

# 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  
Jun 30, 2015
2. SEC Identification Number  
PW803
3. BIR Tax Identification No.  
203-000-786-765
4. Exact name of issuer as specified in its charter  
MANILA JOCKEY CLUB, INC.
5. Province, country or other jurisdiction of incorporation or organization  
Manila, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
San Lazaro Leisure and Business Park, Governor's Drive, Barangay Lantic, Carmona,  
Cavite  
Postal Code  
1003
8. Issuer's telephone number, including area code  
(632) 637-9889
9. Former name or former address, and former fiscal year, if changed since last report  
NA
10. Securities registered pursuant to Sections 8 and 12 of the SRC 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 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
12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC 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 that the registrant was required to file such reports)

Yes            No

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

Yes            No

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*

## Manila Jockey Club, Inc. MJC

### PSE Disclosure Form 17-2 - Quarterly Report *References: SRC Rule 17 and Sections 17.2 and 17.8 of the Revised Disclosure Rules*

For the period ended	Jun 30, 2015
Currency (indicate units, if applicable)	Php

#### Balance Sheet

	Period Ended	
	Jun 30, 2015	Fiscal Year Ended (Audited) Dec 31, 2014
<b>Current Assets</b>	420,191,254	587,550,910
<b>Total Assets</b>	4,890,631,939	5,119,319,511
<b>Current Liabilities</b>	396,732,137	537,186,918
<b>Total Liabilities</b>	680,106,319	825,803,230
<b>Retained Earnings/(Deficit)</b>	3,164,326,935	3,245,679,278

<b>Stockholders' Equity</b>	4,210,525,620	4,293,516,281
<b>Stockholders' Equity - Parent</b>	4,212,807,586	4,295,798,247
<b>Book Value per Share</b>	4.22	4.31

#### Income Statement

	<b>Current Year (3 Months)</b>	<b>Previous Year (3 Months)</b>	<b>Current Year-To-Date</b>	<b>Previous Year-To-Date</b>
<b>Operating Revenue</b>	93,920,358	91,379,881	165,502,843	172,632,387
<b>Other Revenue</b>	10,333,225	11,090,212	26,499,397	31,226,195
<b>Gross Revenue</b>	104,253,582	102,470,093	192,002,240	203,858,582
<b>Operating Expense</b>	77,450,875	64,490,830	137,628,772	123,880,171
<b>Other Expense</b>	43,599,400	48,808,932	83,872,943	94,662,388
<b>Gross Expense</b>	121,050,276	113,299,762	221,501,715	218,542,559
<b>Net Income/(Loss) Before Tax</b>	-16,796,694	-10,829,668	-29,499,475	-14,683,976
<b>Income Tax Expense</b>	-1,051,480	911,669	2,044,804	1,712,402
<b>Net Income/(Loss) After Tax</b>	-15,745,214	-11,741,337	-31,544,278	-16,396,378
<b>Net Income Attributable to Parent Equity Holder</b>	-15,745,214	-11,741,337	-31,544,278	-16,396,378
<b>Earnings/(Loss) Per Share (Basic)</b>	-0.01	-0.01	-0.03	-0.01
<b>Earnings/(Loss) Per Share (Diluted)</b>	-0.01	-0.01	-0.03	-0.01

#### Other Relevant Information

-

#### Filed on behalf by:

<b>Name</b>	Heather Ezra Annang
<b>Designation</b>	Corporate Compliance & Information Officer



108142015001307



## SECURITIES AND EXCHANGE COMMISSION

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

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### Company Information

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

### Document Information

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COVER SHEET

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PW 8 0 3  
S.E.C. Registration Number

MANILA JOCKEY CLUB, INC.

( Company's Full Name )

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F . O R T I G A S J R . R O A D  
O R T I G A S C E N T E R , P A S I G C I T Y

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

ATTY. HEATHER EZRA ANNANG  
Contact Person

687-9889  
Company's Telephone Number

1 2 3 1  
Month Day  
Fiscal Year

QUARTERLY REPORT  
1 7 - Q  
FORM TYPE

0 6 3 0  
Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended : June 30, 2015
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: XXXXXXXXXX (SEC Use Only)
7. Address of issuer's principal office : San Lazaro Leisure and Business Park  
Governor's Drive, Brgy. Lantic  
Carmona Cavite  
  
Postal Code : 1003
8. Issuer's telephone number, including area code : (632) 687-9889
9. Former name, former address and former fiscal year, if changed since last report:  
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4  
and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	996,170,748
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 -

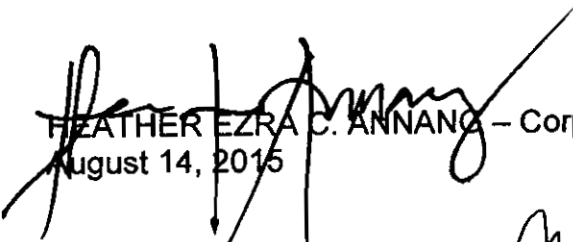
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.


