurer - Pedro O. Tan	2016	9,810,000	179,247	-
All other Executive Officers and Directors as a group unnamed	2018	72,603,853	-	-
	2017	66,226,613	-	-
	2016	62,226,613	-	-

*Estimated compensation for the ensuing year is assumed to approximate the 2017 level.

All directors are entitled to a per diem ranging from ₱10,000.00 to ₱15,000.00 plus a ₱3,000.00 allowance to cover their transportation, communication and other expenses for every board meeting attended. There are no contracts with the named executive officers for any compensation plan or arrangement that will result from the resignation, retirement or any other termination of employment of said executive officers. There are no outstanding warrants or options being held by the named executive officers or directors and neither are there any changes in control arrangements made with the named executive officers and the directors.

Item 7. Independent Public Accountants

The accounting firm of Sycip Gorres Velayo & Co. (SGV) has been the Company's independent public accountant/external auditor for the last five years. The same accounting firm is being recommended for re-appointment by the stockholders at the Annual Meeting. Representatives of said firm are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. SGV has accepted the Company's invitation to stand for re-appointment this year.

The Company complies with SRC Rule 68, Part I, Item 3(B)(iv)(ix) on the 5-year rotation of the External Auditor and the two-year cooling-off period on the re-engagement of the same signing partner or individual auditor. The Company engaged SGV for the examination of the Company's financial statements for the year 2017. Previously, the Company engaged Ms. Josephine H. Estomo of SGV for the examination of the Company's financial statements for the years 2006 to 2010. She was replaced by Mr. Arnel F. de Jesus of SGV, for the years 2011 to 2015. For years 2016 to 2017, Ms. Adeline D. Lumbres was the partner-in-charge of SGV for the examination of the Company's financial statements.

External Audit Fees

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by SGV was ₱2.7 million for the year 2017, and ₱2.4 million for the year 2016.

There are no other assurance and related services extended by the external auditors that are reasonably related to performance of audit or review of the Company's financial statements.

The Company has not had any disagreements on accounting and financial disclosures with SGV during the last 5 years or any subsequent interim periods.

The audit findings are presented to the Company's Audit Committee which reviews and makes recommendations to the Board on actions to be taken thereon. The Board passes upon and approves the Audit Committee's recommendations.

The members of the Audit Committee of the Company are as follows:

1. John Anthony B. Espiritu - Chairman
2. Alfonso Victorio G. Reyno III - Member
3. Ferdinand A. Domingo - Member
4. Victor B. Valdepeñas - Member (Independent Director)

Item 8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

Not applicable.

Item 10. Modification or Exchange of Securities

Not applicable.

Item 11. Financial and Other Information

The audited financial statements of the Company for the period ended December 31, 2017 and the Quarterly Report for the period ended March 31, 2018 are attached as **Annexes "A" and "B"**, respectively. Management's Discussion and Analysis of Financial Condition and Results of Operations are incorporated in the Management Report.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

Not applicable.

Item 13. Acquisition or Disposition of Property

Not applicable.

Item 14. Restatement of Accounts

The Company is not taking any action, which involves the restatement of any of its assets, capital or surplus account.

D. OTHER MATTERS

Item 15. Action with Respect to Reports and Other Proposed Action

There is no action to be taken with respect to any report of the Company or of its directors, officers or committees, except the approval of (i) the minutes of the previous annual stockholders' meeting, and (ii) the Annual Report and Audited Financial Statements of the Company for the period ended December 31, 2017, all of which will be submitted for approval of the stockholders.

Other proposed actions include ratification of all acts, investments, proceedings and resolutions of the Board, the Committees and the acts of the officers and management since the date of the last annual meeting. The matters for stockholders' ratification are acts of the Board, the Executive Committee, officers and management from the previous stockholders' meeting up to the date of the Annual Meeting which were entered into or made in the ordinary course of business and transactions covered by appropriate disclosures with the PSE and SEC:

Date of Disclosure	Subject
June 30, 2017	▪ Results of the Annual Stockholders' Meeting: Election of the Board of Directors; Ratification of all past acts of the Board of Directors and Management; and Appointment of the Independent Auditor.
June 30, 2017	▪ Results of the Organizational Board Meeting: Appointment of the officers of the Corporation as well as the various committee members of Executive Committee, Nomination Committee, Audit Committee, Compensation and Remuneration Committee, Investment and Finance Committee, and Racing Committee.
July 4, 2017	▪ Declaration of Cash Dividends of Five Centavos (Php 0.05) per share from the Unrestricted Retained Earnings
March 15, 2018	▪ Imposition of penalty by the Securities and Exchange Commision
March 22, 2018	▪ Increase in the Equity of the Company's wholly-owned subsidiary, Manila Cockers Club, Inc. ("MCCI")
April 2, 2018	▪ Franchise Bill of the Company's wholly-owned subsidiary, Manila Cockers Club, Inc.
April 20, 2018	▪ Declaration of Cash Dividend of Five Centavos (Php 0.05) per share from the Unrestricted Retained Earnings

The approval of the minutes, Annual Report and audited financial statements for the period ended December 31, 2017, and ratification of all acts, proceedings and resolutions of the Board, the Executive Committee and the acts of the officers and management since the date of the last annual meeting require the affirmative vote of a majority of the votes cast at the Annual Meeting by the stockholders entitled to vote.

Item 16. Matters Not Required to be Submitted

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

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

Prior to the date of the Annual Meeting, the Board is expected to approve the amendment of its Amended Articles of Incorporation to expand its primary purpose from engaging in the business of horse racing to engaging in the business of gaming. Ratification and/or approval of the shareholders shall be sought with respect to said amendment.

Item 18. Other Proposed Action

The following actions are also proposed to be taken up during the Annual Meeting:

1. Election of directors for 2018-2019;

2. Appointment of external auditor; and

3. Amendment of the Company's Amended Articles of Incorporation to change the primary purpose.

Item 19. Voting Procedures

(a) Vote Required

The approval of the proposed amendment to the Amended Articles of Incorporation of the Company requires the vote of stockholders representing at least 2/3 of the issued and outstanding capital stock. The approval of the other items to be presented to the stockholders will require the vote of stockholders representing at least a majority of the issued and outstanding capital stock entitled to vote.

Pursuant to the Corporation Code, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, as of the record date, in his own name in the stock and transfer book of the Company. In all items for approval, except in the election of directors, each share of stock entitles the registered holder thereof to one vote.

For the purpose of electing directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the number of directors to be elected.

(b) Method of counting votes

Stockholders may vote at all meetings either in person or by proxy. All proxies must be in the hands of the Corporate Secretary before the time set for the meeting.

Unless required by law or demanded by a stockholder present or represented at the meeting and entitled to vote thereat, voting need not be by ballot and may be done by show of hands.

The Corporate Secretary will primarily be responsible for counting votes based on the number of shares entitled to vote owned by the stockholders who are present or represented by proxies at the Annual Meeting of the stockholders.

The external auditor of the Company is authorized to audit, confirm and ratify the number of votes on each and any matter properly brought to the vote of the stockholders, including the election of directors.

The agenda for the Annual Meeting is as follows:

1. Call to order

2. Proof of notice and determination of existence of quorum

3. Approval of the minutes of the previous annual stockholders' meeting held on June 30, 2017

4. President's Report

5. Approval of the Annual Report and the Audited Financial Statements of the Company for the period ended December 31, 2017

6. Approval and ratification of all acts, contracts, investments and resolutions of the Board, Committees and Management since the last annual stockholders' meeting

7. Election of the members of the Board of Directors

8. Appointment of External Auditor

9. Amendment of the Company's Amended Articles of Incorporation to change the primary purpose

10. Other Matters

11. Adjournment

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig, Metro Manila, on 29 MAY 2018.

MANILA JOCKEY CLUB, INC.

By:

ALFONSO R. REYNO, JR.
Chairman of the Board & President

FERDINAND A. DOMINGO
General Counsel & Corporate Secretary

NESTOR N. UBALDE
Chief Finance Officer

MANILA JOCKEY CLUB, INC.

MANAGEMENT REPORT

I. Consolidated Audited Financial Statements and Interim Financial Statements

Manila Jockey Club, Inc.'s ("MJCI", the "Company" or the "Parent Company") consolidated audited financial statements for the year ended December 31, 2017 and interim financial statements as of March 31, 2018 attached to the Information Statement are incorporated herein by reference.

II. Changes in and Disagreements with Accountants on Accounting and Financing Disclosures

There was no event in the past five years where SGV and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

III. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Consolidated Audited Financial Statements as of December 31, 2017

The following discussion and analysis relate to the consolidated financial position and results of operation of Manila Jockey Club, Inc. and Subsidiaries and should be read in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the year ended December 31, 2017. Reference to "MJCI", "the Company", and "the Parent Company" pertains to Manila Jockey Club, Inc., while reference to "the Group" pertains to MJCI and its subsidiaries.

Discussion on Results of Operations

The following table shows a summary of results of the operations for the year ended December 31, 2017, 2016 and 2015:

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS)			2017 vs 2016	2016 vs 2015
Revenue					
Racing	₱186.1	₱188.5	₱199.8	-1.3%	-5.7%
Cockfighting	332.7	120.4	0.4	176.3%	30000.0%
Real estate	122.9	113.8	46.6	8.0%	144.2%
Rent	83.5	90.0	87.2	-7.2%	3.2%
Food and beverages	18.3	16.2	19.0	13.0%	-14.7%
Others	12.6	6.3	18.4	100.0%	-65.8%
	756.1	535.2	371.4	41.3%	44.1%
Cost					
Racing	176.7	170.1	175.1	3.9%	-2.9%
Cockfighting	219.5	84.3	3.8	160.4%	2118.4%
Real estate	13.3	12.4	1.0	7.3%	1140.0%
Rent	58.7	59.1	62.6	-0.7%	-5.6%
Food and beverages	17.3	18.9	19.3	-8.5%	-2.1%
Others	12.5	6.2	18.3	101.6%	-66.1%
	498.0	351.0	280.1	41.9%	25.3%

(Forward)

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS)			2017 vs. 2016	2016 vs 2015
Gross income	258 1	184.2	91 3	40.1%	101.8%
Operating expenses/losses	(252.3)	(220.9)	(195.4)	14.2%	13.0%
Equity in net earnings (losses) of associate and joint ventures	(135.2)	(70.5)	12 5	91 8%	-664.0%
Interest income	12.6	11.5	5 1	9 6%	130.0%
Other income – net	8.4	27.9	28 2	-69 9%	-1.4%
Benefit from provision for income tax	(11 3)	(9.6)	13.4	17.7%	-171 6%
Net loss	(₱119.8)	(₱77.4)	(₱45.0)	54.7%	72.0%
Earnings (losses) per share	(₱0.1198)	(₱0.0774)	(₱0.0459)	54.7%	68.6%

Comparison of Operating Results for the Years Ended December 31, 2017 and 2016

Gross Revenue and Cost of Sale and Services

Gross revenue from operation includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services.

For the periods ended December 31, 2017 and 2016, the Group has a gross revenue amounting to ₱756.1 million and ₱535.2 million, respectively. Compared to 2016, the gross revenue in 2017 increased by 41.3% or ₱220.9 million. The increase came primarily from cockfighting operations which improved as a result of increase in the number of cockfights and OTB stations. The number of fights went up from 2,382 in 2016 to 4,743 in 2017. The increase in the sale of real estate units by ₱9.1 million resulted from more real estate units sold and fewer cancellations in 2017 compared to 2016.

Total cost of sales and services for the periods ended December 31, 2017 and 2016 amounted to ₱498.0 million and ₱351.0 million, respectively, which increased by ₱147.0 million or 41.9% in 2017. The significant portion of the increase are expenses incurred for the cockfighting operations. Cost of real estate units recognized for 2017 also increased as there were more residential and condominium units sold in 2017.

Operating expenses

Operating expenses increased by 14.2% or ₱31.4 million. The increase pertains mainly to the administrative costs for the cockfighting operations and salaries and allowances of support workforces and service fee for the use of the Fastbet application. Marketing fee on real estate transactions also increased in 2017 due to new sales of real estate units during the year.

Equity in net earnings (losses) of associates and joint venture

Equity in net losses of associates and joint venture increased by ₱64.7 million, from ₱70.5 million in 2016 to ₱135.2 million in 2017. This is primarily due to the increase in equity losses of MIC, which increased by ₱76.9 million, from ₱97.3 million in 2016 to ₱174.2 million in 2017 partially offset by the increase in the equity share in net income of SLBPO which increased by ₱12.2 million, from ₱26.8 million in 2016 to ₱39.0 million in 2017.

Losses per share

Losses per share in 2017 and 2016 are ₱0.1198 and ₱0.0774, respectively which increased by 0.0424 as the Group registered a net loss attributable to the affiliate amounting to ₱119.8 million and ₱77.1 million in 2017 and 2016, respectively. The increase is primarily due equity share in the net losses from MIC amounting to ₱174.2 million in 2017.

Comparison of Operating Results for the Years Ended December 31, 2016 and 2015

Gross Revenue and Cost of Sale and Services

Gross revenue from operation includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services.

For the periods ended December 31, 2016 and 2015, the Group has a gross revenue amounting to ₱535.2 million and ₱371.4 million, respectively. Compared to 2015, the gross revenue in 2016 increased by 44.1% or ₱163.8 million. The increase came primarily from cockfighting operations which commercially started in December 2015. The increase in the sale of real estate units by ₱67.2 million also contributed to the increase in gross revenues resulting from more real estate units sold and fewer cancellations in 2016 compared to 2015.

Total cost of sales and services for the period ended December 31, 2016 and 2015 amounted to ₱351.0 million and ₱280.1 million, respectively. It increased by ₱70.9 million or 25.3% in the current year. Bulk of the increase are expenses incurred for the cockfighting operations. Cost of real estate units recognized for 2016 also increased as there were more residential and condominium units sold in 2016 compared to the prior year.

Operating expenses

Operating expenses increased by 13.0% or ₱25.4 million. The increase pertains mainly to the administrative costs covering the whole year of 2016 incurred for the cockfighting operations which operated commercially in December 2015. These costs include salaries and allowances of support workforces and service fee for the use of the Fastbet application. Marketing fee on real estate transactions also increased in 2016 due to new sales of real estate units during the year.

Equity in net earnings (losses) of associates and joint venture

For the period ended December 31, 2016, equity in net losses of associates and joint venture amounted to ₱70.5 million compared to equity in net earnings of associates and joint venture in 2015 amounting to ₱12.5 million. The reversal of the earnings to losses is due to the increase in equity share in the net losses of MIC amounting to ₱97.3 million in 2016 from ₱12.0 million in 2015, due to the fixed costs (including depreciation of equipment and interest from bank loans) of the Winford Hotel and Casino in Sta. Cruz, Manila. These are tapered by the increase in equity share in net earnings of SLBPO by ₱2.3 million, from ₱24.5 million in 2015 to ₱26.8 million in 2016.

Losses per share

Losses per share in 2016 and 2015 are ₱0.0774 and ₱0.0459, respectively which increased by ₱0.0315 as the Group registered a net loss attributable to the Parent Company amounting to ₱77.1 million and ₱45.7 million in 2016 and 2015, respectively. The decrease in the EPS is primarily due to the opening of the Winford Hotel and Casino in Sta. Cruz, Manila, which contributed a ₱97.3 million equity in net losses in 2016.

Discussion on Financial Condition and Changes in Financial Condition

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS and ratio)			2017 vs. 2016	2016 vs. 2015
Cash and cash equivalents	₱225.6	₱171.9	₱134.5	31.2%	27.8%
Receivables	217.4	188.4	200.1	15.4%	-5.9%
Inventories	71.2	83.9	94.8	-15.1%	-11.5%
Other current assets	11.5	11.3	11.3	1.77%	0.0%
Total current assets	525.7	455.5	440.7	15.41%	3.4%
Real estate receivables - net of current portion	51.2	108.6	45.1	-53%	140.8%
Investments in associates and joint ventures	2,204.3	2,205.4	2,301.3	0.00%	-4.2%
Available-for-sale (AFS) financial assets	35.2	13.3	31.9	164.7%	-58.3%
(Forward)					
Property and equipment	880.6	920.9	957.2	-4.4%	-3.8%
Investment properties	1,097.4	1,099.6	998.4	-0.2%	9.2%
Deferred tax asset	1.6	-	-	100%	0%
Other non-current assets	30.0	29.4	31.0	2.0%	10.1%
Total noncurrent assets	4,300.3	4,377.2	4,364.9	-1.8%	0.3%
Total assets	4,826.0	4,832.7	4,805.6	-0.1%	0.6 %
Short-term loans and borrowings	₱234.0	₱90.0	₱39.0	160.0%	130.8%
Accounts payable and other liabilities	342.0	312.4	301.1	9.48%	3.8%
Due to related parties	14.7	14.7	-	0.0%	0.0%
Income tax payable	0.7	0.6	0.007	16.7%	8471.4%
Total current liabilities	591.4	417.7	340.1	41.58%	22.8%
Accrued retirement benefits	39.9	44.0	39.0	-9.3%	12.8%
Deferred tax liabilities - net	218.5	228.7	228.6	-4.5%	0.04%
Total non-current liabilities	258.4	272.7	267.6	-5.24%	1.9%
Total liabilities	849.8	690.4	607.7	23.09%	13.6%
Capital stock	996.2	996.2	996.2	0.00%	0.00%
Additional paid-in capital	27.6	27.6	27.6	0.00%	0.00%
Actuarial gains on accrued retirement benefits	27.6	24.1	21.6	14.5%	11.6%
Net cumulative changes in fair values of AFS financial assets	5.0	5.0	3.9	0.0%	28.21%
Retained earnings	2,854.1	3,023.3	3,150.2	-5.6%	-4.0%
Treasury shares	(0.007)	(0.007)	(0.007)	0.0%	0.0%
Non-controlling interests	65.7	66.1	(1.6)	-0.6%	-3662.5%
Total equity	3,976.2	4,142.3	4,197.9	-4.0%	-1.5%
Total liabilities and equity	4,826.0	4,832.7	4,805.5	-0.1%	0.4%

Discussion on some Significant Changes in Financial Condition as of December 31, 2017 and 2016

Total Assets decreased due to the following:

1. For the year ended December 31, 2017, cash and cash equivalents of the Group increased by ₱53.7 million, which were generated from the following activities:

   a. Cash provided by operating activities amounted to ₱149.9 million, which are significantly generated from its horse racing, cockfighting, leasing activities and other activities such as food and beverage and foreign currency exchange activities.

   b. The Group used cash for its investing activities amounting to ₱184.0 million, which were net result of the following major investing activities during the year:

   a. Dividends received amounting to ₱20.9 million

b. Interest received amounting to ₱12.5 million
c. Payment on advances to an associate amounting to ₱152.3 million
d. Payment for the acquisition of retail treasury bonds amounting to ₱22.0 million
e. Payment for the acquisition of property and equipment amounting to ₱30.7 million
f. Payment for the acquisition of investment property amounting to ₱10.2 million
g. Increase in other noncurrent assets amounting to Php2.5 million

c. The Group's financing activities during the year provided cash amounting to ₱87.9 million, which is the net result of payment of interest, dividends and loan amounting to ₱6.1 million, ₱50.0 million and ₱73.0 million, respectively, which were partially offset by the proceeds from short term loan obtained during the year amounting to ₱217.0 million.

2. Decrease in receivables is due to the following:

   a. Decrease in receivables from real estate, rent, and off-track betting (OTB) operators amounting to ₱21.1 million, ₱2.3 million, and ₱8.1 million, respectively, is primarily due to improvement of the Company's cash collection policy.

   b. Decrease in non-trade receivable amounting to ₱38.9 million is as a result of the following:
      - Collection of dividends from SLBPO amounting to ₱2.4 million
      - Cash collection from third parties amounting to ₱1.5 million

   c. Decrease in allowance for doubtful accounts amounting to ₱1.5 million is write off of certain receivables deemed uncollectible.

3. Inventories decreased by ₱12.7 million as a result of the sale of residential and condominium units during 2017.

4. The increase in other current assets amounting to ₱0.2 million relates to input VAT and overpayment of income taxes.

5. The decrease in investment in associates and joint ventures is due to the equity share in the net loss of MIC amounting to ₱174.2 million in 2017. This is offset by the equity in net earnings of SLBPO amounting to ₱39.0 million in 2017 and advances made to MIC for future stock subscription amounting to ₱152.3 million.

6. Increase in AFS financial assets amounting to ₱22.0 million pertains to the acquisition of the retail treasury bonds and unrealized mark to market loss of ₱0.1 million.

7. The decrease in property and equipment amounting to ₱40.3 million in 2017 is the net effect of the acquisitions made during the year amounting to ₱30.7 million, and the recognition of depreciation charges for the year amounting to ₱71.0 million.

8. The decrease in investment properties is the net result of the acquisition by the Group of additional parcel of land situated in Mamburao, Mindoro amounting to ₱10.2 million, and the depreciation charges of the Vertex One building amounting to ₱12.4 million.

9. Deferred tax asset represents NOLCO and MCIT of Gametime amounting to ₱1.3 million and
₱0.3 million, respectively.

10. The increase in other noncurrent assets is net result of the fluctuation in deferred input vat by ₱2.3 million and the amortization of franchise fee amounting to ₱1.8 million.

Total current liabilities in 2017 increased due to the following:

11. Short-term loans and borrowings increased by ₱144.0 million in 2017 from ₱90.0 million as of December 31, 2016 to ₱234.0 million as of December 31, 2017. The increase is the net result of additional short-term loans availed in 2017 totaling to ₱217.0 million and the repayments made during the year amounting to ₱73.0 million.

12. Accounts payable and other liabilities increased by ₱29.6 million mainly as a result of the following:
    - Accrued expenses increased by ₱12.8 million from ₱14.8 million as of December 31, 2016 to ₱27.8 million as of December 31, 2017 mainly pertains to accruals of security services and contracted services.
    - Unclaimed winnings increased by ₱2.0 million in 2017 as a net result of effective operations both in cockfighting and horse racing in year of 2017.
    - VAT payable also increased by ₱2.4 million as a result of real estate sales during the year.
    - Taxes on winnings and documentary stamp tax payable increased by ₱2.5 million and ₱2.6 million, respectively, mainly due to the increase in sales from horse racing for the month of December 2017 compared to the same month in the previous year.
    - Increase in commission income from cockfighting operations in 2017 compared to the same period 2016 resulted to the increase in the computed percentage tax payable from cockfighting operations amounting to ₱7.8 million.

13. Due to related parties remained in the amount of ₱14.7 million as of December 31, 2017 and 2016, respectively. The amount pertains mainly to payables of ARWRI to its related parties as a result of its acquisition by the Parent Company.

14. Income tax payable increased from ₱0.6 million in 2016 to ₱0.7 million as of December 31, 2017. The increase came mainly from the income tax expense recognized from cockfighting operations.

Total noncurrent liabilities decreased due to the following:

15. The decrease in Accrued Retirement benefits amounting to ₱4.1 million is mainly due to the retirement expense recognized by the Group amounting to ₱8.9 million, increased by the contributions to the plan assets amounting to ₱8.1 million and remeasurement of ₱5.0 million.

16. As of December 31, 2017 and 2016, net deferred tax liabilities amounted to ₱218.5 million and ₱228.7 million, respectively. The decrease of ₱10.2 million in 2017 is primarily attributable to the decrease in deferred tax liabilities on the unrealized gain from real estate transaction and unrealized deemed cost adjustment on real properties.

Total Equity decreased due to the following:

17. Actuarial gains on accrued retirement benefits increased by ₱3.5 million from ₱24.1 million as of December 31, 2016 to ₱27.6 million as of December 31, 2017.

18. Retained earnings decreased by ₱169.2 million from ₱3,023.3 million as of December 31, 2016 to ₱2,854.1 as of December 31, 2017. The decrease pertains to the declaration of cash dividend by the Parent Company in 2017 aggregating to ₱49.8 million and net loss recognized by the Group for year 2017 amounting to ₱119.8 million.

19. Non-controlling interest decreased by ₱0.4 million in 2017 primarily due to share in net loss.

Discussion on some Significant Changes in Financial Condition as of December 31, 2016 and 2015

Total assets increased due to the following:

1. For the year ended December 31, 2016, cash and cash equivalent of the Group increased by ₱37.4 million, which were generated from the following activities:

    a. Cash provided by operating activities amounted to ₱41.5 million, which are significantly generated from its horse racing, cockfighting and leasing activities.

    b. The Group used cash for its investing activities amounting to ₱3.4 million, which were net result of the following major investing activities during the year:

        a. Dividend received amounting to ₱23.7 million
        b. Proceeds from sale of AFS investment and PPE amounting to ₱18.1 million and ₱0.5 million, respectively.
        c. Interest received amounting to ₱11.9 million
        d. Payment of ₱14.4 million, net of cash acquired of ₱15.5 million, for the acquisition of net assets of Apo Reef World Resorts Inc.
        e. Payment for the acquisition of property and equipment amounting to ₱34.0 million.
        f. Payment for the acquisition of investment property amounting to ₱9.3 million

    c. The Group's financing activities during the year used cash amounting to ₱0.5 million, which is the net result of payment of interest, dividends and loan amounting to ₱2.4 million, ₱49.1 million and ₱47.0 million, respectively, which were partially offset by the proceeds from short term loan obtained during the year amounting to ₱98.0 million.

2. Increase in receivables amounting to ₱51.8 million in 2016 can be attributed to the following:
    a. Increase in real estate receivables due to new sales in 2016 under the installment method
    b. Increase in receivable from OTB operators from racing and cockfighting sales in 2016 that were remitted the following year.

3. Inventories decreased by ₱10.9 million in the current year as a result of the sale of real estate inventories during 2016.

4. The increase in other current assets amounting to ₱1.3 million relates to input VAT, rental deposits and to the overpayment of income taxes. As of December 31, 2016 and 2015, other current assets amounted to ₱12.6 million and ₱11.3 million, respectively.

5. Investment in associates and joint ventures amounted to ₱2,205.4 million and ₱2,301.3 million as of December 31, 2016 and 2015, respectively. The decrease in investment in associates and joint ventures is due to the equity share in the net loss of MIC amounting to ₱97.3 million in 2016 partially offset by the equity in net earnings of SLBPO amounting to ₱26.8 million in 2016 less dividends declared for the Parent Company amounting to ₱25.3 million.

6. Decrease in AFS financial assets amounting to ₱18.7 million pertains mainly to the disposal of the Company's AFS investment in equity securities and all of its fixed rate corporate bonds amounting to ₱17.7 million and the unrealized mark to market loss amounting to ₱1.0 million

7. Property and equipment as of December 31, 2016 and 2015 amounted to ₱920.9 million and ₱957.2 million, respectively. The decrease in property and equipment amounting to ₱36.3 million in 2016 is the net effect of the acquisitions made during the year amounting to ₱34.0 million, the reclassifications and adjustments of machineries amounting to ₱0.4 million and the recognition of depreciation charges for the year amounting to ₱69.9 million.

8. Investment properties increased by ₱101.2 million from ₱998.4 million as of December 31, 2015 to ₱1,099.6 million as of December 31, 2016. The increase is the net result of the acquisition by the Group of the parcel of land situated in Mamburao, Mindoro amounting to ₱113.7 million, and the depreciation charges of the Vertex One building amounting to ₱12.4 million.

9. Other noncurrent assets decreased by ₱1.6 million from ₱31.0 million as of December 31, 2015 to ₱29.4 million as of December 31, 2016. The decrease is primarily due to the amortization of franchise fee amounting to ₱1.8 million.

Total Current Liabilities in 2016 increased due to the following:

10. Short-term loans and borrowings increased by ₱51.0 million in 2016 from ₱39.0 million as of December 31, 2015 to ₱90.0 million as of December 31, 2016. The increase is the net result of additional short-term loans availed in 2016 totaling to ₱98.0 million and the repayments made during the year amounting to ₱47.0 million.

11. Accounts payable and other liabilities increased by ₱11.3 million mainly as a result of the following:

    a. Increase in commission income from cockfighting operations in December 2016 compared to the same period in 2015 resulted to the increase in the computed percentage tax payable from cockfighting operations amounting to ₱10.6 million.
    b. Unclaimed winnings from cockfighting operations increased by ₱1.8 million in 2016 as it covers the whole year of 2016 compared to the one month period in 2015 as MCI started its cockfighting operations in December 2015.
    c. Trade and buyers' deposits increased by ₱4.5 million from ₱5.9 million as of December 31, 2015 to ₱10.4 million as of December 31, 2016. The increase can be attributed to cash

received from the sale of real estate units in 2016 which did not satisfy the criterion of full accrual method on revenue recognition.

12. Due to related parties amounted to ₱14.7 million and nil as of December 31, 2016 and 2015, respectively. The amount recognized in 2016 pertains mainly to payables of Apo Reef World Resorts, Inc. to its related parties as a result of its acquisition by the Parent Company.

13. Income tax payable increased from ₱6.9 thousand in 2015 to ₱0.6 million as of December 31, 2016. The increase came mainly from the income tax expense recognized from cockfighting operations which started its operations in December 2015.

Total Noncurrent Liabilities increased due to the following:

14. Accrued retirement benefits as of December 31, 2016 and 2015 amounted to ₱44.0 million and 39.0 million, respectively. The increase amounting to ₱5.1 million is mainly due to the retirement expense recognized by the Parent Company amounting to ₱9.1 million, decreased by the contributions to the plan assets amounting to ₱0.5 million and remeasurement of ₱3.6 million.

15. As of December 31, 2016 and 2015, net deferred tax liabilities amounted to ₱228.7 million and ₱228.6 million, respectively. The increase of ₱0.1 million in 2016 is primarily due to deferred tax assets on the increase in the allowance for doubtful accounts recorded in 2016 as well as on the advances on rentals and non-refundable deposits recognized during the year.

Total Equity decreased due to the following:

16. Actuarial gains on accrued retirement benefits decreased by ₱2.5 million from ₱21.6 million as of December 31, 2016 to ₱24.1 million as of December 31, 2016.

17. Net cumulative changes in fair value of AFS financial assets increased by ₱1.1 million in 2016 from ₱3.9 million as of December 31, 2015 to ₱5.0 million as of December 31, 2016 as a result of the impairment loss recognized by the Parent Company amounting to ₱2.0 million, partially offset by the unrealized mark-to-market losses recognized during the year amounting to ₱1.0 million.

18. Retained earnings decreased by ₱126.9 million from ₱3,150.2 million as of December 31, 2015 to ₱3,023.3 as of December 31, 2016. The decrease pertains to the declaration of cash dividend by the Parent Company in 2016 aggregating to ₱49.8 million and net loss recognized by the Group for year 2016 amounting to ₱73.5 million.

19. Non-controlling interest increased by ₱67.6 million in 2016 primarily due to the acquisition of 56.87 percent ownership in ARWRI, which resulted to the consolidation of ARWRI to the Group, thereby recognizing a 43.13% non-controlling interest.

TOP KEY PERFORMANCE INDICATORS FOR FULL FISCAL YEARS:

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

	Dec-17	Dec-16	Dec-15
1. Current Ratio	**0.89**	1.09	1.3
2. Debt to Equity Ratio	**0.06**	0.02	0.01
3. Asset to Liability Ratio	**5.68**	7	7.9
4. Asset to Equity Ratio	**1.21**	1.17	1.14
5. Interest Rate Coverage Ratio	**3.09**	7.97	14.74
6. Sales to Revenue Ratio	**0.25**	0.35	0.54
7. Earnings Per Share	**(₱0.1198)**	**(₱0.0774)**	(₱0.0459)

Ratio Computation

Current ratio is computed by dividing current assets amounting to ₱525.7 million and ₱455.5 million as of December 31, 2017 and 2016, respectively over current liabilities amounting to ₱591.4 million and ₱417.7 million as of the same years. This indicates the ability of the company to pay its current liabilities using its current assets. Current ratio decreased in 2017 by 0.20.

Debt to equity ratio shows the extent to which the firm is financed by debt. It is computed by dividing interest-bearing debts by total equity. Total interest-bearing debts as of December 31, 2017 and 2016 amounted to ₱234.0 million and ₱90.0 million, respectively, while total equity as of December 31, 2017 and 2016 amounted to ₱3,976.2 million and ₱4,142.3 million, respectively.

The asset to liability ratio is also computed. This shows the relationship of the total assets of the Group with its total liabilities. Total assets as of December 31, 2017 and 2016 amounted to ₱4,826.0 million and ₱4,832.7 million, respectively, while the corresponding total liabilities as of December 31, 2017 and 2016 amounted to ₱849.8 million and ₱690.4 million, respectively.

Asset to equity ratio shows the relationship of total assets to the portion owned by shareholders. The formula for this ratio is total assets over total equity. As of December 31, 2017 and 2016, total assets amounted to ₱4,826.0 million and ₱4,832.7 million, respectively, while total equity amounted to ₱3,976.2 million and ₱4,142.3 million as of December 31, 2017 and 2016, respectively.

Interest rate coverage ratio indicates a group's ability to cover interest charges or finance costs. The ratio is derived by dividing the group's earnings/(losses) before interests, taxes, depreciation and amortization (EBITDA) over interest charges. For the year 2017 and 2016, EBITDA amounted to ₱17.6 million and ₱18.6 million, respectively. Finance costs, exclusive of bank charges amounted to ₱5.7 million and ₱2.3 million for years 2017 and 2016, respectively.

Sales to total revenue ratio is computed by dividing the income from horse racing amounting to ₱186.1 million and ₱188.5 million for years 2017 and 2016, respectively, to total revenue of the Group amounting to ₱756.1 million for the year ended December 31, 2017 and ₱535.2 million for the year ended December 31, 2016. It indicates the performance by percentage of the income from horse racing to total revenue of the Group. Sales and other revenues indicate the over-all performance of the Group as it conducts horse races.

Earnings (loss) per share is computed by dividing net income/(loss) attributable to equity holders of the parent company against the weighted average number of outstanding common shares. Net losses attributable to equity holders of the Parent Company amounts to ₱119.4 million and ₱77.1 million for years ended 2017 and 2016, respectively. In 2017 and 2016, the weighted average of outstanding common shares is 996.2 million.

All ratios are computed and are compared to previous year's ratios.

IV. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Interm Financial Statements as of March 31, 2018 and 2017

Discussion on Operating Results for the Periods Ended March 31, 2018 and 2017

Revenues

Income from club races decreased by ₱7.3 million from ₱48.9 million for the period ended March 31, 2017 to ₱41.6 million for the same period in 2018. The decrease in revenue is due from the two (2) days difference in the total number of racedays during the period. The decrease was twenty nine (29) racing days in 2017 compared to twenty seven (27) days in 2018.

Income from cockfighting operations for the period ended March 31, 2018 amounted to ₱86.6 million and ₱48.1 million for the same period in 2017 or an increase of ₱38.5 million. As the cockfighting operation has become fully operational and is gaining more exposure, revenue is increasing due to more line-up of fights and increasing number of off-track betting stations.

The Group recognizes income from real estate sale which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. The company recognized a revenue amounting to ₱19.2 million and ₱12.3 million for the periods ended March 31, 2018 and 2017, respectively. The number of sold units used as basis in the computation of revenue also contributed to the variance. As of March 31, 2018, there were six units compared to two as at March 31, 2017.

Rental revenue from the leasing of stables, buildings and other facilities decreased by ₱1.1 million from ₱20.7 million for the period ended March 31, 2017 to ₱19.5 million for the same period in 2018. The decrease relates primarily from the decrease in gaming revenue.

Revenue from sale of food and beverages increased the Group's total revenues by ₱1.1 million for the first quarter of 2018 from ₱3.9 million for the period ended March 31, 2017 to ₱5.0 million for the same period in 2018.

Other Revenues come from money changing operations of the Group's subsidiary, MJC Forex Corp. Dollar sales for the period ended March 31, 2018 amounted to ₱0.7 million and ₱8.6 million for the same period in 2017 or a decrease of ₱7.9 million.

Interest income relates to real estate receivables and cash and cash equivalents. Interest income for the periods ended March 31, 2018 and 2017 amounted to ₱6.9 million and ₱8.8 million, respectively. The decrease of ₱1.9 million relates primarily to real estate sales under the installment method.

Equity in net earnings of associates and joint venture

For the period ended March 31, 2018, equity in net losses of associates and joint venture amounted to ₱33.3 million compared to same period in 2017 amounting to ₱34.8 million. The net decrease in the equity share in the net losses recognized in the current period amounting to ₱1.5 million is the result of the share in the net losses of an associate amounting to ₱41.2 million partially offset by the share in the net earnings of a joint venture amounting to ₱₱42.7 million.

Other income - net decreased by (₱0.2) million from ₱4.2 million for the period ended March 31, 2017 to (₱4.0) million for the same period in 2018. The decrease pertains mainly to income from advertising placements.

Expenses

Cost of Sale and Services

Cost of racing services increased by ₱7.0 million from ₱42.9 million for the period ended March 31, 2017 to ₱49.9 million for the same period in 2018. The increase can be attributed to the documentary stamp taxes increase by the Train Law in 2018.

Cost of cockfighting services amounted to ₱52.2 million for the period ended March 31, 2018 and ₱32.1 million for the same period in 2017. It increased by ₱20 million as the cockfighting business is now in full operation. Significant costs are percentage taxes, share in pot money and off-track betting rentals.

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. For the periods ended March 31, 2018 and 2017, cost of real estate amounted to ₱3.2 million and ₱1.8 million, respectively. The increase in the number of sold units used in the computation also contributed to the variance.

Rental cost of services decreased by ₱1.2 million from ₱12.9 million for the period ended March 31, 2017 to ₱11.7 million for the same period in 2018. The variance relates primarily to expenses for the gaming operations.

Cost of food and beverage amounted to ₱6.5 million and ₱5.5 million for the periods ended March 31, 2018 and 2017, respectively. The increase amounting to ₱1.0 million came primarily from purchased stocks.

The cost of sales for "Others" amounted to ₱4.7 million and ₱9.4 million for the periods ended March 31, 2018 and 2017, respectively. It decreased by ₱4.7 million in 2018. The variance relates mainly to dollar purchases during the period.

General Operating Expenses

General and administrative expenses constitute costs of administering the business. For the period ended March 31, 2017, it amounted to ₱52.2 million or an increase of ₱16 million compared with the same period in 2018 which amounted of ₱68.2 million. The increase pertains mainly to the administrative costs for the cockfighting operations. As the operations continue to get exposed and more fights are being lined up, operating costs are increasingly incurred. These costs include salaries and allowances of support workforces, professional fees as well as patronage fees.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to ₱1.5 million for the period ended March 31, 2018 compared to ₱0.8 million for the same period in 2017. Marketing fees increased by ₱0.7 million.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱2.1 million and ₱1.2 million for the periods ended March 31, 2018 and 2017, respectively, or an increase of ₱0.9 million which is due to the increase in the outstanding principal balances from the newly acquired short-term loans and borrowings.

CHANGES IN FINANCIAL CONDITION

Discussion on some Significant Changes in Financial Condition as of March 31, 2018 and December 31, 2017

Total assets decreased due to the following:

20. For the period ended March 31, 2018 cash and cash equivalents amounted to ₱231.7 million from ₱225.6 as of December 31, 2017. The increase of ₱6.1 million can be attributed from dividend and interest received during the period. These were used partly for the payment of matured account payables and other liabilities, loan balances which were due during the period and partial payment of subscriptions. Cash was also used for the acquisition of property and equipment as well as investment property.

21. Receivables decreased by ₱29.5 million from ₱217.3 million as of December 31, 2017 to ₱187.9 million as of March 31, 2018. The decrease is the net effect of the real estate collections in the current period under the installment method and the increase in advances to suppliers, advances to officers and employees and dividend receivables.

22. Inventories decreased by ₱3.8 million in the current period as a result of the sale of real estate inventories during the first quarter of 2018.

23. Other current assets increased by ₱6.8 million from ₱11.5 million as of December 31, 2017 to ₱18.4 million as of March 31, 2018. The increase relates mainly to prepayments on Income Tax and expenses made during the period.

24. Investment in associates and joint ventures amounted to ₱2,204.3 million and ₱2,164.5 million as of December 31, 2017 and March 31, 2018, respectively. The decrease in investment in associates and joint ventures is due to the equity share in the net losses of MIC amounting to ₱41.2 million for the period ended March 31, 2018 partially offset by the equity in net earnings of SLBPO amounting to ₱7.9 million in the current period less dividends declared for the Parent Company amounting to ₱6.5 million.

25. There were no acquisitions and disposals of available-for-sale (AFS) financial assets during the current period. AFS financial assets as of March 31, 2018 and December 31, 2017 amounts to ₱35.2 million.

26. Property and equipment decreased from ₱880.6 million as of December 31, 2017 to ₱895.0 million as of March 31, 2018. The decrease in property and equipment amounting to ₱17.4 million in the current period is the depreciation charges during the year partially offset by the acquisitions for the year amounting to ₱3.5 million.

27. Investment properties decreased by ₱2.5 million from ₱1,097.4 million as of December 31, 2017 to ₱1,094.9 million as of March 31, 2018. The decrease is the net result of the depreciation charges of the Vertex One building amounting to ₱3.1 million and the acquisition in the current period of some parcels of land situated in Mamburao, Mindoro amounting to ₱0.6 million.

28. Other noncurrent assets increased by ₱0.9 million from ₱30.1 million as of December 31, 2017 to ₱31.0 million as of March 31, 2018. The increase is the net effect of the amortization of franchise fee amounting to ₱0.4 million and the increase in deferred vat input for various purchases during the period.

Total Current Liabilities decreased due to the following:

29. Short-term loans and borrowings decreased by ₱16.9 million in the current period from ₱234.0 million as of December 31, 2017 to ₱217.1 million as of March 31, 2018. The decrease is the repayments made during the period ended March 31, 2018.

30. Accounts payable and other liabilities amounted to ₱342 million as of March 31, 2018 and December 31, 2017.

31. Due to related parties amounted to ₱14.7 million as of March 31, 2018 and December 31, 2017. The amount recognized in 2016 pertains mainly to payables of Apo Reef World Resorts, Inc. to its related parties as a result of its acquisition by the Parent Company.
32. Income tax payable increased from ₱0.7 million as of December 31, 2017 to ₱3.7 million as of March 31, 2018. The increase refers mainly to the income tax expense recognized by the Group covering the first quarter of 2018.

Total Noncurrent Liabilities decreased due to the following:

33. Accrued retirement benefits as of December 31, 2017 amounted to ₱39.9 million and ₱37.2 million as of March 31, 2018. The decrease amounting to ₱2.6 million is the net effect of the contributions made to the retirement fund during the current period amounting to ₱2.1 million and the retirement expense recognized covering the first quarter of 2018 amounting to ₱4.7 million.

Total Equity decreased due to the following:

34. Retained earnings decreased by ₱52.4 million from ₱2,854.1 as of December 31, 2017 to ₱2,801.7 million as of March 31, 2018. The decrease pertains to the net losses recognized by the Group for the first quarter of 2018.

35. Non-controlling interest decreased by ₱0.02 million in the current period which represents the 43.13% share of minority interest in the net losses of ARWRI covering the first quarter of 2017.

TOP FIVE (5) KEY PERFORMANCE INDICATORS:

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

	MAR 2018	DEC 2017
Current Ratio	**0.87**	0.89
Asset to Liability Ratio	**5.72**	5.68

	MAR 2018	MAR 2017
Sales to Revenue Ratio	**0.24**	0.34
Sales to Expenses Ratio	**0.21**	0.31
Earnings Per Share	**(₱0.0524)**	(₱0.0387)

Current ratio or working capital ratio is computed by dividing current assets over current liabilities. Total current assets as of March 31, 2018 and December 31, 2017 amounted to ₱505.3 million and ₱525.7 million, respectively. As of March 31, 2018 and December 31, 2017, total current liabilities amounted to ₱577.5 million and ₱591.8 million, respectively.

Asset to liability ratio or solvency ratio is computed by dividing total assets over total liabilities. As of March 31, 2018 and December 31, 2017, total assets amounted to ₱4,755.6 million and ₱4,825.9 million, respectively. Total liabilities as of March 31, 2018 amounted to ₱831.7 million and ₱849.8 million as of December 31, 2017.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the period ended March 31, 2018 and 2017 amounted to ₱41.6 million and ₱48.9 million, respectively. Total operating revenue for the period ended March 31, 2018 amounted to ₱172.7 million and ₱142.6 million for the same period in 2017.

Sales to expenses ratio is computed by dividing income from horse racing over total expenses which include cost of sales and services, general and administrative expenses, selling expenses and finance costs. Income from club races for the period ended March 31, 2018 and 2017 amounted to ₱41.6 million and ₱48.9 million, respectively, while total expenses amounted to ₱199.9 million for the period ended March 31, 2018 and ₱158.8 million for the same period in 2017.

Earnings per share is computed by dividing net income (loss) attributable to equity holders of the parent company over the weighted average number of outstanding common shares. Net loss attributable to equity holders of the parent company for the period ended March 31, 2018 and 2017 amounted to ₱52.2 million and ₱38.6 million, respectively. The weighted average number of outstanding common shares as of March 31, 2018 and 2017 totaled to 996.2 million.

KEY VARIABLE AND OTHER QUALITATIVE AND QUANTITATIVE FACTORS

No known trends, events, commitments or uncertainties 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.

There is no particular event that will trigger a direct or contingent financial obligation that would be material to the Company, including events of default and acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations, contingent or otherwise that occurred during the fiscal year. There were no other relationship of the Company with unsolicited entities or other persons created during the fiscal year.

The Company is not aware of any seasonal aspects or known events or uncertainties which will have a material effect on the sales and overall financial condition or results of operations of the Company.

V. BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

(1) Business Development

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

In 1987, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Parent Company's corporate life for another 50 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, which will expire on November 23, 2022. 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 (JV) arrangements with certain developers.

Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Percentage of ownership	
			2017	2016
Subsidiaries				
Biohitech Philippines, Inc. (Biohitech)	Philippines	Waste management	50.00	50.00
Gametime Sports and Technologies,Inc. (Gametime)	Philippines	Gaming	100.00	100.00
Manila Cockers Club, Inc. (MCCI)	Philippines	Gaming	100.00	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	100.00	100.00

New Victor Technology, Ltd.(NVTL)	Hong Kong	Gaming	100.00	100.00
San Lazaro Resources and Development Corporation (SLRDC)	Philippines	Real estate	100.00	100.00
SLLP Holdings, Inc. (SLLPHI)	Philippines	Holdings	100.00	100.00
Hi-Tech Harvest Limited	Hong Kong	Marketing	100.00	100.00
Apo Reef World Resorts, Inc. (ARWRI)	Philippines	Beach Resorts Complex	56.87	56.87
Associates				
MJC Investment Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Real estate and Gaming	22.31	22.31
Techsystems, Inc. (Techsystems)	Philippines	Information technology	33.33	33.33
Joint Ventures				
Gamespan, Inc. (Gamespan)	Philippines	Gaming	50.00	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	30.00	30.00

Subsidiaries

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. The Parent Company holds a 50% interest in Biohitech Philippines, Inc. (Biohitech), a domestic corporation. To date, SLLPHI, SLRDC and Biohitech have yet to start commercial operations.

On August 16, 2010, the Parent Company formed and organized another wholly owned domestic corporation, MJC Forex Corporation (MFC). It is 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. It started its commercial operations on May 29, 2012.

On July 23, 2013, the Parent Company formed and organized a wholly owned domestic corporation, Gametime Sports & Technologies, Inc. (Gametime). 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. It started its commercial operations in 2016.

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. It started its commercial operations on December 5, 2015.

The Parent Company also formed New Victor Technology Limited (NVTL), which is incorporated in Hong Kong 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.

In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease
1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines, in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite.

In 2015, a new wholly owned subsidiary was incorporated in Hong Kong under the corporate name of Hi-Tech Harvest Limited. The primary purpose of this subsidiary is for the marketing and advertising of the cockfighting operations of MCI and the services provided by Gametime to the international setting and possible customers. As of December 31, 2017, Hi-tech Harvest Limited has not yet started commercial operations.

On February 22, 2016, the Parent Company entered into a share purchase agreement with ACL Development Corporation ("ACL") to purchase 9.8 million shares of ARWRI, a company owning parcels of land in Mamburao, Mindoro, for a total consideration of P=9.9 million. Furthermore, on August 25, 2016, the Company paid P=20.0 million to subscribe to 80.0 million shares of ARWRI at par value of P=1.00 per share, equivalent to P=80.0 million, after ARWRI increased its authorized capital stock from 100.0 million shares to 200.0 million shares. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3, Business Combination, and was therefore accounted for as an acquisition of assets.

As of December 31, 2017 and 2016, the Parent Company has an outstanding subscription payable to ARWRI amounting to P=48.5 and P=60.0 million, respectively, which are eliminated in the consolidated financial statements.

Associates

On January 23, 2009, the Parent Company acquired a 50.23% interest in MJC Investments Corporation, doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC), a publicly listed company incorporated and domiciled in the Philippines. The acquisition was made in accordance with the provisions of the Memorandum of Agreement (MOA) entered into by both parties in 2008, wherein the Parent Company will transfer its non-core assets to MIC under a property for share exchange subject to agreed conditions. In 2013, after the investments made by the 18 Strategic Investors in MIC, the Parent Company still has significant influence over MIC through its retained interest of 28% in MIC. As of December 31, 2017 the Parent Company still has a 22.31% interest in MIC.

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 December 31, 2017, Techsystems has not yet started commercial operations.

Joint Ventures

The Parent Company entered into a Joint Venture Agreement (JVA) with Ayala Land, Inc. (ALI) on December 12, 2008 to create SLBPO, an unincorporated taxable joint venture (JV), for the purpose of leasing, managing and administering the developed office units and retail development area in the building complex at the Sta. Cruz property (the Building Complex). The Building Complex was also constructed and developed under a Joint Development Agreement (JDA) with ALI.

Gamespan was incorporated on June 20, 2012 to 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. As of December 31, 2017, Gamespan has not yet started its commercial operations.

Bankruptcy Proceedings

The Company is not a party to any bankruptcy, receivership or similar proceedings.

Material Reclassification, Merger, Consolidation

No material reclassification, merger, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business that occurred during the calendar year ending December 31, 2017.

(2) Business Description

RACING OPERATIONS

(1) Horse Races

The Company transferred its racing operations on April 1, 2003 to its new horse racing facility of world class standards in Carmona, Cavite.

The Company conducts its races 2 days every week on an alternating schedule with the other racing clubs.

(2) Off Track Betting Stations ("OTBs")

OTBs are stations where the betting public may place bets outside the race track on the horse races conducted by the Company. The OTBs are strategically located at designated areas in Metro Manila and other parts of the country.

The Company is expanding its OTB network in Metro Manila as well as in provincial areas. As of December 31, 2017, the Company now has a total of 221 quality OTB stations, 47 of which are located in provincial areas. The OTB sales account for 92.25% of the total sales generated from the races.

(3) Competition

The other racing clubs that conduct horse races and accept betting thereon are the Philippine Racing Club, Inc. ("PRCI"), and the Metro Manila Turf Club, Inc., ("MMTC") which started its operations at Malvar, Batangas in February 2013. PRCI and MMTC hold races on days when the Company does not hold its own races. Thus, there is no real competition between the three (3) clubs in obtaining their respective revenue targets. There is a healthy competition as to which club can provide better services and/or facilities which do not materially affect revenue.

(4) Government Regulations

The Company does not foresee any effect of existing or probable governmental regulations on its racing business. There is no need for any other government approval on the conduct of races and the taking of bets thereon given the Company's congressional franchise. The Company's racing operations are under the supervision of the Philippine Racing Commission while the betting aspects of racing are under the supervision of the Gaming and Amusements Board.

(5) Risks

(a) Disease

Horse disease can lead to mortality of racehorses and, at the very least, disability of horses to participate in races. In 1998, the Company suffered a disease outbreak in its stables which severely afflicted the horses. As a result of the disease, horse racing was suspended pending the remedial measures to cure said disease and to halt its spread. The Company implemented measures to minimize the occurrence of such disease outbreak such as the regular injection of preventive medicines.

The Company created a task force within management to carefully monitor the conditions of the horse stables for possible disease outbreaks. Measures have been taken to improve the cleanliness and sanitation of the stables to prevent the recurrence of said disease. The Company also bars horses afflicted with the Equine Infectious Anemia (EIA) virus from entering the SLLP complex. It screens running horses for the EIA virus using imported kits to apply the Coggins test. Said test is now mandatory for all racehorses and is periodically conducted.

(b) Weather

The Philippine experiences severe tropical storms occurring usually during the months of June until October.

Strong storms may pose as a safety risk to the jockeys, horses, employees and patrons of the Company such that there might be a necessity to stop the conduct of races.

Management has instituted measures to reduce the risk of dangerous weather by providing guidelines on emergency cases in the event of harsh weather as well as guidelines for warnings. Given these guidelines, the Company will have sufficient basis whether or not to stop the conduct of races.

REAL ESTATE DEVELOPMENT

Pursuant to the Company's rationalization and maximization of its corporate assets, the Company branched out into the developmlent of its non-racing unutilized real estate assets.

I. Carmona Township, Carmona, Cavite (San Lazaro Leisure and Business Park)

The Company has seventy seven (77) hectares of property located in Carmona, Cavite now known as the San Lazaro Leisure Park (SLLP).

Township Development Components:

1. Racing Business
   a. Two (2) new race tracks of world-class standards
   b. A modern Turf Club building
   c. A stabling complex housing 1,800 horses.

2. Gaming Business - PAGCOR Club Carmona, 3rd floor, Turf Building
   a. 200 slot machines
   b. 8 tables

3. Real Estate Business

   Canyon Ranch

   In 2004, the Company entered into a joint venture agreement with prominent real estate developer Century Communities Corporation ("CCC") for the development of the 17.09-hectare portion of the Carmona property into a mixed-use commercial and upscale residential community. The development is now known as "Canyon Ranch".

   The development sells only house-and-lot packages. There are eleven models offered: Napa, a duplex with floor area of 50 sq. m. per house; Stanford (91.5 sq. m.); Delano (101 sq. m).; Fremont (105 sq. m.); Berkeley (sq. m.); Atherton (280 sq. m.); Redmont (101 sq. m.); Calistoga (130 sq. m.); Casitas (81 sq. m.); Irvine (80 sq. m.); and Malibu (140 sq. m.)

   Phase I has a total of 428 residential and commercial units. The Company received a total sales proceeds of P259 million from its share of the project.

   Phase II has a total of 363 units with no commercial areas assigned to it with expected sales of P195 million. Market demand is expected to dictate pricing and some allotted models may be converted to the more affordable Napa or Stanford.

4. MCC Arena

   The Manila Cockers Club, Inc. (MCC) officially started its operations early December 2015 during the inauguration of its world class cockfighting studio, Cockers Arena, located at the Turf Building of the San Lazaro Leisure and Business Park (SLLBP) complex in Carmona, Cavite. The wholly-owned subsidiary of Manila Jockey Club (MJC) is part of a grand development plan for SLLBP to expand its sporting facilities and leisure potential in the Metro South.

Manila Cockers is duly-licensed and recognized by the Sangguniang Bayan of Carmona, Cavite. Under Municipal Ordinance No. 017-2014, it was granted authority to: (1) establish, operate and maintain a cockpit arena at San Lazaro Leisure and Business Park, (2) hold or conduct cockfights with sports wagering, and (3) offer, take or arrange wagers for cockfights.

The venue, Cockers Arena, is an exclusive, fully air-conditioned cockfighting studio which features an impressive steel-and-glass fighting pit; deluxe theater seats; full wait service; and high-definition 65-inch LED TVs located inside and outside the studio.

In 2017, there were 27 derbies held at the Cockers Arena which happened across 185 cockfighting days. Total sales amounted to Php 4,543,368,239.00 which came from the following: OTB sales Php3,862,174,998, On-site sales (544,751,031), and Fastbet sales (134,610,274). Guaranteed cash prize for 2017, amounted to (37,872,315).

Through a partnership with Cignal TV, matches are broadcasted live on GameTime TV Channel 109 and to MJC's network of over 250 Off-Track Betting in Metro Manila and nearby provinces.

5. PFF-FIFA Football National Training Center

The Manila Jockey Club Inc. (MJC) and the Philippine Football Federation (PFF) entered an agreement last April 2014 to initially lease 2 hectares of land within the San Lazaro Leisure and Business Park (SLLBP) complex. As part of the agreement, PFF will construct a FIFA 2-Star rated artificial turf football pitch through the FIFA Goal Project Programme. The MJC-PFF partnership will effectively turn SLLBP into the National Football Teams Training Center. The venue will host all football related activities of our National Football teams (Azkals & Malditas) including the respective age-grouped teams. Try-outs, training, tune-up games, and FIFA and AFC sanctioned matched and International friendlies will all be held in SLLBP. Additional appurtenances such as dressing rooms, dormitories, cafeteria, gym, bleachers, field lighting, a training center and the relocation of the Philippine Football Federation's Headquarters will also be constructed.

6. MJC Multi-Purpose Pitch

As of December 2017, the pitch is 95% completed. ACT Global and Specicon Philippines Inc., the accredited contractors for the Goal Project 3, have finished constructing the drainage system and sub base layer of the pitch. The artificial turf has also been installed, complete with football field lines and pathways.

MJC has also started to redevelop its centerfield area for use in sporting and special events. Rehabilitation and groundwork have been conducted to flatten the surface area, improve playing surface, and remove boulders and other obstructions from the ground. Apart from the re-grassing of the area, new pipes have been installed to improve drainage and water flow during the wet season. New shower rooms and restrooms will be installed by next year.

In 2017, the centerfield hosted several MJC-sponsored sporting events, including: Copa San Lazaro, MJC's very own bi-annual football tournament; Mabuhay Futbol League tune-up games; Kiwanis Futbol Festival and several practice games from differenty football clubs in the area. To complement these events, twenty (20) 20-seater bleachers and outdoor tents were purchased. Further plans are being studied to further improve the area and increase foot traffic.

Finally, as part of its CSR activities, the company also launched the MJC Colts Football Clinic, a free clinic is open to all children and young adults residing in the surrounding barangays.

II. Manila Township, Sta. Cruz, Manila (San Lazaro Tourism & Business Park)

Township Development Components:

1. SM City San Lazaro

2. Ayala Land Inc. Joint Venture Developments

   a. Vertex One – a 15-storey BPO building with retail units at the ground floor

   b. ALVEO

      b.1. Celadon Residences (Townhouses)
      b.2. Celadon Park Residences – a 3-tower condominium complex

   c. AVIDA Towers San Lazaro – a 5-tower condominium complex

The Company's 16-hectare property in Sta. Cruz, Manila (the "Sta. Cruz Property") did not remain idle land after it transferred its racing operations to Carmona, Cavite. In 2001, SM Prime Holdings, Inc. erected the SM San Lazaro Mall at the 4-hectare portion of the property.

As part of the over-all development of the Sta. Cruz property, the Company signed on February 26, 2005 Joint Development Agreements ("JDAs") with the country's largest real property developer, Ayala Land Inc. ("ALI"), through ALI's wholly-owned subsidiaries, Avida Land Corporation ("AVIDA") and Alveo Land Corporation (Alveo), formerly Community Innovations Inc. ("CII") for the construction of townhouses and residential condominium buildings at the 6.47-hectare portion of the Sta. Cruz property.

Under the JDAs, the Company will contribute the land, Alveo and AVIDA will contribute the financial and technical resources required for the development of the townhouses and condominium buildings.

Celadon Residences (Alveo)

"Celadon Residences" is an upscale 200-unit Mediterranean-inspired townhouse community spread over 4.2 hectares. Buyers may choose from three (3) types of units, with floor areas ranging from 168 to 204 sq. m. All units will have three (3) bedrooms and pocket gardens on the ground floor. The additional option of a guestroom or home office affords residents more breathing room for their needs. For relaxation and recreational purposes, they may visit the centrally-located 3,200 sq. m. village park and pavilion, which boast of landscaped gardens, adult and child swimming pools, and children's zone, and open playfield, and a multi-purpose court.

Celadon Park (Alveo)

"Celadon Park" is a three (3) tower condominium structure to be erected on a one (1) hectare portion of the Sta. Cruz Property. The units come in various sizes from one bedroom to three bedrooms. It shall also have 2 (two) kinds of penthouse suites. It will also have swimming pools, a fitness center, function rooms, children's playground and a multi-purpose amphitheater.

Avida Towers (AVIDA)

"Avida Towers" is envisioned to be a cluster of five (5) condominium towers, priced within reach of middle-income earners. The floor area of each unit ranges from 22 to 66 sq. m., offering studios, one-bedrooms, two-bedrooms, and lofts. The facilities include a clubhouse, adult and child swimming pools, children's playground, basketball court, and jogging path.

The projects are sanctuaries conveniently located near schools like University of Santo Tomas, Far Eastern University, and University of the East; hospitals such as the UST hospital, St. Jude, and Chinese General; shopping areas including SM San Lazaro, SM Manila, and Divisoria; government structures such as the Manila City Hall and the Malacanang Palace among other famous landmarks in Manila.

In 21 November 2007, construction started for the BPO Building at the property of the Company at Sta. Cruz, Manila. The BPO Building is a joint venture project with Ayala Land, Inc. (ALI) with ALI having 70% interest and MJCI 30%. Construction for said tower was completed on March 2009. The tower is named Vertex One.

The Vertex One, is a 15-storey, 21,000 square meter Grade-A facility designed to address the office space requirements and to cater to the 24x7 work environment of BPO firms. It provides large and efficient building floor plates, telco & data redundancies, large capacity, high-speed elevators, 100% back-up power, support retail amenities and parks & open spaces. The project site is considered an ideal location for BPO firms due to its close proximity to the University Belt and its accessibility to the major business districts, airports and seaports in the Metropolis. The project will be the largest BPO facility in the city of Manila providing approximately 6,000 job opportunities for the residents of the city.

On 12 December 2008, the Parent Company entered into a JVA with Ayala Land, Inc. (ALI) to create the San Lazaro JV, an unincorporated taxable 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 constructed and developed under a JDA also with ALI.

Philippine Economic Zone Authority (PEZA) - Winford Hotel

Presidential Proclamation No. 1727 signed by President Arroyo on February 13, 2009, created and designated several parcels of land owned by the Company at the site of the former San Lazaro race track 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 Company's affiliate, MJIC and the PEZA signed on February 24, 2015, the Registration Agreement to entitle MJIC to develop and operate as tourism economic zone. A certificate of registration was thereafter, issued.

Philippine Economic Zone Authority (PEZA) - Carmona Property

Presidential Proclamation No. 1517 was signed by President Gloria Macapagal Arroyo on May 26, 2008, which created and designated several parcels of land owned by the Company consisting of 542,294 square meters situated at Barangay Lantic, Municipality of Carmona, Province of Cavite as a Tourism Economic Zone. The proclamation entitled the Company to establish, develop, construct, administer, manage, and operate a Special Economic Zone to be known as San Lazaro Leisure and Business Park (SLLBP). Pursuant to the proclamation, the Company and the PEZA signed on June 5, 2008, the Registration Agreement entitling MJCI to develop and operate the special economic zone. A certification of registration was issued thereafter.

Philippine Economic Zone Authority - Sta. Cruz Property

Presidential Proclamation No. 1727 signed by President Arroyo on February 13, 2009, created and designated several parcels of land owned by the Company at the site of the former San Lazaro race track 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 Company and the PEZA signed on February 29, 2009, the Registration Agreement to entitle MJCI to develop and operate the aforementioned special economic zone. A certificate of registration was thereafter, issued.

Apo Reef World Resorts Inc. / Mamburao Property

APO Reef World Resorts Inc. is a subsidiary of Manila Jockey Club Inc. that owns a beach property of approximately 100 hectares located along the west coastline of Mamburao, Occidental Mindoro. The company aims to develop a multi-tiered resort township project in support of the regional developments of the province. Its large size enables the development flexibility necessary to create a stand-alone development that emulates the feeling of a destination getaway. Its long coastline, approximately 4.5 kilometers, is appropriate for diverse water facilities and sports activities.

In addition, the company has also acquired an additional 48 hectares across the beach property, with in the valley region of Mamburao. This shall serve as a supplementary development to the beach property which will include an 18-hole golf course as well as other world class leisure facilities.

Moreover, APO Reef World Resorts Inc. is approximately 34 nautical miles, from Apo Reef, the second largest contiguous coral reef in the world and the largest in the Philippines. Proclaimed as *Protected Area* under the category of National Park. Its diverse corals are approximately 34 sq. km. of reef where different species of fish, marine mammals and invertebrates thrive. This shall serve as the main attraction for the development, which aims to boost both local and international tourism in the country. APO Reef World Resorts aims to become a diving mecca and getaway destination to tourist all around the world.

GAMING OPERATIONS

As part of its business diversification, the Company commenced its gaming operations. In October 2003, the Company entered into an agreement with PAGCOR for the establishment of a gaming pit and VIP Club at the 3rd Floor of the Turf Club Building in Carmona, Cavite.

For the Gaming Pit, PAGCOR leases from the Company an area of 189.231 sq. m. for the card and table games at ₱510.51 per sq. m. subject to an escalation rate of 5% per year. The lease commenced on July 10, 2013 and will end on July 9, 2016.

The Company has a total of 200 slot machines, 150 of which are company-owned while 50 are on a revenue-sharing arrangement with Jade Corporation. Under the lease contract with PAGCOR, the Company shall supply the 200 slot machines together with the floor management system. In consideration thereof, the Company shall receive thirty five percent (35%) of the gross win as its share for the VIP Club.

On March 18, 2010, MIC was granted a Permit to Operate by PAGCOR for the establishment, maintenance and operation of a casino, PAGCOR San Lazaro, within the San Lazaro Tourism and Business Park in Sta. Cruz, Manila. The permit shall be for a period of ten years, to commence on the date of actual operation of PAGCOR San Lazaro.

Employees

The Company has raceday and monthly employees.

As of December 31, 2017, the total number of raceday employees is 396 employees. On the other hand, the total number of monthly rank and file employees and officers is 199 employees.

The following are the Collective Bargaining Agreements (CBA) of the Company:

(i) Monthly CBA - January 1, 2016 to December 31, 2020
(ii) Raceday CBA - July 1, 2014 to June 30, 2019.

Both CBAs contain supplemental benefits for the employees such as vacation and sick leaves and retirement benefits. The Company has not experienced any labor strike in the last three (3) years.

ITEM 2. PROPERTIES

(1) Sta. Cruz and Carmona, Cavite Property

The real estate properties of the Club are located in Sta. Cruz, Manila with an area of 2.1 hectares and Carmona, Cavite with an area of 77 hectares.

The investment properties, Sta. Cruz property held for capital appreciation and the Sta. Cruz property held for lease have carrying values as of December 31, 2016 amounting to P359.6 million and P238.2 million.

The 2.1 hectare property held for capital appreciation in Sta. Cruz property and the Carmona property were used by the Parent Company as collateral for its long -term loans obtained from local bank. These long-term loans have already been paid in November 2015 thereby releasing the liens related to the properties.

(2) Undivided Interest in a parcel of land

The Company also has an undivided interest in a parcel of land in Batangas which has a carrying value amounting to P56.7 million as of December 31, 2017.

ITEM 3. LEGAL PROCEEDINGS

As of date, there are pending claims and legal actions by third parties against or involving the Company arising from the normal course of business. In the opinion of the Company's management and its counsel, liabilities arising from these claims, if any, would not have material effect on the Company and any liability or loss arising therefrom would be taken up when final resolution of the claims and actions are determined.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Except for the matters taken up during the last annual meeting of the stockholders covered by the Company's SEC Form 20-IS report, no matter was submitted to a vote of security holders through solicitation of proxies or otherwise during the calendar year covered by this report.

VI. COMPANY'S DIRECTORS AND EXECUTIVE OFFICERS

Please refer to the Information Statement for the discussion of the identity of each of the Company's Board of Directors and Executive Officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed.

VII. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCHOLDER MATTERS

1. *Market Information*

MJC common shares are listed in the Philippine Stock Exchange (PSE). The high and low market prices of MJC shares for each quarter of the past two calendar years, as reported by the PSE, are shown below:

Quarter Period	CY 2018		CY 2017		CY 2016	
	High	Low	High	Low	High	Low
1st Quarter	6.82	4.10	2.79	2.00	2.00	1.81
2nd Quarter	-	-	2.65	2.20	2.18	1.90
3rd Quarter	-	-	3.25	2.00	2.18	1.94
4th Quarter	-	-	6.56	2.70	2.05	1.95

Source: Philippine Stock Exchange, Inc.

As of May 2, 2018, the closing price of the Company's common shares in the PSE is at PhP 4.40 per share.

2. *Holders*

As of May 2, 2018, there are approximately 963 holders of common shares of the Company.

The list of the top twenty (20) stockholders of the Company as recorded by RCBC Stock Transfer, the Company's stock transfer agent, is as follows:

Top Twenty (20) Stockholders as of May 2, 2018

Name	No. of Shares	Percentage
1. PCD Nominee Corporation (Filipino)	492,373,693	49.43%
2. ARCO Equities Inc.	98,770,857	9.92%
3. Alfonso R. Reyno, Jr.	65,947,940	6.62%
4. Exequiel D. Robles	56,911,100	5.71%
5. Redwood Oak Ventures Inc.	42,524,305	4.27%
6. PCD Nominee Corporation (Non-Filipino)	40,810,063	4.10%
7. ARCO Equities, Inc.	32,024,509	3.21%
8. Edgardo B. Espiritu	23,963,405	2.41%
9. Palos Verdes Realty Corp.	23,435,143	2.35%
10. Jut Holdings, Inc.	11,497,077	1.15%
11. Tormil Realty & Development Corp.	10,585,992	1.06%
12. Dante D. Morales and/or Maria Luisa T. Morales	9,567,731	0.96%
13. F. Arturo L. Villaraza	9,182,246	0.92%

14. Bonaventure Development Corporation	6,917,295	0.69%
15. Rosendo G. Guevarra	4,338,511	0.44%
16. Ruddy C. Tan	3,978,166	0.40%
17. Ferdinand A. Domimgo	3,548,030	0.36%
18. APEX Management	3,398,275 3,209,772	0.34% 0.32%
19. Armando R. Bonifacio	3,209,772	0.32%
20. Sta. Lucia Realty Development Inc.	2,869,066	0.29%
Totals:	**942,305,010**	**94.59%**

3. *Dividends*

Cash dividends were declared for the years ended December 31, 2017, 2016 and 2015 as follows:

	2017	2016	2015
Cash Dividend Per Share (PhP)	₱0.05	₱0.05	₱0.05
Declaration Date	July 4, 2017	May 24, 2016	March 6, 2015
Record Date	July 18, 2017	June 10, 2016	March 20, 2015
Payment Date	July 30, 2017	June 30, 2016	April 17, 2015

There are no restrictions other than profit levels or retained earnings that limit the payment of dividend on common shares.

4. *Recent sale of unregistered securities*

There are no other securities sold by the Company within the past three (3) years which were not registered under the Securities Regulation Code (SRC).

VIII. CORPORATE GOVERNANCE

The evaluation system operated by the compliance officer for the compliance on the Code of Corporate Governance has been established by the Company to measure the level of compliance of the Board of Directors and top management with its Code of Corporate Governance. The compliance officer monitors compliance through a regular checklist system after consultation with all parties concerned.

In compliance with SEC Memorandum Circular No. 20 series of 2013, all the Directors and key officers of the Company attended a Corporate Governance Seminar on December 07, 2017. The Company also updated its Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 9 Series of 2016.

In year 2006, there was no deviation from the Company's manual of corporate governance. The Company plans to adopt as part of the Manual of Corporate Governance the new rule of the PSE on the disclosure of non-public information.

For 2007, the Compliance Officer was instructed to find ways to improve the monitoring of the compliance of the proper officer/director on the Code of Corporate Governance and to make the necessary recommendation. It was suggested that he should interview the proper officers regarding their adherence to the Code of Corporate Governance regularly on a periodic basis. Highlighted

For 2008, there was no deviation from the Company's Manual on Corporate Governance. Pursuant to the requirements of the PSE, the Company's amended its manual of Corporate Governance which the direction who have now attended a seminar on Corporate Governance conducted by an authorized entity should attend one as few of the requirements of director.

UNDERTAKING

The Company shall furnish the stockholders a copy of the Annual Report (SEC Form 17-A) free of charge upon written request addressed to:

The Corporate Secretary
Manila Jockey Club, Inc.
14th Floor, Strata 100 Building,
F. Ortigas Jr. Road,
Ortigas Center, Pasig City

MANILA JOCKEY CLUB, INC.

ORTIGAS CENTER OFFICE
14th FLOOR, STRATA 100 BUILDING
F. ORTIGAS JR. ROAD, ORTIGAS CENTER
PASIG CITY 1605, PHILIPPINES
Tel (632) 6879889, Telefax (632) 6316366
E-mail: executive@manilajockey.com or marketing@manilajockey.com
RACING SINCE 1867

CERTIFICATION

I, **CHINO PAOLO Z. ROXAS,** of legal age and with office address at 12th Floor Strata 100 Building, F. Ortigas Jr. Road, Ortigas Center, Pasig City, being the duly-elected Corporate Information Officer of the Manila Jockey Club, Inc. (the "Corporation"), a corporation duly organized and existing in accordance with the laws of the Republic of the Philippines, with business address at 14th Floor Strata 100 Building, F. Ortigas Jr. Road, Ortigas Center, Pasig City, hereby certify that no Director or Officer of the Corporation is connected with any government agencies or its instrumentalities.

IN WITNESS WHEREOF, I have signed this Certificate this 29 MAY 2018 day of May 2018 at Pasig City, Philippines.

CHINO PAOLO Z. ROXAS
Corporate Information Officer

SUBSCRIBED AND SWORN TO before me this 29 MAY 2018 day of May 2018, affiant exhibiting to me his Tax Identification Number 268-712-136.

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. [illegible] (2018-2019)
UNTIL [illegible] 2019
PTR NO. 3856[illegible] [illegible]18 / PASIG
IBP NO. 25[illegible] [illegible]018 / QC
CITIES OF PASIG [illegible] AND PATEROS
ROLL OF ATTORNEYS NO. 60827

Doc. No. 3;
Page No. 2;
Book No. V;
Series of 2018.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, VICTOR C. FERNANDEZ , Filipino, of legal age and with address at No. 1570 Princeton Street, Wack-Wack Village, Mandaluyong City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Manila Jockey Club, Inc. ("MJC") and have been its Independent Director since 2010.

2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
NA		
NA		
NA		
NA		
NA		

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Manila Jockey Club, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code, (where applicable)

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
NA		
NA		
NA		
NA		
NA		

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the

following criminal/administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
NA		
NA		
NA		
NA		

6. (For those in government service/affiliated with a government agency or GOCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in ________________, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of MJC of any changes in the abovementioned information within five days from its occurrence.

DONE this 29 MAY 2018 2018 at Pasig City.

VICTOR C. FERNANDEZ
Affiant

SUBSCRIBED AND SWORN to before me this day of 29 MAY 2018 at Pasig City, affiant personally appeared before me and exhibited to me his Tax Identification No. No. 155-565-214 issued in the Philippines.

Doc. No. 1 ;
Page No. 2 ;
Book No. V ;
Series of 2018.

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. 169 (2018-2019)
UNTIL DECEMBER 31 2019
PTR NO. 3558844 / 1-11-2018 / PASIG
IBP NO. 25228 / 1-10-2019 / QC
CITIES OF PASIG, SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **VICTOR B. VALDEPEÑAS**, Filipino, of legal age and with address at No. 61 Vernon Street, Filinvest Batasan Hills, Diliman Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Manila Jockey Club, Inc. ("MJC").

2. I am affiliated with the following companies:

Company	Position/Relationship	Validity of Service
Insular Life *Makati City*	Chairman	Jan. 2016 - July 2016
Unionbank of the Philippines *Pasig City*	President and Chief Operating Officer	1997-2015
	Executive Vice President/Treasurer	1993 - 1997
Citibank N.A. *Makati City*	Vice President and Country Treasurer	1987 - 1994

3. I posses all the qualifications and none of the disqualifications to serve as an Independent Director of MJC as provided for in Section 38 of the Securities Regulation Code and its Implementation Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of MJC of any changes in the abovementioned within five (5) days from its occurrence.

Done, this day of 2 9 MAY 2018 at Pasig City.

Valdepeñas

VICTOR B. VALDEPEÑAS
Affiant

SUBSCRIBED AND SWORN to before me this day of 2 9 MAY 2018 at Pasig City, affiant personally appeared before me and exhibited to me his valid Identification ID No. TIN 106-906-634 issued on __________ at Manila, Philippines.

Doc. No. 2 ;
Page No. 2 ;
Book No. V ;
Series of 2018.

JING-JING B. ROMERO
NOTARY PUBLIC
APPOINTMENT ... 2019)
UNTIL ...
PTR NO. 3358... / PASIG
IBP NO. 252... / QC
CITIES OF PASIG, SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

ANNEX "A"

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	0	0	0	0	0	8	0	3	

COMPANY NAME

MANILA JOCKEY CLUB, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

San Lazaro Leisure Park, Brgy. Lantic, Carmona, Cavite

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
admin@manilajockey.com	(632) 687-9889	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
970	06/30	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Nestor N. Ubalde	nestorubalde@yahoo.com	914-4758	09175576284

CONTACT PERSON's ADDRESS

14th Flr. Strata 100 Bldg., F. Ortigas Jr. Road, Ortigas Center, Pasig City

NOTE 1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Jockey Club, Inc.
San Lazaro Leisure Park,
Brgy. Lantic, Carmona, Cavite

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Jockey Club, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
LARGE TAXPAYERS
Date APR 27 2018
RECEI
MA. GRACIA AURORA

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required by Revenue Regulations 15-2010 in Note 35 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila Jockey Club, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the parent company financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Adeline D. Lumbres.

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2016, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621279, January 9, 2018, Makati City

April 20, 2018

BUREAU ... LARGE ... TAXPAYER ... APR 27 2018 ... ED ... MA. GRAC... STILLO

MANILA JOCKEY CLUB, INC.

RACING SINCE 1867

April 20, 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MANILA JOCKEY CLUB, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as of and for the years ended **December 31, 2017 and 2016,** in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Sycip Gorres Velayo & Co, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Alfonso R. Reyno, Jr.
Chairman of the Board and Chief Executive Officer

Alfonso G. Reyno III
President and Chief Operating Officer

Nestor N. Ubalde
Chief Financial Officer

Signed this ________ day of ____________

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 27 2018 TSIS
RECEIVED

SUBSCRIBED AND SWORN TO before me this 26 APR 2018 at PASIG CITY affiant exhibiting to me his / her Conpetent evidence of Identity.

NOTARY PUBLIC
APPOINTMENT NO. 138 (2017-2018)
UNTIL DECEMBER 31, 2018
PTR NO. 2516057 / 1-5-17 / PASIG CITY
IBP NO. 1060502 / 1-7-17 / MAKATI CITY
CITIES OF PASIG, SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 57018

DOC. NO. 228;
PAGE NO. 47;
BOOK NO. VI;
SERIES OF 2018;

MANILA JOCKEY CLUB, INC.
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31 2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱144,411,793**	₱129,814,023
Receivables (Note 7)	**277,570,411**	229,153,645
Inventories (Note 8)	**68,598,177**	81,881,984
Other current assets (Note 9)	**7,652,176**	7,283,314
Total Current Assets	**498,232,557**	448,132,966
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	**51,153,362**	108,575,994
Investments in and advances to subsidiaries, associates and joint ventures (Note 10)	**992,255,522**	821,251,093
Available-for-sale (AFS) financial assets (Note 11)	**35,199,339**	13,261,812
Property and equipment (Notes 12 and 29)	**851,292,670**	890,008,719
Investment properties (Notes 10, 13 and 15)	**973,502,765**	985,929,390
Other noncurrent assets (Notes 1 and 14)	**30,051,708**	29,388,986
Total Noncurrent Assets	**2,933,455,366**	2,848,415,994
	₱3,431,687,923	₱3,296,548,960
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 15)	**₱234,000,000**	₱80,000,000
Accounts payable and other liabilities (Note 16)	**304,446,880**	288,426,670
Due to related parties (Note 26)	**23,014,211**	10,265,819
Subscription payable (Note 1)	**48,500,000**	60,000,000
Total Current Liabilities	**609,961,091**	438,692,489
Noncurrent Liabilities		
Accrued retirement benefits (Note 21)	**39,858,117**	44,035,776
Deferred tax liabilities - net (Note 25)	**218,520,696**	228,718,534
Total Noncurrent Liabilities	**258,378,813**	272,754,310
	868,339,904	711,446,799
Equity		
Capital stock (Note 27)	**996,170,748**	996,170,748
Actuarial gains on accrued retirement benefits (Note 21)	**27,637,707**	24,133,722
Net cumulative changes in fair values of AFS financial assets (Note 11)	**4,950,148**	4,962,621
Retained earnings (Note 27)	**1,534,596,512**	1,559,842,166
Treasury shares (Note 27)	**(7,096)**	(7,096)
Total Equity	**2,563,348,019**	2,585,102,161
	₱3,431,687,923	₱3,296,548,960

See accompanying Notes to Parent Company Financial Statements.

MANILA JOCKEY CLUB, INC.
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 27 2018 TSIS
RECEIVED
MA, GRACIA AURORA L. CASTILLO

	Years Ended December 31	
	2017	2016
REVENUES		
Club races	**₱186,133,893**	₱188,544,440
Real estate	**122,882,258**	113,821,575
Rent (Notes 12, 13 and 29)	**110,206,085**	89,991,462
Food and beverages	**22,962,647**	18,711,377
	442,184,883	411,068,854
COST OF SALES AND SERVICES (Note 17)		
Club races	**181,301,153**	167,391,019
Real estate (Note 8)	**13,273,169**	12,409,471
Rent	**56,261,658**	53,540,507
Food and beverages	**21,972,152**	18,878,743
	272,808,132	252,219,740
GROSS INCOME	**169,376,751**	158,849,114
General and administrative expenses (Note 18)	**(198,962,955)**	(180,977,912)
Interest income (Notes 6, 7, 11 and 22)	**12,398,321**	11,486,644
Selling expense (Note 8)	**(12,072,532)**	(9,675,864)
Finance costs (Notes 15 and 23)	**(5,789,713)**	(2,334,037)
Other income - net (Note 24)	**60,289,595**	52,930,531
INCOME BEFORE INCOME TAX	**25,239,467**	30,278,476
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	**12,376,608**	9,774,951
Deferred	**(11,699,547)**	(983,187)
	677,061	8,791,764
NET INCOME	**24,562,406**	21,486,712
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Net changes in fair values of AFS financial assets (Note 11)	**(12,473)**	1,039,407
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains on remeasurement of retirement benefits, net of tax (Note 21)	**3,503,985**	2,512,675
TOTAL COMPREHENSIVE INCOME	**₱28,053,918**	₱25,038,794
Basic/Diluted Earnings Per Share (Note 33)	**₱0.0247**	₱0.0216

See accompanying Notes to Parent Company Financial Statements.

MANILA JOCKEY CLUB, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock (Note 27)	Actuarial Gains on Accrued Retirement Benefits (Note 21)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 11)	Retained Earnings (Note 27)	Treasury Shares (Note 27)	Total
BALANCES AT DECEMBER 31, 2016	**₱996,170,748**	**₱24,133,722**	**₱4,962,621**	**₱1,559,842,166**	**(₱7,096)**	**₱2,585,102,161**
Total comprehensive income (loss) for the year	–	3,503,985	(12,473)	24,562,406	–	28,053,918
Cash dividends declared	–	–	–	(49,808,060)	–	(49,808,060)
BALANCES AT DECEMBER 31, 2017	**₱996,170,748**	**₱27,637,707**	**₱4,950,148**	**₱1,534,596,512**	**(₱7,096)**	**₱2,563,348,019**
BALANCES AT DECEMBER 31, 2015	₱996,170,748	₱21,621,047	₱3,923,214	₱1,588,163,519	(₱7,096)	₱2,609,871,432
Total comprehensive income for the year	–	2,512,675	1,039,407	21,486,712	–	25,038,794
Cash dividends declared	–	–	–	(49,808,065)	–	(49,808,065)
BALANCES AT DECEMBER 31, 2016	₱996,170,748	₱24,133,722	₱4,962,621	₱1,559,842,166	(₱7,096)	₱2,585,102,161

See accompanying Notes to Parent Company Financial Statements.

MANILA JOCKEY CLUB, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱25,239,467	₱30,278,476
Adjustments for:		
Depreciation (Note 19)	76,531,884	75,187,468
Dividend income (Note 24)	(41,027,257)	(25,788,188)
Interest income (Note 22)	(12,398,321)	(11,486,644)
Finance costs (Note 23)	5,789,713	2,334,037
Amortization of franchise fee (Notes 14 and 17)	1,794,000	1,794,000
Gain on sale of:		
Property and equipment (Notes 12 and 24)	(100,000)	(467,712)
AFS financial assets (Notes 11 and 24)	–	(364,020)
Unrealized foreign exchange loss - net (Note 24)	50,375	191,722
Impairment loss on AFS financial assets (Note 11)	50,000	1,983,500
Gain on reversal of provision for probable losses	–	(13,135,947)
Operating income before working capital changes	55,929,861	60,526,692
Decrease (increase) in:		
Receivables	29,211,466	(66,554,940)
Inventories	13,283,807	12,375,268
Other current assets	(368,862)	1,485,688
Increase (decrease) in:		
Due to related parties	12,748,392	3,452,750
Accrued retirement benefits (Note 21)	828,035	8,643,081
Accounts payable and other liabilities	16,180,854	(997,382)
Cash generated from operations	127,813,553	18,931,157
Income taxes paid, including creditable withholding and final taxes	(12,376,608)	(8,855,350)
Net cash provided by operating activities	115,436,945	10,075,807
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in:		
Investments in and advances to subsidiaries, associates and joint ventures (Note 10)	(171,004,429)	(29,850,000)
Other noncurrent assets	(2,456,722)	(223,005)
Acquisition of:		
Property and equipment (Note 12)	(25,400,570)	(20,605,855)
AFS financial assets (Notes 11 and 24)	(22,000,000)	–
Proceeds from sale of:		
Proceeds from disposal of property and equipment	91,360	467,712
AFS financial assets (Note 11)	–	18,100,920
Dividends received (Notes 10 and 24)	20,923,259	23,656,616
Interest received (Note 22)	12,316,719	11,886,402
Net cash provided by (used in) investing activities	(187,530,383)	3,432,790
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans and borrowings (Note 15)	217,000,000	88,000,000
Payments of:		
Short-term loans and borrowings (Note 15)	(63,000,000)	(47,000,000)
Subscriptions	(11,500,000)	–
Interest paid	(5,789,713)	(2,334,037)
Dividends paid (Note 27)	(49,968,704)	(49,057,361)
Net cash provided by (used in) financing activities	86,741,583	(10,391,398)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(50,375)	(191,722)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,597,770	2,925,477
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	129,814,023	126,888,546
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱144,411,793	₱129,814,023

See accompanying Notes to Parent Company Financial statements.

1. Corporate Information

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

In 1987, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Company's corporate life for another 50 years starting March 22, 1987.

The 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, which will expire on November 23, 2022 (see Note 14). The Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (JV) arrangements with certain developers.

Under R.A. No. 8407, the 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 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.

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

The parent company financial statements as at and for the years ended December 31, 2017 and 2016 were authorized for issuance by the Board of Directors (BOD) on April 20, 2018.

Investment in Subsidiaries, Associates and Interest in Joint Ventures

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2017	2016
Subsidiaries					
Biohitech Philippines, Inc. (Biohitech) [a]	Philippines	Waste management	Philippine Peso	**50.00**	50.00
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	**100.00**	100.00
San Lazaro Resources and Development Corporation (SLRDC) [a]	Philippines	Real estate	Philippine Peso	**100.00**	100.00
SLLP Holdings, Inc. (SLLPHI) [a]	Philippines	Holdings	Philippine Peso	**100.00**	100.00
Hi-Tech Harvest Limited (Hi-Tech Harvest) [a]	Hong Kong	Marketing	Philippine Peso	**100.00**	100.00
Apo Reef World Resort, Inc. (AWRI) [a]	Philippines	Beach Resorts Complex	Philippine Peso	**56.87**	56.87

(Forward)

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2017	2016
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MJC)	Philippines	Real estate and Gaming	Philippine Peso	**22.31**	22.31
Techsystems, Inc. (Techsystems) [*]	Philippines	Information Technology	Philippine Peso	**33.33**	33.33
Interest in Joint Ventures					
Gamespan, Inc. (Gamespan) [*]	Philippines	Gaming	Philippine Peso	**50.00**	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	**30.00**	30.00

[*] *Not yet started commercial operation as of December 31, 2017*

On February 22, 2016, the Company entered into a share purchase agreement with ACL Development Corporation ("ACL") to purchase 9.8 million shares of ARWRI, a company owning parcels of land in Mamburao, Mindoro, for a total consideration of ₱9.9 million. Furthermore, on August 25, 2016, the Company paid ₱20.0 million to subscribe to 80.0 million shares of ARWRI at par value of ₱1.00 per share equivalent to ₱80.0 million after ARWRI increased its authorized capital stock from 100.0 million to 200.0 million shares. As of August 25, 2016, the Company owns 56.87 percent of ARWRI.

As of December 31, 2017 and 2016, the Company has outstanding subscriptions payable to ARWRI amounting to ₱48.5 million and ₱60.0 million, respectively.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The parent company financial statements have been prepared using the historical cost basis, except for AFS financial assets, which are carried at fair value. The parent company financial statements are presented in Philippine Peso (Peso or ₱), the Company's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

Statement of Compliance
The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes both standard titles PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations based on equivalent interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies
The Company applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments are not applicable to the Company's financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 31 to the parent company financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2017.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized loss. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or asset that are in scope of the amendments.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is currently assessing the potential effect of the amendments on its parent company financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Company is currently assessing the potential effect of the amendments on its financial statements. In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRS, the Company is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Company to collect and disclose the required information.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Summary of Significant Changes in Accounting Policies and Disclosures

Current versus Noncurrent Classification

The Company presents assets and liabilities in the parent company statements of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period
-

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Company measures financial instruments at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid 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 by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company 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 or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to 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 assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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
Date of Recognition. The Company recognizes a financial asset or a financial liability in the parent company statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting.

Initial and Subsequent Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those at fair value through profit or loss, includes transaction cost.

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the purpose for which the instruments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Company has no financial assets or liabilities at fair value through profit or loss and held-to-maturity investments as of December 31, 2017 and 2016.

Determination of Fair Value. Fair value is the price that would be received to sell an asset or paid 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 i) in the principal market for the asset or liability; or ii) 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 by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company 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.

The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

a. Loans and receivables

This category is the most relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the parent company statements of comprehensive income. The losses arising from impairment are recognized in the parent company statements of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

Included in this category are the Company's cash in banks and cash equivalents, receivables and deposits (presented as part of "Other noncurrent assets" in the parent company statements of financial position) as of December 31, 2017 and 2016.

b. *AFS financial assets*
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income (OCI) and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the parent company statements of comprehensive income in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the parent company statements of comprehensive income.

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 Company's AFS financial assets consist of investments in quoted and unquoted equity securities, quoted debt securities, preferred shares and club membership shares as of December 31, 2017 and 2016.

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 EIR 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 parent company statements of comprehensive income.

Included in this category are the Company's short-term loans and borrowings, accounts payable and other liabilities, and due to related parties as of December 31, 2017 and 2016.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS Investments – Carried at Fair Value. If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the parent company statements of comprehensive income, is transferred from OCI to the parent company statements of comprehensive income.

An AFS investment is considered impaired if there is prolonged or significant decline in market value against cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

AFS Investments – Carried at cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in the parent company statements of comprehensive income, increases in their fair value after impairment are recognized directly in OCI. Reversals of impairment losses on debt instruments are reversed through the parent company statements of comprehensive income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the parent company statements of comprehensive income.

Derecognition of Financial Assets and Liabilities
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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.

When the Company 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 Company's continuing involvement in the asset. In that case, the Company also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, canceled or 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the parent company statements of comprehensive income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cashflows of the original debt instrument, the financial liability is not derecognized.

"Day 1" Profit. 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 Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the parent company statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the parent company statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the parent company statements of financial position if, and only if, there is 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.

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

Real Estate Inventories
Real estate inventories include completed and on-going projects of the Company, and are stated at the lower of cost and NRV. Cost of real estate inventories pertains to the cost of land. Real estate inventories include properties held for future development and properties being constructed or completed for sale and memorial lots for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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.*

Investments in Subsidiaries, Associates and Joint Ventures
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in subsidiaries, associates and joint ventures and advances are carried at cost less accumulated probable losses, if any. Under the cost method, the Company recognizes income from the investments in subsidiaries, associates and joint ventures when its right to receive dividend is established.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

For interest in joint operation, the Company accounts for each assets, liabilities, revenue, share in revenue and expense separately. The Company would recognize in relation to its interest its:
- Assets which include real estate inventories, developed office units and retail development units presented under "Investment Properties" account (see Notes 8 and 13)
- Liabilities, including its share of any liabilities jointly incurred, recorded as "Accrued Expenses"
- Revenue from the sale of its share of the real estate inventories, recorded as "Real Estate Revenue"
- Share of the revenue from services rendered jointly, recorded as part of the "Rental Income"
- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

These joint operations do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the operators themselves. Each operator has control over its share of future economic benefits through its share of the results of the joint operation.

Property and Equipment

Property and equipment, except land, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost also includes the cost of replacing part of the property and equipment and borrowing cost for long-term construction projects if the recognition criteria are met, and any obligation related to the retirement of the asset. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are generally recognized in the parent company statements of comprehensive income in accordance with the accounting policy. 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. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the parent company statements of comprehensive income of such period.

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 Asset 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 residual values and useful lives of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statements of comprehensive income when the asset is derecognized.

Construction in progress is stated at cost, net of accumulated impairment losses, if any. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and are available for use.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment Properties

The Company's investment properties consist of land that is 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 its 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 properties.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use or no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Franchise Fee

The franchise fee, presented as part of "Other noncurrent assets" in the parent company statements of financial position, is accounted for at cost less accumulated amortization and any accumulated impairment in value. Costs incurred for the renewal of the 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 the profit or loss.

Impairment of Nonfinancial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU)'s fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Companys's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the parent company statements of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluaiton.

An assessment is made at each reporting 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 the 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.

Capital Stock

Capital stock represents the portion of the paid in capital representing the total par value of the shares issued. When the 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.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued at fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings

Retained earnings are the result of Company's accumulated profits or losses, declaration of dividends and the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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.

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

Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income attributable to equity holders of the 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 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 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 Company and the revenue can be reliably measured, regardless of when payment is received. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company 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 specific recognition criteria described below 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 Company's franchise agreement.

Revenue from food and beverages
Revenue from food and beverages are recognized when services are rendered or the goods are sold.

Real estate sales
The Company assesses whether it is probable that the contract price (which embodies economic benefits) will flow to the Company. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

Revenue from sales of completed real estate projects from the joint venture is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are included in the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the parent company statements of financial position. If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the parent company statements of financial position.

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.

The cost of inventory recognized in the parent company statements of comprehensive income upon sale is determined with reference to the costs of the land contributed for the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Rental income from stables, building and other facilities
Revenue from the lease of stables, building and other facilities is recognized in the parent company statements 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 Company's right to receive the payment is established.

Cost of Sales and Services and Expenses
Cost of club races and cost of rental services and expenses are recognized in the parent company statements of comprehensive income at the date they are incurred.

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

OCI
Items of income and expense (including items previously presented under the parent company statements of changes in equity) that are not recognized in the profit or loss for the year are recognized as OCI and are presented as OCI in the parent company statements of comprehensive income.

The OCI of the Company pertains to gains and losses on remeasuring AFS financial assets and actuarial gains (losses) on remeasurement of retirement plan.

Retirement Benefits Cost

The Company has noncontributory 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 employees' projected salaries.

Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements 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 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.

Remeasurements 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the 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 benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risk and rewards incidental to ownership to the Company is classified as a finance lease. Operating lease payments are recognized as an operating expense in the parent company statements of comprehensive income on a straight-line basis over the lease term.

The Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. 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 they are earned.

Taxes
Current tax
Current income tax assets and liabilities 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 reporting date.