- 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.**

Signature and Title :  HEATHER EZRA C. ANNANG – Corporate Information Officer  
Date : August 14, 2015

Principal Financial/Accounting Officer/Controller :  IRENE C. HABIATAN  
Date : August 14, 2015

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2015 AND DECEMBER 31, 2014**

	UNAUDITED JUNE 2015	AUDITED DECEMBER 2014
(In Philippine Peso)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	171,080,107	302,978,624
Receivables (Note 8)	143,031,197	184,547,008
Inventories (Note 9)	99,113,119	95,301,721
Other current assets (Note 10)	6,966,831	4,723,557
<b>Total Current Assets</b>	<b>420,191,254</b>	<b>587,550,910</b>
<b>Noncurrent Assets</b>		
Real estate receivables - net of current portion (Note 8)	106,290,000	128,751,041
Investments in associates and joint ventures (Note 11)	2,306,975,845	2,310,148,036
Available-for-sale (AFS) financial assets (Note 12)	11,740,655	22,067,765
Property and equipment (Notes 13 and 31)	1,009,336,455	1,028,026,907
Investment properties (Notes 11, 14, 16 and 31)	1,004,569,327	1,010,782,640
Other noncurrent assets (Notes 1 and 15)	31,528,403	31,992,212
<b>Total Noncurrent Assets</b>	<b>4,470,440,685</b>	<b>4,531,768,601</b>
	<b>4,890,631,939</b>	<b>5,119,319,511</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term loans and borrowings (Note 16)	56,437,500	74,437,500
Accounts payable and other liabilities (Notes 13 and 17)	295,649,626	354,327,222
Income tax payable	(1,137,846)	12,687,646
Current portion of long-term loans and borrowings (Notes 13, 14 and 16)	7,142,857	14,285,715
Due to related parties (Note 27)	38,640,000	38,640,000
Subscription payable (Note 27)	0	42,808,835
<b>Total Current Liabilities</b>	<b>396,732,137</b>	<b>537,186,918</b>
<b>Noncurrent Liabilities</b>		
Long-term loans and borrowings - net of current portion (Notes 13, 14 and 16)	-	-
Accrued retirement benefits (Note 22)	37,270,764	42,512,894
Deferred tax liabilities - net	246,103,418	246,103,418
<b>Total Noncurrent Liabilities</b>	<b>283,374,182</b>	<b>288,616,312</b>
	<b>680,106,319</b>	<b>825,803,230</b>
<b>Equity</b>		
Capital stock (Note 28)	996,170,748	996,170,748
Additional paid-in capital	27,594,539	27,594,539
Actuarial gains on accrued retirement benefits (Note 22)	21,144,472	21,144,472
Net cumulative changes in fair values of AFS financial assets (Note 12)	3,577,988	5,216,306
Retained earnings (Note 28):		
Appropriated	-	-
Unappropriated	3,164,326,935	3,245,679,278
Treasury shares (Note 28)	(7,096)	(7,096)
<b>Equity attributable to equity holders of the parent company</b>	<b>4,212,807,586</b>	<b>4,293,798,247</b>
<b>Noncontrolling interests</b>	<b>(2,281,966)</b>	<b>(2,281,966)</b>
<b>Total Equity</b>	<b>4,210,525,620</b>	<b>4,293,516,281</b>
	<b>4,890,631,939</b>	<b>5,119,319,511</b>

See accompanying Notes to Consolidated Financial Statements.



**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED JUNE 30, 2015 AND 2014**

	UNAUDITED JUNE 2015	UNAUDITED JUNE 2014
(In Philippine Peso)		
<b>REVENUES</b>		
Club races	101,892,279	102,929,804
Rent (Notes 13 and 14)	44,394,205	39,861,318
Real estate	(2,481,396)	9,036,959
Food and beverages	6,883,564	5,417,689
Others	14,814,191	15,386,618
	<b>165,502,843</b>	<b>172,632,387</b>
<b>COST OF SALES AND SERVICES (Note 18)</b>		
Club races	89,818,588	82,442,728
Rent	30,197,205	15,923,682
Real estate (Note 9)	(4,061,616)	2,089,230
Food and beverages	6,923,966	8,100,508
Others	14,750,630	15,324,022
	<b>137,628,772</b>	<b>123,880,171</b>
<b>GROSS INCOME</b>	<b>27,874,071</b>	<b>48,752,216</b>
General and administrative expenses (Note 19)	(82,981,582)	(90,939,936)
Selling expense (Note 9)	519,882	(1,729,535)
Interest income (Notes 7, 8, 12 and 23)	2,538,944	11,361,694
Finance costs (Notes 16 and 24)	(1,411,242)	(1,992,916)
Equity in net earnings (losses) of associates and joint ventures (Note 11)	8,098,387	7,751,220
Other income - net (Note 25)	15,862,066	12,113,281
<b>INCOME BEFORE INCOME TAX</b>	<b>(29,499,475)</b>	<b>(14,683,976)</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)</b>		
Current	1,836,824	1,712,402
Deferred	-	-
Final	207,980	-
	<b>2,044,804</b>	<b>1,712,402</b>
<b>NET INCOME</b>	<b>(31,544,278)</b>	<b>(16,396,378)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>	-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(31,544,278)</b>	<b>(16,396,378)</b>
Net income attributable to:		
Equity holders of the parent company	(31,544,278)	(16,396,378)
Noncontrolling interests	-	-
	<b>(31,544,278)</b>	<b>(16,396,378)</b>
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(31,544,278)	(16,396,378)
Noncontrolling interests	-	-
	<b>(31,544,278)</b>	<b>(16,396,378)</b>
<b>Basic/Diluted Earnings Per Share (Note 29)</b>	<b>(0.0317)</b>	<b>(0.0173)</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS ENDED JUNE 30, 2015 AND 2014**