For income tax purposes, full revenue recognition on real estate sales is applied when more than 25% of the contract price has been collected in the year of sale; otherwise, the installment method is applied, where real estate sales are recognized based on collection multiplied by the gross profit rates of the individual sales contracts.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Deferred tax relating to items recognized outside parent company statements of comprehensive income is recognized outside parent company statements of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

VAT
Revenue, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the parent company statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/ or services (output VAT), the excess is recognized as an asset in the parent company statements of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of "VAT - Input", "Deferred Input Tax", or "Accounts payable and other current liabilities" accounts in the parent company statements of financial position.

<u>Foreign Currency Denominated Transactions and Translations</u>
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 reporting date. All foreign exchange gains and losses are recognized in the parent company statements of comprehensive income.

<u>Provisions</u>
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the parent company statements of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

<u>Contingencies</u>
Contingent liabilities are not recognized in the parent company financial statements. These are in the notes to financial statements disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

Segment Reporting
The Company'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 Company's operating segments is presented in Note 28 to the notes to parent company financial statements.

Events After the Reporting Date
Events after the reporting date that provide additional information about the Company's financial position at the reporting date (adjusting events), if any, are reflected in the parent company financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in accordance with PFRS requires the Company to make judgments, estimates and assumptions that affect the amounts reported in the parent company 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 parent company 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 parent company 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 Company'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 parent company financial statements.

Determination if control exists in an investee company
Control is presumed to exist when an investor 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. On the other hand, joint control is presumed to exist when the investors contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has control by virtue of its power to cast the majority votes at meetings of the BOD in all of its subsidiaries (see Note 1).

Determination if joint control exists in a joint venture
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has joint control in San Lazaro BPO Complex Joint Venture and Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly for all relevant activities by the venturers through its BOD (see Note 1).

Determination of joint venture or joint operation
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the

arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

Management has determined that arrangement for ventures with Avida Land Corporation (Avida), Alveo Land Corporation (Alveo) and Century Communities Corporation (CCC) are classified as joint operations since the Company have rights to the assets and obligations for the liabilities relating to the arrangement and not to the net assets of the arrangement.

Determination if significant influence exist in an associate
Significant influence exist when an investor has the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. Management has determined that the Company has significant influence in MIC since the Company has the power to appoint representatives to the BOD of MIC to participate in the financial and operating policy decision (see Note 1).

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 Company. Lease agreements which transfer to the Company 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 Company as lessor*
The Company has entered into lease agreements on certain items of its property and equipment and investment properties. The Company has determined that it retains all the significant risks and rewards of ownership of these properties; i.e., ownership of the assets remains with the Company at the end of the lease term. Accordingly, the lease agreements are accounted for as operating leases (see Notes 12, 13 and 29).

b. *Operating lease commitments - the Company as lessee*
The 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; i.e., ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease (see Note 29).

Impairment of noncurrent nonfinancial assets
The Company assesses at each reporting date whether there is any indication that its investments in subsidiaries, an associates and interest in joint ventures, property and equipment, investment properties and franchise fee may be impaired. Indication of impairment includes: (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 CGU's fair value less costs to sell and its value in use.

There are no impairment of noncurrent nonfinancial assets in 2017 and 2016. The carrying values of the Company's investment in subsidiaries, an associates and interest in joint venture, property and equipment, investment properties, and franchise fee of December 31, 2017 and 2016 are disclosed in Notes 10, 12, 13 and 14 to the parent company financial statements, respectively.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting 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.

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 Company's allowance for doubtful accounts will increase its recorded operating expenses and decrease its current assets.

As of December 31, 2017 and 2016, the carrying value of receivables (including noncurrent portion of real estate receivables), net of allowance for doubtful accounts, are disclosed in Note 7 to the parent company financial statements.

In 2017 and 2016, provision for doubtful accounts are disclosed in Notes 7 and 18 to the parent company financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Notes 7 and 24 to the parent company financial statements.

Determination of NRV of real estate inventories
The Company's estimates of the NRV 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 NRV 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 NRV 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 NRV.

As of December 31, 2017 and 2016, the cost of the real estate inventories, the amount written down to NRV and the carrying value of the real estate inventories are disclosed in Note 8 to the parent company financial statements.

Estimation of impairment of AFS financial assets
The Company 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 Company treats 'significant' generally as 20% or more of original cost and 'prolonged' as greater than 12 months. In addition, the Company 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 December 31, 2017 and 2016, the carrying value of the Company's AFS financial assets are disclosed in Note 11 to the parent company financial statements. Impairment loss of ₱0.1 million and ₱2.0 million were recognized in 2017 and 2016, respectively.

Estimation of the useful lives of property and equipment and investment properties (excluding Land)
The Company estimates the useful lives of property and equipment and investment property based on the internal technical evaluation and experience with similar assets. Estimated useful lives of property and equipment and investment property (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.

There were no changes in the useful lives of property and equipment and investment properties in 2017 and 2016. As of December 31, 2017 and 2016, the carrying amount of depreciable property and equipment are disclosed in Note 12 to the parent company financial statements. The carrying amount of depreciable investment property as of December 31, 2017 and 2016 are disclosed in Note 13 to the parent company financial statements.

Recognition of deferred tax assets
The Company reviews the carrying amount of the deferred tax assets at each reporting 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 December 31, 2017 and 2016, recognized deferred tax assets are disclosed in Note 25 to the parent company financial statements.

Provisions
The Company 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 the reporting date, net of any estimated amount that may be reimbursed to the Company. No provisions were recognized as of December 31, 2017 and 2016.

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 21 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 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 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 December 31, 2017 and 2016, the carrying value of accrued retirement benefits are disclosed in Note 21 to the parent company financial statements. Retirement benefits cost in 2017 and 2016 are disclosed in Note 21 to the parent company financial statements.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱18,182,048**	₱9,796,220
Cash in banks	**126,229,745**	95,851,240
Cash equivalents	**–**	24,166,563
	₱144,411,793	₱129,814,023

Cash in banks generally earns 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 ₱0.7 million and ₱0.5 million in 2017 and 2016, respectively (see Note 22).

7. Receivables

This account consists of:

	2017	2016
Trade		
Real estate receivables - current portion	**₱172,355,182**	₱136,036,096
Rent receivables (Notes 12, 13 and 29)	**14,984,657**	17,311,937
Receivables from off-track betting (OTB) operators	**841,466**	9,264,439
Nontrade		
Due from related parties (Note 26)	**53,340,899**	56,957,796
Dividends receivable (Notes 10, 24 and 26)	**25,876,407**	5,772,409
Advances to suppliers	**13,133,143**	9,031,129
Advances and loans to officers and employees (Note 26)	**12,973,854**	8,368,465
Receivable from third parties	**7,133,880**	15,252,500
Deposits and advances to contractors	**1,778,413**	1,778,413
Claims for tax credit certificate (TCC)	**–**	2,252,054
Others	**11,221,582**	4,650,879
	313,639,483	266,676,117
Less: Allowance for doubtful accounts	**36,069,072**	37,522,472
	₱277,570,411	₱229,153,645

Real Estate Receivables
The real estate receivables of the Company are as follows:

	2017	2016
Current	**₱172,355,182**	₱136,036,096
Noncurrent	**51,153,362**	108,575,994
	₱223,508,544	₱244,612,090

Real estate receivables, which are collectible in monthly installments, represent noninterest-bearing receivables with average term ranging from two to three years. Titles to condominium properties are not transferred to the buyers until full payment is made.

Interest income from accretion of real estate receivables amounted to ₱9.9 million and ₱7.9 million in 2017 and 2016, respectively (see Note 22).

Advances to Suppliers
Advances to suppliers are noninterest-bearing payments, which is normally within twelve months or within the normal operating cycle.

Advances and Loans to Officers and Employees
The Company grants salary loans and advances to its officers payable through salary deductions. The loans bear an average interest rate of 9% per annum. Interest income on advances and loans to officers and employees amounted to ₱0.3 million and ₱0.6 million in 2017 and 2016, respectively (see Note 22).

Receivable from Third Parties
Receivable from third parties bear an interest of 12% per annum and are generally settled within 30-90 day term. Interest income earned on receivable from third parties is ₱0.8 million and ₱2.1 million in 2017 and 2016, respectively (see Note 22).

Deposits and Advances to Contractors
This pertains to deposits made by the Company to the contracts for the development of the Carmona project not yet deducted from the billings of the Company.

Claims for TCC
The Company accrued ₱2.3 million for its claim against the City of Manila for a tax refund for undue payment of franchise tax on race tracks, amusement taxes on admission and real property taxes levied against the Company for the years 1994 and 1995 pursuant to Manila Revenue Code of 1993 (Ordinance No. 7794).

The claims for TCC is fully written off by the Company as at December 31, 2017.

Other Receivables
Other receivables include accrued interest and other various individually insignificant items.

Allowance for Doubtful Accounts
The following table shows the rollforward of the allowance for doubtful accounts as of December 31, 2017 and 2016:

	2017	2016
Balance at beginning of year	₱37,522,472	₱24,396,353
Provision during the year (Note 18)	13,849,311	13,481,405
Amounts written off during the year	(15,302,711)	(276,673)
Recovery of doubtful accounts	–	(78,613)
Balance at end of year	₱36,069,072	₱37,522,472

Details of allowance for doubtful accounts per class of receivable are as follows:

	2017	2016
Trade	₱24,020,769	₱24,386,627
Nontrade	12,048,303	13,135,845
Balance at end of year	₱36,069,072	₱37,522,472

Allowance for doubtful accounts as of December 31, 2017 and 2016 were based on specific and collective assessment made by the management.

The Company directly wrote-off receivables amounting to ₱0.1 million and ₱0.5 million in 2017 and 2016, respectively (see Note 24).

8. Inventories

This account consists of:

	2017	2016
Real estate:		
Land held for development - at cost	₱38,189,898	₱38,189,898
Condominium units for sale - at cost	18,693,592	30,233,390
Memorial lots for sale - at NRV	8,379,931	8,379,931
Residential units for sale - at cost	2,783,562	4,516,933
	68,046,983	81,320,152
Food and beverages - at cost	551,194	561,832
	₱68,598,177	₱81,881,984

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Company. In 2017 and 2016, revenue from real estate pertains to sale of completed condominium units and residential units.

The movements in the real estate inventories account are as follows:

	2017	2016
Balance at beginning of year	₱81,320,152	₱93,729,623
Cost of real estate sold (Note 17)	(13,273,169)	(12,409,471)
Balance at end of year	₱68,046,983	₱81,320,152

In 2017 and 2016, no impairment loss was recognized. The cost of memorial lots for sale as at December 31, 2017 and 2016 amounted to ₱9.8 million.

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

Condominium units for sale
On February 26, 2005, the Company entered into Joint Development Agreements (JDAs) with Avida and Alveo for the development of 5.2 hectares and 1.3 hectares (the "Project Areas"), respectively, of the 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 Company agreed and contributed its rights, title and interest in the Project and 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 Company, Avida and Alveo received their respective allocation as described in the JDAs.

Towers 1 to 5 of Avida and Towers 1 and 2 of Alveo are fully completed as of December 31, 2017 and 2016. The construction of Tower 3 of Alveo is 99.99% and 88.10% complete as of December 31, 2017 and 2016, respectively.

Residential units for sale
On February 24, 2004, the Company entered into an agreement with CCC for the development of 17.09 hectares of the Company's 33-hectare property in Carmona, Cavite into an exclusive residential subdivision with some commercial areas. As of December 31, 2017, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the parent company statements of comprehensive income, is the share of the Company in the marketing cost pertaining to real estate operations. The amount of marketing cost in 2017 and 2016 amounted to ₱12.1 million and ₱9.7 million, respectively.

9. Other Current Assets

This account consists of:

	2017	2016
Prepaid income tax	**₱4,076,088**	₱3,973,481
Prepaid expenses	**3,323,965**	3,132,539
Others	**252,123**	177,294
	₱7,652,176	₱7,283,314

Prepaid expenses includes prepayments made for insurance and licenses.

Others include prepaid insurance and fuel and oil inventory.

10. Investments in and Advances to Subsidiaries, Associates and Interest in Joint Ventures

This account consists of:

	2017		2016	
	% of Ownership	**Cost**	% of Ownership	Cost
Subsidiaries (Note 1):				
SLLPHI	**100.00%**	**₱6,250,000**	100.00%	₱6,250,000
MFC	**100.00%**	**4,000,000**	100.00%	4,000,000
Biohitech	**50.00%**	**1,500,000**	50.00%	1,500,000
Gametime	**100.00%**	**10,000,000**	100.00%	625,000
MCI	**100.00%**	**10,000,000**	100.00%	625,000
SLRDC	**100.00%**	**156,500**	100.00%	156,500
Hi-tech Harvest	**100.00%**	**84,456**	100.00%	84,456
ARWRI	**56.87%**	**89,850,000**	56.87%	89,850,000
		121,840,956		103,090,956
Associates:				
MIC	**22.31%**	**708,160,137**	22.31%	708,160,137
Techsystems	**33.33%**	**1,000,000**	33.33%	1,000,000
		709,160,137		709,160,137
Investment in joint venture:				
Gamespan, Inc.	**50.00%**	**10,000,000**	50.00%	10,000,000
		841,001,093		822,251,093
Advances		**152,254,429**		–
		993,255,522		822,251,093
Less allowance for impairment of investment in associate		**1,000,000**		1,000,000
		₱992,255,522		₱821,251,093

Investment in associates

MIC. Investment in MIC pertains to the Company's 22.31% interest in MIC as of December 31, 2017 and 2016.

In 2017, the Company paid advances amounting to ₱152.3 million for the deposit for future subscription.

The summarized financial information of MIC are as follows:

	2017	2016
Current assets	**₱897,918,988**	₱796,509,099
Noncurrent assets	**6,051,105,774**	5,894,901,689
Current liabilities	**1,301,980,534**	660,273,522
Noncurrent liabilities	**3,878,241,036**	3,472,787,465
Equity	**1,768,803,192**	2,558,349,801
Income	**469,722,606**	223,525,258
Expenses	**1,259,957,781**	669,888,624
Net loss	**790,235,175**	446,363,366

On April 12, 2018, the BOD of MIC approved the conduct of a stock rights offering in order to raise additional capital for its debt servicing requirements. The total number of shares to be issued is 1,587,202,910 common shares and the stock offer price shall be ₱1.00 per share. The entitlement ratio shall be one (1) rights share for every two (2) common shares held as of record date.

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership by the Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Company. As of December 31, 2017 and 2016, investment in Techsystems is fully provided with allowance.

As of December 31, 2017, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems are as follows:

	2017	2016
Total current liabilities	**₱5,184,317**	₱5,184,317
Capital deficiency	**(5,184,317)**	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the 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 Company which it may distribute to different broadcasters to maximize viewership and participation. As of December 31, 2017, Gamespan has not yet started its commercial operations.

The summarized financial information of the Gamespan is as follows:

	2017	2016
Current assets	**₱20,535,390**	₱20,184,979
Noncurrent assets	**17,500**	29,167
Current liabilities	**629,824**	629,824
Equity	**19,923,066**	19,584,322

SLBPO. On December 12, 2008, the Company entered into a joint venture agreement with Ayala Land, Inc. (ALI) to create SLBPO, an incorporated entity, for the purpose of leasing, managing and administering the developed office units and retail development area 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.

Dividend receivable from the JV amounted to ₱3.4 million and ₱5.8 million as of December 31, 2017 and 2016, respectively (see Note 7).

Share on dividends declared amounted to ₱18.1 million and ₱25.3 million in 2017 and 2016, respectively.

The summarized financial information of the San Lazaro JV is as follows:

	2017	2016
Current assets	**₱254,648,235**	₱172,139,600
Noncurrent assets	**18,063,655**	18,603,188
Current liabilities	**107,759,329**	113,616,679
Noncurrent liabilities	**45,871,866**	27,628,073
Equity	**119,080,695**	49,498,036
Dividends	**60,448,356**	84,454,792
Income	**217,264,535**	147,950,707
Expenses	**87,233,520**	58,567,620
Net income	**130,031,015**	89,383,087

The Company has no share in any contingent liabilities or capital commitments of the JV as of December 31, 2017 and 2016. There are also no accumulated earnings that are restricted as of December 31, 2017 and 2016.

11. AFS Financial Assets

This account consists of:

	2017	2016
At fair value:		
Quoted equity securities	**₱12,560,582**	₱12,628,515
Quoted debt securities	**22,005,460**	–
At cost:		
Unquoted equity securities	**633,297**	633,297
	₱35,199,339	₱13,261,812

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

	2017	2016
Balance at beginning of year	**₱13,261,812**	₱31,942,805
Additions during the year	**22,000,000**	–
Disposal during the year	**–**	(17,663,916)
Unrealized mark-to-market losses during the year	**(62,473)**	(1,017,077)
Balance at end of year	**₱35,199,339**	₱13,261,812

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

	2017	2016
Balance at beginning of year	**₱4,962,621**	₱3,923,214
Impairment loss reclassified to profit or loss (Note 24)	**50,000**	1,983,500
Unrealized mark-to-market losses during the year	**(62,473)**	(1,017,077)
Realized mark-to-market gains	**–**	72,984
Balance at end of year	**₱4,950,148**	₱4,962,621

The fair values of quoted AFS financial assets are determined based on published prices in an 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.

Gain on sale of AFS financial assets is nil in 2017 and ₱0.4 million in 2016 (see Note 24). Dividend income from these investments amounted ₱0.4 million in 2017 and ₱0.5 million in 2016 (see Note 24). Interest income on quoted debt securities amounted to ₱0.6 million and ₱0.4 million in 2017 and 2016, respectively (see Note 22).

12. Property and Equipment

Movements in this account are as follows:

	2017				
	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	–	–	–	347,422,587
Building and improvements	657,731,705	61,179	–	–	657,792,884
Machinery and equipment	353,543,367	7,988,171	(35,000)	–	361,496,538
Transportation equipment	34,839,696	6,420,089	(1,018,000)	–	40,241,785
Furniture and fixtures	14,120,720	2,613,319	–	–	16,734,039
	1,712,527,458	17,082,758	(1,053,000)	–	1,728,557,216
Accumulated depreciation					
Land improvements	181,443,068	14,786,877	–	–	196,229,945
Building and improvements	338,714,191	27,000,192	–	–	365,714,383
Machinery and equipment	283,406,077	18,658,843	(23,640)	–	302,041,280
Transportation equipment	27,222,510	2,925,293	(1,018,000)	–	29,129,803
Furniture and fixtures	12,426,444	734,054	–	–	13,160,498
	843,212,290	64,105,259	(1,041,640)	–	906,275,909
Net book value	869,315,168	(47,022,501)	(11,360)	–	822,281,307
Construction in progress	20,693,551	8,317,812	–	–	29,011,363
	₱890,008,719	(₱38,704,689)	(₱11,360)	₱–	₱851,292,670

	2016				
	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,337,228	–	–	85,359	347,422,587
Building and improvements	656,956,074	522,321	–	253,310	657,731,705
Machinery and equipment	338,439,609	15,103,758	–	–	353,543,367
Transportation equipment	34,790,311	2,894,643	(2,432,758)	(412,500)	34,839,696
Furniture and fixtures	13,226,593	894,127	–	–	14,120,720
	1,695,619,198	19,414,849	(2,432,758)	(73,831)	1,712,527,458
Accumulated depreciation					
Land improvements	166,660,852	14,782,216	–	–	181,443,068
Building and improvements	311,678,979	27,035,212	–	–	338,714,191
Machinery and equipment	265,699,375	17,706,702	–	–	283,406,077
Transportation equipment	26,876,141	2,779,127	(2,432,758)	–	27,222,510
Furniture and fixtures	11,968,858	457,586	–	–	12,426,444
	782,884,205	62,760,843	(2,432,758)	–	843,212,290
Net book value	912,734,993	(43,345,994)	–	(73,831)	869,315,168
Construction in progress	19,841,214	1,191,006	–	(338,669)	20,693,551
	₱932,576,207	(₱42,154,988)	₱–	(₱412,500)	₱890,008,719

Depreciation Charges
The amount of depreciation is allocated as follows:

	2017	2016
Cost of club races (Notes 17 and 19)	**₱39,825,103**	₱39,173,091
General and administrative expenses (Notes 18 and 19)	**15,708,102**	15,218,691
Cost of rental services (Notes 17 and 19)	**8,144,360**	7,975,321
Cost of food and beverages (Notes 17 and 19)	**427,694**	393,740
	₱64,105,259	₱62,760,843

Construction in Progress
Construction in progress pertains to costs of constructed long-term assets that are accumulated until they are ready for use.

Capitalized Borrowing Costs
No interest on loans was capitalized in 2017 and 2016. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of December 31, 2017 and 2016 amounted to ₱32.6 million and ₱35.4 million, respectively.

Land
In 2001, the Company acquired a parcel of land located in Carmona, Cavite, from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, 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. Total payments made by the Company amounted to ₱433.7 million. No payments were made in 2017 and 2016. The outstanding payable amounting to ₱89.9 million as of December 31, 2017 and 2016 is included under "Accounts payable and other liabilities" in the parent company statements of financial position (see Note 16).

In 2017 and 2016, the Company acquired new short-term loans amounting to ₱217.0 million and ₱88.0 million, respectively. Certain loans are secured by real estate mortgages on land with carrying value of ₱216.0 million as of December 31, 2017 and 2016.

Assets Under Operating Lease
The Company has various operating lease agreements for its building improvements, specifically, 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 that are leased out on these operating leases amounted to ₱24.8 million and ₱26.6 million as of December 31, 2017 and 2016, respectively. Rent income from stable rentals with horse owners in 2017 and 2016 amounted to ₱45.4 million and ₱46.4 million, respectively.

The Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.5 million in 2017 and 2016.

On January 1, 2017, the Company has a lease agreements with MCI for the use of its 136 stables with a fixed monthly payments which are subject to rental escalations, OTB terminals, cockpit arena located in Turf Club and production equipment to broadcast cockfighting events. The lease shall be for a period of one year which is subject for renewal.

Rent income from lease agreements with MCI in 2017 amounted to ₱27.0 million.

Operating Lease Commitment with Philippine Amusement and Gaming Corporation (PAGCOR) - the Company as Lessor

In 2013, the Company entered into a lease contract for three years commencing on July 10, 2013 with PAGCOR to lease an area of 189.231 square meters for a monthly fixed rental of ₱510.51 per square meter for its casino and related activities. As of December 31, 2017, the lease contract is still under renewal.

Rent income from PAGCOR amounted to ₱1.2 million in 2017 and 2016 (see Note 29).

Lease of Equipment with PAGCOR

In October 2013, the Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until December 31, 2016. As of December 31, 2017, the lease contract is still under renewal. In 2017 and 2016, income from the lease agreement with PAGCOR amounted to ₱20.5 million and ₱26.5 million, respectively (see Note 29).

Impairment

In 2017, due to continuous decline in revenues from club races, the Company assessed that its property and equipment used in its racing activities may be impaired as of December 31, 2017. These property and equipment related to the Company's racing activities have a carrying amount of ₱472.2 million as of December 31, 2017 prior to impairment assessment.

The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on a five year prospective financial information approved by management. Management determined that the key assumptions underlying the said prospective financial information are based on reasonable estimates after considering historical performance and its expectations on prospects and development within the forecast period.

The management assessed that the property and equipment have estimated recoverable value as measured by its value-in-use of ₱2.2 billion as of December 31, 2017. A significant portion of the value in use pertains to the estimated terminal value of the land where the property is situated, which currently has significant appraisal value due to enhancement of property prices from the development within the surrounding properties.

Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, working capital and capital expenditure.

Discount Rates

The discount rate used is the post-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas. Management assumed discount rates of 10.9 percent in 2017 for the impairment of property and equipment, the pre-tax equivalent of which is 11.1 percent. An increase of 76.01percent in the discount rates would give a value-in-use equal to the carrying amount of the cash generating units in 2017.

Revenues
Average growth rates in revenues are based on the Company's expectation of market developments and the changes in the environment in which it operates. The Company anticipated declining revenue of -2 percent to -3% within the forecast period, based on past historical performance as well as expectations on the operating results of the business. A further decline in revenues of more than 100 percent would give a value-in-use equal to the carrying amount of the cash generating units in 2017, primarily due to the land value of the property sufficient to absorb any potential operating losses within the forecast period.

Accordingly, the Company recognized no impairment loss during the year.

13. Investment Properties

This account consists of:

	2017	2016
Land:		
Sta. Cruz property held for capital appreciation	**₱359,631,580**	₱359,631,580
Sta. Cruz property held for lease	**238,168,692**	238,168,692
Carmona property (Note 15)	**109,750,785**	109,750,785
Undivided interest in a parcel of land in Batangas	**56,723,976**	56,723,976
	764,275,033	764,275,033
Building:		
Developed office units (Note 10)	**177,226,424**	187,651,508
Retail development area (Note 10)	**32,001,308**	34,002,849
	209,227,732	221,654,357
	₱973,502,765	₱985,929,390

The movements in the carrying amount of investment properties are shown below:

	2017		
	Land	**Building**	**Total**
Cost	**₱764,275,033**	**₱310,665,629**	**₱1,074,940,662**
Accumulated Depreciation			
Balance at beginning of year	**–**	**89,011,272**	**89,011,272**
Depreciation (Notes 17 and 19)	**–**	**12,426,625**	**12,426,625**
Balance at end of year	**–**	**101,437,897**	**101,437,897**
Net Book Value	**₱764,275,033**	**₱209,227,732**	**₱973,502,765**

	2016		
	Land	Building	Total
Cost	₱764,275,033	₱310,665,629	₱1,074,940,662
Accumulated Depreciation			
Balance at beginning of year	–	76,584,647	76,584,647
Depreciation (Notes 17 and 19)	–	12,426,625	12,426,625
Balance at end of year	–	89,011,272	89,011,272
Net Book Value	₱764,275,033	₱221,654,357	₱985,929,390

Depreciation amounting to ₱12.4 million for the period ended December 31, 2017 and 2016, are included as part of "Cost of rental services" (see Note 17). Direct operating expenses related to the investment properties amounted to ₱0.1 million in 2017 and 2016.

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 Econozone Developer/Operator shall entitle the 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 Company at the site of the former San Lazaro race track 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 Company and the PEZA signed the Registration Agreement to entitle the 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 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 business process outsourcing companies.

Under the JDA, the 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. As of December 31, 2017 and 2016, the Company's contribution to the JDA amounting to ₱310.7 million is presented as the cost of "Building" under "Investment properties" in the parent company statements of financial position.

On December 12, 2008, the 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 Company in return for its contribution for the construction and development of the said area. For the Company's contribution in the construction and development of the office building, the 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. In 2017 and 2016, rental income amounted to ₱15.6 million and ₱15.4 million, respectively.

Undepreciated capitalized interest relating to the Building Complex as of December 31, 2017 and 2016 amounted to ₱5.4 million and ₱5.7 million, respectively.

Fair Market Values

As of December 31, 2017, the aggregate fair value of the Company's investment properties amounted to ₱4.5 billion. Fair values of the Carmona property, Sta. Cruz properties and the building as of December 27, 2017 and January 3, 2018 have been determined based on valuation performed by independent professional appraisers using replacement cost approach method and market data approach method. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2017 from the most recent revaluations performed by independent appraisers. Investment property was classified as Level 3 in 2017 and 2016 as to the qualification of fair value hierarchy.

14. Other Noncurrent Assets

This account consists of:

	2017	2016
Deferred input VAT	**₱11,573,543**	₱9,290,729
Deposits	**9,238,898**	9,064,990
Franchise fee (Note 1)	**9,002,839**	10,796,839
Others	**236,428**	236,428
	₱30,051,708	₱29,388,986

Franchise Fee
Movements in the carrying amounts of franchise fee are shown below:

	2017	2016
Acquisition cost	**₱44,850,000**	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	**34,053,161**	32,259,161
Amortization for the year (Note 17)	**1,794,000**	1,794,000
Balance at end of year	**35,847,161**	34,053,161
	₱9,002,839	₱10,796,839

Franchise fee has remaining amortization period of 5 years as of December 31, 2017.

15. Short-term Loans and Borrowings

As of December 31, 2017 and 2016, outstanding balance of short-term loans and borrowings amounted to ₱234.0 million and ₱80.0 million, respectively. These loans bear average interest of 3.5% and 3.0% in 2017 and 2016, respectively. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

The movements in the short-term loans and borrowings are as follows:

	2017	2016
Balance at the beginning of year	**₱80,000,000**	₱39,000,000
Additions	**217,000,000**	88,000,000
Payment	**63,000,000**	47,000,000
Balance at end of year	**₱234,000,000**	₱80,000,000

In 2017 and 2016, the Company acquired new short-term loans amounting to ₱217.0 million and ₱88.0 million, respectively. Certain loans are secured by real estate mortgages on the land of Carmona property with carrying value of ₱216.0 million as of December 31, 2017 and 2016.

Short-term loans amounting to ₱63.0 million and ₱47.0 million were paid in 2017 and 2016, respectively.

Interest expense on short-term loans amounted to ₱5.5 million and ₱2.3 million in 2017 and 2016, respectively (see Note 23).

16. Accounts Payable and Other Liabilities

This account consists of:

	2017	2016
Due to RALI (Note 12)	**₱89,900,000**	₱89,900,000
Accounts payable	**76,789,470**	75,509,689
Cash bond on OTB operators	**28,520,754**	28,529,268
Documentary stamps payable	**23,338,521**	20,647,935
Accrued expenses	**13,244,691**	8,047,147
Unclaimed winnings (Note 29)	**11,481,515**	8,324,579
Due to concessionaires	**9,584,174**	9,579,415
Taxes on winnings	**7,557,851**	4,979,896
Due to contractors	**7,083,538**	7,083,538
VAT payable	**4,709,364**	2,272,339
Dividends payable (Note 27)	**4,180,958**	4,341,602
Trade payable and buyers' deposits	**4,081,924**	10,379,338
Telebet accounts payable	**2,080,691**	2,588,435
Due to OTB operators	**2,007,935**	1,808,509
Retention payable	**1,978,343**	1,960,343
Withholding taxes payable	**1,786,276**	1,569,217
Taxes on horse prize	**1,449,145**	949,292
Due to Dangerous Drug Board	**1,394,138**	783,832
Due to horse owners	**141,606**	1,378,580
Others	**13,135,986**	7,793,716
	₱304,446,880	₱288,426,670

Accounts payable are noninterest-bearing and are normally settled within the next financial year.

Accrued expenses include normal and recurring expenses incurred by the Company and will be utilized in the next financial year.

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

Cash bond on OTB operators, documentary stamps payable, unclaimed winnings, due to concessionaires, taxes on winnings, due to contractors, VAT payable, dividends payable, telebet payable, due to OTB operators, retention payable, withholding taxes payable, taxes on horse prize, and due to horse owners are payable within the next calendar year.

17. Cost of Sales and Services

Cost of club races consists of:

	2017	2016
Personnel costs (Note 20)	₱55,649,723	₱52,157,866
Depreciation (Notes 12 and 19)	39,825,103	39,173,091
Commission	18,859,744	19,374,126
Utilities	16,795,453	17,565,093
Software license	8,789,224	1,399,763
Prizes and winnings	7,084,174	529,786
Contracted services	4,979,643	4,850,812
Meetings and conferences	4,691,535	3,553,408
Rent (Note 29)	4,341,011	2,768,240
Transportation and travel	3,883,796	6,716,499
Repairs and maintenance	2,602,282	3,417,993
Security services	1,946,966	2,067,864
Supplies	1,806,245	1,426,712
Amortization of franchise fee (Note 14)	1,794,000	1,794,000
Gas, fuel and oil	1,275,783	1,820,590
Taxes and licenses	785,904	929,895
Semi-expendable equipment	487,514	257,473
Insurance	324,556	304,671
Others	5,378,497	7,283,137
	₱181,301,153	₱167,391,019

Cost of real estate sold amounted to ₱13.3 million and ₱12.4 million in 2017 and 2016, respectively (see Note 8).

Cost of rental services consists of:

	2017	2016
Depreciation (Notes 12, 13 and 19)	₱20,570,985	₱20,401,946
Utilities	11,027,316	9,767,528
Contracted services	4,344,281	4,410,255
Meetings and conferences	4,198,654	6,142,331
Personnel costs (Note 20)	3,614,998	3,183,738
Repairs and maintenance	3,575,558	1,939,274
Software license	2,832,000	–
Security services	1,517,397	1,703,955
Rent (Note 29)	1,504,958	2,619,677
Franchise tax – gaming	1,025,732	1,324,861
Travel and transportation	204,952	233,542
Others	1,844,827	1,813,400
	₱56,261,658	₱53,540,507

Cost of food and beverages consists of:

	2017	2016
Purchased stocks	**₱8,445,275**	₱6,067,167
Utilities	**4,798,198**	4,272,947
Contracted services	**4,084,970**	4,265,731
Personnel cost (Note 20)	**2,144,609**	1,465,083
Depreciation (Notes 12 and 19)	**427,694**	393,740
Semi-expendable equipment	**399,024**	118,880
Meetings and conferences	**321,104**	785,919
Communication	**103,098**	191,787
Supplies	**97,666**	223,124
Repairs and maintenance	**87,545**	118,835
Others	**1,062,969**	975,530
	₱21,972,152	₱18,878,743

Others include individually insignificant items.

18. General and Administrative Expenses

This account consists of:

	2017	2016
Personnel costs (Note 20)	**₱69,633,666**	₱66,025,987
Contracted services	**18,478,025**	13,707,990
Depreciation (Notes 12 and 19)	**15,708,102**	15,218,691
Provision for doubtful accounts (Note 7)	**13,849,311**	13,481,405
Utilities	**11,727,709**	10,931,069
Rent (Note 29)	**9,575,469**	7,902,892
Repairs and maintenance	**9,507,482**	8,677,080
Meetings and conferences	**9,388,638**	7,203,409
Professional fees	**9,009,531**	7,101,815
Security services	**5,960,691**	6,810,480
Gas, fuel and oil	**3,589,223**	4,215,366
Taxes and licenses	**2,518,790**	1,951,381
Entertainment, amusement and recreation	**2,104,547**	1,958,651
Transportation and travel	**1,531,902**	3,818,090
Supplies	**1,235,629**	1,415,916
Directors' fee	**1,211,500**	919,500
Trainings and programs	**1,147,428**	1,240,090
Membership dues	**1,018,461**	887,739
Insurance	**923,840**	950,881
Semi-expendable equipment	**804,325**	546,041
Advertising	**388,623**	439,916
Commission	**286,537**	348,344
Others	**9,363,526**	5,225,179
	₱198,962,955	₱180,977,912

19. Depreciation

This account consists of:

	2017	2016
Cost of club races (Notes 12 and 17)	**₱39,825,103**	₱39,173,091
Cost of rental services (Notes 12, 13 and 17)	**20,570,985**	20,401,946
General and administrative expenses (Notes 12 and 18)	**15,708,102**	15,218,691
Cost of food and beverages (Notes 12 and 17)	**427,694**	393,740
	₱76,531,884	₱75,187,468

20. Personnel Costs

This account consists of:

	2017	2016
Salaries and wages	**₱108,868,830**	₱101,785,737
Retirement benefits costs (Note 21)	**8,928,035**	9,129,671
Other employee benefits	**13,246,131**	11,917,266
	₱131,042,996	₱122,832,674

21. Retirement Benefits Costs

The Company has four 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, 2017.

The details of the retirement benefits costs are as follows:

	2017	2016
Current service costs	**₱6,670,572**	₱6,057,113
Interest costs - net of interest income	**2,257,463**	2,299,051
Past service costs - plan amendment	**–**	773,507
	₱8,928,035	₱9,129,671

The components of remeasurements in the parent company statements of comprehensive income are as follows:

	2017	2016
Actuarial gain in defined benefit obligation	**(₱4,708,466)**	(₱5,669,926)
Remeasurement loss (gain) in plan assets	**(297,228)**	2,080,391
	(5,005,694)	(3,589,535)
Less tax effect	**1,501,709**	1,076,860
	(₱3,503,985)	(₱2,512,675)

The details of accrued retirement benefits as of are as follows:

	2017	2016
Defined benefit obligation	₱85,248,923	₱82,671,995
Fair value of plan assets	(45,390,806)	(38,636,219)
	₱39,858,117	₱44,035,776

Movements in the accrued retirement benefits are as follows:

	2017	2016
Balance at beginning of year	₱44,035,776	₱38,982,230
Net retirement benefits costs for the year	8,928,035	9,129,671
Contributions for the year	(8,100,000)	(486,590)
Defined benefit income recognized in OCI	(5,005,694)	(3,589,535)
Balance at end of year	₱39,858,117	₱44,035,776

Changes in present value of defined benefit obligation are as follows:

	2017	2016
Defined benefit obligation at beginning of year	₱82,671,995	₱77,267,484
Current service costs	6,670,572	6,057,113
Interest costs	4,695,769	4,829,218
Past service cost	–	773,507
Actuarial loss (gain) due to:		
Change in financial assumptions	1,015,174	1,095,432
Experience adjustments	(5,455,464)	(6,703,680)
Change in demographic assumptions	(268,176)	(61,678)
Benefits paid	(4,080,947)	(585,401)
Defined benefit obligation at end of year	₱85,248,923	₱82,671,995

The movements in fair value of plan assets are as follows:

	2017	2016
Fair value of plan assets at beginning of year	₱38,636,219	₱38,285,254
Interest income	2,438,306	2,530,167
Contributions	8,100,000	486,590
Actuarial gain (loss)	297,228	(2,080,391)
Benefits paid	(4,080,947)	(585,401)
Fair value of plan assets at end of year	45,390,806	38,636,219
Actual return on plan assets	₱2,735,534	₱449,776

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.

The following table presents the carrying amounts and fair values of the combined assets of the plan less liabilities:

	2017	2016
Cash and cash equivalents	**₱25,077,637**	₱4,622,944
Investment in unit investment trust fund	**–**	13,101,924
Investment in government securities	**18,569,877**	19,079,491
Others	**2,215,321**	2,307,298
	45,862,835	39,111,657
Liabilities	**(472,029)**	(475,438)
	₱45,390,806	₱38,636,219

The plan assets' carrying amount approximates its fair value since these are either short-term in nature or mark-to-market. The plan assets consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bears interest rates ranging from 2.5% to 8.5% and have maturities from 2018 to 2031; and
- AFS financial assets consist of investments in government securities.

The carrying amounts of investments in government securities also approximate their fair values since they are mark-to-market.

- Other financial assets held by the plan are primarily accrued interest income on cash deposits and debt securities held by the plan; and
- Liabilities of the plan pertain to trust fee payable and retirement benefits payable.

The principal assumptions used in determining retirement benefits costs of the Company as of December 31 are as follows:

	2017	2016
Discount rates	**5.80%**	5.68%
Expected rate of salary increase		
Monthly employees	**4.00%**	3.50%
Race day employees	**4.00%**	4.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant. Established on historical data, the behavior in error of the standard deviation is within the range:

	Effect on Net Retirement Liability		
	Increase (decrease)	2017	2016
Discount rate	+1.00%	**(₱5,313,018)**	(₱4,693,511)
	-1.00%	**6,080,891**	5,326,282
Salary increase rate	+1.00%	**5,301,968**	5,079,249
	-1.00%	**(4,715,700)**	(4,571,443)

The weighted average duration of the defined benefit obligation as of December 31, 2017 and 2016 are 6.7 and 6.4 years, respectively.

Shown below are the expected future benefit payments as of December 31, 2017 and 2016, respectively:

	2017	2016
Less than 1 year	**₱20,730,931**	₱20,164,043
More than 1 year to 5 years	**30,271,783**	31,580,630
More than 5 years to 10 years	**49,105,500**	46,672,109
Over 10 years	**209,246,105**	161,982,592

22. Interest Income

Interest income related to:

	2017	2016
Real estate receivables (Note 7)	**₱9,929,750**	₱7,884,098
Receivable from third parties (Note 7)	**843,333**	2,087,197
Cash and cash equivalents (Note 6)	**711,574**	547,405
AFS financial assets (Note 11)	**566,667**	351,217
Advances and loans to officers and employees (Note 7)	**346,997**	616,727
	₱12,398,321	₱11,486,644

23. Finance Costs

Interest expense related to:

	2017	2016
Short-term loans (Note 15)	**₱5,549,249**	₱2,264,387
Bank charges and others	**240,464**	69,650
	₱5,789,713	₱2,334,037

24. Other Income - net

	2017	2016
Dividend income (Notes 10 and 26)	**₱40,634,507**	₱25,336,438
Management fees (Note 26)	**7,571,636**	-
Parking fees	**3,707,679**	3,258,631
Income from advertisement campaign	**2,681,166**	3,587,638
Entrance fees	**1,955,099**	1,186,724
Tenant's reimbursements	**1,388,753**	4,378,979
Dividend income from AFS financial assets (Note 11)	**392,750**	451,750
Income due to cancellations (Note 29)	**134,087**	2,773,254

(Forward)

	2017	2016
Gain on sale of property and equipment	**₱100,000**	₱467,712
Loss on receivable write-off (Note 7)	**(71,029)**	(496,128)
Foreign exchange loss - net (Note 31)	**(50,375)**	(191,722)
Impairment loss on AFS financial assets (Note 11)	**(50,000)**	(1,983,500)
Gain on reversal of provision for probable losses (Note 29)	**–**	13,135,947
Gain on sale of AFS financial assets (Note 11)	**–**	364,020
Others - net	**1,895,322**	660,788
	₱60,289,595	₱52,930,531

Income from advertising campaign pertains to advertising placement rights granted by the Company to third parties.

Tenant's reimbursements refer to the payment of utility charges by tenants of the Building Complex at Sta. Cruz, Manila which the Company records as income when collected, net of remittances to SLBPO.

Others include various individually insignificant items of income and expenses.

25. Income Tax

a. The components of the Company's net deferred tax liabilities are as follows:

	2017	2016
Deferred tax assets on:		
Accrued retirement benefits	**₱11,957,435**	₱13,210,733
Allowance for doubtful accounts	**10,820,722**	11,256,742
Advance rentals and non-refundable deposits	**2,875,252**	2,873,824
PAS 17 adjustment on rent expense	**2,191,375**	484,946
Unamortized past service cost	**2,020,448**	1,961,562
Unearned income	**597,322**	164,797
Provision for inventory write-down	**435,297**	435,297
Allowance for impairment on investment in associate	**300,000**	300,000
Impairment loss on AFS	**156,000**	141,000
PAS 17 adjustment on rent income	**110,362**	220,442
Unrealized foreign exchange loss - net	**15,113**	57,517
	31,479,326	31,106,860
Deferred tax liabilities on:		
Unrealized gain from real estate transactions	**(51,646,552)**	(57,828,697)
Undepreciated capitalized borrowing costs	**(11,409,991)**	(12,353,556)
Deferred tax liabilities on (recognized directly in OCI):		
Unrealized deemed cost adjustment on real estate properties*	**(186,943,479)**	(189,643,141)
	(250,000,022)	(259,825,394)
Net deferred tax liabilities	**(₱218,520,696)**	(₱228,718,534)

** Reversal of deferred tax liabilities is through profit or loss, except for investment properties (see Note 27).*

The provision for current tax consists of the following:

	2017	2016
Regular corporate income tax (RCIT)	**₱12,122,673**	₱9,559,639
Final tax on interest income	**253,935**	215,312
	₱12,376,608	₱9,774,951

b. The Company's net operating loss carry-over (NOLCO) on which DTA were recognized and which is available for deduction against future taxable income are as follows:

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2015	₱11,689,383	₱–	₱–	₱11,689,383	2018
2016	–	–	11,689,383	(11,689,383)	2019
	₱11,689,383	**₱–**	**₱11,689,383**	**₱–**	

c. The Company's minimum corporate income tax (MCIT) on which DTA were recognized and which can be applied against future income tax due are as follows:

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2015	₱3,952,823	₱–	₱–	₱3,952,823	2018
2016	–	–	3,952,823	(3,952,823)	2019
	₱3,952,823	**₱–**	**₱3,952,823**	**₱–**	

d. The reconciliation of the Company's provision for (benefit from) income tax at statutory tax rate to the provision for (benefit from) income tax shown in the parent company statements of comprehensive income is as follows:

	2017	2016
Benefit from income tax at statutory rate	**₱7,571,840**	₱9,083,543
Additions to (reductions in) income tax resulting from tax effects of:		
Nontaxable income	**(12,308,177)**	(7,703,598)
Nondeductible expenses	**5,541,222**	3,548,858
Interest income subjected to final tax	**(127,824)**	(89,862)
MCIT applied	**–**	3,952,823
Provision for (benefit from) income tax	**(₱677,061)**	₱8,791,764

26. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

a. Advances from/to subsidiaries, associate, special purpose entity (SPE) and stockholder:

		Amount		Receivable/(Payable)			
	Nature	2017	2016	2017	2016	Terms	Conditions
Subsidiaries:							
NVTL	Advances[1]	₱–	₱915,853	₱3,434,727	₱3,434,727	Non-interest bearing	Unsecured, no impairment
	Payable[11]	–	–	(2,570,715)	(2,570,715)	Non-interest bearing	Unsecured, unguaranteed
SLLPHI	Advances[1]	9,034	8,833	27,200	18,166	Non-interest bearing	Unsecured, no impairment
MFC	Advances[1]	–	102,500	–	102,500	Non-interest bearing	Unsecured, no impairment
	Payable	102,500	–	(102,500)	–	Non-interest bearing	Unsecured, unguaranteed
	Dollar purchases	14,567,052	25,748,401	–	–	Non-interest bearing	Unsecured, unguaranteed
Biohitech	Advances[1]	9,034	8,833	27,200	18,166	Non-interest bearing	Unsecured, no impairment
MCI	Advances[1]	19,387,308	11,631,394	5,952,189	25,339,497	Non-interest bearing	Unsecured, no impairment
	Payables[11]	4,363,248	6,266,288	(10,772,639)	(6,409,391)	Non-interest bearing	Unsecured, unguaranteed
	Receivables[1]	26,986,529	–	20,581,136	–	Non-interest bearing	Unsecured, no impairment
	Dividend income	22,500,000	–	22,500,000	–	Non-interest bearing	Unsecured, no impairment
Gametime	Advances[1]	3,347,987	13,682,052	6,376,955	20,968,171	Non-interest bearing	Unsecured, no impairment
	Share in expenses[11]	1,094,576	1,285,713	(1,453,779)	(1,285,713)	Non-interest bearing	Unsecured, unguaranteed
	Service fee[11]	7,577,787	–	(8,217,078)	–	Non-interest bearing	Unsecured, unguaranteed
	Management fees[1]	7,571,636	–	8,480,232	–	Non-interest bearing	Unsecured, no impairment
	Wagers[1]	2,196,699	382,494	1,750,630	382,494	Non-interest bearing	Unsecured, no impairment
	Receivables[1]	6,360	35,750	42,110	35,750	Non-interest bearing	Unsecured, no impairment
Hi-tech	Advances[1]	–	–	208,795	208,795	Non-interest bearing	Unsecured, no impairment
Apo Reef World Resorts Inc.	Advances[1]	–	1,450,421	1,450,421	1,450,421	Non-interest bearing	Unsecured, no impairment
Associates:		–					
Techsystems	Advances[1]	9,034	8,833	27,200	18,166	Non-interest bearing	Unsecured, no impairment
MIC	Advances[1]	1,161	873,851	4,982,104	4,980,943	Non-interest bearing	Unsecured, no impairment
Affiliate:							
Arco Management and Development Corporation (AMDC)	Lease of office space	11,780,227	11,431,401	–	–	Non-interest bearing	Unsecured, no impairment

(1) Included in the "Receivables" account (see Note 7).

(11) Included in the "Due to related parties" account in the parent company statements of financial position.

b. Compensation of key management personnel of the Company amounted to ₱66.0 million and ₱62.2 million in 2017 and 2016, respectively. The Company has no standard arrangement with regard to the remuneration of its directors. In 2017 and 2016, the BOD received a total of ₱9.8 million. Advances and loans to officers and employees amounted to ₱13.0 million and ₱8.4 million as of December 31, 2017 and 2016, respectively (see Note 7).

27. Equity

Capital Stock
The details of the Company's capital stock as of December 31, 2017 and 2016 are as follows:

	Number of Shares	Amount
Common shares - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued and outstanding (held by 970 and 981 equity holders in 2017 and 2016, respectively)	996,170,748	₱996,170,748
	996,170,748	₱996,170,748

Retained Earnings
In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 and 2016 amounted to ₱1.1 billion.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury and deemed cost adjustment totalling ₱436.2 million and ₱442.5 million as of December 31, 2017 and December 31, 2016, respectively.

The components of the deemed cost adjustment are as follows:

	2017	2016
Real estate inventories	₱57,070,919	₱66,069,794
Investment properties	566,074,010	566,074,010
Revaluation increment	623,144,929	632,143,804
Deferred income tax liability	(186,943,479)	(189,643,141)
Deemed cost adjustment	₱436,201,450	₱442,500,663

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

On April 12, 2018, the BOD of the Company approved the appropriations of the following:

- declaration of cash dividends of ₱0.05 per share or ₱49.8 million;
- payment for the subscription to Stock Rights Offering of its affiliate, MIC, amounting to ₱201.8 million; and
- payment for the subscription to the increase in the authorized capital stock of its subsidiary, MCI, amounting to ₱30.6 million.

Declaration of Dividends
The following are the details of dividends declared in 2017 and 2016:

Type of dividend	Date of Declaration	Date of Record	Dividends per share
Cash	**June 30, 2017**	**July 18, 2017**	**₱0.05**
	June 30, 2016	June 10, 2016	₱0.05

As of December 31, 2017 and 2016, outstanding dividends payable amounted to ₱4.2 million and ₱4.3 million, respectively (see Note 16).

28. Operating Segment Information

The Company's operating businesses are recognized and managed separately according to the nature of the products and services provided. The Company's four reportable operating segments are the operation and maintenance of race tracks and holding of horse races, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Company does not have any major customers.

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 Company financial statements.

As of December 31, 2017 and 2016, the Company has no transactions between reportable segments. The Company 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 Company's total comprehensive income.

The Company'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 for the years ended December 31 are as follows:

	2017					
	Club Races	**Real Estate**	**Rent**	**Food and Beverage**	**Unallocated**	**Total**
Segment revenue	**₱186,133,893**	**₱122,882,258**	**₱110,206,085**	**₱22,962,647**	**₱–**	**₱442,184,883**
Costs and expenses	**(181,301,153)**	**(15,415,951)**	**(33,030,719)**	**(21,972,152)**	**(165,225,441)**	**(416,945,416)**
Income (loss) before income tax	**4,832,740**	**107,466,307**	**77,175,366**	**990,495**	**(165,225,441)**	**25,239,467**
Provision for income tax	**–**	**–**	**–**	**–**	**(677,061)**	**(677,061)**
Net income (loss)	**₱4,832,740**	**₱107,466,307**	**₱77,175,366**	**₱990,495**	**(₱165,902,502)**	**₱24,562,406**

	2016					
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱188,544,440	₱121,705,673	₱115,327,900	₱18,711,377	₱31,196,639	₱475,486,029
Costs and expenses	(167,391,019)	(22,085,335)	(53,540,507)	(18,878,743)	(183,311,949)	(445,207,553)
Income (loss) before income tax	21,153,421	99,620,338	61,787,393	(167,366)	(152,115,310)	30,278,476
Provision for income tax	–	–	–	–	(8,791,764)	(8,791,764)
Net income (loss)	₱21,153,421	₱99,620,338	₱61,787,393	(₱167,366)	(₱160,907,074)	₱21,486,712

Finance costs, other income-net 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 in 2017 and 2016.

Segment Assets and Liabilities and Other Information
The segment assets and liabilities as of December 31, 2017 and 2016 and capital expenditures for the years then ended are as follows:

	2017					
	Club Races	**Real Estate**	**Rent**	**Food and Beverage**	**Unallocated**	**Total**
Assets	**₱795,202,198**	**₱308,704,848**	**₱502,006,516**	**₱8,382,429**	**₱1,817,391,932**	**₱3,431,687,923**
Liabilities	**(71,465,984)**	**(236,881,780)**	**(73,837,911)**	**–**	**(486,154,229)**	**(868,339,904)**
Capital expenditures	**10,819,478**	**–**	**–**	**212,973**	**14,368,119**	**25,400,570**
Depreciation	**39,825,103**	**–**	**20,570,985**	**427,694**	**15,708,102**	**76,531,884**

	2016					
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱894,309,981	₱341,055,237	₱526,905,927	₱5,072,262	₱1,529,205,553	₱3,296,548,960
Liabilities	64,299,449	257,274,879	75,095,428	–	314,777,043	711,446,799
Capital expenditures	6,201,624	–	2,011,254	–	12,392,977	20,605,855
Depreciation	39,173,091	–	20,401,946	393,740	15,218,691	75,187,468

29. Commitments and Contingencies

Commitments

The following are the significant commitments of the Company:

a. Operating Lease Commitment - the Company as Lessee

On January 1, 2008, the Company renewed its lease agreement with AMDC, an affiliate under common conrol, 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 5.0%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the Company renewed its lease agreement with AMDC on February 5, 2013 with a monthly rate of ₱427,550, subject to an annual escalation rate of 5.0%, and will expire in December 31, 2017. As of December 31, 2017, the lease contract is still under renewal.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2017	2016
Within one year	**₱–**	₱6,236,274
After one year but not more than five years	**–**	–
	₱–	₱6,236,274

On January 1, 2011, the Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2017 is ₱316,473, subject to an annual escalation rate of 5.0%.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2017	2016
Within one year	**₱3,987,564**	₱3,797,680
After one year but not more than five years	**8,583,233**	12,570,797
	₱12,570,797	₱16,368,477

b. Operating Lease Commitment with PAGCOR - the Company as Lessor

In 2013, the Company entered into a lease contract for three years commencing on July 10, 2013 with PAGCOR to lease an area of 189.231 square meters for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. As of December 31, 2017, the lease contract is still under renewal.

Rent income from PAGCOR amounted to ₱1.2 million in 2017 and 2016.

c. In October 2013, the Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until June 30, 2016. As of December 31, 2017, the lease contract is still under renewal. In 2017 and 2016, income from the lease agreement with PAGCOR amounted to ₱20.5 million and ₱26.5 million, respectively.

d. Claims and Legal Actions

As of December 31, 2017 and 2016, there are pending claims and legal actions against or in favor of the 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 Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Company and any liability or loss arising therefrom would be taken up when the final resolution of the claims and actions are determined.

Contingencies:

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

The Company disputed the legality of PR58D in its letters to PHILRACOM dated June 14, 2012 and July 13, 2012. The 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 Company likewise contended that unclaimed dividends are private funds as these funds are not included in the amounts that are supposed to be remitted to or held by the Company for the government under its charter.

Furthermore, a *Notice* appears in the dorsal portion of the Company's betting tickets which state that winning tickets must be claimed within thirty days from date of purchase, otherwise, the prize shall be forfeited in favor of the Company. This provision is a valid agreement between the 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 Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of April 20, 2018 the status is still pending before the Supreme Court.

30. Financial Instruments

The following tables present the fair value hierarchy of the Company's AFS financial assets, loans and borrowings, and investment properties:

	2017				
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱34,566,042	₱34,566,042	₱34,566,042	₱–	₱–
Loans and borrowings	234,000,000	234,000,000	–	–	234,000,000
Investment properties	973,502,765	973,502,765	–	–	973,502,765
	₱1,242,068,807	₱1,242,068,807	₱34,566,042	₱–	₱1,207,502,765

	2016				
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱12,628,515	₱12,628,515	₱12,628,515	₱–	₱–
Loans and borrowings	80,000,000	80,000,000	–	–	80,000,000
Investment properties	985,929,390	985,929,390	–	–	985,929,390
	₱1,078,557,905	₱1,078,557,905	₱12,628,515	₱–	₱1,065,929,390

As of December 31, 2017 and 2016, the Company's AFS financial assets measured at fair value under the Level 1 hierarchy totaled ₱34.6 million and ₱12.6 million, respectively. There were no financial instruments measured at fair value under the Level 2 and Level 3 hierarchy.

Unquoted AFS shares amounted to ₱0.6 million as of December 31, 2017 and 2016. Carrying amount of these shares is equal to its fair value as at December 31, 2017 and 2016, respectively. In 2017 and 2016, the carrying value of cash and cash equivalents (except cash on hand), receivables, deposits, accounts payable and other liabilities (except statutory liabilities) and due to related parties approximate their fair value due to the short-term nature of the accounts.

31. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise cash and cash equivalents except cash on hand, receivables, AFS financial assets, deposits, accounts payable and other liabilities, interest-bearing loans and borrowings, due to related parties and subscription payable. The main purpose of these financial instruments is to finance the Company'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 Company'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 Company has no exposure to the risk of changes in market interest rate because the Company's interest-bearing loans and borrowings carry fixed interest rates (see Note 15).

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 Company is exposed to equity price risk because of quoted equity investments held by the Company, which are classified in the parent company statements of financial position as AFS financial assets.

The following table demonstrates the sensitivity of the Company's equity to a reasonably possible change in the PSE index (PSEi), with all other variables held constant, for the years ended December 31, 2017 and 2016:

	Increase (decrease) in PSEi	Effect on equity
2017	**+14%**	**₱4,839,246**
	-14%	**(4,839,246)**
2016	+14%	1,767,992
	-14%	(1,767,992)

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

The Company's foreign currency risk relates to its foreign currency-denominated cash in banks. To manage this risk, management closely monitors the movements in exchange rates and regularly assesses future foreign exchange rate movements.

The Company's outstanding foreign currency-denominated financial asset pertaining to cash in banks as of December 31 and its Peso equivalent are as follows:

	United States (US) Dollar	Philippine Peso
2017	**US$1,642**	**₱82,007**
2016	3,636	180,770

As of December 31, 2017 and 2016, the applicable closing exchange rates were ₱49.93 and ₱49.72 to US$1, respectively. Net foreign exchange loss amounted to ₱50,375 and ₱191,722 in 2017 and 2016, respectively (see Note 24).

The sensitivity of the Company'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 years ended December 31, 2017 and 2016.

Credit risk
Credit risk arises because the counterparty may fail to discharge its contractual obligations. The Company 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 Company's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentrations of credit risk. There is no significant concentration of credit risk in the Company.

The table below shows the maximum exposure to credit risk of the Company as of December 31, 2017 and 2016.

	2017	2016
Loans and receivables:		
Cash and cash equivalents:		
Cash in banks	₱126,229,745	₱95,851,240
Cash equivalents	–	24,166,563
	126,229,745	120,017,803
Receivables:		
Real estate receivables*	201,620,173	221,882,204
Due from related parties	53,340,899	56,957,796
Dividends receivable	25,876,407	5,772,409
Rent receivables - net	13,320,614	15,788,500
Advances and loans to officers and employees	12,973,854	8,368,465
Advances to suppliers	7,828,596	3,726,582
Receivable from third parties	6,050,000	15,252,500
Receivables from OTB operators	373,110	9,131,135
Others	7,340,120	850,048
	328,723,773	337,729,639
Deposits**	3,375,580	3,375,580
AFS financial assets	35,199,339	13,261,812
	₱493,528,437	₱474,384,834

**Inclusive of noncurrent real estate receivables*
*** Included in "Other noncurrent assets" in the parent company statements of financial position*

The tables below show the credit quality of financial assets as of December 31.

	2017			
	Standard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents				
Cash in banks	₱126,229,745	₱–	₱–	₱126,229,745
Cash equivalents	–	–	–	–
	126,229,745	–	–	126,229,745
Receivables				
Real estate receivables	201,620,173	–	21,888,371	223,508,544
Due from related parties	53,340,899	–	–	53,340,899
Dividends receivable	25,876,407	–	–	25,876,407
Rent receivables	13,320,614	–	1,664,043	14,984,657
Advances and loans to officers and employees	12,973,854	–	–	12,973,854
Advances to suppliers	7,828,596	–	5,304,547	13,133,143
Receivable from third parties	6,050,000	–	1,083,880	7,133,880

(Forward)

	2017			
	Standard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Deposits and advances to contractors	–	–	1,778,413	1,778,413
Receivables from OTB operators	373,110	–	468,356	841,466
Others	7,340,120	–	3,881,462	11,221,582
	328,723,773	–	36,069,072	364,792,845
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	35,199,339	–	–	35,199,339
	₱493,528,437	₱–	₱36,069,072	₱529,597,509

* *Included in "Other noncurrent assets" account in the parent company statements of financial position.*

	2016			
	Standard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents				
Cash in banks	₱95,851,240	₱–	₱–	₱95,851,240
Cash equivalents	24,166,563	–	–	24,166,563
	120,017,803	–	–	120,017,803
Receivables				
Real estate receivables	221,882,204	–	22,729,886	244,612,090
Due from related parties	56,957,796	–	–	56,957,796
Rent receivables	15,788,500	–	1,523,437	17,311,937
Receivable from third parties	15,252,500	–	–	15,252,500
Receivables from OTB operators	9,131,135	–	133,304	9,264,439
(Forward)				
Advances and loans to officers and employees	₱8,368,465	₱–	₱–	₱8,368,465
Dividends receivable	5,772,409	–	–	5,772,409
Advances to suppliers	3,726,582	–	5,304,547	9,031,129
Claims for TCC	–	–	2,252,054	2,252,054
Deposits and advances to contractors	–	–	1,778,413	1,778,413
Others	850,048	–	3,800,831	4,650,879
	337,729,639	–	37,522,472	375,252,111
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	13,261,812	–	–	13,261,812
	₱474,384,834	₱–	₱37,522,472	₱511,907,306

**Included in "Other noncurrent assets" account in the parent company statements of financial position.*

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

Financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's BOD on an annual basis, and may be updated throughout the year subject to approval of the Company's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Receivables
Credit risk from receivables is managed by the Company through an established policy, procedures and control relating to credit risk management of receivables from customers, OTB operators, lessees, related parties and other counterparties.

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5.0% of the total receivables.

These receivables have no history of significant default or delinquency in collections but have a reasonable probability of non-collectability. Past due but not impaired loans and receivables amounted to nil as of December 31, 2017 and 2016.

Liquidity risk
The Company monitors and maintains a certain level of cash and cash equivalents to finance the Company's operation, ensure continuity of funding and to mitigate the effect of fluctuations in cash flows. It maintains a balance between continuity of funding and flexibility by regularly evaluating its projected and actual cash flows through the use of bank loans and extension of suppliers' credit terms. The Company maximizes the net cash inflows from operations to finance its working capital requirements.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments (principal and interest) and the profile of the financial assets used to manage the Company's liquidity risk.

December 31, 2017

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short term loans and borrowings*	₱242,190,000	₱–	₱–	₱–	₱242,190,000
Accounts payable and other liabilities**	282,965,118	–	–	–	282,965,118
Due to related parties	23,014,211	–	–	–	23,014,211
	₱548,169,329	₱–	₱–	₱–	₱548,169,329

**Amounts are inclusive of interest amounting to ₱8.2 million for December 31, 2017.*
***Amounts are exclusive of nonfinancial liabilities amounting to ₱68.9 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	Total
Loans and receivables:				
Cash in banks	₱126,229,745	₱–	₱–	₱126,229,745
Cash equivalents	–	–	–	–
Receivables	328,723,773	–	–	328,723,773
Deposits*	–	–	3,375,580	3,375,580
	454,953,518	–	3,375,580	458,329,098
AFS financial assets	34,566,042	–	–	34,566,042
	₱489,519,560	₱–	₱3,375,580	₱492,895,140

Included in "Other noncurrent assets" in the parent company statements of financial position

December 31, 2016

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short term loans and borrowings*	₱82,400,000	₱–	₱–	₱–	₱82,400,000
Accounts payable and other liabilities**	296,760,469	–	–	–	296,760,469
Due to related parties	10,265,819	–	–	–	10,265,819
	₱389,426,288	₱–	₱–	₱–	₱389,426,288

Amounts are inclusive of interest amounting to ₱1.4 million.
***Amounts are exclusive of nonfinancial liabilities amounting to ₱51.7 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	Total
Loans and receivables:				
Cash in banks	₱95,851,240	₱–	₱–	₱95,851,240
Cash equivalents	24,166,563	–	–	24,166,563
Receivables	337,729,639	–	–	337,729,639
Deposits*	–	–	3,375,580	3,375,580
	457,747,442	–	3,375,580	461,123,022
AFS financial assets	12,628,515	–	–	12,628,515
	₱470,375,957	₱–	₱3,375,580	₱473,751,537

Included in "Other noncurrent assets" in the parent company statements of financial position.

Changes in liabilities arising from financing activities

	December 31, 2016	Cash flows	Interest Expense	Dividends declared	December 31, 2017
Short term loans and borrowings (Note 15)	₱80,000,000	₱154,000,000	₱–	₱–	₱234,000,000
Dividends payable (Note 16)	4,341,602	(49,968,704)	–	49,808,060	4,180,958
Subscription payable	60,000,000	(11,500,000)	–	–	48,500,000
Interest payable	–	(5,789,713)	5,789,713	–	–
Total liabilities from financing activities	₱144,341,602	₱86,741,583	₱5,789,713	₱49,808,060	₱286,680,958

32. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The Company 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 Company 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 Company:

	2017	2016
Capital stock	**₱996,170,748**	₱996,170,748
Net cumulative changes in fair values of AFS financial assets	**4,950,148**	4,962,621
Remeasurement on retirement benefits	**27,637,707**	24,133,722
Retained earnings	**1,534,596,512**	1,559,842,166
Treasury shares	**(7,096)**	(7,096)
	₱2,563,348,019	₱2,585,102,161

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

33. Basic/Diluted EPS

Basic/diluted EPS were computed as follows:

	2017	2016
Net income	**₱24,562,406**	₱21,486,712
Divided by weighted average number of outstanding common shares	**996,170,748**	996,170,748
Basic/diluted earnings per share	**₱0.0247**	₱0.0216

The Company does not have potential dilutive common shares as of December 31, 2017 and 2016. Therefore, the basic and diluted earnings per share are the same as of those dates.

Weighted average number of outstanding common shares is restated to reflect the effect of stock dividends declared in 2014 (see Note 27).

34. Other Matters

On April 4, 2014, a MOA was executed between the Company and the Philippine Football Federation, Inc. ("PFF") to jointly develop a football complex on a portion of Company's SLLBP in Carmona, Cavite. This is in consonance with the Company's over-all plan to develop SLLBP into a leisure, gaming and entertainment hub.

The football complex shall consist of a pitch of Federacion Internationale de Football Association ("FIFA") two star international standards, a training center and other football support facilities. It is envisioned to be the site of national and international matches and friendlies sanctioned by the 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 the Philippine Olympic Committee.

35. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2017.

a. Details of the Company's gross receipts, output VAT and input VAT accounts are as follows:

	Gross Receipts	Output VAT
Taxable sales	₱341,214,032	₱40,945,684
Sales to government	171,354	20,562
Zero - rated sales	28,327,514	–
Exempt sales	66,770,940	–
	₱436,483,840	₱40,966,246

The amount of VAT input taxes claimed are broken down as follows:

Balance at the beginning of the year	₱1,183,059
Current year's purchases:	
Domestic purchases of services	15,215,761
Domestic purchases of goods other than capital goods not subject to amortization	5,440,092
Importation of goods other than capital goods	70,822
Services rendered by non-residents	1,068,470
Purchase of capital goods exceeding ₱1.0 million	602,649
Purchase of capital goods not exceeding ₱1.0 million	833,073
Input tax used for the year	(22,858,180)
Balance at the end of the year	₱1,555,746

b. In 2017, the Company paid VAT amounting to ₱15,671,042 including 2016 VAT payable of ₱2,272,339.

c. Documentary stamp taxes (DST) paid/accrued by the Company are shown below:

	2017
Loan instruments	₱1,000,568
Sale for races	270,000,945
	₱271,001,513

The ₱270.0 million includes accrual of ₱23.2 million for December 31, 2017.

d. Other taxes and licenses:

National:	
BIR annual registration	₱24,655
Local:	
Mayor's permit	890,654
Racing permit	385,315
Barangay clearance	14,215
Community tax certificate	10,500
Sanitary permit	4,500
Annual inspection fee	530
Others:	
DST on bank loan renewal	1,000,568
Annual listing fee (SEC)	258,000
Annual license	224,912
PHILRACOM & GAB licenses	149,421
Registration of vehicles	51,926
Real property tax	46,589
Annual water charges	10,022
Others	264,274
	₱3,336,081

e. The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation	₱11,261,603
Expanded withholding taxes	7,948,819
Final withholding income tax	3,716,498
Value-added tax and other percentage tax	1,134,288
Fringe benefit tax	329,977
	₱24,391,185

ANNEX "B"

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	0	0	0	0	0	8	0	3	

COMPANY NAME

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

San Lazaro Leisure Park, Brgy. Lantic, Carmona, Cavite

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
admin@manilajockey.com	(632) 687-9889	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
970	06/30	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Nestor N. Ubalde	nestorubalde@yahoo.com	914-4758	09175576284

CONTACT PERSON's ADDRESS

14th Flr. Strata 100 Bldg., F. Ortigas Jr. Road, Ortigas Center, Pasig City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

MANILA JOCKEY CLUB, INC.

RACING SINCE 1867

April20, 2018

APR 27 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **MANILA JOCKEY CLUB, INC.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of **December 31, 2017 and 2016** and for the years ended **December 31, 2017, 2016 and 2015**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to the going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Alfonso R. Reyno, Jr. Chairman and CEO	**Alfonso G. Reyno III** President and COO	**Nestor N. Ubalde** Chief Finance Officer

SUBSCRIBED AND SWORN to before me this ____ day of 25 APR 2018 affiants personally appeared before me, exhibiting to me their respective government issued identification cards with photographs as follows:

NAMES	PASSPORT / DRIVER'S LICENSE /PRC NO.	DATE OF ISSUE	PLACE OF ISSUE
Alfonso R. Reyno, Jr.	P4293732A	Sept 7, 2017	DFA Manila
Alfonso G. Reyno III	P1394618A	Dec 27, 2016	DFA Manila
Nestor N. Ubalde	PRC 0047108	May 23, 2016	Manila

CHINO PAOLO Z. ROXAS
NOTARY PUBLIC
APPOINTMENT NO. 138 (2017-2018)
UNTIL DECEMBER 31, 2018
PTR NO. [illegible] PASIG CITY
IBP NO. [illegible] MAKATI CITY
CITIES OF PASIG, SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 57018

Doc. No. 220
Page No. 45
Book No. VI
Series of 2018.

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Jockey Club, Inc.
San Lazaro Leisure Park
Brgy. Lantic, Carmona, Cavite

Opinion

We have audited the consolidated financial statements of Manila Jockey Club, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Investment in a Significant Associate

The Group has an investment in MJC Investments Corporation (MIC) that is accounted for under the equity method. As of December 31, 2017, the Group's investment in MIC amounted to ₱2.0 billion, representing 41.7% of the total consolidated assets. For the year ended December 31, 2017, the Group's equity in the net loss of MIC amounted to ₱174.2 million. As discussed in Note 10 to the consolidated financial statements, MIC was granted a Permit to Operate by PAGCOR for the establishment, maintenance and operation of PAGCOR San Lazaro within the San Lazaro Tourism and Business Park in Sta. Cruz, Manila. The Permit to Operate shall be for a period of fifteen (15) years commencing the date of actual operation of PAGCOR San Lazaro. The same agreement provides PAGCOR an exclusive and direct control to supervise and manage PAGCOR San Lazaro's casino operation, on account of PAGCOR's expertise, experience and competence in gaming operations.

We considered this as a key audit matter because the commencement of the permit to operate requires management to exercise significant judgment in determining the accounting treatment and such accounting treatment affects the Group's equity in the net loss of MIC.

Audit Response

We reviewed and evaluated the accounting treatment based on the underlying relevant documents and applicable accounting standards. We also obtained an understanding of the associate's business transactions and reviewed the process in recognizing the Group's equity in net loss of MIC. We also recomputed the Group's equity in net loss of MIC.

Assessment of Impairment of Property and Equipment

Under PFRS, the Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exist, the Group estimates the assets' recoverable amount, which is the value higher between the cash generating unit's fair value less cost to sell or value in use. In 2017, due to continuous decline in revenues from club races, the Group performed impairment testing on its property and equipment. The value in use included a terminal value based on appraisal performed by an independent appraiser. This impairment test is significant to our audit because the property and equipment related to the Group's racing activities is material to the consolidated financial statements. In addition, management's assessment process is highly judgmental and involves significant estimation based on assumptions, specifically the forecasted revenue growth and weighted average cost of capital, which are affected by expected future market or economic conditions. Also, the calculation made by the independent appraiser depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales prices based on internal and external factors.

The Group's policy on impairment assessment are disclosed in Note 4 to the consolidated financial statements while the carrying values of property and equipment are included in Note 12 to the consolidated financial statements.

Audit Response

We involved our internal specialist to assist us in evaluating the assumptions and methodologies used by the Group in its value-in-use calculation. These assumptions include the forecasted revenue growth, weighted average cost of capital and the fair value of the property in determination of the terminal value.

We reviewed the basis and assumptions for estimates of free cash flows, in particular those relating to the forecasted revenue growth, which we compared against historical performance of the cash-generating unit, available comparable market data in the country where it is situated, regionally and worldwide. We tested the parameters used in the determination of the discount rate against market data. We assessed the competence and objectivity of the appraiser by reference to their qualification, experience and reporting responsibilities. We also involved our internal specialist in the review of the methodology and assumptions used in the appraisal. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listing of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price.

We also focused on the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of the property and equipment.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17A for the year ended December 31, 2017 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20 IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2017, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 27 2018 TSIS
RECEIVED
MA. CHRISTINA L. CASTILLO

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Adeline D. Lumbres.

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2016, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621279, January 9, 2018, Makati City

April 20, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
Date APR 27 2018
RECEIVED

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱225,600,519**	₱171,837,642
Receivables (Note 7)	**217,376,219**	188,435,626
Inventories (Note 8)	**71,249,177**	83,933,984
Other current assets (Note 9)	**11,492,232**	11,252,575
Total Current Assets	**525,718,147**	455,459,827
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	**51,153,362**	108,575,994
Investments in and advances to associates and joint ventures (Note 10)	**2,204,296,039**	2,205,395,607
Available-for-sale (AFS) financial assets (Note 11)	**35,199,339**	13,261,812
Property and equipment (Notes 12 and 30)	**880,606,916**	920,939,075
Investment properties (Notes 10, 13, 15 and 30)	**1,097,375,496**	1,099,639,271
Deferred tax assets - net (Note 25)	**1,560,435**	–
Other noncurrent assets (Notes 1 and 14)	**30,051,708**	29,388,986
Total Noncurrent Assets	**4,300,243,295**	4,377,200,745
	₱4,825,961,442	₱4,832,660,572
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 15)	**₱234,000,000**	₱90,000,000
Accounts payable and other liabilities (Note 16)	**342,041,930**	312,387,628
Income tax payable	**711,292**	572,086
Due to related parties (Note 26)	**14,734,481**	14,734,481
Total Current Liabilities	**591,487,703**	417,694,195
Noncurrent Liabilities		
Accrued retirement benefits (Note 21)	**39,858,117**	44,035,776
Deferred tax liabilities - net (Note 25)	**218,473,818**	228,672,946
Total Noncurrent Liabilities	**258,331,935**	272,708,722
	849,819,638	690,402,917
Equity		
Capital stock (Note 27)	**996,170,748**	996,170,748
Additional paid-in capital	**27,594,539**	27,594,539
Actuarial gains on accrued retirement benefits (Note 21)	**27,637,707**	24,133,722
Net cumulative changes in fair values of AFS financial assets (Note 11)	**4,950,148**	4,962,621
Retained earnings (Note 27)	**2,854,097,244**	3,023,263,901
Treasury shares (Note 27)	**(7,096)**	(7,096)
Equity attributable to equity holders of the parent company	**3,910,443,290**	4,076,118,435
Noncontrolling interests (Note 1)	**65,698,514**	66,139,220
Total Equity	**3,976,141,804**	4,142,257,655
	₱4,825,961,442	₱4,832,660,572

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Club races	**₱186,133,893**	₱188,544,440	₱199,811,373
Cockfighting	**332,720,611**	120,386,418	422,065
Real estate	**122,882,258**	113,821,575	46,567,719
Rent (Notes 12 and 13)	**83,510,985**	89,991,462	87,163,618
Food and beverages	**18,279,403**	16,179,911	18,972,040
Others	**12,552,818**	6,293,366	18,397,073
	756,079,968	535,217,172	371,333,888
COST OF SALES AND SERVICES (Note 17)			
Club races	**176,748,807**	170,087,781	175,111,876
Cockfighting	**219,540,390**	84,290,876	3,843,988
Real estate (Note 8)	**13,273,169**	12,409,471	1,008,078
Rent	**58,686,527**	59,134,068	62,600,842
Food and beverages	**17,294,587**	18,878,743	19,324,889
Others	**12,460,838**	6,233,686	18,296,866
	498,004,318	351,034,625	280,186,539
GROSS INCOME	**258,075,650**	184,182,547	91,147,349
General and administrative expenses (Note 18)	**(234,115,796)**	(208,834,259)	(188,535,895)
Selling expense (Note 8)	**(12,072,532)**	(9,675,864)	(4,446,269)
Interest income (Notes 6, 7, 11 and 22)	**12,574,451**	11,520,608	5,143,074
Finance costs (Notes 15 and 23)	**(6,096,804)**	(2,442,332)	(2,385,464)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**(135,219,490)**	(70,529,999)	12,478,009
Other income - net (Note 24)	**8,367,127**	27,906,430	28,176,692
LOSS BEFORE INCOME TAX	**(108,487,394)**	(67,872,869)	(58,422,504)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	**24,573,178**	10,569,906	4,366,275
Deferred	**(13,261,272)**	(982,473)	(17,729,105)
	11,311,906	9,587,433	(13,362,830)
NET LOSS	**(119,799,300)**	(77,460,302)	(45,059,674)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net changes in fair values of AFS financial assets (Note 11)	**(12,473)**	1,039,407	(1,293,092)
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains on remeasurement of retirement benefits, net of tax (Note 21)	**3,503,985**	2,512,675	476,575
TOTAL COMPREHENSIVE LOSS	**(₱116,307,788)**	(₱73,908,220)	(₱45,876,191)
Net income (loss) attributable to:			
Equity holders of the parent company	**(₱119,358,594)**	(₱77,077,258)	(₱45,721,993)
Noncontrolling interests	**(440,706)**	(383,044)	662,319
	(₱119,799,300)	(₱77,460,302)	(₱45,059,674)
Total comprehensive income (loss) attributable to:			
Equity holders of the parent company	**(₱115,867,082)**	(₱73,525,176)	(₱46,538,510)
Noncontrolling interests	**(440,706)**	(383,044)	662,319
	(₱116,307,788)	(₱73,908,220)	(₱45,876,191)
Basic/Diluted Loss Per Share (Note 28)	**(₱0.1198)**	(₱0.0774)	(₱0.0459)

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock (Note 27)	Additional Paid-in Capital	Actuarial Gains on Accrued Retirement Benefits (Note 21)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 11)	Retained Earnings (Note 27)	Treasury Shares (Note 27)	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2016	**₱996,170,748**	**₱27,594,539**	**₱24,133,722**	**₱4,962,621**	**₱3,023,263,901**	**(₱7,096)**	**₱4,076,118,435**	**₱66,139,220**	**₱4,142,257,655**
Total comprehensive income (loss) for the year	–	–	3,503,985	(12,473)	(119,358,594)	–	(115,867,082)	(440,706)	(116,307,788)
Cash dividends declared (Note 27)	–	–	–	–	(49,808,063)	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2017	**₱996,170,748**	**₱27,594,539**	**₱27,637,707**	**₱4,950,148**	**₱2,854,097,244**	**(₱7,096)**	**₱3,910,443,290**	**₱65,698,514**	**₱3,976,141,804**
BALANCES AT DECEMBER 31, 2015	**₱996,170,748**	**₱27,594,539**	**₱21,621,047**	**₱3,923,214**	**₱3,150,149,222**	**(₱7,096)**	**₱4,199,451,674**	**(₱1,619,647)**	**₱4,197,832,027**
Share in acquisition of net assets (Note 1)	–	–	–	–	–	–	–	68,141,911	68,141,911
Total comprehensive income (loss) for the year	–	–	2,512,675	1,039,407	(77,077,258)	–	(73,525,176)	(383,044)	(73,908,220)
Cash dividends declared (Note 27)	–	–	–	–	(49,808,063)	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2016	**₱996,170,748**	**₱27,594,539**	**₱24,133,722**	**₱4,962,621**	**₱3,023,263,901**	**(₱7,096)**	**₱4,076,118,435**	**₱66,139,220**	**₱4,142,257,655**
BALANCES AT DECEMBER 31, 2014	**₱996,170,748**	**₱27,594,539**	**₱21,144,472**	**₱5,216,306**	**₱3,245,679,278**	**(₱7,096)**	**₱4,295,798,247**	**(₱2,281,966)**	**₱4,293,516,281**
Total comprehensive income (loss) for the year	–	–	476,575	(1,293,092)	(45,721,993)	–	(46,538,510)	662,319	(45,876,191)
Cash dividends declared and paid (Note 27)	–	–	–	–	(49,808,063)	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2015	**₱996,170,748**	**₱27,594,539**	**₱21,621,047**	**₱3,923,214**	**₱3,150,149,222**	**(₱7,096)**	**₱4,199,451,674**	**(₱1,619,647)**	**₱4,197,832,027**

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱108,487,394)**	(₱67,872,869)	(₱58,422,504)
Adjustments for:			
Equity in net losses (earnings) of associates and joint ventures (Note 10)	**135,219,490**	70,529,999	(12,478,009)
Depreciation (Notes 12, 13 and 19)	**83,382,678**	82,283,581	81,133,631
Interest income (Note 22)	**(12,574,451)**	(11,520,608)	(5,143,074)
Finance costs (Note 23)	**6,096,804**	2,442,332	2,385,464
Amortization of franchise fee (Notes 14 and 17)	**1,794,000**	1,794,000	1,794,000
Dividend income (Notes 11 and 24)	**(392,750)**	(451,750)	(350,485)
Gain on sale of:			
Property and equipment (Notes 12 and 24)	**(91,900)**	(467,712)	–
AFS financial assets (Notes 11 and 24)	**–**	(364,020)	(2,582,792)
Unrealized foreign exchange loss - net	**54,973**	191,722	93,642
Impairment loss on AFS financial assets (Notes 11 and 24)	**50,000**	1,983,500	–
Gain on reversal of provision for probable losses (Note 24)	**–**	(13,135,947)	–
Operating income before working capital changes	**105,051,450**	65,412,228	6,429,873
Decrease (increase) in:			
Receivables	**26,187,905**	(49,667,736)	42,148,164
Inventories	**12,684,807**	10,870,268	497,469
Other current assets	**(239,657)**	(840,540)	(1,654,902)
Increase (decrease) in:			
Accounts payable and other liabilities	**29,814,946**	18,472,135	(55,408,133)
Accrued retirement benefits (Note 21)	**828,035**	8,643,081	(2,849,842)
Due to related parties	**–**	(2,308,906)	–
Cash generated from (used in) operations	**174,327,486**	50,580,530	(10,837,371)
Income taxes paid, including creditable withholding and final taxes	**(24,433,972)**	(9,085,126)	(22,000,191)
Net cash provided by (used in) operating activities	**149,893,514**	41,495,404	(32,837,562)
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to an associate (Note 10)	**(152,254,429)**	–	–
Acquisitions of property and equipment (Note 12)	**(30,700,704)**	(34,000,742)	(35,085,533)
Acquisitions of AFS financial assets (Note 11)	**(22,000,000)**	–	(21,297,900)
Acquisitions of investment property (Note 13)	**(10,162,850)**	(9,268,938)	–
Acquisition of a subsidiary, net of cash received (Note 1)	**–**	(14,306,870)	–
Dividends received (Notes 10 and 24)	**20,923,259**	23,656,616	47,866,140
Interest received	**12,492,583**	11,912,196	4,949,905
Decrease (increase) in other noncurrent assets	**(2,456,722)**	1,995	(761,769)
Proceeds from sale of:			
Property and equipment	**148,710**	467,712	–
AFS financial assets (Note 11)	**–**	18,100,920	12,712,560
Net cash provided by (used in) investing activities	**(184,010,153)**	(3,437,111)	8,383,403
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans and borrowings (Note 15)	**217,000,000**	98,000,000	–
Payments of:			
Short-term loans and borrowings (Note 15)	**(73,000,000)**	(47,000,000)	(35,437,500)
Long-term loans and borrowings (Note 15)	**–**	–	(14,285,715)
Subscriptions	**–**	–	(42,808,835)
Dividends paid by the Parent Company (Note 27)	**(49,968,707)**	(49,057,359)	(49,042,547)
Interest paid	**(6,096,804)**	(2,442,332)	(2,385,464)
Net cash provided by (used in) financing activities	**87,934,489**	(499,691)	(143,960,061)

(Forward)

	Years Ended December 31		
	2017	2016	2015
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(₱54,973)**	(₱191,722)	(₱93,642)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**53,762,877**	37,366,880	(168,507,862)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**171,837,642**	134,470,762	302,978,624
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱225,600,519**	₱171,837,642	₱134,470,762

See accompanying Notes to Consolidated Financial Statements

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

In 1987, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Parent Company's corporate life for another 50 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, which will expire on November 23, 2022 (see Note 14). 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 (JV) 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.

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

The consolidated financial statements as at and for the years ended December 31, 2017 and 2016 was authorized for issuance by the Board of Directors (BOD) on April 20, 2018.

Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2017	2016
Subsidiaries					
Biohitech Philippines, Inc. (Biohitech) [a]	Philippines	Waste management	Philippine Peso	**50.00**	50.00
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	**100.00**	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	**100.00**	100.00
San Lazaro Resources and Development Corporation (SLRDC) [a]	Philippines	Real estate	Philippine Peso	**100.00**	100.00
SLLP Holdings, Inc. (SLLPHI) [a]	Philippines	Holdings	Philippine Peso	**100.00**	100.00
Hi-Tech Harvest Limited [a]	Hong Kong	Marketing	Philippine Peso	**100.00**	100.00
Apo Reef World Resorts, Inc. (ARWRI) [a]	Philippines	Beach Resorts Complex	Philippine Peso	**56.87**	56.87
Joint Ventures					
Gamespan, Inc. (Gamespan) [a]	Philippines	Gaming	Philippine Peso	**50.00**	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	**30.00**	30.00

(Forward)

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2017	2016
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Real estate and Gaming	Philippine Peso	**22.31**	22.31
Techsystems, Inc. (Techsystems) [a]	Philippines	Information Technology	Philippine Peso	**33.33**	33.33

[a] *Not yet started commercial operation as of December 31, 2017*

On February 22, 2016, the Parent Company entered into a share purchase agreement with ACL Development Corporation ("ACL") to purchase 9.8 million shares of ARWRI, a company owning parcels of land in Mamburao, Mindoro, for a total consideration of ₱9.9 million. Furthermore, on August 25, 2016, the Parent Company paid ₱20.0 million to subscribe to 80.0 million shares of ARWRI at par value of ₱1.00 per share, equivalent to ₱80.0 million, after ARWRI increased its authorized capital stock from 100.0 million shares to 200.0 million shares. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3, *Business Combination*, and was therefore accounted for as an acquisition of assets.

The identifiable assets and liabilities of ARWRI at the date of acquisition were:

	Amount
Assets	
Cash	₱15,543,130
Investment properties (see Note 13)	104,440,943
Subscription receivable	60,000,000
Other noncurrent assets	225,000
	180,209,073
Liabilities	
Accounts payable	(5,173,775)
Other noncurrent liabilities	(17,043,387)
	(22,217,162)
Total net assets acquired	157,991,911
Non-controlling interest - 43.13%	(68,141,911)
Purchase consideration	₱89,850,000

As of December 31, 2016, the Parent Company has an outstanding subscription payable to ARWRI amounting to ₱60.0 million which is eliminated in the consolidated financial statements against the subscription receivable above.

In the 2016 consolidated statements of cash flow, the net cash outflow on the acquisition amounting to ₱14.3 million was derived as follows:

Cash paid at acquisition date	₱29,850,000
Less cash and cash equivalents acquired	15,543,130
Net cash outflow at acquisition date	₱14,306,870

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements have been prepared using the historical cost basis, except for AFS financial assets, which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱ or Peso), the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes both standard titles PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations based on equivalent interpretations from International Financial Reporting Interpretations Committee (IFRIC) as issued by the Financial Reporting Standards Council (FRSC).

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies
The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements since none of the entities within the Group has interest in subsidiary, a joint venture or an associate that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosures changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 32 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the years ended December 31, 2017 and 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized loss. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary difference or assets that are in the scope of the amendments.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Group is assessing the potential effect of the amendments on its consolidated financial statements. In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRS, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017. 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 give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a 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 arrangements 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-assesses 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. Consolidation of subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to the transactions between members of the Group are eliminated in full consolidation.

A change in ownership interest of a subsidiary, without a less of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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 continue to be consolidated until the date such control ceases.

Non-controlling Interests. Non-controlling interests represent the portion of profit or loss and net assets in Biohitech and ARWRI in 2017 and 2016 that are not held by the Group and are presented separately in the consolidated statements of comprehensive income and consolidated statements of financial position 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 transaction. 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 the 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 profit or loss; and (iii) reclassifies the Parent Company's share of components previously recognized in OCI to the consolidated profit or loss 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 consolidated financial statements are presented in Philippine Peso, which is the Parent Company'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

Business combinations are accounted for using the acquisition method.

Initial Measurement

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 Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "General and administrative expenses" account in the consolidated statements of comprehensive income.

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.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the statements of profit or loss in accordance with PAS 39. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

Subsequent Measurement
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 (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Acquisition of Assets
When assets are acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identified assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures financial instruments and non-financial assets at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid 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 of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to 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 assets and liabilities that are recognized in the financial statements at fair value 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting.

Initial and Subsequent Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those at fair value through profit or loss, includes transaction cost.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the purpose for which the instruments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Group has no financial assets or liabilities at fair value through profit or loss and held-to-maturity investments as of December 31, 2017 and 2016.

Determination of Fair Value. Fair value is the price that would be received to sell an asset or paid 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 i) in the principal market for the asset or liability; or ii) 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 by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming 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.

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

a. *Loans and receivables*
This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

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 statements of financial position) as of December 31, 2017 and 2016.

b. *AFS financial assets*
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statements of comprehensive income in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statements of comprehensive income.

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, quoted debt securities, preferred shares and club membership shares as of December 31, 2017 and 2016.

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 EIR 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 the consolidated statements of comprehensive income.

Included in this category are the Group's short-term loans and borrowings, accounts payable and other liabilities, and due to related parties as of December 31, 2017 and 2016.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS Investments – Carried at Fair Value. If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statements of comprehensive income, is transferred from other comprehensive income to the consolidated statements of comprehensive income.

An AFS investment is considered impaired if there is prolonged or significant decline in market value against cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

AFS Investments – Carried at cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in the consolidated statements of comprehensive income, increases in their fair value after impairment are recognized directly in other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the consolidated statements of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income.

Derecognition 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 when:

- The rights to receive cash flows from the asset have expired;
- 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement, and has neither transferred nor retained substantially all the risks and rewards of ownership 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. In that case, the Group also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cashflows of the original debt instrument, the financial liability is not derecognized.

"Day 1" Profit. 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" profit) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income 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 amount.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Real Estate Inventories
Real estate inventories include completed projects of the Group, and are stated at the lower of cost and net realizable value. Cost of real estate inventories pertains to the cost of land. Real estate inventories include properties held for future development and properties being constructed or completed for sale and memorial lots for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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.*

Investments in Associates and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investment in its associate and joint venture are accounted using the equity method.

Under the equity method, the cost of investment in associates and a 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 associates and the joint venture. Goodwill, if any, relating to associates or a joint venture is included in the carrying amount of the investment and is not amortized or separately tested for impairment. The consolidated statements of comprehensive income reflects the share of the results of operations of the associates and joint venture. Where there has been a change recognized directly in the equity of the associates and the joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in equity. Unrealized profits or losses resulting from transactions between the Group and the associates and joint venture are eliminated to the extent of the interest in the associates and joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint venture and its carrying value, and then recognizes the loss as "Equity in net earnings (losses) of associates and joint ventures" in the consolidated statements of comprehensive income.

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

For interest in joint operation, the Group accounts for each assets, liabilities, revenue, share in revenue and expense separately. The Group would recognize in relation to its interest its:

- Assets which include real estate inventories, developed office units and retail development units presented under "Investment Properties" account (see Notes 8 and 13)
- Liabilities, including its share of any liabilities jointly incurred, recorded as "Accrued Expenses"
- Revenue from the sale of its share of the real estate inventories, recorded as "Real Estate Revenue"
- Share of the revenue from services rendered jointly, recorded as part of the "Rental Income"
- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

These joint operations do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the operators themselves. Each operator has control over its share of future economic benefits through its share of the results of the joint operation.

Property and Equipment

Property and equipment, except land, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost also includes the cost of replacing part of the property and equipment and borrowing cost for long-term construction projects if the recognition criteria are met, and any obligation related to the retirement of the asset. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are generally recognized in the consolidated statements of income in accordance with the accounting policy. 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. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements of comprehensive income of such period.

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 Asset 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 residual values and useful lives of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income when the asset is derecognized.

Construction in progress is stated at cost, net of accumulated impairment losses, if any. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and are available for use.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment Properties

The Group's investment properties consist of land that is 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 its 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 method 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 either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Franchise Fee
The franchise fee, presented as part of "Other noncurrent assets" in the consolidated statements of financial position, 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 the profit or loss.

Impairment of Nonfinancial Assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount 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 or CGU 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

An assessment is made at each reporting 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 the 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.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all 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.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings
Retained earnings are the result of Group's accumulated profits or losses, declaration of dividends and the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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.

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

Earnings per Share (EPS)
Basic EPS is computed by dividing the net income for the year attributable to equity holders of the Parent Company 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 (after adjusting for interest on the convertible preference shares) 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, regardless of when payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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 and cockfighting operations and as principal in all other arrangements (i.e., real estate sales and rental services).

The specific recognition criteria described below 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.

Commission income from cockfighting
Revenue is recognized as earned based on a percentage of gross receipts from ticket sales of cockfighting operations.

Revenue from food and beverages
Revenue from food and beverages are recognized when services are rendered or the goods are sold.

Real estate sales
The Parent Company assesses whether it is probable that the contract price (which embodies economic benefits) will flow to the Parent Company. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

Revenue from sales of completed real estate projects from the joint venture is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Parent Company has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are included in the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position. If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position.

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.

The cost of inventory recognized in the consolidated statements of comprehensive income upon sale is determined with reference to the costs of the land contributed for the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Rental income from stables, building and other facilities
Revenue from the lease of stables, building and other facilities is recognized in the consolidated statements 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 Parent Company's right to receive the payment is established, which is generally when the shareholders approves the dividend.

Cost of Sales and Services and Expenses
Cost of club races, cost of cockfighting, cost of rental services and expenses are recognized in the consolidated statements of comprehensive income at the date they are incurred.

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

Other Comprehensive Income (OCI)
Items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the profit or loss for the year are recognized as OCI and are presented as OCI in the consolidated statements of comprehensive income.

The OCI of the Group pertains to gains and losses on remeasuring AFS financial assets and actuarial gains (losses) on remeasurement of retirement plan.

Retirement Benefits Cost
The Parent Company has noncontributory 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 employees' projected salaries.

Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements 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 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.

Remeasurements 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund 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 price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the 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 benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

<u>Leases</u>
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as an operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as revenue in the period in which they are earned.

<u>Taxes</u>
Current tax
Current tax assets and liabilities 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 reporting date.

For income tax purposes, full revenue recognition on real estate sales is applied when more than 25% of the contract price has been collected in the year of sale; otherwise, the installment method is applied, where real estate sales are recognized based on collection multiplied by the gross profit rates of the individual sales contracts.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside consolidated statements of comprehensive income is recognized outside consolidated statements of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

VAT
Revenue, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statements of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/ or services (output VAT), the excess is recognized as an asset in the consolidated statements of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of "VAT - Input", "Deferred Input Tax", or "Accounts payable and other current liabilities" accounts in the consolidated statements of financial position.