	UNAUDITED JUNE 30, 2015	UNAUDITED JUNE 2014
(In Philippine Peso)		
<b>REVENUES</b>		
Club races	50,573,410	49,395,432
Rent (Notes 13 and 14)	22,788,385	19,359,383
Real estate	6,042,104	14,833,837
Food and beverages	3,204,228	2,683,301
Others	11,312,230	5,107,929
	<b>93,920,358</b>	<b>91,379,881</b>
<b>COST OF SALES AND SERVICES (Note 18)</b>		
Club races	46,031,884	42,436,029
Rent	17,406,997	7,820,850
Real estate (Note 9)	(145,980)	4,737,868
Food and beverages	2,879,506	4,405,133
Others	11,278,470	5,090,949
	<b>77,450,875</b>	<b>64,490,830</b>
<b>GROSS INCOME</b>	<b>16,469,482</b>	<b>26,889,051</b>
General and administrative expenses (Note 19)	(42,363,630)	(45,043,326)
Selling expense (Note 9)	(594,192)	(2,904,483)
Interest income (Notes 7, 8, 12 and 23)	64,170	713,935
Finance costs (Notes 16 and 24)	(641,578)	(861,122)
Equity in net earnings (losses) of associates and joint ventures (Note 11)	3,089,992	3,941,503
Other income - net (Note 25)	7,179,062	6,434,774
<b>INCOME BEFORE INCOME TAX</b>	<b>(16,796,694)</b>	<b>(10,829,668)</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)</b>		
Current	(1,137,846)	911,669
Deferred	-	-
Final	86,366	-
	<b>(1,051,480)</b>	<b>911,669</b>
<b>NET INCOME</b>	<b>(15,745,214)</b>	<b>(11,741,337)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>	-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(15,745,214)</b>	<b>(11,741,337)</b>
Net income attributable to:		
Equity holders of the parent company	(15,745,214)	(11,741,337)
Noncontrolling interests	-	-
	<b>(15,745,214)</b>	<b>(11,741,337)</b>
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(15,745,214)	(11,741,337)
Noncontrolling interests	-	-
	<b>(15,745,214)</b>	<b>(11,741,337)</b>
<b>Basic/Diluted Earnings Per Share (Note 29)</b>	<b>(0.0158)</b>	<b>(0.0124)</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED JUNE 30, 2015 AND 2014**

**JUNE 2015 (UNAUDITED)**

	Capital Stock (Note 28)	Additional Paid-In Capital (Note 28)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 12)	Actuarial Gains on Accrued Retirement Benefits (Note 22)	Retained Earnings (Note 28)	Cost of Shares Held by a Subsidiary (Note 28)	Treasury Shares (Note 28)	Subtotal	Noncontrolling Interests	Total
(In Philippine Peso)										
BALANCES AT DECEMBER 31, 2014	996,170,748	27,594,539	5,216,306	21,144,472	-	-	(7,096)	4,295,798,247	(2,281,966)	4,293,516,281
Net income for the year	-	-	-	-	3,245,679,278	-	-	(31,544,278)	-	(31,544,278)
Cash dividends declared and paid	-	-	(1,638,319)	-	(49,808,064)	-	-	(51,446,383)	-	(51,446,383)
Realization of change in FV in AFS	-	-	-	-	-	-	-	-	-	-
<b>BALANCES AS AT JUNE 30, 2015</b>	<b>996,170,748</b>	<b>27,594,539</b>	<b>3,577,988</b>	<b>21,144,472</b>	<b>-</b>	<b>-</b>	<b>(7,096)</b>	<b>4,212,807,586</b>	<b>(2,281,966)</b>	<b>4,210,525,620</b>

See accompanying Notes to Consolidated Financial Statements.

**JUNE 2014 (UNAUDITED)**

	Capital Stock (Note 28)	Additional Paid-In Capital (Note 28)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 12)	Actuarial Gains on Accrued Retirement Benefits (Note 22)	Retained Earnings (Note 28)	Cost of Shares Held by a Subsidiary (Note 28)	Treasury Shares (Note 28)	Subtotal	Noncontrolling Interests	Total
(In Philippine Peso)										
BALANCES AT DECEMBER 31, 2013	948,734,898	27,594,539	9,013,593	24,875,348	17,186,917	3,321,616,115	-	4,349,008,314	(2,281,966)	4,346,726,348
Total comprehensive income for the period	-	-	-	-	-	(16,396,378)	-	(16,396,378)	-	(16,396,378)
Cash dividends declared and paid	-	-	-	-	-	(47,436,272)	-	(47,436,272)	-	(47,436,272)
<b>BALANCES AS AT JUNE 30, 2014</b>	<b>948,734,898</b>	<b>27,594,539</b>	<b>9,013,593</b>	<b>24,875,348</b>	<b>17,186,917</b>	<b>3,257,783,465</b>	<b>-</b>	<b>4,285,175,664</b>	<b>(2,281,966)</b>	<b>4,282,893,698</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE PERIODS ENDED JUNE 30, 2015 AND 2014**

	UNAUDITED JUNE 2015	UNAUDITED JUNE 2014
(In Philippine Peso)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(29,499,475)	(14,683,976)
Adjustments for:		
Depreciation (Notes 13, 14 and 20)	39,639,048	43,224,458
Equity in net earnings (loss) of associates and joint ventures (Note 11)	(8,098,387)	-
Interest income (Note 23)	(2,538,944)	(11,361,694)
Finance costs (Note 24)	1,411,242	1,992,916
Amortization of franchise fee (Note 18)	897,000	897,000
Dividend income from AFS financial assets	(188,193)	-
Loss (gain) on sale of:		
AFS financial assets (Note 12)	(2,202,559)	(1,289,076.48)
Operating income before working capital changes	(580,267)	18,779,628
Decrease (increase) in:		
Receivables	38,948,682	2,058,653
Inventories	(3,811,398)	1,969,176
Other current assets	(2,243,274)	691,371
Increase (decrease) in:		
Accounts payable and other liabilities	(59,504,107)	(561,963)
Accrued retirement benefits (Note 22)	(5,242,130)	1,026,354
Cash generated from operations	(32,432,495)	23,963,218
Income taxes paid, including creditable withholding and final taxes	(15,870,295)	(3,727,563)
Net cash provided by operating activities	(48,302,791)	20,235,655
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (Note 23)	2,650,542	11,361,694
Dividends received (Notes 11 and 25)	36,375,344	-
Decrease (increase) in other noncurrent assets	(433,191)	7,402
Acquisitions of property and equipment (Note 13)	(14,735,284)	(22,729,129)
Acquisitions fo AFS financial assets (Note 12)	-	(2,800,168)
Proceeds from sale of:		
AFS financial assets (Note 12)	10,891,351	4,794,948.73
Increase in investment in associates and joint ventures	-	(67,501.00)
Net cash provided by investing activities	34,748,761	(9,432,752)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of:		
Short-term loans and borrowings (Note 16)	(18,000,000)	(6,000,000)
Long-term loans and borrowings (Note 16)	(7,142,858)	(7,142,857)
Subscription payable	(42,808,835)	-
Interest paid	(1,411,242)	(1,992,916)
Dividends paid	(48,981,553)	(47,436,272)
Net cash used in financing activities	(118,344,488)	(62,572,045)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(131,898,517)</b>	<b>(51,769,143)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>302,978,624</b>	<b>263,755,702</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 7)</b>	<b>171,080,107</b>	<b>211,986,559</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE QUARTERS ENDED JUNE 30, 2015 AND 2014**

	UNAUDITED JUNE 2015	UNAUDITED JUNE 2014
(In Philippine Peso)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(16,796,694)	(10,829,668)
Adjustments for:		
Depreciation (Notes 13, 14 and 20)	22,134,762	24,754,104
Equity in net earnings (loss) of associates and joint ventures (Note 11)	(3,089,992)	-
Interest income (Note 23)	(64,170)	(713,935)
Finance costs (Note 24)	641,578	861,122
Amortization of franchise fee (Note 18)	448,500	448,500
Dividend income from AFS financial assets	(188,193)	-
Loss (gain) on sale of:		
AFS financial assets (Note 12)	-	(1,289,076.48)
Operating income before working capital changes	3,085,790	13,231,047
Decrease (increase) in:		
Receivables	(6,723,306)	(1,824,741)
Inventories	47,721	5,108,124
Other current assets	(1,115,295)	2,052,795
Increase (decrease) in:		
Accounts payable and other liabilities	(12,522,144)	5,188,306
Accrued retirement benefits (Note 22)	(1,536,852)	1,141,672
Cash generated from operations	(18,764,086)	24,897,203
Income taxes paid, including creditable withholding and final taxes	(15,730,283)	(3,112,900)
Net cash provided by operating activities	(34,494,369)	21,784,302
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (Note 23)	175,768	206,256
Dividends received (Notes 11 and 25)	29,980,685	-
Decrease (increase) in other noncurrent assets	(580,929)	306,625
Acquisitions of property and equipment (Note 13)	(12,803,738)	(4,504,179)
Acquisitions fo AFS financial assets (Note 12)	-	(2,800,168)
Proceeds from sale of:		
AFS financial assets (Note 12)	-	4,794,948.73
Increase in investment in associates and joint ventures	-	(67,501.00)
Net cash provided by investing activities	16,771,786	(2,064,017)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of:		
Short-term loans and borrowings (Note 16)	(9,000,000)	(3,000,000)
Long-term loans and borrowings (Note 16)	(3,571,429)	(3,571,429)
Subscription payable	(42,808,835)	-
Interest paid	(641,578)	(861,122)
Dividends paid	(48,981,553)	(47,436,272)
Net cash used in financing activities	(105,003,395)	(54,868,823)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(122,725,976)</b>	<b>(35,148,538)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF QUARTER</b>	<b>293,806,083</b>	<b>247,135,097</b>
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER (Note 7)</b>	<b>171,080,107</b>	<b>211,986,559</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**AGING SCHEDULE OF RECEIVABLES**  
**AS OF JUNE 30, 2015**  
(In Philippine Peso)

**A. AGING OF ACCOUNTS RECEIVABLE**

	<b>TYPE OF RECEIVABLES</b>	<b>TOTAL</b>	<b>1-30 DAYS</b>	<b>31-60 DAYS</b>	<b>61-90 DAYS</b>	<b>91-120 DAYS</b>	<b>OVER 120 DAYS</b>
1	Real estate receivables (current and non-current)	188,410,118	68,152,602	205,463	853,456	4,604,713	114,593,883
2	Dividends receivable	4,875,919	760,605	2,110,322	2,004,992		(0)
3	Rent Receivables	6,687,886	3,772,537	931,478	161,659	212,162	1,610,049
4	Receivables from off-track betting (OTB) operators	1,250,821	556,739	93,136	22,160	384,328	194,458
5	Advances and loans to officers and employees	10,209,906	301,881	328,725	1,191,939	1,089,865	7,297,495
6	Claims for tax credit certificates (TCC)	2,252,054					2,252,054
7	Deposit and advances to contractors	1,778,413					1,778,413
8	Receivable from Metro Manila Turf Club (MMTC)	4,085,989	2,678,019	1,452,736			(44,766)
9	Receivable from Philippine Amusement and Gaming Corporation (I)	5,379,263	2,153,622	3,201,809	(479)	(1,095)	25,406
10	Others	36,055,446	2,293,444	3,480,204	828,211	6,625,928	22,827,659
	<b>TOTAL</b>	<b>260,985,814</b>	<b>80,669,451</b>	<b>11,803,873</b>	<b>5,061,938</b>	<b>12,915,901</b>	<b>150,534,650</b>
	Less: Allowance for doubtful accounts	11,664,616					11,664,616
	<b>TOTAL RECEIVABLES - NET OF ALLOWANCE</b>	<b>249,321,197</b>	<b>80,669,451</b>	<b>11,803,873</b>	<b>5,061,938</b>	<b>12,915,901</b>	<b>138,870,034</b>