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 reporting date. All foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statements of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are in the notes to financial statements 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.

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 29 to the consolidated financial statements.

Events after the Reporting Date
Events after the reporting date that provide additional information about the Group's financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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 an investor 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. On the other hand, joint control is presumed to exist when the investors contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has control by virtue of its power to cast the majority votes at meetings of the BOD in all of its subsidiaries (see Note 1).

Determination if joint control exists in a joint venture

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has joint control in San Lazaro BPO Complex Joint Venture and Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly for all relevant activities by the venturers through its BOD (see Note 1).

Determination if significant influence exist in an associate

Significant influence exist when an investor has the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. Management has determined that the Group has significant influence in MIC since the Group has the power to appoint representatives to the BOD of MIC to participate in the financial and operating policy decision (see Note 1).

Determination of joint venture or joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement.

Management has determined that arrangement for ventures with Avida, Alveo and CCC are classified as joint operations since the Group have rights to the assets and obligations for the liabilities relating to the arrangement and not to the net assets of the arrangement.

Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3.
Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

On August 25, 2016, the Parent Company acquired 56.87 percent of the total capital stock of Apo Reef World Resorts, Inc. for ₱89.9 million. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3 since the Parent Company acquired only inputs in the form of parcels of land situated in Mamburao, Mindoro and was not able to acquire any processes. There were no indicators of substantive processes and/or services acquired or provided as of acquisition date (see Notes 1 and 13).

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. i.e. ownership of the assets remains with the Group at the end of the lease terms. Accordingly, the lease agreements are accounted for as operating leases (see Notes 12, 13 and 30).

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. i.e. ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease (see Note 30).

Impairment of noncurrent nonfinancial assets
The Group assesses at each reporting date whether there is any indication that its interest in associates and joint ventures, property and equipment, investment properties and franchise fee may be impaired. Indication of impairment includes: (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 CGU's fair value less costs to sell and its value in use.

There are no impairment of noncurrent nonfinancial assets in 2017 and 2016. The carrying values of the Group's interest in associates and joint ventures, property and equipment, investment properties, and franchise fee of December 31, 2017 and 2016 are disclosed in Notes 10, 12, 13 and 14 to the consolidated financial statements, respectively.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were

prepared. Existing circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 December 31, 2017 and 2016, the carrying value of receivables (including noncurrent portion of real estate receivables), net of allowance for doubtful accounts, are disclosed in Note 7 to the consolidated financial statements.

In 2017, 2016, and 2015, provision for doubtful accounts are disclosed in Notes 7 and 18 to the consolidated financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Notes 7 and 24 to the consolidated financial statements.

Determination of NRV of real estate inventories
The Group's estimates of the NRVs 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 NRV 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 NRV 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 NRV.

As of December 31, 2017 and 2016, the cost of the real estate inventories, the amount written down to NRV and the carrying value of the real estate inventories are disclosed in Note 8 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 December 31, 2017 and 2016, the carrying value of the Group's AFS financial assets are disclosed in Note 11 to the consolidated financial statements. Impairment loss of ₱0.1 million, ₱2.0 million and nil were recognized in 2017, 2016 and 2015, respectively.

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 property based on the internal technical evaluation and experience with similar assets. Estimated useful lives of property and equipment and investment property (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.

There were no changes in the useful lives of property and equipment and investment properties in 2017, 2016, and 2015. As of December 31, 2017 and 2016 the carrying amount of depreciable property and equipment are disclosed in Note 12 to the consolidated financial statements. The carrying amount of depreciable investment property as of December 31, 2017 and 2016 are disclosed in Note 13 to the consolidated financial statements.

Recognition of deferred tax assets
The Group reviews the carrying amount of the deferred tax assets at each reporting 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 December 31, 2017 and 2016, the Parent Company's deferred tax assets and subsidiaries' unrecognized deferred tax assets are disclosed in Note 25 to the consolidated financial statements.

Estimation of retirement benefits cost and obligations
The determination of the obligation and cost for 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 21 and include among others, discount rates, expected rate of return on plan assets and expected rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore generally affect the recognized expense and recorded obligation in such future period. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement and other retirement obligations.

As of December 31, 2017 and 2016, the carrying value of accrued retirement benefits are disclosed in Note 21 to the consolidated financial statements. Retirement benefits cost in 2017, 2016 and 2015 are disclosed in Note 21 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱24,168,097**	₱13,676,015
Cash in banks	**176,432,422**	133,995,064
Cash equivalents	**25,000,000**	24,166,563
	₱225,600,519	₱171,837,642

Cash in banks generally earns 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 ₱0.9 million, ₱0.6 million, and ₱2.0 million in 2017, 2016 and 2015, respectively (see Note 22).

7. Receivables

This account consists of:

	2017	2016
Trade		
Real estate receivables - current portion	**₱172,355,182**	₱136,036,096
Rent receivables (Notes 12, 13 and 30)	**14,984,657**	17,311,937
Receivables from off-track betting (OTB) operators	**1,406,515**	9,498,330
Non-trade		
Advances and loans to officers and employees (Note 26)	**14,710,930**	14,892,438
Advances to suppliers	**13,886,233**	8,478,580
Receivable from third parties	**10,545,688**	15,808,154
Receivable from contractors	**5,641,495**	7,141,495
Due from related parties (Note 26)	**5,009,304**	4,999,109
Dividends receivable (Note 10)	**3,376,407**	5,772,409
Claims for tax credit certificates (TCC)	**–**	2,252,054
Others	**11,853,772**	4,100,598
	253,770,183	226,291,200
Less allowance for doubtful accounts	**36,393,964**	37,855,574
	₱217,376,219	₱188,435,626

Real Estate Receivables

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

	2017	2016
Current	**₱172,355,182**	₱136,036,096
Noncurrent	**51,153,362**	108,575,994
	₱223,508,544	₱244,612,090

Real estate receivables, which are collectible in monthly installments, represent noninterest-bearing receivables with average term ranging from two to three years. Titles to condominium properties are not transferred to the buyers until full payment is made.

Interest income from accretion of real estate receivables amounted to ₱9.9 million, ₱7.9 million and ₱2.6 million in 2017, 2016, and 2015, respectively (see Note 22).

Advances and Loans to Officers and Employees

The Parent Company grants salary loans and advances to its officers, payable through salary deductions. The loans bear an average interest rate of 9% per annum. Interest income earned on advances and loans to officers and employees amounted to ₱0.3 million in 2017, ₱0.6 million in 2016 and ₱0.2 million in 2015 (see Note 22).

Advances to Suppliers
Advances to suppliers are noninterest-bearing payments, which is normally within twelve months or within the normal operating cycle.

Receivable from Third Parties
Receivable from third parties bear an interest of 12% per annum and are generally settled within 30-90 day term. Interest income earned on receivable from third parties amounted to ₱0.8 million in 2017, ₱2.1 million in 2016, and ₱0.1 million in 2015 (see Note 22).

Receivable from Contractors
This pertains to deposits made by the Parent Company to the contractors not yet deducted from the billings of the Parent Company.

Claims for TCC
The Parent Company accrued ₱2.3 million for its claim against the City of Manila for a tax refund for undue payment of franchise tax on race tracks, amusement taxes on admission and real property taxes levied against the Parent Company for the years 1994 and 1995 pursuant to Manila Revenue Code of 1993 (Ordinance No. 7794).

The claims for TCC is fully written off by the Parent Company as of December 31, 2017.

Other Receivables
Other receivables include accrued interest and other various individually insignificant items.

Allowance for Doubtful Accounts
The following table shows the rollforward of the allowance for doubtful accounts as of December 31, 2017 and 2016:

	2017	2016
Balance at beginning of year	**₱37,855,574**	₱24,552,613
Provision during the year (Note 18)	**13,849,311**	13,658,247
Amounts written off during the year	**(15,302,711)**	(276,673)
Recovery of doubtful accounts	**(8,210)**	(78,613)
Balance at end of year	**₱36,393,964**	₱37,855,574

Details of allowance for doubtful accounts per class of receivable are as follows:

	2017	2016
Trade	**₱ 24,020,769**	₱24,386,627
Nontrade	**12,373,195**	13,468,947
Balance at end of year	**₱36,393,964**	₱37,855,574

Allowance for doubtful accounts as of December 31, 2017 and 2016 were based on collective assessment made by management.

The Group directly wrote-off receivables amounting to ₱3.8 million, ₱0.5 million and ₱1.4 million in 2017, 2016, and 2015 respectively (see Note 24).

8. Inventories

This account consists of:

	2017	2016
Real estate:		
Land held for development - at cost	**₱38,189,898**	₱38,189,898
Condominium units for sale - at cost	**18,693,592**	30,233,390
Memorial lots for sale - at net realizable value	**8,379,931**	8,379,931
Residential units for sale - at cost	**2,783,562**	4,516,933
	68,046,983	81,320,152
Food and beverages - at cost	**551,194**	561,832
Gamefowls - at cost	**2,651,000**	2,052,000
	₱71,249,177	₱83,933,984

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company. In 2017 and 2016, revenue from real estate pertains to sale of completed condominium units and residential units.

The movements in the real estate inventories account are as follows:

	2017	2016
Balance at beginning of year	**₱81,320,152**	₱93,729,623
Cost of real estate sold (Note 17)	**(13,273,169)**	(12,409,471)
Balance at end of year	**₱68,046,983**	₱81,320,152

In 2017, 2016 and 2015, no impairment loss was recognized. The cost of memorial lots for sale as at December 31, 2017 and 2016 amounted to ₱9.8 million.

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

Condominium units for sale
On February 26, 2005, the Parent Company entered into Joint Development Agreements (JDAs) with Avida Land Corporation (Avida) and Alveo Land Corporation (Alveo) 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 its rights, title and interest in the Project and 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.

Towers 1 to 5 of Avida and Towers 1 and 2 of Alveo are fully completed as of December 31, 2017 and 2016. The construction of Tower 3 of Alveo is 99.99%, 88.10% and 63.00% complete as of December 31, 2017, 2016 and 2015, respectively.

Residential units for sale
On February 24, 2004, the Parent Company entered into an agreement 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. As of December 31, 2017, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. The amount of marketing cost in 2017, 2016 and 2015 amounted to ₱12.1 million, ₱9.7 million and ₱4.4 million, respectively.

Gamefowls
The movements in the gamefowl inventory account are as follows:

	2017	2016
Balance at beginning of year	**₱2,052,000**	₱547,000
Purchases	**32,460,968**	12,020,520
Cost of gamefowls used (Note 17)	**(31,861,968)**	(10,515,520)
Balance at end of year	**₱2,651,000**	₱2,052,000

There were no write-down of inventories in 2017 and 2016.

9. Other Current Assets

This account consists of:

	2017	2016
Prepaid expenses	**₱5,657,591**	₱5,993,868
Prepaid income tax	**4,137,338**	4,048,517
Input VAT	**1,270,974**	681,327
Deposit	**174,206**	351,569
Others	**252,123**	177,294
	₱11,492,232	₱11,252,575

Prepaid expenses include prepayments made for insurance and licenses.

Others include fuel and oil and rental deposit.

10. Investment in and Advances to Associates and Joint Ventures

This account consists of:

	2017	2016
Cost	**₱2,312,510,445**	₱2,312,510,445
Equity in net losses of associates and joint ventures		
Beginning balance	**(107,114,838)**	(11,248,401)
Equity in net losses during the year	**(135,219,490)**	(70,529,999)
Share on dividends declared	**(18,134,507)**	(25,336,438)
	(260,468,835)	(107,114,838)
	2,052,041,610	2,205,395,607
Advances to an associate	**152,254,429**	–
	₱2,204,296,039	₱2,205,395,607

	2017	2016
Investment in associates		
MIC	**₱2,011,056,348**	₱2,185,285,142
Techsystems	**–**	–
	2,011,056,348	2,185,285,142
Investment in joint ventures		
Gamespan	**9,792,161**	9,792,161
SLBPO	**31,193,101**	10,318,304
	40,985,262	20,110,465
	2,052,041,610	2,205,395,607
Advances to an associate	**152,254,429**	–
	₱2,204,296,039	₱2,205,395,607

Investment in and Advances to an Associates

MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of December 31, 2017 and 2016. MIC started its commercial operations on January 6, 2016. The movements and details of the accounts are as follows:

	2017	2016
Investment in associate	**₱2,185,285,142**	₱2,282,630,067
Equity in net losses of the associate	**(174,228,794)**	(97,344,925)
	2,011,056,348	2,185,285,142
Advances to an associate	**152,254,429**	–
	₱2,163,310,777	₱2,185,285,142

Advances to an associate pertains to deposit paid for future subscriptions in the associate.

The summarized financial information of MIC is as follows:

	2017	2016
Current assets	**₱897,918,988**	₱796,509,099
Noncurrent assets	**6,051,105,774**	5,894,901,689
Current liabilities	**1,301,980,534**	660,273,522
Noncurrent liabilities	**3,878,241,036**	3,472,787,465
Equity	**1,768,803,192**	2,558,349,801
Income	**469,722,606**	223,525,258
Expenses	**1,259,957,781**	669,888,624
Net loss	**790,235,175**	446,363,366

The difference between the carrying values of investment in MIC against the share in net asset of MIC as of December 31, 2017 and December 31, 2016 represents goodwill amounting to ₱1.6 billion.

Fair value of the investment in MIC as of December 31, 2017 and 2016 amounted to ₱2.4 billion and ₱2.5 billion, respectively.

On April 12, 2018, the BOD of MIC approved the conduct of a stock rights offering in order to raise additional capital for its debt servicing requirements. The total number of shares to be issued is 1,587,202,910 common shares and the stock offer price shall be ₱1.00 per share. The entitlement ratio shall be one (1) rights share for every two (2) common shares held as of record date.

Significant Contracts between MIC and PAGCOR

The following are the significant contracts between MIC, an associate, and PAGCOR:

a) Permit to Operate granted to MIC
   On March 18, 2010, MIC was granted a Permit to Operate (PTO) by PAGCOR for the establishment, maintenance and operation of PAGCOR San Lazaro. The PTO shall be for a period of 15 years commencing on January 6, 2016, the date of actual operation of PAGCOR San Lazaro. MIC's management assessed that MIC is the operator of PAGCOR San Lazaro, as embodied in the provision of the PTO.

   As the operator of PAGCOR San Lazaro, MIC shall undertake the following:
   a) Shoulder the cost of designing and furnishing the PAGCOR San Lazaro;
   b) Shoulder the cost of maintaining PAGCOR San Lazaro, including the required major and minor repairs to the gaming facility;
   c) Acquire, install, maintain and upgrade to keep abreast with the worldwide industry of casino gaming the following to be used for the operation of PAGCOR San Lazaro, as provided and deemed necessary by PAGCOR;
      - At least ten (10) gaming tables, table layout, chairs and other equipment, and paraphernalia. The number of tables maybe adjusted subject to PAGCOR's approval;
      - A minimum of two hundred (200) new slot machines and an online tokenless system of linking and networking all slot machines. MIC shall on its account train the technical personnel of PAGCOR for the operation, repair and maintenance of the slot machine networking system and shall ensure the transfer of appropriate and necessary technology, for this purpose;
      - Playing cards and playing chips, the design of which shall be separate and distinct from PAGCOR's playing cards and chips;

- Surveillance equipment and paraphernalia; and
- All other capital expenditures such as treasury vaults, furniture and other office equipment and paraphernalia, and other pre-operating requirements, necessary for the operation of PAGCOR San Lazaro.

d) Shoulder any illegitimate slot credit/payout of payers which may arise due to malfunction or error in the slot machine online tokenless system provided by MIC for the operations of PAGCOR San Lazaro;

e) Bear the cost of maintenance and minor repairs of the equipment, furniture and fixtures installed at PAGCOR San Lazaro, and shall be responsible for replacing such equipment, furniture and fixtures, which are deemed to be beyond repair. MIC shall also make available to PAGCOR, at any time of the day, repair and maintenance services, to address the immediate needs of PAGCOR San Lazaro;

f) Shoulder the costs of all shipping and freight charges, as well as the covering marine insurance, relative to all the gaming and non-gaming equipment, furnishing and fixtures to be brought into the Philippines to be installed at PAGCOR San Lazaro;

g) Shoulder the cost of insurance for loss or damaged gaming equipment, slot machines or other gaming paraphernalia, and the network system, due to force majeure including but not limited to fire, typhoons, and other incidents and calamities;

h) Shoulder any restoration that maybe required by the building owner after cessation of the casino operation

i) Provide the required cash capital for PAGCOR San Lazaro;

j) Shoulder and provide for other operating expenses necessary in the operation of the casino including but not limited to space rental, utilities expenses;

k) Secure all necessary local permits required for the renovation of PAGCOR San Lazaro;

l) Provide hotel accommodation for PAGCOR San Lazaro's guests;

m) Provide required communication facilities at the casino offices and gaming areas;

n) Hold PAGCOR free and harmless from third party claims for injuries and damages suffered within the premises resulting from, or occasioned by any faulty construction, non-maintenance or any defect that pertains to the building, structural integrity or of the PAGCOR casino premises, and to indemnify and hold PAGCOR harmless from and against costs of defending any such action suit or proceedings including legal fees and other legal expenses incurred in relation to such third party claims.

The same agreement provides that while MIC is in the process of forming its own management team and is cognizant of PAGCOR's expertise, experience and competence in gaming operations, MIC requested PAGCOR to manage PAGCOR San Lazaro by giving PAGCOR an exclusive and direct control to supervise and manage PAGCOR San Lazaro's casino operations.

For the duration of the agreement, MIC shall receive forty percent (40%) of PAGCOR San Lazaro's monthly gross revenues after deducting the players' winnings/prizes, the taxes that may be imposed on these winnings/prizes, franchise tax, and applicable subsidies and rebates.

Upon revocation or termination of the agreement for PAGCOR to manage PAGCOR San Lazaro and if the same is without fault of MIC or PAGCOR, PAGCOR shall surrender to MIC PAGCOR San Lazaro's premises, furnishing and equipment without delay subject to proper accounting and auditing of liabilities of PAGCOR and MIC.

Should PAGCOR unreasonably delay or unjustifiably fail to immediately surrender said contributions, MIC shall have the right to take possession of PAGCOR San Lazaro's premises, furnishing and equipment from PAGCOR. This is without prejudice to PAGCOR's right to take possession of the properties from MIC and apply the same for payment or satisfaction of its claims against MIC.

Furthermore, upon revocation, termination or expiration of the PTO, MIC undertakes to ship out of the Philippine territory, the gaming equipment and gaming paraphernalia in pursuance of Presidential Decree 519 and Letter of Instruction 1176 within 60 calendar days from the date of receipt or possession of the gaming equipment and gaming paraphernalia.

For income tax purposes, as the entity granted the permit to operate PAGCOR San Lazaro, MIC's income from casino operations is exempt from income tax in accordance with Section 13 of P.D. 1869, as amended, otherwise known as the PAGCOR Charter. Under P.D. 1869, earnings derived from the operation of casinos shall be imposed a 5% franchise tax, in lieu of all kinds of taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority.

b) Traditional Bingo Operation

On January 19, 2015, MIC was granted by PAGCOR the right to operate a traditional bingo operation at Winford Hotel and Casino. The terms of the bingo operation shall be coterminous with the term of the PTO. Under the agreement, MIC shall remit monthly to PAGCOR 15% of the total gross receipt from sale of bingo tickets and cards, including electronically stored bingo cards played through an electronic device, instant game tickets and bingo game variant cards.

The agreement provides, among others, that all capital and operating expenditure (including the prizes) related to the bingo operation shall be for the sole account of MIC.

c) Junket Agreement granted to Trafalgar Square and Leisure Corp. (a wholly owned subsidiary of MIC) (TSLC)

On May 16, 2016, TSLC was granted by PAGCOR the authority to bring in pre-registered foreign players to play in designated junket gaming areas in Winford Hotel and Casino with an initial Gaming Table Mix of four (4) junket gaming tables. Operation of gaming tables in excess of the initial Gaming Table Mix shall be subject to PAGCOR's approval. The agreement is effective for a period of three years, commencing on day 1 of the gaming operation at the junket area but not later than six months from the date of the agreement.

In consideration of the grant by PAGCOR, TSLC shall pay PAGCOR higher of (a) a monthly Minimum Guarantee Fee of US$10 thousand per table or (b) ten percent (10%) of the monthly gross winnings generated from the junket gaming operations. In addition to the monthly fee, TSLC shall remit five percent (5%) of the Monthly Gross Winnings of the Junket Gaming Operations to PAGCOR as Franchise Tax.

TSLC shall also deposit to PAGCOR the following:

a) an amount equivalent to six (6) months of the Minimum Guarantee Fee of the Table Gaming Mix in the Junket Gaming Operation prior to the actual operation of the junket tables.

b) an Administrative Charge Deposit in the amount equivalent to six months manpower cost of PAGCOR's Monitoring Team for the Junket Gaming Operation prior to the actual operation, which shall be made to cover TSLC's share in the cost of salaries and benefits of PAGCOR personnel assigned at the junket area in case the junket operations are suspended for reasons other than force majeure or fortuitous event.
c) a cash bond in the amount of ₱1.0 million upon execution of the Junket Agreement in favor of PAGCOR to ensure and secure TSLC's compliance with the terms and conditions of the agreement and PAGCOR's pre-operating requirements.

Should TSLC cease operations, for reasons such as violation of terms or conditions as stated in the agreement with PAGCOR, one year or more after the commencement of the agreement but before the end of its term, only TSLC's cash bond and administrative charge deposit shall be forfeited in favor of PAGCOR. The gaming deposit shall be returned to TSLC after deducting any unpaid fees owed by the TSLC to PAGCOR.

All interest income accruing out of the above deposits shall pertain to PAGCOR.

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership of 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 December 31, 2017 and 2016, investment in Techsystems is fully provided with allowance. As of December 31, 2017, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems is as follows:

	2017	2016
Total liabilities	**₱5,184,317**	₱5,184,317
Capital deficiency	**(5,184,317)**	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to 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. As of December 31, 2017, Gamespan has not yet started its commercial operations.

Reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follow:

	2017	2016
Current assets	**₱20,184,979**	₱20,184,979
Noncurrent assets	**29,167**	29,167
Current liabilities	**(629,824)**	(629,824)
Equity	**19,584,322**	19,584,322
Percentage of ownership	**50%**	50%
	₱9,792,161	₱9,792,161

Equity in joint venture in Gamespan amounted to ₱9.8 million in 2017 and 2016. Equity in net earnings amounted to nil in 2017 and 2016.

SLBPO. On December 12, 2008, the Parent Company entered into a JVA with ALI to create SLBPO, an incorporated entity, for the purpose of leasing, managing and administering the developed office units and retail development area 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.

The movement of the equity in joint venture of the San Lazaro JV for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Balance at beginning of year	**₱10,318,304**	₱8,839,816
Equity in net earnings for the year	**39,009,304**	26,814,926
Share on dividends declared	**(18,134,507)**	(25,336,438)
Balance at end of year	**₱31,193,101**	₱10,318,304

Dividends receivable from the JV amounted to ₱3.4 million and ₱5.8 million in 2017 and 2016, respectively (see Note 7).

The summarized financial information of the San Lazaro JV is as follows:

	2017	2016
Current assets	**₱254,648,235**	₱172,139,600
Noncurrent assets	**18,063,655**	18,603,188
Current liabilities	**107,759,329**	113,616,679
Noncurrent liabilities	**45,871,866**	27,628,073
Equity	**119,080,695**	49,498,036
Dividends	**60,448,356**	84,454,792
Income	**217,264,535**	147,950,707
Expenses	**87,233,520**	58,567,620
Net income	**130,031,015**	89,383,087

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follows:

	2017	2016
Net assets	**₱119,080,695**	₱49,498,036
Percentage of ownership	**30%**	30%
	35,724,208	14,849,411
Other adjustments	**(4,531,107)**	(4,531,107)
	₱31,193,101	₱10,318,304

<u>Equity in net earnings (losses) of associates and joint ventures</u>

	2017	2016	2015
MIC	**(₱174,228,794)**	(₱97,344,925)	(₱12,033,971)
SLBPO	**39,009,304**	26,814,926	24,511,980
Gamespan	**–**	–	–
	(₱135,219,490)	(₱70,529,999)	₱12,478,009

As of December 31, 2017 and 2016, the Group has no share in any contingent liabilities or capital commitments.

11. AFS Financial Assets

This account consists of:

	2017	2016
At fair value:		
Quoted equity securities	**₱12,560,582**	₱12,628,515
Quoted debt securities	**22,005,460**	–
At cost:		
Unquoted equity securities	**633,297**	633,297
	₱35,199,339	₱13,261,812

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

	2017	2016
Balance at beginning of year	**₱13,261,812**	₱31,942,805
Additions during the year	**22,000,000**	–
Disposal during the year	**–**	(17,663,916)
Unrealized mark-to-market losses during the year	**(62,473)**	(1,017,077)
Balance at end of year	**₱35,199,339**	₱13,261,812

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

	2017	2016
Balance at beginning of year	**₱4,962,621**	₱3,923,214
Impairment loss reclassified to profit or loss (Note 24)	**50,000**	1,983,500
Unrealized mark-to-market losses during the year	**(62,473)**	(1,017,077)
Realized mark-to-market gains during the year	**–**	72,984
Balance at end of year	**₱4,950,148**	₱4,962,621

The fair values of quoted AFS financial assets are determined based on published prices in an 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.

Gain on sale of AFS financial assets amounted to nil in 2017, ₱0.4 million in 2016, and ₱2.6 million in 2015 (see Note 24). Dividend income from these investments amounted to ₱0.4 million in 2017, ₱0.5 million in 2016, and ₱0.4 million in 2015 (see Note 24). Interest income on quoted debt securities amounted to ₱0.6 million in 2017, ₱0.4 million in 2016, and ₱0.2 million in 2015 (see Note 22).

12. Property and Equipment

Movements in this account are as follows:

2017

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	–	–	–	347,422,587
Building and improvements	671,933,272	69,429	–	–	672,002,701
Machinery and equipment	547,259,336	10,814,549	(46,000)	–	558,027,885
Transportation equipment	36,907,586	6,420,089	(1,084,000)	–	42,243,675
Furniture and fixtures	26,972,004	4,418,112	–	–	31,390,116
	1,935,364,168	21,722,179	(1,130,000)	–	1,955,956,347
Accumulated depreciation					
Land improvements	181,443,068	14,786,877	–	–	196,229,945
Building and improvements	339,102,860	27,330,477	–	–	366,433,337
Machinery and equipment	464,814,282	23,685,121	(25,290)	–	488,474,113
Transportation equipment	27,319,907	3,335,704	(1,027,900)	–	29,627,711
Furniture and fixtures	23,387,978	1,817,874	–	–	25,205,852
	1,036,068,095	70,956,053	(1,053,190)	–	1,105,970,958
Net book value	899,296,073	(49,233,874)	(76,810)	–	849,985,389
Construction in progress	21,643,002	8,978,525	–	–	30,621,527
	₱920,939,075	(₱40,255,349)	(₱76,810)	₱–	₱880,606,916

2016

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,337,228	–	–	85,359	347,422,587
Building and improvements	668,447,375	702,164	–	2,783,733	671,933,272
Machinery and equipment	524,608,616	22,650,720	–	–	547,259,336
Transportation equipment	34,790,311	4,962,533	(2,432,758)	(412,500)	36,907,586
Furniture and fixtures	25,870,761	1,101,243	–	–	26,972,004
	1,905,923,674	29,416,660	(2,432,758)	2,456,592	1,935,364,168
Accumulated depreciation					
Land improvements	166,660,852	14,782,216	–	–	181,443,068
Building and improvements	311,790,077	27,312,783	–	–	339,102,860
Machinery and equipment	441,554,463	23,259,819	–	–	464,814,282
Transportation equipment	26,876,141	2,876,524	(2,432,758)	–	27,319,907
Furniture and fixtures	21,762,364	1,625,614	–	–	23,387,978
	968,643,897	69,856,956	(2,432,758)	–	1,036,068,095
Net book value	937,279,777	(40,440,296)	–	2,456,592	899,296,073
Construction in progress	19,928,012	4,584,082	–	(2,869,092)	21,643,002
	₱957,207,789	(₱35,856,214)	₱–	(₱412,500)	₱920,939,075

Gain on sale of property and equipment amounted to ₱0.1 million in 2017, ₱0.5 million in 2016 and nil in 2015 (see Note 24).

Depreciation Charges

The amount of depreciation is allocated as follows:

	2017	2016	2015
Cost of club races (Notes 17 and 19)	**₱39,825,103**	₱39,173,091	₱38,200,787
General and administrative expenses (Notes 18 and 19)	**17,556,385**	17,163,151	15,648,673
Cost of rental services (Notes 17 and 19)	**10,569,229**	12,513,033	14,256,668
Cost of cockfighting (Notes 17 and 19)	**2,577,642**	613,941	146,087
Cost of food and beverages (Notes 17 and 19)	**427,694**	393,740	454,791
	₱70,956,053	₱69,856,956	₱68,707,006

Construction in Progress

Construction in progress pertains to costs of constructed long-term assets that are accumulated until they are ready for use.

Capitalized Borrowing Costs

No interest on loans was capitalized in 2017 and 2016. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of December 31, 2017 and 2016 amounted to ₱32.6 million and ₱35.4 million, respectively.

Land

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, 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. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2017, 2016 and 2015. The outstanding balance of ₱89.9 million as of December 31, 2017 and 2016 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position (see Note 16).

In 2017 and 2016, the Parent Company acquired new short-term loans amounting to ₱217.0 million and ₱88.0 million, respectively. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of December 31, 2017 and 2016.

Assets Under Operating Lease

The Parent Company has various operating lease agreements for its building improvements, specifically, 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 that are leased out on these operating leases amounted to ₱24.8 million and ₱26.6 million as of December 31, 2017 and 2016, respectively. Rent income from stable rentals in 2017, 2016, and 2015 amounted to ₱45.7 million, ₱46.4 million and ₱44.3 million, respectively.

The Parent Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.5 million in 2017, 2016 and 2015.

Operating Lease Commitment with PAGCOR - the Parent Company as Lessor
In 2013, the Parent Company entered a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. As of April 12, 2018, the lease contract is still under renewal.

Rent income from PAGCOR amounted to ₱1.2 million in 2017, 2016, and 2015 (see Note 30).

Lease of Equipment with PAGCOR
In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until December 31, 2016. As of April 12, 2018, the lease contract is still under renewal. In 2017, 2016 and 2015, income from the lease agreement with PAGCOR amounted to ₱20.5 million, ₱26.5 million and ₱28.1 million, respectively (see Note 30).

Impairment
In 2017, due to continuous decline in revenues from club races, the Group assessed that its property and equipment used in its racing activities may be impaired as of December 31, 2017. These property and equipment related to the Group's racing activities have a carrying amount of ₱472.2 million as of December 31, 2017 prior to impairment assessment.

The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on a five year prospective financial information approved by management. Management determined that the key assumptions underlying the said prospective financial information are based on reasonable estimates after considering historical performance and its expectations on prospects and development within the forecast period.

The management assessed that the property and equipment have estimated recoverable value as measured by its value-in-use of ₱2.2 billion as of December 31, 2017. A significant portion of the value in use pertains to the estimated terminal value of the land where the property is situated, which currently has significant appraisal value due to enhancement of property prices from the development within the surrounding properties.

Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, working capital and capital expenditure.

Discount Rates
The discount rate used is the post-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas. Management assumed discount rates of 10.9 percent in 2017 for the impairment of property and equipment, the pre-tax equivalent of which is 11.1 percent. An increase of 76.01percent in the discount rates would give a value-in-use equal to the carrying amount of the cash generating units in 2017.

Revenues
Average growth rates in revenues are based on the Group's expectation of market developments and the changes in the environment in which it operates. The Group anticipated declining revenue of -2 percent to -3% within the forecast period, based on past historical performance as well as expectations on the operating results of the business. A further decline in revenues of more than 100 percent would give a value-in-use equal to the carrying amount of the cash generating units in 2017, primarily due to the land value of the property sufficient to absorb any potential operating losses within the forecast period.

Accordingly, the Group recognized no impairment loss during the year.

13. Investment Properties

This account consists of:

	2017	2016
Land:		
Sta. Cruz property held for capital appreciation	**₱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
Mamburao property (Note 1)	**123,872,731**	113,709,881
Undivided interest in a parcel of land in Batangas	**56,723,976**	56,723,976
	888,147,764	877,984,914
Building:		
Developed office units (Note 10)	**177,226,424**	187,651,509
Retail development area (Note 10)	**32,001,308**	34,002,848
	209,227,732	221,654,357
	₱1,097,375,496	₱1,099,639,271

The movements in the carrying amount of investment properties are shown below:

	2017		
	Land	**Building**	**Total**
Cost			
Balance at beginning of year	**₱877,984,914**	**₱310,665,629**	**₱1,188,650,543**
Additions	**10,162,850**	**–**	**10,162,850**
Balance at end of year	**888,147,764**	**310,665,629**	**1,198,813,393**
Accumulated Depreciation			
Balance at beginning of year	**–**	**89,011,272**	**89,011,272**
Depreciation (Notes 17 and 19)	**–**	**12,426,625**	**12,426,625**
Balance at end of year	**–**	**101,437,897**	**101,437,897**
Net Book Value	**₱888,147,764**	**₱209,227,732**	**₱1,097,375,496**

	2016		
	Land	Building	Total
Cost			
Balance at beginning of year	₱764,275,033	₱310,665,629	₱1,074,940,662
Additions	113,709,881	–	113,709,881
Balance at end of year	877,984,914	310,665,629	1,188,650,543
Accumulated Depreciation			
Balance at beginning of year	–	76,584,647	76,584,647
Depreciation (Notes 17 and 19)	–	12,426,625	12,426,625
Balance at end of year	–	89,011,272	89,011,272
Net Book Value	₱877,984,914	₱221,654,357	₱1,099,639,271

Depreciation amounting to ₱12.4 million for the period ended December 31, 2017 and 2016, are included as part of "Cost of rental services" (see Note 17). Direct operating expenses related to the investment properties amounted to ₱0.1 million in 2017, 2016 and 2015.

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 Econozone 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 race track 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 Ayala Land Inc. (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 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. As of December 31, 2017 and 2016, 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 statements of financial position.

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. In 2017, 2016 and 2015, rental income amounted to ₱15.6 million, ₱15.4 million and ₱13.1 million, respectively.

Undepreciated capitalized interest relating to the Building Complex as of December 31, 2017 and 2016 amounted to ₱5.4 million and ₱5.7 million, respectively.

Fair Market Values
As of December 31, 2017, the aggregate fair value of the Parent Company's investment properties amounted to ₱4.5 billion. Fair values of the Carmona property, Sta. Cruz properties and the building as of December 27, 2017 and January 3, 2018 have been determined based on valuation performed by independent professional appraisers using replacement cost approach method and market data approach method.

Carrying value of the Mamburao property amounting to ₱123.9 million as of December 31, 2017 approximates its fair value since the property is only acquired in 2016. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2017 from the most recent revaluations performed by independent appraisers.

Investment property was classified as Level 3 in 2017 and 2016 as to the qualification of fair value hierarchy.

14. Other Noncurrent Assets

This account consists of:

	2017	2016
Deferred input VAT	**₱11,573,543**	₱9,290,729
Deposits	**9,238,898**	9,064,990
Franchise fee (Note 1)	**9,002,839**	10,796,839
Others	**236,428**	236,428
	₱30,051,708	₱29,388,986

Franchise Fee
Movements in the carrying amounts of franchise fees are shown below:

	2017	2016
Acquisition cost	**₱44,850,000**	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	**34,053,161**	32,259,161
Amortization for the year (Note 17)	**1,794,000**	1,794,000
Balance at end of year	**35,847,161**	34,053,161
	₱9,002,839	₱10,796,839

Franchise fee has a remaining amortization period of 5 years as of December 31, 2017.

15. Short-term Loans and Borrowings

As of December 31, 2017 and 2016, outstanding balance of short-term loans and borrowings amounted to ₱234.0 million and ₱90.0 million, respectively. These loans bear average interest of 3.5% and 3.0% in 2017 and 2016, respectively. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

The movements in the short-term loans and borrowings are as follows:

	2017	2016
Balance at beginning of year	**₱90,000,000**	₱39,000,000
Additions	**217,000,000**	98,000,000
Payments	**(73,000,000)**	(47,000,000)
Balance at end of year	**₱234,000,000**	₱90,000,000

In 2017 and 2016, the Parent Company acquired new short-term loans amounting to ₱217.0 million and ₱88.0 million, respectively. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of December 31, 2017 and 2016.

MCI also acquired short-term loan amounting to ₱10.0 million in 2016. This loan was obtained for working capital requirements and bear average interest of 3.6%. The promissory note covering said loan has a term of 3 months. This has been fully paid in 2017.

Short-term loans amounting to ₱73.0 million and ₱47.0 million were paid in 2017 and 2016, respectively.

Interest expense on short-term loans amounted to ₱5.7 million, ₱2.3 million, and ₱1.9 million in 2017, 2016 and 2015, respectively (see Note 23).

There were no long-term loans acquired in 2017. Long-term loans were fully paid in 2015. Interest expense on long-term loans amounted to nil in 2017 and 2016 and ₱0.4 million in 2015 (see Note 23).

16. Accounts Payable and Other Liabilities

This account consists of:

	2017	2016
Accounts payable	**₱93,136,507**	₱86,988,490
Due to RALI (Notes 12 and 13)	**89,900,000**	89,900,000
Cash bond on OTB operators	**28,520,754**	28,529,268
Accrued expenses	**27,775,656**	14,864,114
Documentary stamps payable	**23,338,521**	20,647,935
Percentage tax payable	**18,573,779**	10,720,733
Unclaimed winnings (Note 30)	**12,242,665**	10,175,431
Due to concessionaires	**9,584,174**	9,579,415
Taxes on winnings	**7,557,851**	4,979,896
Due to contractors	**7,083,538**	7,083,538

(Forward)

	2017	2016
VAT payable	**₱4,709,364**	₱2,272,339
Dividends payable (Note 27)	**4,180,958**	4,341,602
Trade payable and buyers' deposits	**4,081,924**	10,379,338
Withholding taxes payable	**2,904,394**	1,975,307
Due to OTB operators	**2,007,935**	1,808,509
Retention payable	**1,978,343**	1,960,343
Due to horse owners	**141,606**	1,378,580
Others	**4,323,961**	4,802,790
	₱342,041,930	₱312,387,628

Accounts payable are noninterest-bearing and are normally settled within the next financial year.

Accrued expenses include normal and recurring expenses incurred by the Group and will be utilized in the next financial year.

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 as of reporting period.

Cash bond on OTB operators, documentary stamps payable, percentage tax payable, unclaimed winnings, due to concessionaires, taxes on winnings, due to contractors, VAT payable, due to OTB operators, retention payable, and due to horse owners are payable within the next calendar year.

17. Cost of Sales and Services

Cost of club races consists of:

	2017	2016	2015
Personnel costs (Note 20)	**₱55,649,723**	₱52,157,866	₱52,318,151
Depreciation (Notes 12 and 19)	**39,825,103**	39,173,091	38,200,787
Commission	**18,859,744**	19,374,126	21,043,268
Utilities	**17,567,928**	18,956,762	21,127,337
Prizes and winnings	**7,084,174**	529,786	1,495,847
Contracted services	**4,979,643**	4,850,812	4,703,036
Meetings and conferences	**4,691,535**	3,553,408	2,953,576
Rent (Note 30)	**4,341,011**	2,768,240	4,142,214
Transportation and travel	**3,883,796**	6,716,499	7,308,208
Repairs and maintenance	**2,602,282**	3,417,993	2,446,007
Software license	**2,029,443**	2,704,856	3,178,613
Security services	**1,946,966**	2,067,864	1,790,698
Supplies	**1,806,245**	1,426,712	3,918,577
Amortization of franchise fee (Note 14)	**1,794,000**	1,794,000	1,794,000
Gas, fuel and oil	**1,275,783**	1,820,590	1,286,808
Taxes and licenses	**785,904**	929,895	1,293,589
Semi-expandable equipment	**487,514**	345,620	158,713
Insurance	**324,556**	304,671	320,021
Others	**6,813,457**	7,194,990	5,632,426
	₱176,748,807	₱170,087,781	₱175,111,876

Cost of real estate sold amounted to ₱13.3 million, ₱12.4 million, ₱1.0 million in 2017, 2016 and 2015, respectively (see Note 8).

Cost of cockfighting consists of:

	2017	2016	2015
Percentage tax	**₱58,638,378**	₱21,669,555	₱79,708
Support guarantee prize	**37,872,315**	14,117,719	–
Commission	**28,874,445**	10,610,873	10,921
Gamefowls (Note 8)	**31,861,968**	10,515,520	1,076,000
Communication	**11,718,083**	3,089,439	11,140
Teller's allowances	**9,573,299**	7,017,375	–
Meetings and conferences	**6,677,837**	–	–
Professional fees	**6,314,562**	5,183,273	1,317,292
Taxes and licenses	**4,185,950**	511,556	–
Transportation and travel	**4,088,316**	2,138,074	61,047
Supplies	**3,204,790**	1,275,201	93,743
Depreciation (Notes 12 and 19)	**2,577,642**	613,941	146,087
Repairs and maintenance	**1,512,375**	237,518	7,083
Security services	**970,365**	1,004,237	–
Fuel and oil	**677,706**	277,525	130,478
Semi expendable equipment	**253,343**	345,620	234,162
Personnel cost (Note 20)	**218,010**	–	–
Rent	**189,474**	1,469,159	181,850
Others	**10,131,532**	4,214,291	494,477
	₱219,540,390	₱84,290,876	₱3,843,988

Cost of rental services consists of:

	2017	2016	2015
Depreciation (Notes 12, 13 and 19)	**₱22,995,854**	₱24,939,658	₱26,683,293
Utilities	**11,027,316**	9,767,528	11,878,061
Contracted services	**4,344,281**	4,410,255	4,181,523
Meetings and conferences	**4,198,654**	6,142,331	6,129,034
Personnel costs (Note 20)	**3,614,998**	3,183,738	2,923,951
Repairs and maintenance	**3,575,558**	1,939,274	2,183,892
Software license	**2,832,000**	1,055,849	2,474,021
Security services	**1,517,397**	1,703,955	1,714,771
Rent (Note 30)	**1,504,958**	2,619,677	2,164,512
Franchise tax - gaming	**1,025,732**	1,324,861	1,404,724
Others	**2,049,779**	2,046,942	863,060
	₱58,686,527	₱59,134,068	₱62,600,842

Cost of food and beverages consists of:

	2017	2016	2015
Utilities	**₱4,798,198**	₱4,272,947	₱2,405,963
Contracted services	**4,084,970**	4,265,731	4,048,458
Purchased stocks	**3,767,710**	6,067,167	6,561,429
Personnel cost (Note 20)	**2,144,609**	1,465,083	1,988,168
Depreciation (Notes 12 and 19)	**427,694**	393,740	454,791
Semi-expendable equipment	**399,024**	118,880	256,241
Meetings and conferences	**321,104**	785,919	1,060,192
Communication	**103,098**	191,787	172,190
Supplies	**97,666**	223,124	124,080
Repairs and maintenance	**87,545**	118,835	1,119,074
Others	**1,062,969**	975,530	1,134,303
	₱17,294,587	₱18,878,743	₱19,324,889

18. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel costs (Note 20)	**₱73,991,810**	₱69,933,935	₱64,642,134
Contracted services	**18,478,025**	13,707,990	12,399,938
Depreciation (Notes 12 and 19)	**17,556,385**	17,163,151	15,648,673
Provision for doubtful accounts (Note 7)	**13,849,311**	13,658,247	13,249,397
Service fee	**13,844,376**	9,395,943	199,286
Professional fees	**12,127,562**	8,823,025	12,896,290
Utilities	**11,956,238**	11,098,944	11,374,415
Rent (Note 30)	**10,291,250**	8,740,857	7,975,468
Meetings and conferences	**10,259,111**	7,685,300	7,063,883
Repairs and maintenance	**9,626,114**	8,874,026	7,060,877
Security services	**6,857,941**	6,810,480	4,099,370
Gas, fuel and oil	**3,755,207**	4,315,708	7,396,709
Patronage fee	**3,242,354**	4,197,231	–
Taxes and licenses	**3,237,494**	2,060,452	2,253,275
Entertainment, amusement and recreation	**2,995,232**	1,953,741	1,976,390
Transportation and travel	**2,016,617**	3,911,430	3,438,746
Advertising	**1,850,122**	1,559,931	1,657,669
Supplies	**1,731,357**	1,787,468	1,544,309
Insurance	**1,522,454**	1,003,235	1,327,166
Directors' fee	**1,211,500**	919,500	1,044,000
Membership dues	**1,018,461**	887,739	1,058,473
Seminars and trainings	**916,851**	687,242	399,479
Semi-expendable equipment	**890,998**	658,274	317,459
Others	**10,889,026**	9,000,410	9,512,489
	₱234,115,796	₱208,834,259	₱188,535,895

19. Depreciation

This account consists of:

	2017	2016	2015
Cost of club races (Notes 12 and 17)	**₱39,825,103**	₱39,173,091	₱38,200,787
Cost of rental services (Notes 12, 13 and 17)	**22,995,854**	24,939,658	26,683,293
General and administrative expense (Notes 12 and 18)	**17,556,385**	17,163,151	15,648,673
Cost of cockfighting (Notes 12 and 17)	**2,577,642**	613,941	146,087
Cost of food and beverages (Notes 12 and 17)	**427,694**	393,740	454,791
	₱83,382,678	₱82,283,581	₱81,133,631

20. Personnel Costs

This account consists of:

	2017	2016	2015
Salaries and wages	**₱112,942,284**	₱105,222,332	₱101,681,488
Retirement benefits costs (Note 21)	**8,928,035**	9,129,671	8,646,931
Other employee benefits	**13,748,831**	12,388,619	11,543,985
	₱135,619,150	₱126,740,622	₱121,872,404

21. Retirement Benefits Costs

The Parent Company has four 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 report as of December 31, 2017.

The details of the retirement benefits costs are as follows:

	2017	2016	2015
Current service costs	**₱6,670,572**	₱6,057,113	₱6,189,686
Interest costs – net of interest income	**2,257,463**	2,299,051	2,457,245
Past service costs	**–**	773,507	–
	₱8,928,035	₱9,129,671	₱8,646,931

The components of remeasurements included in the consolidated statements of comprehensive income are as follows:

	2017	2016	2015
Actuarial gain in defined benefit obligation	(₱4,708,466)	(₱5,669,926)	(₱2,190,324)
Remeasurement loss (gain) in plan assets	(297,228)	2,080,391	1,509,502
	(5,005,694)	(3,589,535)	(680,822)
Less tax effect	(1,501,709)	(1,076,860)	(204,247)
	(₱3,503,985)	(₱2,512,675)	(₱476,575)

The details of accrued retirement benefits as are as follows:

	2017	2016
Defined benefit obligation	₱85,248,923	₱82,671,995
Fair value of plan assets	(45,390,806)	(38,636,219)
	₱39,858,117	₱44,035,776

Movements in the accrued retirement benefits are as follows:

	2017	2016
Balance at beginning of year	₱44,035,776	₱38,982,230
Net retirement benefits costs for the year	8,928,035	9,129,671
Contributions for the year	(8,100,000)	(486,590)
Defined benefit income recognized in OCI	(5,005,694)	(3,589,535)
Balance at end of year	₱39,858,117	₱44,035,776

Changes in present value of defined benefit obligation are as follows:

	2017	2016
Defined benefit obligation at beginning of year	₱82,671,995	₱77,267,484
Current service costs	6,670,572	6,057,113
Interest costs	4,695,769	4,829,218
Past service cost	–	773,507
Actuarial loss (gain) due to:		
Change in financial assumptions	1,015,174	1,095,432
Experience adjustments	(5,455,464)	(6,703,681)
Change in demographic assumptions	(268,176)	(61,678)
Benefits paid	(4,080,947)	(585,400)
Defined benefit obligation at end of year	₱85,248,923	₱82,671,995

Changes in fair value of plan assets are as follows:

	2017	2016
Fair value of plan assets at beginning of year	₱38,636,219	₱38,285,254
Interest income	2,438,306	2,530,167
Contributions	8,100,000	486,590
Actuarial gain (loss)	297,228	(2,080,391)
Benefits paid	(4,080,947)	(585,401)
Fair value of plan assets at end of year	45,390,806	38,636,219
Actual return on plan assets	₱2,735,534	₱449,776

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

The following table presents the carrying amounts and fair values of the combined assets of the plan less liabilities:

	2017	2016
Cash and cash equivalents	₱25,077,637	₱4,622,944
Investment in unit investment trust fund	–	13,101,924
Investment in government securities	18,569,877	19,079,491
Others	2,215,321	2,307,298
	45,862,835	39,111,657
Liabilities	(472,029)	(475,438)
	₱45,390,806	₱38,636,219

The plan assets' carrying amount approximates its fair value since these are either short-term in nature or mark-to-market. The plan's assets consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bears variable interest rates ranging from 2.5% to 8.5% and have maturities from 2018 to 2031; and,
- AFS financial assets consist of investments in government securities.