**B. ACCOUNTS DESCRIPTION**

	<b>TYPE OF RECEIVABLES</b>	<b>DESCRIPTION</b>	<b>COLLECTION PERIOD</b>
1	Real estate receivables (current and non-current)	Sales on real estate operations	Monthly
2	Dividends receivable	Share on the net earnings of a jointly controlled entity	Quarterly
3	Rent Receivables	Receivables on leasing transactions from stables, building and other facilities	Daily/Monthly
4	Receivables from off-track betting (OTB) operators	Receivables from racing operations	Daily/Weekly
5	Advances and loans to officers and employees	Advances granted to and loans availed by officers and employees	Semi-monthly/Monthly
6	Claims for tax credit certificates (TCC)	Claim for refund on tax unduly paid	Annually
7	Deposit and advances to contractors	Claims for deposits paid to contractors	Monthly
8	Receivable from Metro Manila Turf Club (MMTC)	Receivable on fastbet/tebet related transactions between MJCI and MMTC	Monthly
9	Receivable from Philippine Amusement and Gaming Corporation (I)	Proponent share on gaming revenues of PAOCCR on the casino operations at the Turf Club	Monthly
10	Others	Various deposits and advances	Daily/Semi-monthly/Monthly

**C. OPERATING CYCLE**

Calendar Year

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

### **RESULTS OF OPERATIONS**

#### **Revenues**

Racing income for the periods ended June 30, 2015 and 2014 amounted to ₱101.9 million and ₱102.9 million, respectively. It decreased by ₱1.0 million despite that there were fifty six (56) racing days in 2015 compared to only fifty two (52) in 2014. The variance is due to the decrease in the average sales per day as well as the reduction of the number of races per day. It is also partly due to a number of off-track betting (OTB) stations that were closed during the period for reasons such as low sales generated as well as OTB location issues.

Revenue from real estate is recognized under the percentage of completion (POC) method. These real estate sales are the subject of the Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Loss from real estate amounted ₱2.5 million for the period ended June 30, 2015 and an income of ₱9.0 million for the same period in 2014. The decrease of ₱11.5 million is the net effect of real estate sales in 2015 and several cancellations during the period ended June 30, 2015 of previously sold real estate units. Most of the reasons for these cancellations were due to the default in payments by the buyers.

Revenue from the leasing of stables, buildings and other facilities increased by ₱4.5 million from ₱39.9 million for the period ended June 30, 2014 to ₱44.4 million for the same period in 2015. The increase in rental income in 2015 can be attributed to the revenue brought in by the new gaming machines for the casino operations that were acquired during the third quarter of 2014. It is also due to the yearly escalation on rental rates for the lease of building units.

Revenue from sale of food and beverages increased the Group's total revenues by ₱1.5 million in 2015 from ₱5.4 million for the period ended June 30, 2014 to ₱6.9 million for the same period in 2015. The favorable variance is due to more banquets/function events that were booked during 2015 as compared to the previous year.

The Group recognizes Other Revenues from its MJC Forex operations having a total sale of foreign currencies amounting to ₱14.8 million for the period ended June 30, 2015 compared to ₱15.4 million for the same period in 2014 decreasing by ₱0.6 million.

Interest income relates to real estate receivables and cash and cash equivalents, including retail treasury bonds. Interest income amounted to ₱2.5 million and ₱11.4 million for the periods ended June 30, 2015 and 2014, respectively, or a decrease of ₱8.9 million which relates primarily to real estate transactions.

Equity in net earnings of associates and joint ventures is recognized by the Group amounting to ₱8.1 million for the period ended June 30, 2015 and ₱7.8 million for the same period in 2014, increasing by ₱0.3 million. The decrease in the Group's interest in an associate resulted to a lesser share in the net loss generated by the associate.

Other income - net increased by ₱3.8 million from ₱12.1 million for the period ended June 30, 2014 to ₱15.9 million for the same period in 2015. The increase in 2015 is due primarily to the gain recognized on the sale of retail treasury bonds and AFS financial assets.

#### **Expenses**

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

Cost of racing services increased by ₱7.4 million from ₱82.4 million for the period ended June 30, 2014 to ₱89.8 million for the same period in 2015. The increase can be ascribed to expenses incurred on added/guaranteed prizes and sponsorships given by the company in its effort to attract more horse owners to register their racing horses during its races. Supplies in 2015 also increased as more thermal tickets were purchased during the period. There was also the payment for retro salaries, allowances as well as signing bonuses brought about by the renewal of the collective bargaining agreement for race day employees which expired in 2014 and renewed in 2015.

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. The total cost of real estate for the periods ended June 30, 2015 and 2014 amounted to (₱4.1) million and ₱2.1 million, respectively. The variance of (₱6.2) million is the net effect of the costs of real estate units sold in 2015 and the costs of real estate units previously sold that were reverted back to inventory account when these units were cancelled during the period ended June 30, 2015.

Rental cost of services increased by ₱14.3 million from ₱15.9 million for the period ended June 30, 2014 to ₱30.2 million for the same period in 2015. In 2015, some direct costs associated with the leasing of the gaming facilities are lodged under cost of services of the rent segment while in same period of 2014, they were treated as administrative costs. Some of these direct costs are expenses on food and beverages as well as utilities and contracted services.

Cost of food and beverage for the periods ended June 30, 2015 and 2014 amounted to ₱6.9 million and ₱8.1 million, respectively. The variance of ₱1.2 million in 2015 is the effect of the adjustments on allocated expenses such as light and power and security services.

The cost of sales for "Others" amounted to ₱14.8 million and ₱15.3 million for the periods ended June 30, 2015 and 2014, respectively. This relates to the purchase of various foreign currencies by MJC Forex for its foreign currency exchange operations.

#### **General Operating Expenses**

General and administrative expenses constitute costs of administering the business. For the period ended June 30, 2015, it amounted to ₱83.0 million or a decrease of ₱8.0 million compared with the same period in 2014 which registered an amount of ₱91.0 million. The transfer of casino expenses as direct costs like utilities significantly contributed to the variance. During the period ended June 30, 2015, these expenses were part of administrative costs.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to (₱0.5) million for the period ended June 30, 2015 compared to ₱1.7 million for the same period in 2014.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱1.4 million and ₱ 2.0 million for the periods ended June 30, 2015 and 2014, respectively. The decrease of ₱0.6 million is due to declining principal balances of the the availed bank loans.