The carrying amounts of investments in government securities also approximate their fair values since they are mark-to-market.

- Other financial assets held by the plan are primarily accrued interest income on cash deposits and debt securities held by the plan; and
- Liabilities of the plan pertain to trust fee payable and retirement benefits payable.

The principal assumptions used in determining retirement benefits costs of the Parent Company as of December 31 are as follows:

	2017	2016	2015
Discount rates	5.80%	6.25%	6.25%
Expected rate of salary increase			
Monthly employees	4.00%	3.50%	4.00%
Race day employees	4.00%	4.00%	4.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant. Established on historical data, the behavior in error of the standard deviation is within the range:

	Effect on Net Retirement Liability		
	Increase (decrease)	**2017**	2016
Discount rate	+1.00%	**(₱5,313,018)**	(₱4,693,511)
	-1.00%	**6,080,891**	5,326,282
Salary increase rate	+1.00%	**5,301,968**	5,079,249
	-1.00%	**(4,715,700)**	(4,571,443)

The weighted average duration of the defined benefit obligation as of December 31, 2017 and 2016 are 6.7 and 6.4 years, respectively.

Shown below are the expected future benefit payments as of December 31, 2017 and 2016, respectively:

	2017	2016
Less than 1 year	**₱20,730,931**	₱20,164,043
More than 1 year to 5 years	**30,271,783**	31,580,630
More than 5 years to 10 years	**49,105,500**	46,672,109
Over 10 years	**209,246,105**	161,982,592

22. Interest Income

Interest income related to:

	2017	2016	2015
Real estate receivables (Note 7)	**₱9,929,750**	₱7,884,098	₱2,598,375
Cash and cash equivalents (Note 6)	**887,704**	581,369	2,026,420
Receivable from third parties (Note 7)	**843,333**	2,087,197	124,784
AFS quoted debt securities (Note 11)	**566,667**	351,217	182,347
Advances and loans to officers and employees (Note 7)	**346,997**	616,727	211,148
	₱12,574,451	₱11,520,608	₱5,143,074

23. Finance Costs

Interest expense related to:

	2017	2016	2015
Short-term loans (Note 15)	**₱5,682,596**	₱2,339,387	₱1,940,073
Bank charges and others	**414,208**	102,945	59,897
Long-term loans (Note 15)	**–**	–	385,494
	₱6,096,804	₱2,442,332	₱2,385,464

24. Other Income - net

	2017	2016	2015
Loss on receivable write-off (Note 7)	**(₱3,769,784)**	(₱496,128)	(₱1,436,242)
Parking fees	**3,707,679**	3,258,631	229,048
Income from advertising campaign	**2,681,166**	3,587,638	2,409,600
Entrance fee	**1,963,199**	1,191,625	407,774
Tenant's reimbursement	**1,388,753**	4,378,979	2,788,823
Dividend income from AFS financial assets (Note 11)	**392,750**	451,750	350,485
Income from subscription	**300,308**	501	–
Income due to cancellations	**134,087**	2,773,254	1,208,089
Gain on sale of property and equipment (Note 12)	**91,900**	467,712	–
Foreign exchange loss - net	**(50,375)**	(187,421)	(97,482)
Impairment loss on AFS financial assets (Note 11)	**(50,000)**	(1,983,500)	–
Gain on reversal of liabilities	**–**	13,135,947	–
Gain on sale of AFS financial assets (Note 11)	**–**	364,020	2,582,792
Service income	**–**	–	15,484,115
Others - net	**1,577,444**	963,422	4,249,690
	₱8,367,127	₱27,906,430	₱28,176,692

Income from advertising campaign pertains to advertising placement rights granted by the Group to third parties.

Tenant's reimbursements refer to the payment of utility charges by the tenants of the Building Complex at Sta. Cruz, Manila which the Parent Company recognizes as income when collected, net of remittances to SLBPO.

Service income pertains to technical services rendered by the Parent Company to MMTC.

Others include various individually insignificant items of income and expenses.

25. Income Taxes

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

	2017	2016	2015
RCIT	**₱24,031,849**	₱10,346,248	₱10,254
MCIT	**278,328**	2,539	3,952,823
Final tax on interest income	**263,001**	221,119	403,198
	₱24,573,178	₱10,569,906	₱4,366,275

Biohitech and SLLPHI have no provision for income tax in 2017, 2016 and 2015.

b. The components of the Group's net deferred tax liabilities are as follows:

	2017	2016
Deferred tax assets on:		
Accrued retirement benefits	**₱11,957,435**	₱13,210,733
Allowance for doubtful accounts	**10,867,600**	11,303,620
Advance rentals and non-refundable deposits	**2,875,252**	2,873,824
PAS 17 adjustment on rent expense	**2,191,375**	484,946
Unamortized past service cost	**2,020,448**	1,961,562
NOLCO	**1,286,589**	–
Unearned income	**597,322**	164,797
Provision for inventory write-down	**435,297**	435,297
Allowance for impairment on investment in associate	**300,000**	300,000
MCIT	**273,846**	–
Impairment loss on AFS financial assets	**156,000**	141,000
PAS 17 adjustment on rent income	**110,362**	220,442
Unrealized foreign exchange loss - net	**15,113**	56,227
	33,086,639	31,152,448
Deferred tax liabilities on:		
Unrealized gain from real estate transactions	**(51,646,552)**	(57,828,697)
Undepreciated capitalized borrowing costs	**(11,409,991)**	(12,353,556)
Deferred tax liabilities on (recognized directly in other comprehensive income):		
Unrealized deemed cost adjustment on real estate properties*	**(186,943,479)**	(189,643,141)
	(250,000,022)	(259,825,394)
Net deferred tax liabilities	**(₱216,913,383)**	(₱228,672,946)

** Reversal of deferred tax liabilities is through profit or loss, except for investment properties (see Note 27).*

	2017	2016
Deferred tax assets - net	**₱1,560,435**	₱–
Deferred tax liabilities - net	**(218,473,818)**	(228,672,946)
	(₱216,913,383)	(₱228,672,946)

c. Details of the unrecognized deferred tax assets relate to the following:

	2017	2016
Provision for doubtful accounts	**₱50,589**	₱53,052
NOLCO	**576,141**	2,532,680
MCIT	**7,021**	2,539
Unrealized foreign exchange loss	**4,597**	–
	₱638,348	₱2,588,271

d. Details of NOLCO and MCIT of each entity in the Group are as follows:

Gametime

NOLCO

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2014	₱1,268,961	₱–	₱1,268,961	₱–	2017
2015	3,733,888	–	1,909,164	1,824,724	2018
2016	2,463,907	–	–	2,463,907	2019
	₱7,466,756	**₱–**	**₱3,178,125**	**₱4,288,631**	

MCIT

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2017	**₱–**	**₱273,846**	**₱–**	**₱273,846**	**2020**

As of December 31, 2017, deferred tax assets on NOLCO and MCIT of Gametime were recognized since management believes that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized. As of December 31, 2016, the deferred tax assets on NOLCO were presented as part of unrecognized deferred tax.

MFC

NOLCO

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱99,079	₱–	₱68,393	₱30,686	2019

MCIT

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱2,539	₱–	₱–	₱2,539	2019
2017	**–**	**4,482**	**–**	**4,482**	**2020**
	₱2,539	**₱4,482**	**₱–**	**₱7,021**	

As of December 31, 2017 and 2016, deferred tax assets on NOLCO and MCIT of MFC are presented as part of unrecognized deferred tax assets.

ARWRI

NOLCO

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱876,430	–	–	₱878,446	2019
2017	–	1,011,338	–	1,011,338	2020
	₱876,430	₱1,011,338	₱–	₱1,889,784	

e. The reconciliation of the Group's provision for (benefit from) income tax at statutory tax rate to the provision for (benefit from) income tax shown in the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Provision for (benefit from) income tax at statutory rate	(₱32,546,218)	(₱20,361,861)	(₱17,526,751)
Additions to (reductions in) income tax resulting from tax effects of:			
Nondeductible expenses	58,282,871	32,408,585	11,640,825
Nontaxable income	(12,308,177)	(7,703,598)	(7,289,185)
MCIT applied	–	3,952,823	–
Interest income subjected to final tax	(166,647)	(94,244)	(187,719)
Movements in unrecognized deferred tax assets	(1,949,923)	1,360,563	–
Expired NOLCO	–	25,165	–
Provision for (benefit from) income tax	₱11,311,906	₱9,587,433	(₱13,362,830)

26. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

		Amount		Receivable/(Payable)			
	Nature	2017	2016	2017	2016	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office space[a]	₱11,780,277	₱11,431,401	₱–	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	–	(14,734,481)	(14,734,481)	(14,734,481)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances[b]	1,161	873,851	4,982,104	4,980,943	Noninterest-bearing	Unsecured, no impairment
Techsystems	Advances[b]	9,034	8,333	27,200	18,166	Noninterest-bearing	Unsecured, no impairment

[a] The Parent Company has a lease agreement with AMDC, an affiliate under common control, in the lease of office space and four parking lots (see Note 30).
[b] Included in the "Receivables" account (see Note 7)

Compensation of key management personnel of the Parent Company amounted to ₱66.0 million, ₱62.2 million and ₱65.3 million in 2017, 2016 and 2015, respectively. The Parent Company has no standard arrangement with regard to the remuneration of its directors. The BOD received a total of ₱9.8 million in 2017, 2016, and 2015. Advances and loans to officers and employees amounted to ₱14.7 million and ₱14.9 million as of December 31, 2017 and 2016, respectively (see Note 7).

27. Equity

Capital Stock

The details of the Parent Company's capital stock as of December 31, 2017 and 2016 are as follows:

	Number of Shares	Amount
Common shares - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued and outstanding (held by 970 and 981 equity holders in 2017 and 2016)	996,170,748	₱996,170,748
	996,170,748	₱996,170,748

Retained Earnings

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 and 2016 amounted to ₱1.1 billion.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury, fair value adjustment gain due to remeasurement of interest in 2013 and deemed cost adjustment totalling ₱2.5 billion as of December 31, 2017 and 2016.

The components of the deemed cost adjustment are as follows:

	2017	2016
Real estate inventories	**₱57,070,919**	₱66,069,794
Investment properties	**566,074,010**	566,074,010
Revaluation increment	**623,144,929**	632,143,804
Deferred income tax liability	**(186,943,479)**	(189,643,141)
Deemed cost adjustment	**₱436,201,450**	₱442,500,663

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 included in the balance of the unappropriated retained earnings are restricted and not available for dividend declaration.

On April 12, 2018, the BOD of the Parent Company approved the appropriations of the following:

- declaration of cash dividends of ₱0.05 per share or ₱49.8 million;
- payment for the subscription to Stock Rights Offering of its affiliate, MIC, amounting to ₱201.8 million; and
- payment for the subscription to the increase in the authorized capital stock of its subsidiary, MCI, amounting to ₱30.6 million.

Declaration of Dividends

The following are the details of the dividends declared in 2017 and 2016:

Type of Dividend	Date of Declaration	Date of Record	Dividends per Share
Cash	**June 30, 2017**	**July 18, 2017**	**₱0.05**
	June 30, 2016	June 10, 2016	₱0.05

As of December 31, 2017 and 2016, outstanding dividends payable amounted to ₱4.2 million and ₱4.3 million, respectively (see Note 16).

28. Basic/Diluted EPS

Basic/diluted loss per share were computed as follows:

	2017	2016	2015
Net loss attributable to equity holders of the Parent Company	**(₱119,358,594)**	(₱77,077,258)	(₱45,721,993)
Divided by weighted average number of outstanding common shares	**996,170,748**	996,170,748	996,170,748
Basic/diluted loss per share	**(₱0.1198)**	(₱0.0774)	(₱0.0459)

The Parent Company does not have potential dilutive common shares as of December 31, 2017, 2016 and 2015. Therefore, the basic and diluted loss per share are the same as of those dates.

29. 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 five reportable operating segments are the operation and maintenance of race tracks and holding of horse races, cockfighting operations, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

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 December 31, 2017, 2016 and 2015, 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 for the years ended December 31 are as follows:

	2017						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱186,133,893	₱332,720,611	₱132,946,095	₱83,510,985	₱18,279,403	₱23,430,559	₱777,021,546
Cost and expenses	(176,748,807)	(219,540,390)	(25,345,701)	(58,686,527)	(17,294,587)	(387,892,928)	(885,508,940)
Income (loss) before income tax	9,385,086	113,180,221	107,600,394	24,824,458	984,816	(364,462,369)	(108,487,394)
Provision for income tax	–	–	–	–	–	(11,311,906)	(11,311,906)
Net income (loss)	₱9,385,086	₱113,180,221	₱107,600,394	₱24,824,458	₱984,816	(₱375,774,275)	(₱119,799,300)

	2016						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱188,544,440	₱120,386,418	₱121,705,673	₱89,991,462	₱16,179,911	₱37,836,306	₱574,644,210
Cost and expenses	(170,087,781)	(84,290,876)	(29,085,335)	(59,134,068)	(18,878,743)	(281,040,276)	(642,517,079)
Income (loss) before income tax	18,456,659	36,095,542	92,620,338	30,857,394	(2,698,832)	(243,203,970)	(67,872,869)
Provision for income tax	–	–	–	–	–	(9,587,433)	(9,587,433)
Net income (loss)	₱18,456,659	₱36,095,542	₱92,620,338	₱30,857,394	(₱2,698,832)	(₱252,791,403)	(₱77,460,302)

	2015						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱199,811,373	₱442,821	₱49,166,094	₱87,163,618	₱18,972,040	₱61,575,717	₱417,131,663
Cost and expenses	(175,111,876)	(4,680,988)	(12,454,347)	(62,600,842)	(19,324,889)	(201,381,225)	(475,554,167)
Income (loss) before income tax	24,699,497	(4,238,167)	36,711,747	24,562,776	(352,849)	(139,805,508)	(58,422,504)
Benefit from income tax	–	–	–	–	–	13,362,830	13,362,830
Net income (loss)	₱24,699,497	(₱4,238,167)	₱36,711,747	₱24,562,776	(₱352,849)	(₱126,442,678)	(₱45,059,674)

Finance costs, other income - net 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 in 2017, 2016 and 2015. Equity in net earnings (losses) of associate and joint ventures amounting to (₱135.2 million), (₱70.5 million), and ₱12.5 million in 2017, 2016 and 2015, respectively, are included in the segment revenue of operating segment "Unallocated." Pre-operating cost of certain subsidiaries are also included in cost and expense of operating segment "Unallocated".

Segment Assets and Liabilities and Other Information

The segment assets, liabilities and capital expenditures for the years ended December 31 are as follows:

	2017						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱795,202,198	₱96,419,166	₱308,704,848	₱497,453,721	₱6,205,688	₱3,121,975,821	₱4,825,961,442
Liabilities	72,835,295	69,922,205	236,607,934	73,837,911	–	396,616,293	849,819,638
Capital expenditures	10,819,478	5,243,044	–	–	212,973	24,588,059	40,863,554
Depreciation	39,825,103	3,116,507	–	20,570,985	427,694	19,442,389	83,382,678

	2016						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱894,309,981	₱62,655,084	₱341,055,237	₱526,905,926	₱7,632,035	₱3,000,102,309	₱4,832,660,572
Liabilities	64,299,449	60,522,035	257,274,879	75,095,428	–	233,211,126	690,402,917
Capital expenditures	6,201,624	12,650,156	–	2,011,254	–	36,713,516	57,576,550
Depreciation	39,173,091	613,941	–	24,939,658	393,740	17,163,151	82,283,581

	2015						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱919,607,441	₱13,818,143	₱320,509,238	₱539,713,516	₱3,710,302	₱3,008,168,044	₱4,805,526,684
Liabilities	62,275,800	18,871,718	62,275,801	76,415,780	–	387,855,557	607,694,656
Capital expenditures	2,735,191	1,835,143	–	–	124,971	30,390,228	35,085,533
Depreciation	38,200,787	151,817	20,269,133	20,269,133	454,791	1,787,970	81,133,631

30. Commitments and Contingencies

Commitments

The following are the significant commitments of 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 under common control, 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 5.0%. 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, subject to an annual escalation rate of 5.0%, and will expire on December 31, 2017. As of December 31, 2017, the lease contract is still under renewal.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2017	2016
Within one year	₱–	₱6,236,274
After one year but not more than five years	–	–
	₱–	₱6,236,274

On January 1, 2011, the Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2017 is ₱361,473, subject to an annual escalation rate of 5.0%.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2017	2016
Within one year	₱3,987,564	₱3,797,680
After one year but not more than five years	8,583,233	12,570,797
	₱12,570,797	₱16,368,477

b. Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

In 2013, the Parent Company entered into a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. As of December 31, 2017, the lease contract is still under renewal.

Rent income from PAGCOR amounted to ₱1.2 million in 2017, 2016 and 2015 (see Note 12).

c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until June 30, 2016. As of December 31, 2017, the lease contract is still under renewal. In 2017, 2016, and 2015, income from lease agreement with PAGCOR amounted to ₱20.5 million, ₱26.5 million and ₱28.1 million, respectively (see Note 12).

d. Claims and Legal Actions

   As of December 31, 2017 and 2016, 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 consolidated 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 therefrom would be taken up when the final resolution of the claims and actions are determined.

Contingencies

Unclaimed Dividends on Winnings
Under PR58D of the *Rules and Regulations on Horse Racing* promulgated by the Philippine 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 funds 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 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 Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Parent Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of April 20, 2018, the status is still pending before the Supreme Court.

31. Financial Instruments

The following tables provide the fair value hierarchy of the Group's AFS financial assets, loans and borrowings, and investment properties:

			2017		
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱34,566,042	₱34,566,042	₱34,566,042	₱–	₱–
Loans and borrowings	234,000,000	234,000,000	–	–	234,000,000
Investment properties	1,097,375,496	1,097,375,496	–	–	1,097,375,496
	₱1,365,941,538	₱1,365,941,538	₱34,566,042	₱–	₱1,331,375,496

			2016		
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱12,628,515	₱12,628,515	₱12,628,515	₱–	₱–
Loans and borrowings	90,000,000	90,000,000	–	–	90,000,000
Investment properties	1,099,639,271	1,099,639,271	–	–	1,099,639,271
	₱1,202,267,786	₱1,202,267,786	₱12,628,515	₱–	₱1,189,639,271

As of December 31, 2017 and 2016, the Parent Company's AFS financial assets measured at fair value under the Level 1 hierarchy totaled ₱34.6 million and ₱12.6 million, respectively. There were no financial instruments measured at fair value under the Level 2 and Level 3 hierarchy.

Unquoted AFS shares amounted to ₱0.6 million as of December 31, 2017 and 2016. Carrying amount of these shares is equal to its fair value as at December 31, 2017 and 2016, respectively.

In 2017 and 2016, the carrying value of cash and cash equivalents (except cash on hand), receivables, deposits, accounts payable and other liabilities (except statutory liabilities) and due to related parties approximate their fair value due to the short-term nature of the accounts.

32. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents (except cash on hand), 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 has no exposure to the risk of changes in market interest rate because the Group's interest-bearing loans and borrowings carry fixed interest rates (see Note 15).

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 statements of financial position 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 December 31, 2017 and 2016:

	Increase (decrease) in PSEi	Effect on equity
2017	**+14%**	**₱4,839,246**
	-14%	**(4,839,246)**
2016	+14%	1,767,992
	-14%	(1,767,992)

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. 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 December 31 and its Peso equivalent are as follows:

	United States (US) Dollar	Philippine Peso
2017	**US$17,216**	**₱859,439**
2016	5,290	263,022

As of December 31, 2017 and 2016, the applicable closing exchange rates were ₱49.93 and ₱47.72 to US$1, respectively. Net foreign exchange loss amounted to ₱50,375, ₱187,421, and ₱97,482, in 2017, 2016 and 2015, respectively (see Note 24).

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 years ended December 31, 2017 and 2016.

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 December 31, 2017 and 2016.

	2017	2016
Loans and receivables:		
Cash and cash equivalents:		
Cash in banks	**₱176,432,422**	₱133,995,064
Cash equivalents	**25,000,000**	24,166,563
	201,432,422	158,161,627
Receivables:		
Real estate receivables*	**201,620,174**	221,882,204
Advances and loans to officers and employees	**14,710,930**	14,892,438
Rent receivables	**13,320,614**	15,788,500
Receivable from third parties	**9,461,807**	15,252,500
Advances to suppliers	**8,501,055**	3,174,034
Due from related parties	**5,009,304**	4,999,109
Receivable from contractors	**3,863,082**	3,993,996
Dividends receivable	**3,376,407**	5,772,409
Receivables from OTB operators	**938,159**	9,365,026
Others	**7,728,049**	1,891,398
	268,529,581	297,011,614
Deposits**	**3,375,580**	3,375,580
	₱473,337,583	₱458,548,821

**Includes noncurrent real estate receivables.*
***Included in "Other noncurrent assets" account in the consolidated statements of financial position.*

The tables below show the credit quality of financial assets as of December 31, 2017 and 2016.

	2017			
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	₱176,432,422	₱–	₱–	₱176,432,422
Cash equivalents	25,000,000	–	–	25,000,000
	201,432,422	–	–	201,432,422
Receivables:				
Real estate receivable	201,620,174	–	21,888,370	223,508,544
Advances and loans to officers and employees	14,710,930	–	–	14,710,930
Rent receivables	13,320,614	–	1,664,043	14,984,657
Receivable from third parties	9,461,807	–	1,083,881	10,545,688
Advances to suppliers	8,501,055	–	5,385,178	13,886,233
Due from related parties	5,009,304	–	–	5,009,304
Receivable from contractors	3,863,082	–	1,778,413	5,641,495
Dividends receivable	3,376,407	–	–	3,376,407
Receivables from OTB operators	938,159	–	468,356	1,406,515
Claims for TCC	–	–	–	–
Others	7,728,049	–	4,125,723	11,853,772
	268,529,581	–	36,393,964	304,923,545
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	34,566,042	–	–	34,566,042
	₱507,903,625	₱–	₱36,393,964	₱544,297,589

**Included in "Other noncurrent assets" account in the consolidated statements of financial position.*

	2016			
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	₱133,995,064	₱–	₱–	₱133,995,064
Cash equivalents	24,166,563	–	–	24,166,563
	158,161,627	–	–	158,161,627
Receivables:				
Real estate receivable	221,882,204	–	22,729,886	244,612,090
Rent receivables	15,788,500	–	1,523,437	17,311,937
Receivable from third parties	15,252,500	–	–	15,252,500
Advances and loans to officers and employees	14,892,438	–	–	14,892,438
Receivables from OTB operators	9,365,026	–	133,304	9,498,330
Dividends receivable	5,772,409	–	–	5,772,409
Due from related parties	4,999,109	–	–	4,999,109
Receivable from contractors	3,993,996	–	1,778,413	5,772,409
Advances to suppliers	3,174,033	–	5,304,547	8,478,580
Claims for TCC	–	–	2,252,054	2,252,054
Others	1,891,399	–	4,133,933	6,025,332
	297,011,614	–	37,855,574	334,867,188
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	12,628,515	–	–	12,628,515
	₱471,177,336	₱–	₱37,855,574	₱509,032,910

**Included in "Other noncurrent assets" account in the consolidated statements of financial position.*

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

Financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's BOD on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Receivables
Credit risk from receivables is managed by the Group through an established policy, procedures and control relating to credit risk management of receivables from customers, OTB operators, lessees, related parties and other counterparties.

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5% of the total receivables.

These receivables have no history of significant default or delinquency in collections but have a reasonable probability of non-collectability.

Past due but not impaired loans and receivables amounted to nil as of December 31, 2017 and 2016.

Liquidity risk
The Group monitors and maintains a certain level of cash and cash equivalents to finance the Group's operation, ensure continuity of funding and to mitigate the effect of fluctuations in cash flows. It maintains a balance between continuity of funding and flexibility by regularly evaluating its projected and actual cash flows 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 liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments (principal and interest) and the profile of the financial assets used to manage the Group's liquidity risk.

December 31, 2017

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short-term loans and borrowings*	₱242,190,000	₱–	₱–	₱–	₱242,190,000
Accounts payable and other liabilities**	269,255,049	–	–	–	269,255,049
	₱511,445,049	₱–	₱–	₱–	₱511,445,049

** Amounts are inclusive of interest amounting to ₱8.2 million.*
*** Amounts are exclusive of nonfinancial liabilities amounting to ₱72.8 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and receivables:					
Cash in banks	₱176,432,422	₱–	₱–	₱–	₱176,432,422
Cash equivalents	25,000,000	–	–	–	25,000,000
Receivables	268,529,581	–	–	–	268,529,581
Deposits*	–	–	3,375,580	–	3,375,580
	469,962,003	–	3,375,580	–	473,337,583
AFS financial assets	–	–	34,566,042	–	34,566,042
	₱469,962,003	₱–	₱37,941,622	₱–	₱507,903,625

** Included in the "Other noncurrent assets" in the consolidated statements of financial position.*

December 31, 2016

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short-term loans and borrowings*	₱92,700,000	₱–	₱–	₱–	₱92,700,000
Accounts payable and other liabilities**	249,234,339	–	–	–	249,234,339
	₱341,934,339	₱–	₱–	₱–	₱341,934,339

** Amounts are inclusive of interest amounting to ₱2.7 million.*
*** Amounts are exclusive of nonfinancial liabilities amounting to ₱63.2 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and receivables:					
Cash in banks	₱133,995,064	₱–	₱–	₱–	₱133,995,064
Cash equivalents	24,166,563	–	–	–	24,166,563
Receivables	297,011,614	–	–	–	297,011,614
Deposits*	–	–	3,375,580	–	3,375,580
	455,173,241	–	3,375,580	–	458,548,821
AFS financial assets	12,628,515	–	–	–	12,628,515
	₱467,801,756	₱–	₱3,375,580	₱–	₱471,177,336

** Included in the "Other non-current assets" in the consolidated statements of financial position.*

Changes in liabilities arising from financing activities

	December 31, 2016	Cash flow	Dividends declared	Interest expense	December 31, 2017
Short-term loans and borrowings (Note 15)	₱90,000,000	₱144,000,000	₱–	₱–	₱234,000,000
Interest payable	–	(6,096,804)	–	6,096,804	–
Dividends payable (Note 16)	4,341,602	(49,968,707)	49,808,063	–	4,180,958
Total liabilities from financing activities	₱94,341,602	₱87,934,489	₱49,808,063	₱6,096,804	₱238,180,958

33. Capital Management

The Group considers the total equity as its capital. 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:

	2017	2016
Capital stock	₱996,170,748	₱996,170,748
Additional paid-in capital	27,594,539	27,594,539
Net cumulative changes in fair values of AFS financial assets	4,950,148	4,962,621
Remeasurement on retirement benefits	27,637,707	24,133,722
Retained earnings	2,854,097,244	3,023,263,901
Treasury shares	(7,096)	(7,096)
Noncontrolling interest	65,698,514	66,139,220
	₱3,976,141,804	₱4,142,257,655

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

34. **Other Matters**

a. On April 4, 2014, a MOA was executed between the Parent Company and the Philippine Football Federation, Inc. (PFF) to jointly develop a football complex on a portion of MJC's SLLBP in Carmona, Cavite. This is in consonance with MJC's over-all plan to develop SLLBP into a leisure, gaming and entertainment hub.

   The football complex shall consist of a pitch of Federacion Internationale de Football Association (FIFA) two star international standards, a training center and other football support facilities. It is envisioned to be the site of national and international matches and friendlies sanctioned by the 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 the Philippine Olympic Committee.

b. On March 22, 2018, the Board of Directors of Manilacockers Club, Inc. (MCI) authorized and approved the increase in its authorized capital, from ₱10.0 million to ₱500.0 million. Out of said increase, the Parent Company shall subscribe to at least 25%, or ₱122.5 million common shares at par value of ₱1.00 per share.

   Upon SEC approval of said increase in the authorized capital stock, the resulting shareholdings of the Parent Company shall be 125.0 million shares.

c. On April 2, 2018, MCI was informed of the filing of House Bill No. 7368, *"An Act Granting Manila Cockers Club, Inc., a Franchise to Construct, Operate and Maintain Cockpit Arenas in the Provinces of Cavite, Laguna or Batangas; and To Establish, Operate, Maintain Off-Cockpit Betting Stations Throughout the Philippines" (the "Franchise Bill").*

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Manila Jockey Club, Inc.
San Lazaro Leisure Park
Brgy. Lantic, Carmona, Cavite

We have audited in accordance with Philippine Standards on Auditing (PSAs), the accompanying consolidated financial statements of Manila Jockey Club, Inc. and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A and have issued our report thereon dated April 20, 2018. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the management of the Group. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2016, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621279, January 9, 2018, Makati City

April 20, 2018

ANNEX "C"

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule A. Marketable Securities
As of December 31, 2017

Financial Assets	Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotation at End of Reporting Period	Income Received and Accrued
AFS investments					
Quoted Equity Shares					
	Dizon Copper Silvermines, Inc.	82	582	582	–
	Ayala Corporation (Class "B" Series 2 Perpetual Preferred Shares)	10,000	5,260,000	5,260,000	278,750
	PLDT	1,500	2,220,000	2,220,000	114,000
	Retail Treasury Bonds	–	22,005,460	22,005,460	566,667
	Manila Southwoods	1	1,000,000	1,000,000	–
	Sta. Elena Golf	1	3,200,000	3,200,000	–
	Tagaytay Highland	1	550,000	550,000	–
	Club Filipino	1	250,000	250,000	–
	Tower Club, Inc.	1	80,000	80,000	–
Unquoted Equity Shares (at cost)					
	PLDT (Subscriber's Plan)	1	370,047	370,047	–
	PLDT (10% Cumulative Convertible Preferred Stock)	6,975	69,750	69,750	–
	Banahaw Cable Car	1	5,000	5,000	–
	Metropolitan Theater - Membership	1	20,000	20,000	–
	PLDT (Subs. Investment Plan)	1	165,500	165,500	–
	Executive Suites Stocks - Membership	1	3,000	3,000	–
Total			35,199,339	35,199,339	959,416

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
As of December 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Collected	Amounts Written Off			
Various	14,892,438	–	181,508	–	14,710,930	–	14,710,930

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements

As of December 31, 2017

Name of Debtor	Designation of debtor	Balance at the Beginning of the Period	Additions	Deductions			Current	Not Current	Balance at End of Period
				Amounts Collected	Amounts Written Off	Others			
Biohitech Philippines, Inc.	Subsidiary	18,166	9,034	–	–	–	27,200	–	27,200
SLLP Holdings, Inc.	Subsidiary	18,166	9,034	–	–	–	27,200	–	27,200
MJC Forex Corporation	Subsidiary	102,500	–	(102,500)	–	–	–	–	–
Manilacockers Club, Inc.	Subsidiary	25,339,497	125,459,656	(101,765,828)	–	–	49,033,325	–	49,033,325
Gametime Sports and Technologies, Inc	Subsidiary	25,938,052	57,373,755	(66,661,880)	–	–	16,649,927	–	16,649,927
Hi-Tech Harvest Limited	Subsidiary	208,795	–	–	–	–	208,795	–	208,795
New Victor Technology, Ltd.	Subsidiary	3,434,727					3,434,727		3,434,727
Apo Reef World Resorts, Inc.	Subsidiary	1,450,421	–	–	–	–	1,450,421	–	1,450,421
MJC Investment Corporation	Associate	4,980,943	1,161	–	–	–	4,982,104	–	4,982,104
Techsystems, Inc.	Associate	18,166	9,034	–	–	–	27,200	–	27,200
TOTAL		61,509,433	182,861,674	(168,530,208)	–	–	75,840,899	–	75,840,899

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule D. Intangible Assets – Other Assets

As of December 31, 2017

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions / (Deductions)	Ending Balance
			Not Applicable			

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule E. Long-term Debt
As of December 31, 2017

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet	Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet

Not Applicable

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule F. Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies)

As of December 31, 2017

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Not Applicable		
		-

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule G. Guarantees of Securities of Other Issuers
As of December 31, 2017

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which this Statement is Filed	Nature of Guarantee
Not Applicable				

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule H. Capital Stock
As of December 31, 2017

Title of issue	Number of shares authorized	Number of shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Treasury
Common Stock	**1,000,000,000**	**996,170,748**	**-**	**-**	**84,212,775**	**9,462**

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule I. Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2017

Name of Creditor	Balance at the Beginning of the Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Paid	Others			
New Victor Technology, Ltd	2,570,715	–	–	–	2,570,715	–	2,570,715
MJC Forex Corp	–	102,500	–	–	102,500	–	102,500
Manilacockers Club, Inc.	6,409,391	2,198,983,610	(2,194,620,362)	–	10,772,639	–	10,772,639
Gametime Sports and Technologies, Inc.	1,285,713	9,304,241	(919,097)		9,670,857		9,670,857
	10,256,819	2,208,390,351	2,195,539,459	–	23,116,711	–	23,116,711

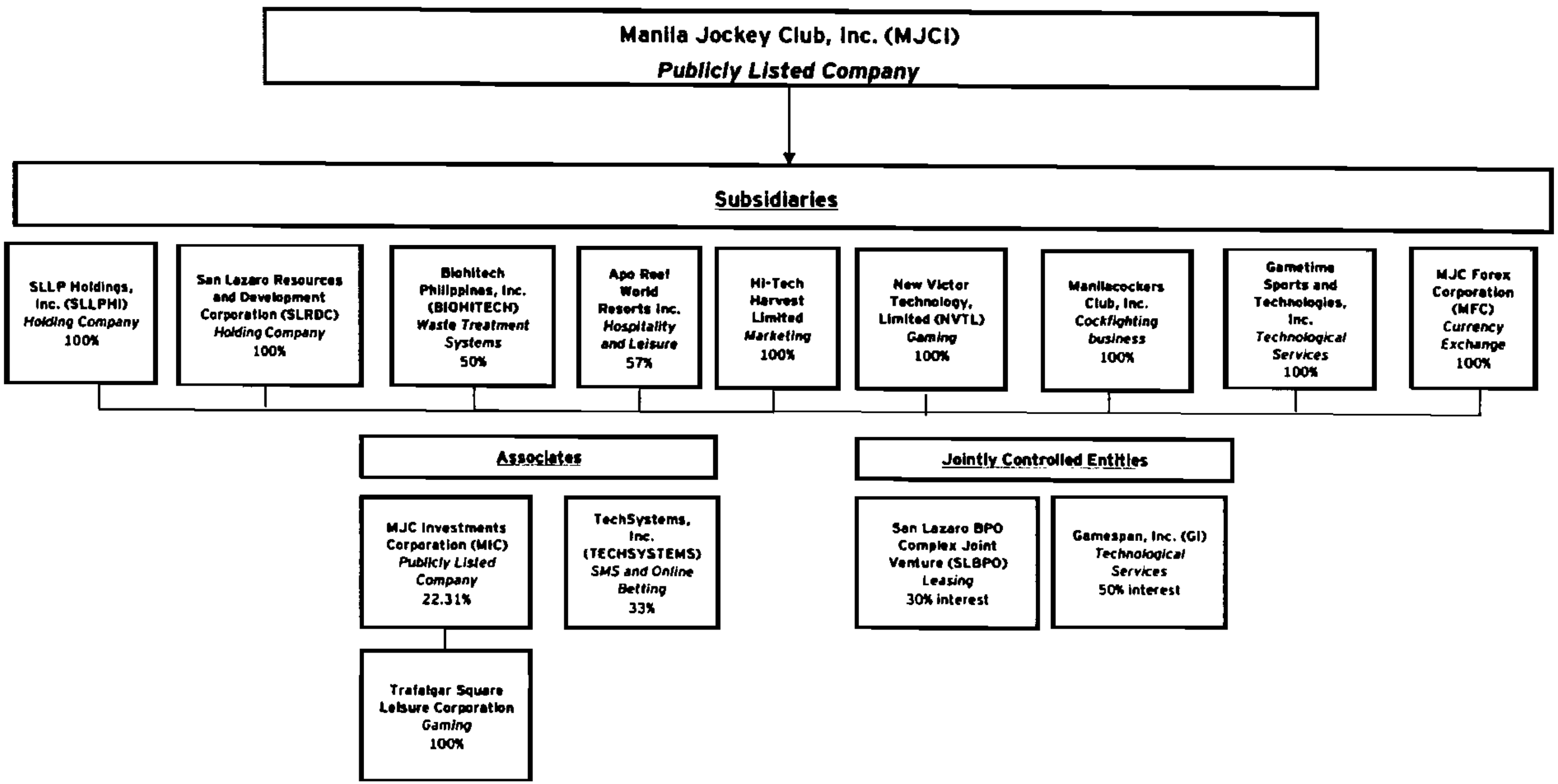
MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule J. Parent Company Retained Earnings Available for Dividend Declaration

As at and for the year ended December 31, 2017

Unappropriated retained earnings, beginning	**₱1,559,842,166**
Add (less):	
Net income actually earned/realized during the year	**24,562,406**
Deemed cost adjustment on real estate properties realized through sale, net of deferred income tax	**(436,201,450)**
Deferred tax assets	**(31,479,326)**
Unrealized foreign exchange loss - net	**(50,375)**
Treasury shares	**(7,096)**
Unappropriated retained earnings, as adjusted to amount available for dividend declaration	**1,116,666,325**
Less: Cash dividends declared during the year	**(49,808,060)**
Unappropriated retained earnings available for dividend declaration, ending	**₱1,066,858,265**

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule K. **Map of Subsidiaries, Joint Ventures and Associates**
As of December 31, 2017



MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule L. List of Effective Standards and Interpretations
As of December 31, 2017

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS AS OF DECEMBER 31, 2017

[illegible]		[illegible]	[illegible]	[illegible]
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of Effective PFRS			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Definition of Vesting Conditions	✓		
	Amendment to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions	Not early adopted		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendment to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4	Not early adopted		

[illegible]		[illegible]	[illegible]	[illegible]
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Servicing Contracts	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not early adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not early adopted		
	Amendments to PFRS 10: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities	✓		

[illegible]		[illegible]	[illegible]	[illegible]
	Amendments to PFRS 12: Applying the Consolidation Exception			✓
	Amendments to PFRS 12 - Clarification of the Scope of the Standard	Not early adopted		
PFRS 13	Fair Value Measurement (2013 Version)	✓		
	Amendments to PFRS 13: Short-term Receivables and Payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendment to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation	✓		
	Amendment to PAS 16: Bearer Plants			✓

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Regional market issue regarding discount rate	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not early adopted		
	Amendments to PAS 28: Applying the Consolidation Exception			✓
	Amendment to PAS 28 – Measuring an Associate or Joint Venture at Fair Value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendment to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		

[illegible]		[illegible]	[illegible]	[illegible]
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Investment Property	✓		
	Amendment to PAS 40: Transfers of Investment Property	Not early adopted		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✔
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✔
IFRIC 8	*Scope of PFRS 2*			✔
IFRIC 9	Reassessment of Embedded Derivatives			✔
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✔
IFRIC 10	*Interim Financial Reporting and Impairment*			✔
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes			✔
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✔
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✔
IFRIC 15	Agreements for Construction of Real Estate			✔
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners			✔
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✔
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
IFRIC 21	Levies	✔		
IFRIC 22	Foreign Currency Transactions and Consideration and Advance Consideration		Not early adopted	
IFRIC 23	Uncertainty Over Income Tax Treatments		Not early adopted	
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities			✔
	Amendment to SIC - 12: Scope of SIC 12			✔
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔

SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule M. Financial Soundness Indicators
As of December 31, 2017

	As of and for the Years Ended December 31		
	2017	2016	2015
Liquidity ratios			
Current ratio[a]	**0.89**	1.09	1.30
Interest rate coverage ratio[b]	**3.09**	7.97	11.56
Solvency ratios			
Debt to equity ratio[c]	**0.06**	0.02	0.01
Asset to equity ratio[d]	**1.21**	1.17	1.14
Profitability ratio			
EBITDA margin[e]	**0.02**	0.03	0.07

[a] *Current assets over current liabilities*

[b] *EBITDA over interest expense and financing charges on borrowings*

[c] *Interest-bearing debts over total equity*

[d] *Total assets over total equity*

[e] *EBITDA over gross revenues from operations*

COVER SHEET

8 0 3

S.E.C. Registration Number

MANILA JOCKEY CLUB, INC.

(Company's Full Name)

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

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

ATTY. CHINO PAOLO Z. ROXAS

Contact Person

687-9889

Company's Telephone Number

QUARTERLY REPORT
FOR THE PERIOD ENDED 31 MARCH 2018

1 2	3 1	17-Q	0 6	3 0
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: March 31, 2018

2. Commission identification number: 803

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: [ ] (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	996,170,748

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [X] 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.**

Corporate Information Officer: CHINO PAOLO Z. ROXAS
Date: May 14, 2018

Chief Finance Officer: NESTOR N. UBALDE
Date: May 14, 2018

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2018 AND DECEMBER 31, 2017

	UNAUDITED MARCH 2018	AUDITED DECEMBER 2017
ASSETS	(In Philippine Peso)	
Current Assets		
Cash and cash equivalents (Note 6)	231,678,030	225,600,519
Receivables (Note 7)	187,898,268	217,376,219
Inventories (Note 8)	67,443,058	71,249,177
Other current assets (Note 9)	18,316,006	11,492,232
Total Current Assets	505,335,362	525,718,147
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	57,891,699	51,153,362
Investments in associates and joint ventures (Note 10)	2,164,506,336	2,204,296,039
Available-for-sale (AFS) financial assets (Note 11)	35,199,339	35,199,339
Property and equipment (Notes 12)	866,756,484	880,606,916
Investment properties (Notes 10 13 and 15)	1,094,493,366	1,097,375,496
Deferred Income Tax Assets		1,560,435
Other noncurrent assets (Notes 1 and 14)	31,000,559	30,051,708
Total Noncurrent Assets	4,249,847,783	4,300,243,295
	4,755,183,145	4,825,961,442
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 15)	217,076,018	234,000,000
Accounts payable and other liabilities (Notes 16)	342,021,949	342,041,930
Income tax payable	3,701,747	711,292
Due to related parties (Note 26)	14,734,482	14,734,481
Total Current Liabilities	577,534,196	591,487,703
Noncurrent Liabilities		
Accrued retirement benefits (Note 21)	37,239,933	39,858,117
Deferred tax liabilities(Note 25)	216,913,383	218,473,818
Total Noncurrent Liabilities	254,153,316	258,331,935
	831,687,512	849,819,638
Equity		
Capital stock (Note 27)	996,170,748	996,170,748
Additional paid-in capital	27,594,539	27,594,539
Actuarial gains on accrued retirement benefits (Note 21)	27,637,707	27,637,707
Net cumulative changes in fair values of AFS financial assets (Note 11)	4,950,148	4,950,148
Retained earnings	2,801,694,678	2,854,097,244
Treasury shares	(7,096)	(7,096)
Equity attributable to equity holders of the parent company	3,858,040,724	3,910,443,290
Noncontrolling interests (Note 1)	65,454,909	65,698,514
Total Equity	3,923,495,633	3,976,141,804
	4,755,183,145	4,825,961,442
	-	-

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE QUARTERS ENDED MARCH 31, 2018 AND 2017

	UNAUDITED **MARCH 2018**	UNAUDITED **MARCH 2017**
	(In Philippine Peso)	
REVENUES		
Club races	**41,634,866**	48,948,766
Cockfighting	**86,577,509**	48,078,122
Real estate (Note 8)	**19,228,179**	12,308,568
Rent (Notes 12 and 13)	**19,565,499**	20,713,329
Food and beverages	**4,998,297**	3,904,323
Others	**728,443**	8,625,035
	172,732,793	142,578,143
COST OF SALES AND SERVICES (Note 17)		
Club races	**49,902,590**	42,881,823
Cockfighting	**52,203,279**	32,132,615
Real estate (Note 8)	**3,167,933**	1,800,470
Rent	**11,708,741**	12,865,365
Food and beverages	**6,554,766**	5,543,594
Others	**4,674,813**	9,409,206
	128,212,122	104,633,073
GROSS INCOME	**44,520,671**	37,945,070
General and administrative expenses (Note 18)	**(68,156,422)**	(52,155,980)
Selling expense (Note 8)	**(1,502,357)**	(837,763)
Interest income (Notes 6, 7, 11 and 22)	**6,902,966**	8,766,446
Finance costs (Notes 15 and 23)	**(2,092,974)**	(1,211,500)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**(33,292,760)**	(34,799,339)
Other income - net (Note 24)	**4,004,070**	4,155,589
INCOME (LOSS) BEFORE INCOME TAX	**(49,616,806)**	(38,137,477)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	**2,785,759**	478,246
Deferred	**-**	-
	2,785,759	478,246
NET INCOME (LOSS)	**(52,402,565)**	(38,615,723)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Net changes in fair values of AFS financial assets	**-**	-
Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	**-**	-
TOTAL COMPREHENSIVE INCOME (LOSS)	**(52,402,565)**	(38,615,723)
Net income attributable to:		
Equity holders of the parent company	**(52,158,960)**	(38,591,848)
Noncontrolling interests	**(243,605)**	(23,875)
	(52,402,565)	(38,615,723)
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	**(52,158,960)**	(38,591,848)
Noncontrolling interests	**(243,605)**	(23,875)
	(52,402,565)	(38,615,723)
Basic/Diluted Earnings (Loss) Per Share (Note 28)	**(0.0524)**	(0.0387)

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE PERIODS ENDED MARCH 31, 2018 AND 2017

	UNAUDITED **MARCH 2018**	UNAUDITED **MARCH 2017**
	(In Philippine Peso)	
REVENUES		
Club races	**41,634,866**	48,948,766
Cockfighting	**86,577,509**	48,078,122
Real estate (Note 8)	**19,228,179**	12,308,568
Rent (Notes 12 and 13)	**19,565,499**	20,713,329
Food and beverages	**4,998,297**	3,904,323
Others	**728,443**	8,625,035
	172,732,793	142,578,143
COST OF SALES AND SERVICES (Note 17)		
Club races	**49,902,590**	42,881,823
Cockfighting	**52,203,279**	32,132,615
Real estate (Note 8)	**3,167,933**	1,800,470
Rent	**11,708,741**	12,865,365
Food and beverages	**6,554,766**	5,543,594
Others	**4,674,813**	9,409,206
	128,212,122	104,633,073
GROSS INCOME	**44,520,671**	37,945,070
General and administrative expenses (Note 18)	**(68,156,422)**	(52,155,980)
Selling expense (Note 8)	**(1,502,357)**	(837,763)
Interest income (Notes 6, 7, 11 and 22)	**6,902,966**	8,766,446
Finance costs (Notes 15 and 23)	**(2,092,974)**	(1,211,500)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**(33,292,760)**	(34,799,339)
Other income - net (Note 24)	**4,004,070**	4,155,589
INCOME (LOSS) BEFORE INCOME TAX	**(49,616,806)**	(38,137,477)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	**2,785,759**	478,246
Deferred	-	-
	2,785,759	478,246
NET INCOME (LOSS)	**(52,402,565)**	(38,615,723)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Net changes in fair values of AFS financial assets	-	-
Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)	**(52,402,565)**	(38,615,723)
Net income attributable to:		
Equity holders of the parent company	**(52,158,960)**	(38,591,848)
Noncontrolling interests	**(243,605)**	(23,875)
	(52,402,565)	(38,615,723)
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	**(52,158,960)**	(38,591,848)
Noncontrolling interests	**(243,605)**	(23,875)
	(52,402,565)	(38,615,723)
Basic/Diluted Earnings (Loss) Per Share (Note 28)	**(0.0524)**	(0.0387)

See accompanying Notes to Consolidated Financial Statements.