#### **CHANGES IN FINANCIAL CONDITION**

##### **ASSETS**

Total current assets decreased due to the following:



Cash and cash equivalents as of June 30, 2015 amounted to ₱171.1 million compared to its balance as of December 31, 2014 which amounted to ₱303.0 million. The decrease of ₱131.9 million is attributed mainly to the payment of the 5% cash dividend with declaration date of March 6, 2015 and payment date of April 17, 2015. Another reason for the variance is the payment of the outstanding balance of the subscription payable to MJC Investments Corp. (MIC) and the settlement of matured principal balances of bank loans.

Receivables decreased by ₱41.5 million from its balance of ₱184.5 million as of December 31, 2014 compared to its balance as of June 30, 2015 which amounted to ₱143.0 million. The collections on receivables from real estate and dividends from a JV partner primarily caused the decrease in 2015.

Inventories relate to real estate units, memorial lots and food and beverage items. Total inventories amounted to ₱99.1 million as of June 30, 2015 and ₱95.3 million as of December 31, 2014. The reason for the net increase of ₱3.8 million is the reverting back to inventory account the costs of previously sold real estate units that were cancelled in 2015 due to reasons like default in payments by the buyers.

Other current assets increased by ₱2.3 million from its December 31, 2014 balance of ₱4.7 million compared to its balance of ₱7.0 million as of June 30, 2015. The payment by the Parent Company of its employees' HMO caused the increase in prepayments in 2015 which are being subsequently amortized monthly. Another reason is the higher Input VAT recorded as of the period ended June 30, 2015.

*Total non-current assets decreased due to the following:*

Real estate receivables - net of current portion decreased by ₱22.5 million from ₱128.8 million as of December 31, 2014 to ₱106.3 million as of June 30, 2015. The re-classification of the non-current portion of real estate receivables to non-current asset resulted to the variance.

Investment in associates and joint ventures as of June 30, 2015 and December 31, 2014 amounted to ₱2.307 billion and ₱2.310 billion, respectively. The decrease of ₱3 million is the net effect of the equity share in the net income of a JV partner and the net loss of an associate for the period ended June 30, 2015.

Available-for-sale financial assets as of June 30, 2015 and December 31, 2014 amounted to ₱11.7 million and ₱22.1 million, respectively. The decrease of ₱10.4 million is due to the sale in 2015 by the Parent Company of its retail treasury bonds and some quoted equity securities.

Property and equipment decreased by ₱19.0 million from its December 31, 2014 balance of ₱1.028 billion to ₱1.009 billion as of June 30, 2015. The decrease is the net effect of disbursements for various construction projects, the acquisitions of machineries and equipment as well as furniture and fixtures and the recognition of depreciation expense for the period ended June 30, 2015.

Investment properties as of June 30, 2015 amounted to ₱1.005 billion and ₱1.011 billion as of December 31, 2014. The decrease of ₱6.0 million relates to the depreciation recognized on the BPO building (retail and developed office) located at Sta. Cruz, Manila.

Other non-current assets as of June 30, 2015 amounted to ₱31.5 million. Compared with its balance as of December 31, 2014 of ₱32.0 million, it decreased by ₱0.5 million due mainly to the amortization of franchise fee for the first six months of 2015.

**LIABILITIES AND EQUITY**

*Total current liabilities decreased due to the following:*

Short-term loans and borrowings amounted to ₱74.4 million as of December 31, 2014 and ₱56.4 million as of June 30, 2015. It decreased by ₱18.0 million due to partial payments made on principal balances of the availed bank loans that matured during the period.

Accounts payable and other liabilities as of June 30, 2015 amounted to ₱295.6 million or a decrease of ₱58.7 million compared to its December 31, 2014 balance of ₱354.3 million. The decrease is mainly due to the payments made to a developer for the company's share in the construction costs of the BPO building (Vertex One).

As of June 30, 2015 and December 31, 2014, income tax payable balances are (₱1.1) million and ₱12.7 million, respectively. The variance is the net effect of the payments made for the income tax payable covering 2014 and first quarter of 2015 and the provision made for the second quarter of 2015.

During the period ended June 30, 2015, partial settlements amounting to ₱7.2 million were made by the Parent Company on matured principal balances of its long term loans with a local bank. The balances of the account as of June 30, 2015 and December 31, 2014 are ₱7.1 million and ₱14.3 million, respectively.

As of June 30, 2015 and December 31, 2014, due to related parties amounted to ₱38.6 million. This refers to the advances made by Biohitech from its affiliate, Biohitech Korea (BHK).

The subscription payable to MIC amounting to ₱42.8 million as of December 31, 2014 was paid in June 2015.

*Total non-current liabilities decreased due to the following:*

Accrued retirement benefit as of June 30, 2015 amounted to ₱37.3 million or a decrease of ₱5.2 million compared with its December 31, 2014 balance of ₱42.5 million. The variance is the net effect of the retirement expense recognized for the period ended June 30, 2015 and the remittances made to the retirement fund account.

*Total equity decreased due to:*

The balance of the "Net cumulative changes in fair values of AFS financial assets" amounted to ₱3.6 million as of June 30, 2015 compared to its ₱5.2 million balance as of December 31, 2014. The variance is the result of the sale in 2015 by the Parent Company of its retail treasury bonds and some quoted equity securities.

Unappropriated retained earnings amounted to ₱3.164 billion as of June 30, 2015 and ₱3.246 billion as of December 31, 2014. The decrease of ₱82.0 million refers to the net loss recognized by the Group for the period ended June 30, 2015 and the effect of the 5% cash dividends declared and paid during the period amounting to ₱49.8 million.

***OTHERS***

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

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

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

	<b>June 2015</b>	December 2014
Current Ratio	<b>1.06</b>	1.09
Asset to Liability Ratio	<b>7.19</b>	6.20

	<b>June 2015</b>	June 2014
Sales to Revenue Ratio	<b>0.62</b>	0.60
Revenue to Expenses Ratio	<b>0.75</b>	0.79
Earnings Per Share	<b>(₱0.0317)</b>	(₱0.0173)

Current ratio is computed by dividing current assets amounting to ₱420.2 million as of June 30, 2015 and ₱587.6 million as of December 31, 2014 over current liabilities amounting to ₱396.7 million and ₱537.2 million as of June 30, 2015 and December 31, 2014, respectively.

Total assets as of June 30, 2015 and December 31, 2014 amounted to ₱4.9 billion and ₱5.1 billion, respectively while the corresponding total liabilities as of the same periods amounted ₱680.1 million and ₱825.8 million.

Sales to total revenue ratio is computed by dividing the income from horse racing amounting to ₱101.9 million and ₱102.9 million for the periods ended June 30, 2015 and 2014, respectively by total sales/revenues of the company amounting to ₱165.5 million and ₱172.6 million for the periods ended June 30, 2015 and 2014, respectively.

Revenue to expenses ratio is computed by dividing total sales/revenues amounting to ₱165.5 million and ₱172.6 million for the periods ended June 30, 2015 and 2014, respectively over total cost of sales and services plus other expenses totaling to ₱221.5 million and ₱218.5 million for the same periods.

Earning per share is computed by dividing net income / (loss) attributable to equity holders of the Parent Company amounting to (₱31.5 million) and (₱16.4 million) for the periods ended June 30, 2015 and 2014, respectively against the weighted average number of outstanding common shares totaling to 996.2 shares and 948.7 million shares as of June 30, 2015 and 2014, respectively.

**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 15). The Parent Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (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 Venture and Associates**

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership	
				Jun 2015	Dec 2014
<b>Subsidiaries</b>					
Biohitech Philippines, Inc. (Biohitech) <sup>(a)</sup>	Philippines	Waste management	Philippine Peso	50.00	50.00
Gametime Sports and Technologies, Inc. (Gametime) <sup>(a)</sup>	Philippines	Gaming	Philippine Peso	100.00	100.00
Manilacockers Club, Inc. (MCC) <sup>(a)</sup>	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) <sup>(a)</sup>	Philippines	Real estate	Philippine Peso	100.00	100.00
SLLP Holdings, Inc. (SLLPHI) <sup>(a)</sup>	Philippines	Holdings	Philippine Peso	100.00	100.00
<b>Joint Venture</b>					
Gamespan, Inc. (Gamespan) <sup>(a)</sup>	Philippines	Gaming	Philippine Peso	50.00	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	30.00	30.00
<b>Associates</b>					
MJC Investments Corporation (MIC) <sup>(b)</sup> (see Note 6)	Philippines	Real estate and Gaming Information Technology	Philippine Peso	22.31	28.32
Techsystems, Inc. (Techsystems) <sup>(a)</sup>	Philippines	Technology	Philippine Peso	33.00	33.00

<sup>(a)</sup> Not yet started commercial operation as of June 30, 2015

<sup>(b)</sup> Became an associate effective January 18, 2013

In 2013, the Parent Company and a group of strategic Hong Kong investors (hereinafter referred to as “Strategic Investors”) entered into an agreement to subscribe to MIC’s shares of stock that will let the Strategic Investors own up to 70% of MIC’s outstanding capital stock, which led to the Parent Company owning less than majority shares (see Note 6).

In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sq.m. 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 35% of revenues less winnings/prizes and 5% franchise tax. The agreement shall be effective until June 30, 2016.

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

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## 2. Basis of Preparation and Statement of Compliance

### Basis of Preparation

The consolidated financial statements are prepared using the historical cost basis, except for AFS financial assets, which are carried at fair value. The consolidated financial statements are presented in Philippine Peso (Peso or ₱), which is the Parent Company’s functional and presentation currency. All amounts are rounded off to the nearest Peso, except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

### *New and amended standards and interpretation*

The Group applied for the first time certain standards and interpretation, which are effective for annual periods beginning on or after January 1, 2014. Except when otherwise indicated, these standards and interpretation have no impact on the Group’s financial position, performance and/or disclosures:

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

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets (Amendments)*  
 These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*  
 These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.
- *PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities and PAS 27, Separate Financial Statements (Amendments) - Investment Entities*  
 These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). The amendments must be applied retrospectively, subject to certain transition relief.
- *Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 21, Levies*  
 Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for this interpretation.
- *Annual Improvements to PFRSs (2010-2012 cycle)*  
 In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.
- *Annual Improvements to PFRSs (2011-2013 cycle)*  
 In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

### Standards Issued but not yet Effective

The Group will adopt the following new and amended standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the consolidated financial statements.

#### *Effective in 2015*

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively) (Amendments)  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Annual Improvements to PFRSs (2010-2012 Cycle) (effective for annual periods beginning on or after January 1, 2015)

These annual improvements include:

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- PAS 24, *Related Party Disclosures - Key Management Personnel*  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- PFRS 2, *Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

Annual Improvements to PFRSs (2011-2013 Cycle) (effective for annual periods beginning on or after January 1, 2015)

These annual improvements include:

- *PAS 40, Investment Property*  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).
- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the consolidated financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

*Effective in 2016*

- *PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets (Amendments) - Clarification of Acceptable Methods of Depreciation and Amortization* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)  
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.



- PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture (Amendments) - Bearer Plants* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

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.
- PAS 27 (Amendments), *Separate Financial Statements - Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- PFRS 11 (Amendments), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same 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 profit or loss and other comprehensive income (OCI). 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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016.