MARCH 2018 (UNAUDITED)
(In Philippine Peso)

	Capital Stock (Note 27)	Additional Paid-In Capital	Actuarial Gains on Accrued Retirement Benefits	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 11)	Retained Earnings - Unappropriated	Treasury Shares	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2017	**996,170,748**	**27,594,539**	**27,637,707**	**4,950,148**	**2,854,097,244**	**(7,096)**	**3,910,443,290**	**65,698,514**	**3,976,141,804**
Total comprehensive income (loss) for the period					(52,402,566)		(52,402,566)	(243,605)	(52,646,171)
BALANCES AT MARCH 31, 2018	**996,170,748**	**27,594,539**	**27,637,707**	**4,950,148**	**2,801,694,678**	**(7,096)**	**3,858,040,724**	**65,454,909**	**3,923,495,633**

See accompanying Notes to Consolidated Financial Statements.

2,801,694,678

MARCH 2017 (UNAUDITED)

	Capital Stock	Additional Pain-In Capital	Net Cumulative Changes in Fair Values of AFS Financial Assets	Actuarial Gains on Accrued Retirement Benefits	Retained Earnings - unappropriated	Treasury Shares	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2016	**996,170,748**	**27,594,539**	**24,133,722**	**4,962,621**	**3,023,263,901**	**(7,096)**	**4,076,118,435**	**66,139,220**	**4,142,257,655**
Total comprehensive income (loss) for the period					(38,591,848)		(38,591,848)	(23,875)	(38,615,723)
BALANCES AT MARCH 31, 2017	996,170,748	27,594,539	24,133,722	4,962,621	2,984,672,053	(7,096)	4,037,526,587	66,115,345	4,103,641,932

See accompanying Notes to Consolidated Financial Statements

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31, 2018 AND 2017

	UNAUDITED MARCH 2018	UNAUDITED MARCH 2017
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(52,402,565)	(38,615,723)
Adjustments for:		
Depreciation (Notes 12, 13 and 19)	20,701,221	20,417,079
Equity in net losses (earnings) of associates and joint ventures (Note 10)	33,292,760	34,799,339
Interest income (Note 22)	(6,902,966)	(8,766,446)
Finance costs (Note 23)	2,092,974	1,211,500
Amortization of franchise fee (Note 17)	448,500	448,500
Dividend income	(69,688)	(69,688)
Loss (gain) on sale of:		
Property and equipment		(85,536)
Operating income before working capital changes	**(2,839,764)**	9,339,026
Decrease (increase) in:		
Receivables	**24,869,885**	(41,868,550)
Inventories	**3,806,119**	1,060,946
Other current assets	**(6,823,774)**	(1,500,980)
Increase (decrease) in:		
Accounts payable and other liabilities	**(19,978)**	(7,402,641)
Accrued retirement benefits (Note 22)	**(2,618,184)**	(4,118,184)
Cash generated from operations	**16,374,305**	(44,490,383)
Income taxes paid, including creditable withholding and final taxes	**(62,961)**	(38,202)
Net cash provided (used) by operating activities	**16,311,344**	(44,528,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (Note 22)	**6,902,966**	8,766,446
Dividends received (Notes 10 and 24)	**6,566,630**	6,096,686
Decrease (increase) in other noncurrent assets	**(948,851)**	(351,017)
Acquisitions of property and equipment (Note 12)	**(3,513,095)**	(8,877,407)
Acquisitions of investment property (Note 13)	**(224,527)**	(3,587,984)
Proceeds from sale of:		
Property and equipment (Note 24)		85,536
Net cash provided (used) by investing activities	**8,783,123**	2,132,260
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans and borrowings		100,000,000
Payments of:		
Short-term loans and borrowings (Note 15)	**(16,923,982)**	(18,800,000)
Subscriptions		(11,500,000)
Interest paid	**(2,092,974)**	(1,211,500)
Net cash provided (used) in financing activities	**(19,016,956)**	68,488,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,077,511**	26,092,174
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**225,600,519**	171,837,642
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**231,678,030**	197,929,816

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2018 AND 2017

	UNAUDITED MARCH 2018	UNAUDITED MARCH 2017
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(52,402,565)	(38,615,723)
Adjustments for:		
Depreciation (Notes 12, 13 and 19)	20,701,221	20,417,079
Equity in net losses (earnings) of associates and joint ventures (Note 10)	33,292,760	34,799,339
Interest income (Note 22)	(6,902,966)	(8,766,446)
Finance costs (Note 23)	2,092,974	1,211,500
Amortization of franchise fee (Note 17)	448,500	448,500
Dividend income	(69,688)	(69,688)
Loss (gain) on sale of:		
Property and equipment		(85,536)
Operating income before working capital changes	**(2,839,764)**	9,339,026
Decrease (increase) in:		
Receivables	**24,869,885**	(41,868,550)
Inventories	**3,806,119**	1,060,946
Other current assets	**(6,823,774)**	(1,500,980)
Increase (decrease) in:		
Accounts payable and other liabilities	**(19,978)**	(7,402,641)
Accrued retirement benefits (Note 22)	**(2,618,184)**	(4,118,184)
Cash generated from operations	**16,374,305**	(44,490,383)
Income taxes paid, including creditable withholding and final taxes	**(62,961)**	(38,202)
Net cash provided (used) by operating activities	**16,311,344**	(44,528,585)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (Note 22)	**6,902,966**	8,766,446
Dividends received (Notes 10 and 24)	**6,566,630**	6,096,686
Decrease (increase) in other noncurrent assets	**(948,851)**	(351,017)
Acquisitions of property and equipment (Note 12)	**(3,513,095)**	(8,877,407)
Acquisitions of investment property (Note 13)	**(224,527)**	(3,587,984)
Proceeds from sale of:		
Property and equipment (Note 24)		85,536
Net cash provided (used) by investing activities	**8,783,123**	2,132,260
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans and borrowings		100,000,000
Payments of:		
Short-term loans and borrowings (Note 15)	**(16,923,982)**	(18,800,000)
Subscriptions		(11,500,000)
Interest paid	**(2,092,974)**	(1,211,500)
Net cash provided (used) in financing activities	**(19,016,956)**	68,488,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,077,511**	26,092,174
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**225,600,519**	171,837,642
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**231,678,030**	197,929,816

See accompanying Notes to Consolidated Financial Statements. **(0)**

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
AGING SCHEDULE OF RECEIVABLES
AS OF MARCH 31, 2018
UNAUDITED
(In Philippine Peso)

A. AGING OF ACCOUNTS RECEIVABLE-NET

	TYPE OF RECEIVABLES	TOTAL	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120 DAYS
1	Real estate receivables - current portion	135,958,376	90,905,990	1,029,343	592,578	389,278	43,041,187
2	Rent receivables (see Notes 13 and 14)	12,503,053	6,797,497	1,599,575	419,724	117,525	3,568,733
3	Receivables from off-track betting (OTB) operators	1,081,555	757,921	36,778	501	5,601	280,755
4	Receivable from Philippine Amusement and Gaming Corporation (PAGCOR) (see Note 31)	2,210,458	1,210,108	814,794	186,000	(1,243,970)	1,243,526
5	Advances to suppliers	17,384,198	1,770,570	1,252,904	90,000	6,901,162	7,369,563
6	Advances and loans to officers and employees (Note 26)	16,890,064	3,832,601	1,472,799	1,225,707	2,885,392	7,473,565
7	Receivable from contractors	5,641,495					5,641,495
8	Receivable from third parties**	9,745,678	3,661,797			1,083,881	5,000,000
9	Due from related parties (Note 26)	5,053,203	43,398	-	500	15,500	4,993,804
10	Dividends receivable (see Note 10)	6,496,943	2,421,455	1,628,580	2,446,907		
11	Claims for tax credit certificates (TCC)	-	-	-	-	-	-
12	Others	11,327,209	1,448,720	742,349	306,776	604,142	8,225,222
	TOTAL	224,292,232	112,850,057	8,577,120	5,268,693	10,758,510	86,837,850
	Less: Allowance for doubtful accounts	36,393,964					
	RECEIVABLES - NET	**187,898,268**					

B. ACCOUNTS DESCRIPTION

	TYPE OF RECEIVABLES	DESCRIPTION	COLLECTION PERIOD
1	Real estate receivables - current potion	Sales on real estate operations	Monthly
2	Rent receivables	Receivables on leasing transactions from stables, building and other facilities	Semi-monthly/Monthly
3	Receivables from off-track betting (OTB) operators	Receivables from racing and cockfighting operations	Monthly
4	Receivable from Philippine Amusement and Gaming Corporation (PAGCOR)	Proponent share on gaming revenues of PAGCOR on the casino operations at the	Monthly
5	Advances to suppliers	Advance payments to suppliers for goods and services yet to be received	Daily/Monthly
6	Advances and loans to officers and employees	Advances granted to and loans availed by officers and employees	Daily/Monthly
7	Receivable from contractors	Claims for deposits paid to contractors	Annually
8	Receivable from third parties	Due from third parties	Monthly
9	Due from related parties	Receivable from related parties	Monthly
10	Dividends receivable	Share on the net earnings of a joint venture partner	Quarterly
11	Claims for tax credit certificates (TCC)	Claim for refund on tax unduly paid	
12	Others	Various deposits and advances	Daily/Semi-monthly/Monthly

C. OPERATING CYCLE

Calendar Year

ANNUAL REPORT TO THE STOCKHOLDERS

MANAGEMENT REPORT

A. Audited Consolidated Financial Statements

The audited financial statements of the registrant as of December 31, 2017 and interim unaudited financial statements as of March 31, 2018 are attached herewith.

B. Changes in and Disagreements with Accountants on Accounting and Financing Disclosures

During the course of the audit, there were no disagreements that arose between the Company and the Independent Public Accountant.

C. Management Discussion and Analysis or Plan of Operations

The following discussion and analysis relate to the consolidated financial position and results of operation of Manila Jockey Club, Inc. and Subsidiaries and should be read in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the year ended December 31, 2017. Reference to "MJCI", "the Company", and "the Parent Company" pertains to Manila Jockey Club, Inc., while reference to "the Group" pertains to MJCI and its subsidiaries.

Discussion on Results of Operations

The following table shows a summary of results of the operations for the year ended December 31, 2017, 2016 and 2015:

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS)			2017 vs. 2016	2016 vs. 2015
Revenue					
Racing	₱186.1	₱188.5	₱199.8	-1.3%	-5.7%
Cockfighting	332.7	120.4	0.4	176.3%	30000.0%
Real estate	122.9	113.8	46.6	8.0%	144.2%
Rent	83.5	90.0	87.2	-7.2%	3.2%
Food and beverages	18.3	16.2	19.0	13.0%	-14.7%
Others	12.6	6.3	18.4	100.0%	-65.8%
	756.1	535.2	371.4	41.3%	44.1%
Cost					
Racing	176.7	170.1	175.1	3.9%	-2.9%
Cockfighting	219.5	84.3	3.8	160.4%	2118.4%
Real estate	13.3	12.4	1.0	7.3%	1140.0%
Rent	58.7	59.1	62.6	-0.7%	-5.6%
Food and beverages	17.3	18.9	19.3	-8.5%	-2.1%
Others	12.5	6.2	18.3	101.6%	-66.1%
	498.0	351.0	280.1	41.9%	25.3%

(Forward)

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS)			2017 vs. 2016	2016 vs. 2015
Gross income	258.1	184.2	91.3	40.1%	101.8%
Operating expenses/losses	(252.3)	(220.9)	(195.4)	14.2%	13.0%
Equity in net earnings (losses) of associate and joint ventures	(135.2)	(70.5)	12.5	91.8%	-664.0%
Interest income	12.6	11.5	5.1	9.6%	130.0%
Other income – net	8.4	27.9	28.2	-69.9%	-1.4%
Benefit from provision for income tax	(11.3)	(9.6)	13.4	17.7%	-171.6%
Net loss	(₱119.8)	(₱77.4)	(₱45.0)	54.7%	72.0%
Earnings (losses) per share	(₱0.1198)	(₱0.0774)	(₱0.0459)	54.7%	68.6%

Comparison of Operating Results for the Years Ended December 31, 2017 and 2016

Gross Revenue and Cost of Sale and Services

Gross revenue from operation includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services.

For the periods ended December 31, 2017 and 2016, the Group has a gross revenue amounting to ₱756.1 million and ₱535.2 million, respectively. Compared to 2016, the gross revenue in 2017 increased by 41.3% or ₱220.9 million. The increase came primarily from cockfighting operations which improved as a result of increase in the number of cockfights and OTB stations. The number of fights went up from 2,382 in 2016 to 4,743 in 2017. The increase in the sale of real estate units by ₱9.1 million resulted from more real estate units sold and fewer cancellations in 2017 compared to 2016.

Total cost of sales and services for the periods ended December 31, 2017 and 2016 amounted to ₱498.0 million and ₱351.0 million, respectively, which increased by ₱147.0 million or 41.9% in 2017. The significant portion of the increase are expenses incurred for the cockfighting operations. Cost of real estate units recognized for 2017 also increased as there were more residential and condominium units sold in 2017.

Operating expenses

Operating expenses increased by 14.2% or ₱31.4 million. The increase pertains mainly to the administrative costs for the cockfighting operations and salaries and allowances of support workforces and service fee for the use of the Fastbet application. Marketing fee on real estate transactions also increased in 2017 due to new sales of real estate units during the year.

Equity in net earnings (losses) of associates and joint venture

Equity in net losses of associates and joint venture increased by ₱64.7 million, from ₱70.5 million in 2016 to ₱135.2 million in 2017. This is primarily due to the increase in equity losses of MIC, which increased by ₱76.9 million, from ₱97.3 million in 2016 to ₱174.2 million in 2017 partially offset by the increase in the equity share in net income of SLBPO which increased by ₱12.2 million, from ₱26.8 million in 2016 to ₱39.0 million in 2017.

Losses per share

Losses per share in 2017 and 2016 are ₱0.1198 and ₱0.0774, respectively which increased by 0.0424 as the Group registered a net loss attributable to the affiliate amounting to

₱119.8 million and ₱77.1 million in 2017 and 2016, respectively. The increase is primarily due equity share in the net losses from MIC amounting to ₱174.2 million in 2017.

Comparison of Operating Results for the Years Ended December 31, 2016 and 2015

Gross Revenue and Cost of Sale and Services
Gross revenue from operation includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services.

For the periods ended December 31, 2016 and 2015, the Group has a gross revenue amounting to ₱535.2 million and ₱371.4 million, respectively. Compared to 2015, the gross revenue in 2016 increased by 44.1% or ₱163.8 million. The increase came primarily from cockfighting operations which commercially started in December 2015. The increase in the sale of real estate units by ₱67.2 million also contributed to the increase in gross revenues resulting from more real estate units sold and fewer cancellations in 2016 compared to 2015.

Total cost of sales and services for the period ended December 31, 2016 and 2015 amounted to ₱351.0 million and ₱280.1 million, respectively. It increased by ₱70.9 million or 25.3% in the current year. Bulk of the increase are expenses incurred for the cockfighting operations. Cost of real estate units recognized for 2016 also increased as there were more residential and condominium units sold in 2016 compared to the prior year.

Operating expenses
Operating expenses increased by 13.0% or ₱25.4 million. The increase pertains mainly to the administrative costs covering the whole year of 2016 incurred for the cockfighting operations which operated commercially in December 2015. These costs include salaries and allowances of support workforces and service fee for the use of the Fastbet application. Marketing fee on real estate transactions also increased in 2016 due to new sales of real estate units during the year.

Equity in net earnings (losses) of associates and joint venture
For the period ended December 31, 2016, equity in net losses of associates and joint venture amounted to ₱70.5 million compared to equity in net earnings of associates and joint venture in 2015 amounting to ₱12.5 million. The reversal of the earnings to losses is due to the increase in equity share in the net losses of MIC amounting to ₱97.3 million in 2016 from ₱12.0 million in 2015, due to the fixed costs (including depreciation of equipment and interest from bank loans) of the Winford Hotel and Casino in Sta. Cruz, Manila. These are tapered by the increase in equity share in net earnings of SLBPO by ₱2.3 million, from ₱24.5 million in 2015 to ₱26.8 million in 2016.

Losses per share
Losses per share in 2016 and 2015 are ₱0.0774 and ₱0.0459, respectively which increased by ₱0.0315 as the Group registered a net loss attributable to the Parent Company amounting to ₱77.1 million and ₱45.7 million in 2016 and 2015, respectively. The decrease in the EPS is primarily due to the opening of the Winford Hotel and Casino in Sta. Cruz, Manila, which contributed a ₱97.3 million equity in net losses in 2016.

Discussion on Financial Condition and Changes in Financial Condition

	For the Years Ended December 31				
	2017	2016	2015	% change	% change
	(Amount in millions of Philippine peso except EPS and ratio)			2017 vs. 2016	2016 vs. 2015
Cash and cash equivalents	₱225.6	₱171.9	₱134.5	31.2%	27.8%
Receivables	217.4	188.4	200.1	15.4%	-5.9%
Inventories	71.2	83.9	94.8	-15.1%	-11.5%
Other current assets	11.5	11.3	11.3	1.77%	0.0%
Total current assets	525.7	455.5	440.7	15.41%	3.4%
Real estate receivables – net of current portion	51.2	108.6	45.1	-53%	140.8%
Investments in associates and joint ventures	2,204.3	2,205.4	2,301.3	0.00%	-4.2%
Available-for-sale (AFS) financial assets	35.2	13.3	31.9	164.7%	-58.3%
(Forward)					
Property and equipment	880.6	920.9	957.2	-4.4%	-3.8%
Investment properties	1,097.4	1,099.6	998.4	-0.2%	9.2%
Deferred tax asset	1.6	–	–	100%	0%
Other non-current assets	30.0	29.4	31.0	2.0%	10.1%
Total noncurrent assets	4,300.3	4,377.2	4,364.9	-1.8%	0.3%
Total assets	4,826.0	4,832.7	4,805.6	-0.1%	0.6 %
Short-term loans and borrowings	₱234.0	₱90.0	₱39.0	160.0%	130.8%
Accounts payable and other liabilities	342.0	312.4	301.1	9.48%	3.8%
Due to related parties	14.7	14.7	–	0.0%	0.0%
Income tax payable	0.7	0.6	0.007	16.7%	8471.4%
Total current liabilities	591.4	417.7	340.1	41.58%	22.8%
Accrued retirement benefits	39.9	44.0	39.0	-9.3%	12.8%
Deferred tax liabilities – net	218.5	228.7	228.6	-4.5%	0.04%
Total non-current liabilities	258.4	272.7	267.6	-5.24%	1.9%
Total liabilities	849.8	690.4	607.7	23.09%	13.6%
Capital stock	996.2	996.2	996.2	0.00%	0.00%
Additional paid-in capital	27.6	27.6	27.6	0.00%	0.00%
Actuarial gains on accrued retirement benefits	27.6	24.1	21.6	14.5%	11.6%
Net cumulative changes in fair values of AFS financial assets	5.0	5.0	3.9	0.0%	28.21%
Retained earnings	2,854.1	3,023.3	3,150.2	-5.6%	-4.0%
Treasury shares	(0.007)	(0.007)	(0.007)	0.0%	0.0%
Non-controlling interests	65.7	66.1	(1.6)	-0.6%	-3662.5%
Total equity	3,976.2	4,142.3	4,197.9	-4.0%	-1.5%
Total liabilities and equity	4,826.0	4,832.7	4,805.5	-0.1%	0.4%

Discussion on some Significant Changes in Financial Condition as of December 31, 2017 and 2016

Total Assets decreased due to the following:

1. For the year ended December 31, 2017, cash and cash equivalents of the Group increased by ₱53.7 million, which were generated from the following activities:

   a. Cash provided by operating activities amounted to ₱149.9 million, which are significantly generated from its horse racing, cockfighting, leasing activities and other activities such as food and beverage and foreign currency exchange activities.

   b. The Group used cash for its investing activities amounting to ₱184.0 million, which were net result of the following major investing activities during the year:

a. Dividends received amounting to ₱20.9 million
b. Interest received amounting to ₱12.5 million
c. Payment on advances to an associate amounting to ₱152.3 million
d. Payment for the acquisition of retail treasury bonds amounting to ₱22.0 million
e. Payment for the acquisition of property and equipment amounting to ₱30.7 million
f. Payment for the acquisition of investment property amounting to ₱10.2 million
g. Increase in other noncurrent assets amounting to Php2.5 million

c. The Group's financing activities during the year provided cash amounting to ₱87.9 million, which is the net result of payment of interest, dividends and loan amounting to ₱6.1 million, ₱50.0 million and ₱73.0 million, respectively, which were partially offset by the proceeds from short term loan obtained during the year amounting to ₱217.0 million.

2. Decrease in receivables is due to the following:

   a. Decrease in receivables from real estate, rent, and off-track betting (OTB) operators amounting to ₱21.1 million, ₱2.3 million, and ₱8.1 million, respectively, is primarily due to improvement of the Company's cash collection policy.

   b. Decrease in non-trade receivable amounting to ₱38.9 million is as a result of the following:
      - Collection of dividends from SLBPO amounting to ₱2.4 million
      - Cash collection from third parties amounting to ₱1.5 million

   c. Decrease in allowance for doubtful accounts amounting to ₱1.5 million is write off of certain receivables deemed uncollectible.

3. Inventories decreased by ₱12.7 million as a result of the sale of residential and condominium units during 2017.

4. The increase in other current assets amounting to ₱0.2 million relates to input VAT and overpayment of income taxes.

5. The decrease in investment in associates and joint ventures is due to the equity share in the net loss of MIC amounting to ₱174.2 million in 2017. This is offset by the equity in net earnings of SLBPO amounting to ₱39.0 million in 2017 and advances made to MIC for future stock subscription amounting to ₱152.3 million.

6. Increase in AFS financial assets amounting to ₱22.0 million pertains to the acquisition of the retail treasury bonds and unrealized mark to market loss of ₱0.1 million.

7. The decrease in property and equipment amounting to ₱40.3 million in 2017 is the net effect of the acquisitions made during the year amounting to ₱30.7 million, and the recognition of depreciation charges for the year amounting to ₱71.0 million.

8. The decrease in investment properties is the net result of the acquisition by the Group of additional parcel of land situated in Mamburao, Mindoro amounting to ₱10.2 million, and the depreciation charges of the Vertex One building amounting to ₱12.4 million.

9. Deferred tax asset represents NOLCO and MCIT of Gametime amounting to ₱1.3 million and ₱0.3 million, respectively.

10. The increase in other noncurrent assets is net result of the fluctuation in deferred input vat by ₱2.3 million and the amortization of franchise fee amounting to ₱1.8 million.

Total current liabilities in 2017 increased due to the following:

11. Short-term loans and borrowings increased by ₱144.0 million in 2017 from ₱90.0 million as of December 31, 2016 to ₱234.0 million as of December 31, 2017. The increase is the net result of additional short-term loans availed in 2017 totaling to ₱217.0 million and the repayments made during the year amounting to ₱73.0 million.

12. Accounts payable and other liabilities increased by ₱29.6 million mainly as a result of the following:
    - Accrued expenses increased by ₱12.8 million from ₱14.8 million as of December 31, 2016 to ₱27.8 million as of December 31, 2017 mainly pertains to accruals of security services and contracted services.
    - Unclaimed winnings increased by ₱2.0 million in 2017 as a net result of effective operations both in cockfighting and horse racing in year of 2017.
    - VAT payable also increased by ₱2.4 million as a result of real estate sales during the year.
    - Taxes on winnings and documentary stamp tax payable increased by ₱2.5 million and ₱2.6 million, respectively, mainly due to the increase in sales from horse racing for the month of December 2017 compared to the same month in the previous year.
    - Increase in commission income from cockfighting operations in 2017 compared to the same period 2016 resulted to the increase in the computed percentage tax payable from cockfighting operations amounting to ₱7.8 million.

13. Due to related parties remained in the amount of ₱14.7 million as of December 31, 2017 and 2016, respectively. The amount pertains mainly to payables of ARWRI to its related parties as a result of its acquisition by the Parent Company.

14. Income tax payable increased from ₱0.6 million in 2016 to ₱0.7 million as of December 31, 2017. The increase came mainly from the income tax expense recognized from cockfighting operations.

Total noncurrent liabilities decreased due to the following:

15. The decrease in Accrued Retirement benefits amounting to ₱4.1 million is mainly due to the retirement expense recognized by the Group amounting to ₱8.9 million, increased by the contributions to the plan assets amounting to ₱8.1 million and remeasurement of ₱5.0 million.

16. As of December 31, 2017 and 2016, net deferred tax liabilities amounted to ₱218.5 million and ₱228.7 million, respectively. The decrease of ₱10.2 million in 2017 is primarily attributable to the decrease in deferred tax liabilities on the unrealized gain from real estate transaction and unrealized deemed cost adjustment on real properties.

Total Equity decreased due to the following:

17. Actuarial gains on accrued retirement benefits increased by ₱3.5 million from ₱24.1 million as of December 31, 2016 to ₱27.6 million as of December 31, 2017.

18. Retained earnings decreased by ₱169.2 million from ₱3,023.3 million as of December 31, 2016 to ₱2,854.1 as of December 31, 2017. The decrease pertains to the declaration of cash dividend by the Parent Company in 2017 aggregating to ₱49.8 million and net loss recognized by the Group for year 2017 amounting to ₱119.8 million.

19. Non-controlling interest decreased by ₱0.4 million in 2017 primarily due to share in net loss.

Discussion on some Significant Changes in Financial Condition as of December 31, 2016 and 2015

Total assets increased due to the following:

1. For the year ended December 31, 2016, cash and cash equivalent of the Group increased by ₱37.4 million, which were generated from the following activities:

    a. Cash provided by operating activities amounted to ₱41.5 million, which are significantly generated from its horse racing, cockfighting and leasing activities.

    b. The Group used cash for its investing activities amounting to ₱3.4 million, which were net result of the following major investing activities during the year:

        a. Dividend received amounting to ₱23.7 million
        b. Proceeds from sale of AFS investment and PPE amounting to ₱18.1 million and ₱0.5 million, respectively.
        c. Interest received amounting to ₱11.9 million
        d. Payment of ₱14.4 million, net of cash acquired of ₱15.5 million, for the acquisition of net assets of Apo Reef World Resorts Inc.
        e. Payment for the acquisition of property and equipment amounting to ₱34.0 million.
        f. Payment for the acquisition of investment property amounting to ₱9.3 million

    c. The Group's financing activities during the year used cash amounting to ₱0.5 million, which is the net result of payment of interest, dividends and loan amounting to ₱2.4 million, ₱49.1 million and ₱47.0 million, respectively, which were partially offset by the proceeds from short term loan obtained during the year amounting to ₱98.0 million.

2. Increase in receivables amounting to ₱51.8 million in 2016 can be attributed to the following:
    a. Increase in real estate receivables due to new sales in 2016 under the installment method
    b. Increase in receivable from OTB operators from racing and cockfighting sales in 2016 that were remitted the following year.

3. Inventories decreased by ₱10.9 million in the current year as a result of the sale of real estate inventories during 2016.

4. The increase in other current assets amounting to ₱1.3 million relates to input VAT, rental deposits and to the overpayment of income taxes. As of December 31, 2016 and 2015, other current assets amounted to ₱12.6 million and ₱11.3 million, respectively.

5. Investment in associates and joint ventures amounted to ₱2,205.4 million and ₱2,301.3 million as of December 31, 2016 and 2015, respectively. The decrease in investment in associates and joint

ventures is due to the equity share in the net loss of MIC amounting to ₱97.3 million in 2016 partially offset by the equity in net earnings of SLBPO amounting to ₱26.8 million in 2016 less dividends declared for the Parent Company amounting to ₱25.3 million.

6. Decrease in AFS financial assets amounting to ₱18.7 million pertains mainly to the disposal of the Company's AFS investment in equity securities and all of its fixed rate corporate bonds amounting to ₱17.7 million and the unrealized mark to market loss amounting to ₱1.0 million

7. Property and equipment as of December 31, 2016 and 2015 amounted to ₱920.9 million and ₱957.2 million, respectively. The decrease in property and equipment amounting to ₱36.3 million in 2016 is the net effect of the acquisitions made during the year amounting to ₱34.0 million, the reclassifications and adjustments of machineries amounting to ₱0.4 million and the recognition of depreciation charges for the year amounting to ₱69.9 million.

8. Investment properties increased by ₱101.2 million from ₱998.4 million as of December 31, 2015 to ₱1,099.6 million as of December 31, 2016. The increase is the net result of the acquisition by the Group of the parcel of land situated in Mamburao, Mindoro amounting to ₱113.7 million, and the depreciation charges of the Vertex One building amounting to ₱12.4 million.

9. Other noncurrent assets decreased by ₱1.6 million from ₱31.0 million as of December 31, 2015 to ₱29.4 million as of December 31, 2016. The decrease is primarily due to the amortization of franchise fee amounting to ₱1.8 million.

Total Current Liabilities in 2016 increased due to the following:

10. Short-term loans and borrowings increased by ₱51.0 million in 2016 from ₱39.0 million as of December 31, 2015 to ₱90.0 million as of December 31, 2016. The increase is the net result of additional short-term loans availed in 2016 totaling to ₱98.0 million and the repayments made during the year amounting to ₱47.0 million.

11. Accounts payable and other liabilities increased by ₱11.3 million mainly as a result of the following:

    a. Increase in commission income from cockfighting operations in December 2016 compared to the same period in 2015 resulted to the increase in the computed percentage tax payable from cockfighting operations amounting to ₱10.6 million.
    b. Unclaimed winnings from cockfighting operations increased by ₱1.8 million in 2016 as it covers the whole year of 2016 compared to the one month period in 2015 as MCI started its cockfighting operations in December 2015.
    c. Trade and buyers' deposits increased by ₱4.5 million from ₱5.9 million as of December 31, 2015 to ₱10.4 million as of December 31, 2016. The increase can be attributed to cash received from the sale of real estate units in 2016 which did not satisfy the criterion of full accrual method on revenue recognition.

12. Due to related parties amounted to ₱14.7 million and nil as of December 31, 2016 and 2015, respectively. The amount recognized in 2016 pertains mainly to payables of Apo Reef World Resorts, Inc. to its related parties as a result of its acquisition by the Parent Company.

13. Income tax payable increased from ₱6.9 thousand in 2015 to ₱0.6 million as of December 31, 2016. The increase came mainly from the income tax expense recognized from cockfighting operations which started its operations in December 2015.

Total Noncurrent Liabilities increased due to the following:

14. Accrued retirement benefits as of December 31, 2016 and 2015 amounted to ₱44.0 million and 39.0 million, respectively. The increase amounting to ₱5.1 million is mainly due to the retirement expense recognized by the Parent Company amounting to ₱9.1 million, decreased by the contributions to the plan assets amounting to ₱0.5 million and remeasurement of ₱3.6 million.

15. As of December 31, 2016 and 2015, net deferred tax liabilities amounted to ₱228.7 million and ₱228.6 million, respectively. The increase of ₱0.1 million in 2016 is primarily due to deferred tax assets on the increase in the allowance for doubtful accounts recorded in 2016 as well as on the advances on rentals and non-refundable deposits recognized during the year.

Total Equity decreased due to the following:

16. Actuarial gains on accrued retirement benefits decreased by ₱2.5 million from ₱21.6 million as of December 31, 2016 to ₱24.1 million as of December 31, 2016.

17. Net cumulative changes in fair value of AFS financial assets increased by ₱1.1 million in 2016 from ₱3.9 million as of December 31, 2015 to ₱5.0 million as of December 31, 2016 as a result of the impairment loss recognized by the Parent Company amounting to ₱2.0 million, partially offset by the unrealized mark-to-market losses recognized during the year amounting to ₱1.0 million.

18. Retained earnings decreased by ₱126.9 million from ₱3,150.2 million as of December 31, 2015 to ₱3,023.3 as of December 31, 2016. The decrease pertains to the declaration of cash dividend by the Parent Company in 2016 aggregating to ₱49.8 million and net loss recognized by the Group for year 2016 amounting to ₱73.5 million.

19. Non-controlling interest increased by ₱67.6 million in 2016 primarily due to the acquisition of 56.87 percent ownership in ARWRI, which resulted to the consolidation of ARWRI to the Group, thereby recognizing a 43.13% non-controlling interest.

TOP KEY PERFORMANCE INDICATORS FOR FULL FISCAL YEARS:

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

	Dec-17	Dec-16	Dec-15
1. Current Ratio	**0.89**	1.09	1.3
2. Debt to Equity Ratio	**0.06**	0.02	0.01
3. Asset to Liability Ratio	**5.68**	7	7.9
4. Asset to Equity Ratio	**1.21**	1.17	1.14
5. Interest Rate Coverage Ratio	**3.09**	7.97	14.74

6. Sales to Revenue Ratio	**0.25**	0.35	0.54
7. Earnings Per Share	**(₱0.1198)**	**(₱0.0774)**	(₱0.0459)

Ratio Computation

Current ratio is computed by dividing current assets amounting to ₱525.7 million and ₱455.5 million as of December 31, 2017 and 2016, respectively over current liabilities amounting to ₱591.4 million and ₱417.7 million as of the same years. This indicates the ability of the company to pay its current liabilities using its current assets. Current ratio decreased in 2017 by 0.20.

Debt to equity ratio shows the extent to which the firm is financed by debt. It is computed by dividing interest-bearing debts by total equity. Total interest-bearing debts as of December 31, 2017 and 2016 amounted to ₱234.0 million and ₱90.0 million, respectively, while total equity as of December 31, 2017 and 2016 amounted to ₱3,976.2 million and ₱4,142.3 million, respectively.

The asset to liability ratio is also computed. This shows the relationship of the total assets of the Group with its total liabilities. Total assets as of December 31, 2017 and 2016 amounted to ₱4,826.0 million and ₱4,832.7 million, respectively, while the corresponding total liabilities as of December 31, 2017 and 2016 amounted to ₱849.8 million and ₱690.4 million, respectively.

Asset to equity ratio shows the relationship of total assets to the portion owned by shareholders. The formula for this ratio is total assets over total equity. As of December 31, 2017 and 2016, total assets amounted to ₱4,826.0 million and ₱4,832.7 million, respectively, while total equity amounted to ₱3,976.2 million and ₱4,142.3 million as of December 31, 2017 and 2016, respectively.

Interest rate coverage ratio indicates a group's ability to cover interest charges or finance costs. The ratio is derived by dividing the group's earnings/(losses) before interests, taxes, depreciation and amortization (EBITDA) over interest charges. For the year 2017 and 2016, EBITDA amounted to ₱17.6 million and ₱18.6 million, respectively. Finance costs, exclusive of bank charges amounted to ₱5.7 million and ₱2.3 million for years 2017 and 2016, respectively.

Sales to total revenue ratio is computed by dividing the income from horse racing amounting to ₱186.1 million and ₱188.5 million for years 2017 and 2016, respectively, to total revenue of the Group amounting to ₱756.1 million for the year ended December 31, 2017 and ₱535.2 million for the year ended December 31, 2016. It indicates the performance by percentage of the income from horse racing to total revenue of the Group. Sales and other revenues indicate the over-all performance of the Group as it conducts horse races.

Earnings (loss) per share is computed by dividing net income/(loss) attributable to equity holders of the parent company against the weighted average number of outstanding common shares. Net losses attributable to equity holders of the Parent Company amounts to ₱119.4 million and ₱77.1 million for years ended 2017 and 2016, respectively. In 2017 and 2016, the weighted average of outstanding common shares is 996.2 million.

All ratios are computed and are compared to previous year's ratios.

FOR THE FIRST QUARTER OF THE YEAR 2018

MANAGEMENT DISCUSSION & ANALYSIS OF PLAN OF OPERATIONS

Discussion on Operating Results for the Periods Ended March 31, 2018 and 2017

Revenues

Income from club races decreased by ₱7.3 million from ₱48.9 million for the period ended March 31, 2017 to ₱41.6 million for the same period in 2018. The decrease in revenue is due from the two (2) days difference in the total number of racedays during the period. The decrease was twenty nine (29) racing days in 2017 compared to twenty seven (27) days in 2018.

Income from cockfighting operations for the period ended March 31, 2018 amounted to ₱86.6 million and ₱48.1 million for the same period in 2017 or an increase of ₱38.5 million. As the cockfighting operation has become fully operational and is gaining more exposure, revenue is increasing due to more line-up of fights and increasing number of off-track betting stations.

The Group recognizes income from real estate sale which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. The company recognized a revenue amounting to ₱19.2 million and ₱12.3 million for the periods ended March 31, 2018 and 2017, respectively. The number of sold units used as basis in the computation of revenue also contributed to the variance. As of March 31, 2018, there were six units compared to two as at March 31, 2017.

Rental revenue from the leasing of stables, buildings and other facilities decreased by ₱1.1 million from ₱20.7 million for the period ended March 31, 2017 to ₱19.5 million for the same period in 2018. The decrease relates primarily from the decrease in gaming revenue.

Revenue from sale of food and beverages increased the Group's total revenues by ₱1.1 million for the first quarter of 2018 from ₱3.9 million for the period ended March 31, 2017 to ₱5.0 million for the same period in 2018.

Other Revenues come from money changing operations of the Group's subsidiary, MJC Forex Corp. Dollar sales for the period ended March 31, 2018 amounted to ₱0.7 million and ₱8.6 million for the same period in 2017 or a decrease of ₱7.9 million.

Interest income relates to real estate receivables and cash and cash equivalents. Interest income for the periods ended March 31, 2018 and 2017 amounted to ₱6.9 million and ₱8.8 million, respectively. The decrease of ₱1.9 million relates primarily to real estate sales under the installment method.

Equity in net earnings of associates and joint venture

For the period ended March 31, 2018, equity in net losses of associates and joint venture amounted to ₱33.3 million compared to same period in 2017 amounting to ₱34.8 million. The net decrease in the equity share in the net losses recognized in the current period amounting to ₱1.5 million is the result of the share in the net losses of an associate amounting to ₱41.2 million partially offset by the share in the net earnings of a joint venture amounting to ₱₱42.7 million.

Other income - net decreased by (₱0.2) million from ₱4.2 million for the period ended March 31, 2017 to (₱4.0) million for the same period in 2018. The decrease pertains mainly to income from advertising placements.

Expenses

Cost of Sale and Services

Cost of racing services increased by ₱7.0 million from ₱42.9 million for the period ended March 31, 2017 to ₱49.9 million for the same period in 2018. The increase can be attributed to the documentary stamp taxes increase by the Train Law in 2018.

Cost of cockfighting services amounted to ₱52.2 million for the period ended March 31, 2018 and ₱32.1 million for the same period in 2017. It increased by ₱20 million as the cockfighting business is now in full operation. Significant costs are percentage taxes, share in pot money and off-track betting rentals.

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. For the periods ended March 31, 2018 and 2017, cost of real estate amounted to ₱3.2 million and ₱1.8 million, respectively. The increase in the number of sold units used in the computation also contributed to the variance.

Rental cost of services decreased by ₱1.2 million from ₱12.9 million for the period ended March 31, 2017 to ₱11.7 million for the same period in 2018. The variance relates primarily to expenses for the gaming operations.

Cost of food and beverage amounted to ₱6.5 million and ₱5.5 million for the periods ended March 31, 2018 and 2017, respectively. The increase amounting to ₱1.0 million came primarily from purchased stocks.

The cost of sales for "Others" amounted to ₱4.7 million and ₱9.4 million for the periods ended March 31, 2018 and 2017, respectively. It decreased by ₱4.7 million in 2018. The variance relates mainly to dollar purchases during the period.

General Operating Expenses

General and administrative expenses constitute costs of administering the business. For the period ended March 31, 2017, it amounted to ₱52.2 million or an increase of ₱16 million compared with the same period in 2018 which amounted of ₱68.2 million. The increase pertains mainly to the administrative costs for the cockfighting operations. As the operations continue to get exposed and more fights are being lined up, operating costs are increasingly incurred. These costs include salaries and allowances of support workforces, professional fees as well as patronage fees.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to ₱1.5 million for the period ended March 31, 2018 compared to ₱0.8 million for the same period in 2017. Marketing fees increased by ₱0.7 million.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱2.1 million and ₱1.2 million for the periods ended March 31, 2018 and 2017, respectively, or an increase of ₱0.9 million which is due to the increase in the outstanding principal balances from the newly acquired short-term loans and borrowings.

CHANGES IN FINANCIAL CONDITION

Discussion on some Significant Changes in Financial Condition as of March 31, 2018 and December 31, 2017

Total assets decreased due to the following:

20. For the period ended March 31, 2018 cash and cash equivalents amounted to ₱231.7 million from ₱225.6 as of December 31, 2017. The increase of ₱6.1 million can be attributed from dividend and interest received during the period. These were used partly for the payment of matured account payables and other liabilities, loan balances which were due during the period and partial payment of subscriptions. Cash was also used for the acquisition of property and equipment as well as investment property.

21. Receivables decreased by ₱29.5 million from ₱217.3 million as of December 31, 2017 to ₱187.9 million as of March 31, 2018. The decrease is the net effect of the real estate collections in the current period under the installment method and the increase in advances to suppliers, advances to officers and employees and dividend receivables.

22. Inventories decreased by ₱3.8 million in the current period as a result of the sale of real estate inventories during the first quarter of 2018.

23. Other current assets increased by ₱6.8 million from ₱11.5 million as of December 31, 2017 to ₱18.4 million as of March 31, 2018. The increase relates mainly to prepayments on Income Tax and expenses made during the period.

24. Investment in associates and joint ventures amounted to ₱2,204.3 million and ₱2,164.5 million as of December 31, 2017 and March 31, 2018, respectively. The decrease in investment in associates and joint ventures is due to the equity share in the net losses of MIC amounting to ₱41.2 million for the period ended March 31, 2018 partially offset by the equity in net earnings of SLBPO amounting to ₱7.9 million in the current period less dividends declared for the Parent Company amounting to ₱6.5 million.

25. There were no acquisitions and disposals of available-for-sale (AFS) financial assets during the current period. AFS financial assets as of March 31, 2018 and December 31, 2017 amounts to ₱35.2 million.

26. Property and equipment decreased from ₱880.6 million as of December 31, 2017 to ₱895.0 million as of March 31, 2018. The decrease in property and equipment amounting to ₱17.4 million in the current period is the depreciation charges during the year partially offset by the acquisitions for the year amounting to ₱3.5 million.

27. Investment properties decreased by ₱2.5 million from ₱1,097.4 million as of December 31, 2017 to ₱1,094.9 million as of March 31, 2018. The decrease is the net result of the depreciation charges of the Vertex One building amounting to ₱3.1 million and the acquisition in the current period of some parcels of land situated in Mamburao, Mindoro amounting to ₱0.6 million.

28. Other noncurrent assets increased by ₱0.9 million from ₱30.1 million as of December 31, 2017 to ₱31.0 million as of March 31, 2018. The increase is the net effect of the amortization of franchise fee amounting to ₱0.4 million and the increase in deferred vat input for various purchases during the period.

Total Current Liabilities decreased due to the following:

29. Short-term loans and borrowings decreased by ₱16.9 million in the current period from ₱234.0 million as of December 31, 2017 to ₱217.1 million as of March 31, 2018. The decrease is the repayments made during the period ended March 31, 2018.

30. Accounts payable and other liabilities amounted to ₱342 million as of March 31, 2018 and December 31, 2017.

31. Due to related parties amounted to ₱14.7 million as of March 31, 2018 and December 31, 2017. The amount recognized in 2016 pertains mainly to payables of Apo Reef World Resorts, Inc. to its related parties as a result of its acquisition by the Parent Company.

32. Income tax payable increased from ₱0.7 million as of December 31, 2017 to ₱3.7 million as of March 31, 2018. The increase refers mainly to the income tax expense recognized by the Group covering the first quarter of 2018.

Total Noncurrent Liabilities decreased due to the following:

33. Accrued retirement benefits as of December 31, 2017 amounted to ₱39.9 million and ₱37.2 million as of March 31, 2018. The decrease amounting to ₱2.6 million is the net effect of the contributions made to the retirement fund during the current period amounting to ₱2.1 million and the retirement expense recognized covering the first quarter of 2018 amounting to ₱4.7 million.

Total Equity decreased due to the following:

34. Retained earnings decreased by ₱52.4 million from ₱2,854.1 as of December 31, 2017 to ₱2,801.7 million as of March 31, 2018. The decrease pertains to the net losses recognized by the Group for the first quarter of 2018.

35. Non-controlling interest decreased by ₱0.02 million in the current period which represents the 43.13% share of minority interest in the net losses of ARWRI covering the first quarter of 2017.

TOP FIVE (5) KEY PERFORMANCE INDICATORS:

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

	MAR 2018	DEC 2017
Current Ratio	0.87	0.89
Asset to Liability Ratio	5.72	5.68

	MAR 2018	MAR 2017
Sales to Revenue Ratio	**0.24**	0.34
Sales to Expenses Ratio	**0.21**	0.31
Earnings Per Share	**(₱0.0524)**	(₱0.0387)

Current ratio or working capital ratio is computed by dividing current assets over current liabilities. Total current assets as of March 31, 2018 and December 31, 2017 amounted to ₱505.3 million and ₱525.7 million, respectively. As of March 31, 2018 and December 31, 2017, total current liabilities amounted to ₱577.5 million and ₱591.8 million, respectively.

Asset to liability ratio or solvency ratio is computed by dividing total assets over total liabilities. As of March 31, 2018 and December 31, 2017, total assets amounted to ₱4,755.6 million and ₱4,825.9 million, respectively. Total liabilities as of March 31, 2018 amounted to ₱831.7 million and ₱849.8 million as of December 31, 2017.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the period ended March 31, 2018 and 2017 amounted to ₱41.6 million and ₱48.9 million, respectively. Total operating revenue for the period ended March 31, 2018 amounted to ₱172.7 million and ₱142.6 million for the same period in 2017.

Sales to expenses ratio is computed by dividing income from horse racing over total expenses which include cost of sales and services, general and administrative expenses, selling expenses and finance costs. Income from club races for the period ended March 31, 2018 and 2017 amounted to ₱41.6 million and ₱48.9 million, respectively, while total expenses amounted to ₱199.9 million for the period ended March 31, 2018 and ₱158.8 million for the same period in 2017.

Earnings per share is computed by dividing net income (loss) attributable to equity holders of the parent company over the weighted average number of outstanding common shares. Net loss attributable to equity holders of the parent company for the period ended March 31, 2018 and 2017 amounted to ₱52.2 million and ₱38.6 million, respectively. The weighted average number of outstanding common shares as of March 31, 2018 and 2017 totaled to 996.2 million.

KEY VARIABLE AND OTHER QUALITATIVE AND QUANTITATIVE FACTORS

No known trends, events, commitments or uncertainties 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.

There is no particular event that will trigger a direct or contingent financial obligation that would be material to the Company, including events of default and acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations, contingent or otherwise that occurred during the fiscal year. There were no other relationship of the Company with unsolicited entities or other persons created during the fiscal year.

The Company is not aware of any seasonal aspects or known events or uncertainties which will have a material effect on the sales and overall financial condition or results of operations of the Company.

(a) Certain Relationship and Related Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group 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.

In the normal course of business, the Company has transactions and account balances with related parties as follows:

		Amount		Receivable/ (Payable)			
	Nature	2017	2016	2017	2016	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office Space	₱11,780,277	₱11,431,401	₱–	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	–	(14,734,481)	(14,734,481)	(14,734,481)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances	1,161	873,851	4,982,104	4,980,943	Noninterest-bearing	Unsecured, no impairment
Techsystems	Advances	9,034	8,333	27,200	18,166	Noninterest-bearing	Unsecured, no impairment

a. The Parent Company has a lease agreement with AMDC covering the lease of office space and parking lots.

b. Compensation of key management personnel of the Parent Company amounted to ₱66.0 million, ₱62.2 million and ₱65.3 million in 2017, 2016 and 2015, respectively. The Parent Company has no standard arrangement with regard to the remuneration of its directors. In 2017 and 2016, the BOD received a total of ₱9.8 million. Advances to officers and employees amounted to ₱14.7 million, ₱14.9 million and ₱6.2 million in 2017, 2016 and 2015, respectively.

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured and settlement occurs in cash, unless otherwise indicate. There have been no guarantees provided or received for any related party receivables and payable. No impairment has been recorded on receivables in 2017, 2016 and 2015.

6. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Information as to the aggregate compensation paid or accrued during the last two years and estimated to be paid in the ensuing year to the Company's Chief Executive Officer (CEO) and three (3) most highly compensated executive officers is presented below. Also included in the tabular presentation is the compensation paid to or accrued for other officers and members of the Board of Directors for the same three years.

Position	Name	Annual Compensation					
		2016 (actual)		2017 (actual)		2018 (estimate)	
		Salary	Bonus	Salary	Bonus	Salary	Bonus
Chairman & CEO	Alfonso R. Reyno, Jr.	₱4,200,000	₱106,716	₱4,200,000	₱106,716	₱4,200,000	₱106,716
Vice Chairman	Mariza Santos-Tan	1,170,000	–	1,170,000	–	1,170,000	–
Director, President & COO	Alfonso G. Reyno III	3,270,000	72,531	3,270,000	72,531	3,270,000	72,531
Director & Treasurer	Pedro O. Tan	1,170,000	–	1,170,000	–	1,170,000	–

All directors are entitled to a per diem ranging from ₱10,000.00 to ₱15,000.00 plus a ₱3,000.00 allowance to cover their transportation, communication and other expenses for every board meeting attended. There are no contracts with the named executive officers for any compensation plan or arrangement that will result from the resignation, retirement or any other termination of employment of said executive officers. There are no outstanding warrants or options being held by the named executive officers or directors and neither are there any changes in control arrangements made with the named executive officers and the directors. Thus, there is compliance with SEC Memorandum Circular No. 8 Series of 2004.

AS A GROUP

	Annual Compensation					
	2016 (actual)		2017 (actual)		2018 (estimate)	
	Salary	Bonus	Salary	Bonus	Salary	Bonus
Directors & Officers	₱62,226,613	₱–	₱66,226,613	₱–	₱72,603,853	₱–

KEY MANAGEMENT PERSONNEL

Compensation of the executive personnel of the Company as of March 31, 2018 and of the same period in 2017 amounted to ₱3.89 million and ₱3.79 million respectively. The Corporation has no standard arrangement with regard to the remuneration of its directors. The directors' fees as of March 31, 2018 is ₱0.25 million while in 2017 of the same period the BOD received director's fees aggregating ₱0.12 million.

C. FINANCIAL AND OTHER INFORMATION

7. Independent Public Accountant

For years 2006 to 2010, the Company had engaged Sycip Gorres Velayo & Co., with address at 6760 Ayala Avenue, 1226 Makati City, as its Independent Public Accountant. The partner-in-charge for MJCI in SGV & Co. during those years was Ms. Josephine H. Estomo. In compliance with SRC Rule 68, Paragraph 3 (b) (iv), the independent external auditor or the partner is rotated every five (5) years or earlier. The Company has re-appointed SGV & Co. as its independent external auditor for years 2011 to 2015 audit with Mr. Arnel F. de Jesus as the new partner-in-charge. In 2016, the Group re-engaged the accounting firm of Sycip Gorres Velayo and Company (SGV& Co.) as the Company's principal external auditors. Ms. Adeline D. Lumbres is the Partner In-charge effective audit year 2016. A representative of SGV & Co. is expected to attend in the coming Annual Stockholders' Meeting with an opportunity to make any statements, if they so desire, and will be available to respond to appropriate questions.

There are no other assurance and related services rendered to the Company by SGV & Co. except for the performance of audit or review of its financial statements.

8. External Audit Fees and Audit Related Fees

The Group paid its external auditors the following fees in the past two years.

	Audit and Audit-related Fees *(with VAT)*
2017	₱2.4 million
2016	₱1.7 million

The audit committee approved the policies and procedures for the services. No other fees were paid to said auditors for other services.

There were no disagreements with the SGV & Co. on any matter of accounting and financial disclosures.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

In 1987, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Parent Company's corporate life for another 50 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, which will expire on November 23, 2022 (see Note 14). 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 (JV) 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 and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership	
				MAR 2018	DEC2017
Subsidiaries					
Biohitech Philippines, Inc. (Biohitech) [a]	Philippines	Waste management	Philippine Peso	**50.00**	50.00
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	**100.00**	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	**100.00**	100.00
San Lazaro Resources and Development Corporation (SLRDC) [a]	Philippines	Real estate	Philippine Peso	**100.00**	100.00
SLLP Holdings, Inc. (SLLPHI) [a]	Philippines	Holdings	Philippine Peso	**100.00**	100.00
Hi-Tech Harvest Limited [a]	Hong Kong	Marketing	Philippine Peso	**100.00**	100.00
Apo Reef World Resorts, Inc. (ARWRI) [a]	Philippines	Beach Resorts Complex	Philippine Peso	**56.87**	56.87
Joint Ventures					
Gamespan, Inc. (Gamespan) [a]	Philippines	Gaming	Philippine Peso	**50.00**	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	**30.00**	30.00
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Real estate and Gaming	Philippine Peso	**22.31**	22.31
Techsystems, Inc. (Techsystems) [a]	Philippines	Information Technology	Philippine Peso	**33.33**	33.33

ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral

account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statement
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

    The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - Amendment to PFRS 7, Financial Instruments: Disclosures, Servicing Contracts

    PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

    This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. These amendments do not have any impact on the Group's financial statements.

  - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

    The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by crossreference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its financial statements.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. 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 give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a 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 arrangements 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-assesses 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 continue to be consolidated until the date such control ceases.

Non-controlling Interests. An acquisition, transfer or sale of a noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in an acquisition of a noncontrolling interest. If the Group loses control over a subsidiary, it: (i) derecognizes the assets (including goodwill) and liabilities of the 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 profit or loss; and (iii) reclassifies the Parent Company's share of components previously recognized in OCI to the consolidated profit or loss 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 consolidated financial statements are presented in Philippine Peso, which is the Parent Company'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.

<u>Business Combinations and Goodwill</u>

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the Group elects to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the profit or loss under "General and administrative expenses" account.

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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, is measured at fair value with the changes in fair value recognized in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain 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 (CGU) 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 has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

When such acquisition is not judged to be an acquisition of business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identified assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
The Group measures financial instruments at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 31.

Fair value is the estimated price that would be received to sell an asset or paid 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 of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to 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 the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 statement of financial position 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, which is 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 March 31, 2018 and December 31, 2017, 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 reporting date.

a. *Loans and receivables*

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

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 statements of financial position) as of March 31, 2018 and December 31, 2017.

b. *AFS financial assets*

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statements of comprehensive income in finance costs.

Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

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, quoted debt securities, preferred shares and club membership shares as of March 31, 2018 and December 31, 2017.

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 EIR 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 loans and borrowings, accounts payable and other liabilities, and due to related parties as of March 31, 2018 and December 31, 2017.

<u>Derecognition of Financial Assets and Financial Liabilities</u>

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 when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 derecognition 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.

Impairment of Financial Assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statements of comprehensive income. Interest income (recorded as finance income in the statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral 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 account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of income.

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
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When 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 investment previously recognized in the statements of comprehensive income, is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of comprehensive income, the impairment loss is reversed through the consolidated statements of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

Real Estate Inventories
Real estate inventories include completed and on-going projects of the Group, and are stated at the lower of cost and net realizable value. Cost of real estate inventories pertains to the cost of land. Real estate inventories include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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.*

Investments in Associates and Joint Ventures
Investment in an 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 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 investments in associates and joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint ventures. The Group's share in the associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' and joint ventures' equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

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 transactions 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.

For interest in joint operation, the Group accounts for each assets, liabilities, revenue, share in revenue and expense separately. The Group would recognize in relation to its interest its:

- Assets which include real estate inventories, developed office units and retail development units presented under "Investment Properties" account (see Notes 8 and 13)
- Liabilities, including its share of any liabilities jointly incurred, recorded as "Accrued Expenses"
- Revenue from the sale of its share of the real estate inventories, recorded as "Real Estate Revenue"
- Share of the revenue from services rendered jointly, recorded as part of the "Rental Income"
- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

These joint operations do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the operators themselves. Each operator has control over its share of future economic benefits through its share of the results of the joint operation.

Property and Equipment
Property and equipment, except for land, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. 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. Land is stated at cost.

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 Asset 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 residual values and useful lives of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognized.
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 available for use. Construction in progress is not depreciated until such time as the relevant assets are completed and are available for 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 that is 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 its 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 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 statement of financial position) 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 statements of financial position, 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 the profit or loss.

Impairment of Nonfinancial Assets

The Group assesses, at each reporting date, whether there is an indication that its investment in associates, interest in joint ventures, property and equipment, investment properties and franchise fee may be impaired. If 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 CGU'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 reporting 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 the 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.

Capital Stock and Additional Paid-in Capital

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.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

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 Company. Dividends for the year that are declared after the reporting date are dealt with as a non-adjusting event after the reporting date.

Earnings Per Share (EPS)

Basic 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 and cockfighting 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.

Commission income from cockfighting
Revenue is recognized as earned based on a percentage of gross receipts from ticket sales of cockfighting operations.

Revenue from food and beverages
Revenue from food and beverages are recognized when services are rendered or the goods are sold.

Real estate sales
The Parent Company assesses whether it is probable that the contract price (which embodies economic benefits) will flow to the Company. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

Revenue from sales of completed real estate projects from the joint venture is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are included in the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position. If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position.

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.
The cost of inventory recognized in the consolidated statements of comprehensive income upon sale is determined with reference to the costs of the land contributed for the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Rental income from stables, building and other facilities
Revenue from the lease of stables, building and other facilities is recognized in the consolidated statements 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 Parent Company's right to receive the payment is established.

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

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

Other Comprehensive Income (OCI)
Items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the profit or loss for the year are recognized as OCI and are presented as OCI in the consolidated statements of comprehensive income.

The OCI of the Group pertains to gains and losses on remeasuring AFS financial assets and actuarial gains (losses) on remeasurement of retirement plan.

Retirement Benefits Cost
The Parent Company has noncontributory 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 employees' projected salaries.

Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements 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 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.

Remeasurements 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund 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 price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the 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 benefit asset is limited to the present value of economic benefits available in 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

When 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 directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.
Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 reporting date.

For income tax purposes, full revenue recognition on real estate sales is applied when more than 25% of the contract price has been collected in the year of sale; otherwise, the installment method is applied, where real estate sales are recognized based on collection multiplied by the gross profit rates of the individual sales contracts.

Deferred tax
Deferred tax is recognized using the liability method, on all temporary differences at the reporting 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, carryforward 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 reporting 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 reporting 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 substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current 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.

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 reporting date. All foreign exchange gains and losses are recognized in profit or loss.

Provisions
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.

When 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.

Contingencies
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 unitthat offers different products and serves different markets. Financial information on the Group's operating segments is presented in Note 29 to the consolidated financial statements.

Events After the Reporting Date
Events after the reporting date that provide additional information about the Group's financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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 an investor 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. On the other hand, joint control is presumed to exist when the investors contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has control by virtue of its power to cast the majority votes at meetings of the BOD in all of its subsidiaries (see Note 1).

Determination if joint control exists in a joint venture
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has joint control in San Lazaro BPO Complex Joint Venture and Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly for all relevant activities by the venturers through its BOD (see Note 1).

Determination if significant influence exist in an associate
Significant influence exist when an investor has the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. Management has determined that the Group has significant influence in MIC since the Group has the power to

appoint representatives to the BOD of MIC to participate in the financial and operating policy decision (see Note 1).

Determination of joint venture or joint operation
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement.

Management has determined that arrangement for ventures with Avida, Alveo and CCC are classified as joint operations since the Group have rights to the assets and obligations for the liabilities relating to the arrangement and not to the net assets of the arrangement.

Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3.
Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

On August 25, 2016, the Parent Company acquired 56.87 percent of the total capital stock of Apo Reef World Resorts, Inc. for ₱89.9 million. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3 since the Parent Company acquired only inputs in the form of parcels of land situated in Mamburao, Mindoro and was not able to acquire any processes. There were no indicators of substantive processes and/or services acquired or provided as of acquisition date.

Classification of leases
Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership ofs 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. i.e. ownership of the assets remains with the Group at the end of the lease terms. Accordingly, the lease agreements are accounted for as operating leases.

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. i.e. ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease.

Impairment of noncurrent nonfinancial assets
The Group assesses at each reporting date whether there is any indication that its interest in associates and joint ventures, property and equipment, investment properties and franchise fee may be impaired. Indication of impairment includes: (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 CGU's fair value less costs to sell and its value in

use.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting 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.

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 March 31, 2017 and December 31, 2016, the carrying value of receivables (including noncurrent portion of real estate receivables), net of allowance for doubtful accounts, are disclosed in Note 7 to the consolidated financial statements.

Determination of NRV of real estate inventories

The Group's estimates of the NRVs 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 NRV 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 NRV 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 NRV.

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 March 31, 2018 and December 31, 2017, the carrying value of the Group's AFS financial assets are disclosed in Note 11 to the consolidated financial statements.

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 property based on the internal technical evaluation and experience with similar assets. Estimated useful lives of property and equipment and investment property (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.

There were no changes in the useful lives of property and equipment and investment properties in 2018 and 2017. As of March 31, 2018 and December 31, 2017, the carrying amount of depreciable property and equipment are disclosed in Note 12 to the consolidated financial statements. The carrying amount of depreciable investment property as of March 31, 2018 and December 31, 2017 are disclosed in Note 13 to the consolidated financial statements.

Recognition of deferred tax assets
The Group reviews the carrying amount of the deferred tax assets at each reporting 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.

Estimation of retirement benefits cost and obligations
The determination of the obligation and cost for 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 21 and include among others, discount rates, expected rate of return on plan assets and expected rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore generally affect the recognized expense and recorded obligation in such future period. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement and other retirement obligations.

As of March 31, 2018 and December 31, 2017, the carrying value of accrued retirement benefits are disclosed in Note 21 to the consolidated financial statements. Retirement benefits cost in 2018 and 2017 are disclosed in Note 21 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	MAR 2018	DEC 2017
Cash on hand	**₱40,097,904**	₱24,168,097
Cash in banks	**181,580,126**	176,432,422
Cash equivalents	**10,000,000**	25,000,000
	₱231,678,030	₱225,600,519

Cash in banks generally earns 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 ₱0.08 million and ₱0.2 million for the periods ended March 31, 2018 and 2017, respectively (Note 22).

7. Receivables

This account consists of:

	MAR 2018	DEC 2017
Trade		
Real estate receivables - current portion	**₱135,958,376**	₱172,355,182
Rent receivables	**12,503,053**	12,687,936

Receivable from Philippine Amusement and Gaming Corporation (PAGCOR)	**2,210,456**	2,296,721
Receivables from off-track betting (OTB) operators	**1,081,555**	1,406,515
Non-trade		
Advances to suppliers	**17,384,198**	13,886,233
Advances and loans to officers and Employees (Note 22)	**16,890,064**	14,710,930
Receivable from third parties	**9,745,678**	10,545,688
Dividends receivable	**6,496,943**	3,376,407
Receivable from contractors	**5,641,495**	5,641,495
Due from related parties	**5,053,203**	5,009,303
Claims for tax credit certificates (TCC)	**–**	–
Others	**11,327,209**	11,853,772
	224,292,232	253,770,183
Less allowance for doubtful accounts	**36,393,964**	36,393,964
	₱187,898,268	₱217,376,219

Real Estate Receivables

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

	MAR 2018	DEC 2017
Current	**₱135,958,376**	₱172,355,182
Noncurrent	**57,891,699**	51,153,362
	₱193,850,075	₱223,508,544

Real estate receivables, which are collectible in monthly installments, represent noninterest- bearing receivables with average term ranging from two to three years. Titles to condominium properties are not transferred to the buyers until full payment is made.

Interest income from accretion of real estate receivables amounted to ₱6.4 million and ₱8.6 million for the periods ended March 31, 2018 and 2017, respectively (Note 22).

Advances and Loans to Officers and Employees

The Parent Company grants salary loans and advances to its officers, payable through salary deductions. The loans bear an average interest rate of 9% per annum.

Receivable from contractors

This pertains to deposits made by the Parent Company to the contractors not yet deducted from the billings of the Parent Company.

Claims for TCC

The Parent Company accrued ₱2.3 million for its claim against the City of Manila for a tax refund for undue payment of franchise tax on race tracks, amusement taxes on admission and real property taxes levied against the Parent Company for the years 1994 and 1995 pursuant to Manila Revenue Code of 1993 (Ordinance No. 7794).

The Trial Court rendered a decision in favor of the Parent Company on March 7, 1997 ordering the City of Manila to grant the Parent Company a tax refund of ₱2.3 million and for which a *writ of execution* was already issued on May 12, 2003 by the Trial Court. Prior to the implementation of the *writ of execution*, the Parent Company entered into a compromise agreement with the City of Manila for an out-of-court settlement. The *writ of execution* issued by the Trial Court has not been implemented as of May 12, 2017.

Advances to Suppliers
Advances to suppliers are noninterest-bearing payments, which is normally within twelve months or within the normal operating cycle.

Other Receivables
Other receivables include accrued interest and other various individually insignificant items.

Allowance for Doubtful Accounts
The following table shows the rollforward of the allowance for doubtful accounts as of March 31, 2018 and December 31, 2017:

	MAR 2018	DEC 2017
Balance at beginning of year	**₱36,393,964**	₱37,855,574
Provision during the period	-	13,849,311
Amounts written off during the period	-	(15,302,711)
Recovery of doubtful accounts	-	(8,210)
Balance at end of period	**₱36,393,964**	₱36,393,964

Details of allowance for doubtful accounts per class of receivable are as follows:

	MAR 2018	DEC 2017
Trade	**₱24,020,769**	₱24,020,769
Non-trade	**12,373,195**	12,373,195
Balance at end of period	**₱36,393,964**	₱36,393,964

8. Inventories

This account consists of:

	MAR 2018	DEC 2017
Real estate:		
Land held for development - at cost	**₱38,189,898**	₱38,189,898
Condominium units for sale - at cost	**17,415,685**	18,693,592
Memorial lots for sale - at net realizable value	**6,489,904**	8,379,931
Residential units for sale - at cost	**2,783,562**	2,783,562
	64,879,049	68,046,983
Food and beverages - at cost	**657,009**	551,194
Gamefowls - at cost	**1,907,000**	2,651,000
	₱67,443,058	₱71,249,177

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company.

The movements in the real estate inventories account are as follows:

	MAR 2018	DEC 2017
Balance at beginning of year	**₱68,046,953**	₱81,320,152
Cost of real estate sold (Note 17)	**(3,167,933)**	(13,273,169)
Balance at end of period	**₱64,879,020**	₱68,046,953

In 2018 and 2017, no impairment loss was recognized. There were 3 sales of memorial lots during the period ended March 31, 2018. Thus, the cost of memorial lots for sale as at March 31, 2018 is at ₱6.5 million and December 31, 2017 amounts to ₱8.4 million.

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

Condominium units for sale
On February 26, 2005, the Parent Company entered into Joint Development Agreements (JDAs) with Avida Land Corporation (Avida) and Alveo Land Corporation (Alveo) 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 its rights, title and interest in the Project and 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.

Towers 1 to 5 of AVIDA and Towers 1 and 2 of Alveo are fully completed as of December 31, 2017 and 2016. The construction of Tower 3 of Alveo is 99.9% complete as of March 31, 2018 and December 31, 2017.

Residential units for sale
On February 24, 2004, the Parent Company entered into an agreement 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. As of December 31, 2017, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. Marketing costs for the periods ended March 31, 2018 and 2017 amounted to ₱1.5 million and ₱0.8 million, respectively.

9. Other Current Assets

This account consists of:

	MAR 2018	DEC 2017
Prepaid expenses	**₱10,580,072**	₱5,657,591
Prepaid income tax	**6,476,411**	4,137,338
Input VAT	**1,008,118**	1,270,974
Deposit	**174,206**	174,206
Others	**27,084**	252,123
	₱18,316,006	₱11,492,232

Prepaid expenses include prepayments made for insurance and licenses.

10. Investment in Associates and Joint Ventures

Investment in associates and joint ventures consist of:

	MAR 2018	DEC 2017
Investment in associates		
MIC	**₱2,122,151,034**	₱2,011,056,348
Techsystems	–	–
	2,122,151,034	2,011,056,348
Investment in joint ventures		
Gamespan	**9,792,161**	9,792,161
SLLBPO	**32,563,141**	31,193,101
	42,355,302	40,985,262
Advances to an associate	–	152,254,429
	₱2,164,506,336	₱2,204,296,039

Investment in Associates

MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of March 31, 2018 and December 31, 2017. MIC started its commercial operations on January 6, 2016. The movements and details of the accounts are as follows:

	MAR 2018	DEC 2017
Investment in associate	**₱2,163,310,777**	₱2,185,285,142
Equity in net losses of the associate	**(41,159,743)**	(174,228,794)
	2,122,151,034	2,011,056,348
Advances to an associate	–	152,254,429
	₱2,122,151,034	₱2,163,310,777

The summarized financial information of MIC is as follows:

	MAR 2018	DEC 2017
Current assets	**₱ 548,826,514**	₱897,918,988
Noncurrent assets	**5,965,999,520**	6,051,105,774
Current liabilities	**1,050,377,038**	1,301,980,534
Noncurrent liabilities	**3,880,148,885**	3,878,241,036
Equity	**1,584,300,110**	1,768,803,192
Income	**142,528,567**	469,722,606
Expenses	**327,031,649**	1,259,957,781
Net loss	**184,503,0832**	790,235,175

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership of 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 March 31, 2018 and December 31, 2017, investment in Techsystems is fully provided with allowance. As of May 12, 2017, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems is as follows:

	MAR 2018	DEC 2017
Total liabilities	**₱5,184,317**	₱5,184,317

Capital deficiency	**(5,184,317)**	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to 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. As of May 12, 2017, Gamespan has not yet started its commercial operations.

The summarized financial information of the Gamespan is as follows:

	MAR 2018	DEC 2017
Current assets	**₱20,184,979**	₱20,184,979
Noncurrent assets	**29,167**	29,167
Current liabilities	**629,824**	629,824
Equity	**19,584,322**	19,584,322

Equity in joint venture in Gamespan amounted to ₱9.8 million in 2018 and 2017. No equity in net earnings (loss) was recognized in 2018 and 2017.

SLBPO. On December 12, 2008, the Parent Company entered into a JVA with Ayala Land, Inc. (ALI) to create SLBPO, an incorporated entity, for the purpose of leasing, managing and administering the developed office units and retail development area 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.

The movement of the equity in joint venture of the San Lazaro JV for periods ended March 31, 2018 and December 31, 2017 are as follow:

	MAR 2018	DEC 2017
Balance at beginning of year	**₱31,193,101**	₱10,318,304
Equity in net earnings for the period	**7,866,983**	39,009,304
Share on dividends declared	**(6,496,943)**	(18,134,507)
Balance at end of period	**₱32,563,141**	₱31,193,101

Dividend receivable from the JV amounted to ₱6.5 million and ₱6.0 million as of March 31, 2018 and December 31, 2017.

The summarized financial information of the San Lazaro JV is as follows:

	MAR 2018	DEC 2017
Current assets	**₱ 275,591,455**	₱254,648,235
Noncurrent assets	**17,527,031**	18,063,655
Current liabilities	**122,656,857**	107,759,329
Noncurrent liabilities	**46,814,132**	45,871,866
Equity	**4,566,801**	119,080,695
Income	**28,116,242**	217,264,535
Expenses	**1,892,965**	87,233,520
Net income	**26,223,277**	130,031,015

Equity in net earnings (losses) of associates and joint ventures

	MAR 2018	MAR 2017
MIC	**(₱41,159,743)**	(₱ 42,690,723)
SLBPO	**7,866,983**	7,891,384
Gamespan	**–**	–
	(₱33,292,760)	(₱34,799,339)

11. AFS Financial Assets

This account consists of:

	MAR 2018	DEC 2017
At fair value:		
Quoted equity securities	**₱12,560,582**	₱12,560,582
Quoted debt securities	**22,005,460**	22,005,460
At cost:		
Unquoted equity securities	**633,297**	633,297
	₱35,199,339	₱35,199,339

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

	MAR 2018	DEC 2017
Balance at beginning of year	**₱35,199,339**	₱13,261,8121
Additions during the period	**–**	22,000,000
Disposal during the period	**–**	–
Unrealized mark-to-market gains (losses) during the period	**–**	(62,473)
Balance at end of period	**₱35,199,339**	₱35,199,339

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

	MAR 2018	DEC 2017
Balance at beginning of year	**₱4,950,148**	₱4,962,621
Impairment loss reclassified to profit or loss	**–**	50,000
Unrealized mark-to-market gains (losses) during the period	**–**	(62,473)
Realized mark-to-market gains (losses) during the period	**–**	–
Balance at end of period	**₱4,950,148**	₱4,950,148

The fair values of quoted AFS financial assets are determined based on published prices in an 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.

There were no disposals during the periods ended March 31, 2018 and 2017. Dividend income recognized for the periods ended March 31, 2018 and 2017 amounted ₱0.07 million.

12. Property and Equipment

Movements in this account are as follows:

MAR 2018

	January 1	Additions	Disposals	Reclassifications and adjustments	March 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587				347,422,587
Building and improvements	672,002,701				672,002,701
Machinery and equipment	558,027,885	1,555,257			559,583,142
Transportation equipment	42,243,675	675,000			42,918,675
Furniture and fixtures	31,390,116	296,310			31,686,426
	1,955,956,347	2,526,567			1,958,482,914
Accumulated depreciation					
Land improvements	196,229,945	551,683			196,781,628
Building and improvements	366,433,337	9,969,949			376,403,286
Machinery and equipment	488,474,113	5,566,407		(26,736)	494,013,784
Transportation equipment	29,627,711	861,585			30,489,296
Furniture and fixtures	25,205,852	440,638			25,646,490
	1,105,970,958	17,390,262		(26,736)	1,123,334,484
Net book value	849,985,389	(14,863,695)		26,736	835,148,431
Construction in progress	30,621,527	986,528			31,608,055
	₱ 880,606,916	(₱13,877,167)	₱–	₱26,736	₱ 866,756,486

DEC 2017

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	–	–	–	347,422,587
Building and improvements	671,933,272	69,429	–	–	672,002,701
Machinery and equipment	547,259,336	10,814,549	(46,000)	–	558,027,885
Transportation equipment	36,907,586	6,420,089	(1,084,000)	–	42,243,675
Furniture and fixtures	26,972,004	4,418,112	–	–	31,390,116
	1,935,364,168	21,722,179	(2,432,758)	–	1,955,956,347
Accumulated depreciation					
Land improvements	181,443,068	14,786,877	–	–	196,229,945
Building and improvements	339,102,860	27,330,477	–	–	366,433,337
Machinery and equipment	464,814,282	23,685,121	(25,290)	–	488,474,113
Transportation equipment	27,319,907	3,335,704	(1,027,900)	–	29,627,711
Furniture and fixtures	23,387,978	1,817,874	–	–	25,205,852
	1,036,068,095	70,956,053	(1,053,190)	–	1,105,970,958
Net book value	899,296,073	(49,233,874)	(76,810)	–	849,985,389
Construction in progress	21,643,002	8,978,525	–	–	30,621,527
	₱920,939,075	(₱40,255,349)	(₱76,810)	₱–	₱ 880,606,916

Depreciation Charges

The amount of depreciation is allocated as follows:

	MAR 2018	MAR 2017
Cost of club races (Notes 12 and 17)	**₱10,058,921**	₱9,834,140
Cost of rental services (Notes 12, 13 and 17)	**5,348,991**	5,678,795
General and administrative expense (Notes 12 and 18)	**4,408,684**	4,463,455
Cost of cockfighting (Notes 12 and 17)	**777,802**	339,749
Cost of food and beverages (Notes 12 and 17)	**106,823**	100,940
	₱20,701,221	₱20,417,079

Construction in Progress
Construction in progress pertains to costs of constructed long-term assets that are accumulated until they are ready for use.

Capitalized Borrowing Costs
No interest on loans was capitalized in 2018 and 2017. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of March 31, 2018 and December 31, 2017 and 2016 amounted to ₱35.4 million.

Land
In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, 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. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2017 and 2016. The outstanding balance of ₱89.9 million as of March 31, 2018 and December 31, 2017 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position. In 2016, the Parent Company acquired new short-term loans amounting to ₱88.0 million. These loans are secured by real estate mortgages on land with carrying value of ₱216.0 million as of December 31, 2016.

Assets Under Operating Lease
The Parent Company has various operating lease agreements for its building improvements, specifically, 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 that are leased out on these operating leases amounted to ₱24.4 million and ₱24.8 million as of March 31, 2018 and December 31, 2017, respectively. Rent income from stable rentals in for the periods ended March 31, 2018 and 2017 amounted to ₱11.8 and ₱10.8 million, respectively.

The Parent Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.1 million for the periods ended March 31, 2018 and 2017.

Operating Lease Commitment with PAGCOR - the Parent Company as Lessor
In 2013, the Parent Company entered a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. As of March 31, 2018, the lease contract is still under renewal.

Rent income from PAGCOR amounted to ₱0.3 million for the periods ended March 31, 2018 and 2017.

Lease of Equipment with PAGCOR
In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty- five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until December 31, 2016. Income from the lease agreement with PAGCOR amounted to ₱3.3 million and ₱5.7 million for the periods ended March 31, 2018 ad 2017, respectively.

13. Investment Properties

This account consists of:

	MAR 2018	DEC 2017
Land:		
Sta. Cruz property held for capital appreciation	**₱359,631,580**	₱359,631,580
Sta. Cruz property held for lease	**238,168,692**	238,168,692
Carmona property (Note 15)	**109,750,785**	109,750,785
Mamburao property (Note 1)	**124,097,258**	123,872,731
Undivided interest in a parcel of land in Batangas	**56,723,976**	56,723,976
	881,372,291	888,147,764
Building:		
Developed office units (Note 10)	**174,620,153**	177,226,424
Retail development area (Note 10)	**31,500,922**	32,001,308
	206,121,075	209,227,732
	₱ 1,094,493,366	₱1,097,375,496

The movements in the carrying amount of investment properties are shown below:

	MAR 2018		
	Land	**Building**	**Total**
Cost			
Balance at beginning of year	**₱888,147,764**	**₱310,665,629**	**₱1,188,650,543**
Additions	**224,527**	–	**3,587,984**
Balance at end of year	**888,372,291**	**310,665,629**	**1,199,037,920**
Accumulated Depreciation			
Balance at beginning of year	–	**101,437,897**	**101,437,897**
Depreciation (Notes 17 and 19)	–	**3,106,657**	**3,106,657**
Balance at end of period	–	**104,544,554**	**104,544,554**
Net Book Value	**₱ 888,372,291**	**₱ 206,121,075**	**₱ 1,094,493,366**

	DEC 2017		
	Land	Building	Total
Cost			
Balance at beginning of year	₱877,984,914	₱310,665,629	₱1,188,650,543
Additions	10,162,850	–	10,162,850
Balance at end of year	888,147,764	310,665,629	1,198,813,393
Accumulated Depreciation			
Balance at beginning of year	–	89,011,272	89,011,272
Depreciation (Notes 17 and 19)	–	12,426,625	12,426,625
Balance at end of year	–	101,437,897	101,437,897
Net Book Value	₱888,147,764	₱209,227,732	₱1,097,375,496

Depreciation amounting to ₱0.5 million for the period ended March 31, 2018 and 2017 is included as part of "Cost of rental services". Direct operating expenses related to the investment properties amounted to ₱2.6 million for the periods ended March 31, 2018 and 2017.

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 Econozone 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 race track 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 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. As of March 31, 2017 and December 31, 2016, 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 statements of financial position.

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. Rental income recognized from the retail area amounted to ₱4.0 million and ₱3.8 million for the periods ended March 31, 2018 and 2017, respectively.

Undepreciated capitalized interest relating to the Building Complex as of March 31, 2018 and December 31, 2017 amounted to ₱5.7 million.

Fair Market Values

As of March 31, 2018 and December 31, 2017, the aggregate fair value of the Parent Company's investment properties amounted to ₱8.7 billion. Fair values of the Carmona property, Sta. Cruz properties and the building as of August 5, 2016 and August 10, 2016 have been determined based on valuation performed by independent professional appraisers using replacement cost approach method and market data approach method. Management believes that there are no material changes in fair value on these investment properties as of March 31, 2018 and December 31, 2017 from the most recent revaluations performed by independent appraisers.

The carrying value of the Mamburao property amounts to ₱117.3 million as of March 31, 2018 and December 31, 2017.

14. Other Noncurrent Assets

This account consists of:

	MAR 2018	DEC 2017
Deferred input VAT	**₱12,880,653**	₱11,573,543
Deposits	**9,329,138**	9,238,898
Franchise fee (Note 1)	**8,554,339**	9,002,839
Others	**236,428**	236,428
	₱31,000,559	₱30,051,708

Franchise Fee

Movements in the carrying amounts of franchise fees are shown below:

	MAR 2018	DEC 2017
Acquisition cost	**₱44,850,000**	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	**35,847,161**	34,053,161
Amortization for the period	**448,500**	1,794,000
Balance at end of the period	**36,295,661**	35,847,161
	₱8,554,339	₱9,002,839

Franchise fee has a remaining amortization period of 5 years as of December 31, 2017.

15. Short-term Loans and Borrowings

As of March 31, 2018 and December 31, 2017, outstanding balance of short-term loans and borrowings amounted to ₱217.1 million and ₱234.0 million, respectively. These loans were obtained for working capital requirements and bear average interest of 3.0% in 2018 and 2017. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

In January 2017, the Parent Company availed a short-term loan amounting to ₱100.0 million. In 2016, the Parent Company acquired short-term loans amounting to ₱88.0 million. These loans are secured by real estate mortgages on the land with carrying value of ₱216.0 million as of December 31, 2016.

MCI also acquired a new short-term loan amounting to ₱10.0 million in 2016. This loan was obtained for working capital requirements and bear average interest of 3.0%. The promissory note covering said loan has a term of 3 months and shall be subject for renewal on maturity date. As of March 31, 2017, the outstanding balance of this short-term loan is ₱8.0 million.

Payments made during the period ended March 31, 2018 for these short-term loans totaled to ₱16.9 million.

Interest expense on short-term loans amounted to ₱2.1 million and ₱1.2 million for the periods ended March 31, 2018 and 2017 (see Note 23).

16. Accounts Payable and Other Liabilities

This account consists of:

	MAR 2018	DEC 2017
Due to RALI (Note 12)	₱89,900,000	₱89,900,000
Accounts payable	86,244,627	93,136,507
Cash bond on OTB operators	28,682,524	28,520,754
Documentary stamps payable	28,338,988	23,338,521
Accrued expenses	26,034,549	27,775,656
Unclaimed winnings	16,899,230	12,242,665
Percentage tax payable	15,573,665	18,573,779
VAT payable	12,681,711	4,709,364
Due to concessionaires	9,635,330	9,584,174
Due to contractors	7,083,538	7,083,538
Dividends payable (Note 27)	4,161,807	4,180,958
Taxes on winnings	3,526,495	7,557,851
Trade payable and buyers' deposits	3,351,520	4,081,924
Retention payable	1,978,343	1,978,343
Withholding taxes payable	1,657,500	2,904,394
Due to OTB operators	1,257,733	2,007,935
Due to horse owners	1,195,976	141,606
Others	3,818,416	4,323,961
	₱342,021,952	₱342,041,930

Accounts payable are noninterest-bearing and are normally settled within the next financial year.

Accrued expenses include normal and recurring expenses incurred by the Group and will be utilized in the next financial year.

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 as of reporting period.

Cash bond on OTB operators, documentary stamp payable, unclaimed winnings, due to concessionaire, due to contractors, taxes on winnings, VAT payable, retention payable, due to OTB operator and due to horse owners are payable within the next periods.

17. Cost of Sales and Services

Cost of club races consists of:

	MAR 2018	MAR 2017
Personnel costs (see Note 21)	**₱13,580,701**	₱14,372,811
Depreciation (see Notes 13 and 20)	**10,058,921**	9,834,140
Taxes and licenses	**6,331,991**	527,541
Utilities	**4,256,321**	4,550,443
Commission	**4,239,459**	4,970,264
Added/guaranteed prizes and race sponsorships	**2,533,289**	1,275,796
Rent	**1,449,004**	1,218,537
Repairs and maintenance	**1,266,458**	427,426
Contracted services	**1,181,128**	1,206,411

Transportation and travel	**910,892**	852,649
Meetings and conferences	**898,990**	959,260
Security services	**470,852**	481,064
Supplies	**468,506**	535,587
Amortization of franchise fee (see Note 15)	**448,500**	448,500
Gas, fuel and oil	**323,220**	227,320
Software license	**293,063**	-
Others	**1,191,296**	994,074
	₱49,902,590	**₱42,881,823**

Cost of real estate:

	MAR 2018	MAR 2017
	₱3,167,933	₱1,800,470

Cost of cockfighting consists of:

	MAR 2018	MAR 2017
Percentage tax	**₱15,573,665**	₱8,652,908
Support guarantee prize	**9,869,337**	5,995,281
Commission	**8,075,038**	4,417,395
Gamefowls (Note 8)	**3,073,000**	1,238,000
Communication	**2,502,756**	2,453,053
Service fee	**2,103,223**	331,623
Teller's allowances	**1,822,239**	1,327,959
Professional fees	**1,443,560**	1,295,177
Supplies	**1,088,587**	362,874
Transportation and travel	**974,513**	768,588
Depreciation	**777,802**	339,749
Taxes and licenses	**761,253**	3,537,368
Security services	**329,304**	245,251
Rent (Note 30)	**228,328**	49,570
Repairs and maintenance	**222,129**	265,845
Fuel and oil	**154,586**	120,133
Others	**2,069,895**	731,841
	₱51,069,215	₱32,132,615

Cost of rental services consists of:

	MAR 2018	MAR 2017
Depreciation	**₱5,348,991**	₱5,678,795
Utilities	**2,890,933**	2,405,704
Personnel costs (Note 20)	**1,042,524**	845,685
Contracted services	**784,026**	1,011,352
Repairs and maintenance	**444,034**	838,047
Security services	**346,169**	388,951
Meetings and conferences	**273,451**	391,715
Rent (Note 30)	**242,528**	552,713
Franchise tax - gaming	**162,528**	284,142
Advertisements and promotions	**-**	275,125
Others	**173,557**	193,137
	₱11,708,741	**₱12,865,365**

Cost of food and beverages consists of:

	MAR 2018	MAR 2017
Purchased stocks	**₱3,216,433**	₱2,235,673
Utilities	**1,227,031**	1,066,078
Contracted services	**924,012**	1,006,573
Personnel cost (Note 20)	**644,110**	492,569
Meetings and conferences	**140,204**	124,428
Depreciation	**106,823**	100,940
Repairs and maintenance	**69,145**	25,832
Semi-expendable equipment	**32,764**	245,051
Communication	**17,659**	28,402
Supplies	**12,736**	23,058
Others	**163,848**	194,990
	₱6,554,766	₱5,543,595

18. General and Administrative Expenses

This account consists of:

	MAR 2018	MAR 2017
Personnel costs (Note 20)	**₱19,648,626**	₱17,879,225
Taxes and licenses	**9,288,007**	1,807,434
Tenant's reimbursements	**6,850,725**	1,867,815
Contracted services	**4,801,355**	4,244,714
Depreciation	**4,408,684**	4,463,455
Meetings and conferences	**3,414,180**	1,881,432
Utilities	**2,837,330**	2,556,510
Rent (Note 30)	**2,809,665**	2,390,551
Repairs and maintenance	**2,580,418**	2,413,522
Security services	**1,909,942**	1,515,863
Professional fees	**1,636,422**	3,933,807
Service fee	**1,250,650**	1,268,551
Advertising	**938,892**	823,881
Gas, fuel and oil	**730,269**	584,904
Supplies	**623,675**	468,354
Insurance	**602,864**	309,562
Transportation and travel	**592,228**	209,565
Membership dues	**263,415**	288,654
Directors' fee	**252,000**	116,000
Semi-expendable equipment	**154,468**	230,223
Seminars and trainings	**55,008**	130,785
Entertainment, amusement, and recreation	**560**	13,426
Others	**2,507,039**	2,757,747
	₱68,156,422	₱52,155,980

19. Depreciation

This account consists of:

	MAR 2018	MAR 2017
Cost of club races (Notes 12 and 17)	**₱10,058,921**	₱9,834,140
Cost of rental services (Notes 12, 13 and 17)	**5,348,991**	5,678,795
General and administrative expense (Notes 12 and 18)	**4,408,684**	4,463,455
Cost of cockfighting (Notes 12 and 17)	**777,802**	339,749
Cost of food and beverages (Notes 12 and 17)	**106,823**	100,940
	₱20,701,221	₱20,417,079

20. Personnel Costs

This account consists of:

	MAR 2018	MAR 2017
Salaries and wages	**₱30,887,889**	₱30,029,733
Retirement benefits costs (Note 21)	**2,150,365**	2,100,000
Other employee benefits	**1,877,707**	1,460,558
	₱ 34,915,961	₱33,590,291

21. Retirement Benefits Costs

The Parent Company has four 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, 2017. The details of the retirement benefits costs are as follows:

	MAR 2018	MAR 2017
Current service costs	**₱2,150,365**	₱2,100,000
Interest costs	**-**	-
	₱2,150,365	₱2,100,000

Movements in the accrued retirement benefits are as follows:

	MAR 2018	DEC 2017
Balance at beginning of year	**₱39,858,117**	₱44,035,776
Net retirement benefits costs for the period	**2,100,000**	8,928,035
Contributions for the period	**(4,718,184)**	(8,100,000)
Defined benefit income recognized in OCI	**-**	(5,005,694)

Balance at end of period	**₱37,239,933**	₱39,858,117

22. Interest Income

Interest income related to:

	MAR 2018	MAR 2017
Real estate receivables (Note 7)	**₱6,384,144**	₱5,157,810
Cash and cash equivalents (Note 6)	**348,232**	375,456
Advances and loans to officers and employees (Note 7)	**170,591**	-
	₱6,902,966	₱5,533,266

23. Finance Costs

Interest expense related to:

	MAR 2018	MAR 2017
Short-term loans (Note 15)	**₱2,071,517**	₱1,194,817
Bank charges and others	**21,457**	16,684
	₱2,092,974	₱1,211,500

24. Other Income – net

	MAR 2018	MAR 2017
Tenants' reimbursements	**₱1,822,916**	₱1,105,847
Income from advertising campaign	**760,848**	771,150
Income from receivable from third parties	**499,960**	460,833
Income from subscription	**228,569**	-
Income due to cancellations	**123,899**	260,000
Entrance fees	**114,286**	135,268
Rental Services	**93,304**	-
Foreign exchange gain - net	**83,201**	7,634
Dividend income from AFS financial assets	**69,688**	69,688
Parking fees	-	648,036
Gain on sale equipment	-	85,536
Others - net	**207,401.10**	611,598
	₱4,004,070	₱4,155,590

Tenant's reimbursements refer to the payment of utility charges by the tenants of the Building Complex at Sta. Cruz, Manila which the Parent Company recognizes as income when collected and expense when remitted to SLBPO.

Income from advertising campaign pertains to advertising placement rights granted by the Group to third parties.

Others include various income and expenses such as racing horse rehearsal fees, lotto commission and other insignificant items.

25. Income Taxes

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

	MAR 2018	MAR 2017
RCIT	₱	₱-
Final tax on interest income	62,960	38,202
MCIT	700,997	440,044
	₱763,957	₱478,246

26. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

		Amount		Receivable/(Payable)			
	Nature	MAR 2018	DEC 2017	MAR 2018	DEC 2017	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office space[a]	₱2,633,905	₱11,780,277	₱–	₱–	Noninterest-bearing	Unsecured, impaired
Advances from shareholders	Advances	-	-	(14,734,481)	(14,734,481)	Noninterest-bearing	Unsecured, impaired
Associates:							
MIC	Advances[b]	43,398	1,161	5,025,503	4,982,104	Noninterest-bearing	Unsecured, impaired
Techsystems	Advances[b]	500	9,034	27,700	27,200	Noninterest-bearing	Unsecured, impaired

[a] *The Parent Company has a lease agreement with AMDC, an affiliate under common control, in the lease of office space and parking lots..*

[b] *Included in the "Receivables" account.*

27. Equity

Capital Stock

The details of the Parent Company's capital stock as of March 31, 2018 and December 31, 2017 are as follows:

	MAR 2018		DEC 2017	
	Number of Shares	Amount	Number of Shares	Amount
Common shares - ₱1 par value				
Authorized - 1,000,000,000 shares				
Issued and outstanding (held by 970				
and 981 equity holders in 2017 and 2016)	996,170,748	₱996,170,748	996,170,748	₱996,170,748
	996,170,748	996,170,748	996,170,748	₱996,170,748

28. Basic/Diluted EPS

Basic/diluted earnings (loss) per share were computed as follows:

	MAR 2018	DEC 2017
Net income (loss) attributable to equity holders of the Parent Company	(₱52,158,960)	(₱119,358,594)
Divided by weighted average number of outstanding common shares	996,170,748	996,170,748
Basic/diluted earnings (loss) per share	(₱0.0524)	(₱0.1198)

The Parent Company does not have potential dilutive common shares as of March 31, 2018 and December 31, 2017. Therefore, the basic and diluted earnings (loss) per share are the same as of those dates.

29. 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 five reportable operating segments are the operation and maintenance of race tracks and holding of horse races, cockfighting operations, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

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.

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

30. Commitments and Contingencies

Commitments

The following are the significant commitments of 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 under common control, 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 5.0%. 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, subject to an annual escalation rate of 5.0%, and will expire on December 31, 2017.

On January 1, 2011, the Parent Company entered into another lease agreement with AMDC for another office space. The lease is for a period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2016 is ₱301,403, subject to an annual escalation rate of 5.0%.

b. Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

   In 2013, the Parent Company entered into a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. As of April 25, 2017, the lease contract is still under renewal. Rent income from PAGCOR amounted to ₱0.3 million for the periods ended March 31, 2018 and 2017.

c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until June 30, 2016. Gaming revenue recognized for the periods ended March 31, 2018 and 2017 amounted to ₱3.3 million and ₱5.7 million, respectively.

d. Claims and Legal Actions

   As of March 31, 2018 and December 31, 2017, 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 consolidated 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 therefrom would be taken up when the final resolution of the claims and actions are determined.

   Significant Contracts between MIC and PAGCOR were discussed in the Group's Audited Financial Statements for year 2017 submitted to regulatory bodies.

   <u>Contingencies</u>

   Unclaimed Dividends on Winnings
   Under PR58D of the *Rules and Regulations on Horse Racing* promulgated by the Philippine 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 funds 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 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 Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Parent Company. Hence, unclaimed dividends and/or winnings within thirty days were declared to be private funds of the Parent Company.

31. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents (except cash on hand), 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 has no exposure to the risk of changes in market interest rate because the Group's interest-bearing loans and borrowings carry fixed interest rates.

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 statements of financial position as held for trading investments and AFS financial assets.

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

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.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Receivables

Credit risk from receivables is managed by the Group through an established policy, procedures and control relating to credit risk management of receivables from customers, OTB operators, lessees, related parties and other counterparties.

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5% of the total receivables.

These receivables have no history of significant default or delinquency in collections but have a reasonable probability of non-collectability.

Liquidity risk

The Group monitors and maintains a certain level of cash and cash equivalents to finance the Group's operation, ensure continuity of funding and to mitigate the effect of fluctuations in cash flows. It maintains a balance between continuity of funding and flexibility by regularly evaluating its projected and actual cash flows 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.

32. Capital Management

The Group considers the total equity as its capital. 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:

	MAR 2018	DEC 2017
Capital stock	**₱996,170,748**	₱996,170,748
Additional paid-in capital	**27,594,539**	27,594,539
Net cumulative changes in fair values of AFS financial assets	**4,950,148**	4,950,148