Annual Improvements to PFRSs (2012-2014 Cycle) (effective for annual periods beginning on or after January 1, 2016)

These annual improvements include:

- *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*  
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.
- *PFRS 5, Noncurrent 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.
- *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 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.

*Effective in 2018*

- *PFRS 9, Financial Instruments* (effective for annual periods beginning on or after January 1, 2018 and are applied retrospectively)  
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued.

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.

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.

*Interpretation whose effective date was deferred*

- *Philippine Interpretation of IFRIC 15, Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

*Standard issued by the IASB but not yet been adopted by the FRSC*

- *IFRIC 15, Revenue from Contracts with Customers*  
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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

##### Basis of Consolidation

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

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

- Power over the investee (i.e. existing rights that 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; and
- The ability to use its power over the investee to affect its returns

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

The Group re-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.* Non-controlling interests represent the portion of profit or loss and net assets in Biohitech in March 2015 and December 2014 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 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 Group's consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

#### Business Combinations and Goodwill

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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

When subsidiaries are sold, the difference between the selling price and net assets and goodwill is recognized in the profit or loss.

#### 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 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 June 30, 2015 and December 31, 2014, 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*

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

Included in this category are the Group's cash in banks and cash equivalents, receivables and deposits (presented as part of "Other noncurrent assets" in the consolidated statements of financial position) as of June 30, 2015 and December 31, 2014.

b. *AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in the fair value of investments classified as AFS financial assets are recognized in OCI, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to profit or loss. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in the consolidated statement of comprehensive income and in equity is included in profit or loss.

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

The Group's AFS financial assets consist of investments in quoted and unquoted equity securities, preferred shares and club membership shares as of June 30, 2015 and December 31, 2014.

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 and long-term loans and borrowings, accounts payable and other liabilities, due to related parties and subscription payable as of June 30, 2015 and December 31, 2014.

#### 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 where:

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

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

#### *Financial liabilities*

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

#### Day 1 Difference

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

#### Offsetting Financial Instruments

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

#### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an

individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in profit or loss under "Other income - net" account. Any subsequent reversal of an impairment loss is recognized in profit or loss under "Other income - net" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

#### *Assets carried at cost*

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

#### *AFS financial assets*

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

#### Inventories

Inventories include real estate inventories and food and beverages inventory, which are valued at the lower of cost and net realizable value (NRV). NRV is the fair value less cost to sell in the ordinary course of business less the estimated costs of completion.

#### *Real Estate Inventories*



Real estate inventories include completed and on-going projects of the Company, and are stated at the lower of cost and net realizable value of the land contributed. 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 Subsidiaries, Associates and Joint Ventures

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

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

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

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

#### Fair Value Measurement

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

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

#### Property and Equipment

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

The initial cost of property and equipment comprises its purchase price, nonrefundable taxes, any related capitalizable borrowing costs, and other directly attributable costs of bringing the property and equipment to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

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

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

Transportation equipment	5 to 10
Furniture and fixtures	5

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

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

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

Construction in progress is stated at cost. This includes cost of construction, borrowing costs incurred during the development or construction phase and other direct costs. Borrowing costs are capitalized until the property is completed and becomes 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 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 to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the consolidated 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 statement 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 profit or loss.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its investment in subsidiaries and associate, interest in a joint venture, property and equipment, investment properties, and franchise fee may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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 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 Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

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

#### Retained Earnings

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

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

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

#### Dividend Distribution

Dividends are recognized as a liability and deducted from equity when declared by the BOD of the Parent Company. Dividends for the year that are declared after the 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 operations and as principal in all other arrangements (i.e., real estate sales and rental services).

The following specific recognition criteria must also be met before revenue is recognized:

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

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

##### *Real estate sales*

The Parent Company assesses whether it is probable that the economic benefits will flow to the Parent Company when the contract price is collectible. 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 statement 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 statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land.

The cost of inventory recognized in the consolidated statement of 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 statement of comprehensive income on a straight-line basis over the lease term.

*Interest income*

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

*Dividend income*

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

Cost of Sales and Services and Expenses

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

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

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

OCI

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

Retirement Benefits Cost

The Group 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.

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

#### *The Group as a lessee*

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

#### *The Group as a lessor*

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

#### Borrowing Costs

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

#### Taxes

##### *Current tax*

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

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and its amount is estimable.

#### 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 unit that offers different products and serves different markets. Financial information of the Group's operating segments is presented in Note 30 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.

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

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the

consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from the estimates and assumptions used. The effects of any change in estimates or assumptions are reflected in the consolidated financial statements when these become reasonably determinable.

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

#### Judgments

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

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

Control is presumed to exist when 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.

##### *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 since the strategic financial and operating decisions of the entity are made jointly by the venturers through its BOD.

##### *Determination of functional currency*

The Group's functional currency was determined to be the Peso. It is the currency of the primary economic environment in which the Group operates.

##### *Revenue recognition for real estate sales*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing and location of the property. Completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage by the parties to the joint venture.

##### *Classification of leases*

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

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

The Group has entered into lease agreements on certain items of its property and equipment and investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties since there will be no transfer of ownership of the leased properties to the lessees. Accordingly, the lease agreements are accounted for as operating leases (see Notes 13, 14 and 31).

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

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

*Impairment of noncurrent nonfinancial assets*

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

There were no indicators of impairment present on movement of financial assets, as such, there were no impairment losses recognized for the periods ended June 30, 2015 and December 31, 2014. Total carrying value of the Group's interest in associates and joint ventures, property and equipment, investment properties and franchise fee as of June 30, 2015 and December 31, 2014 are disclosed in Notes 11, 13, 14 and 15 to the consolidated financial statements, respectively.

*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 June 30, 2015 and December 31, 2014, the Parent Company's deferred tax assets and subsidiaries' unrecognized deferred tax assets are disclosed in Note 26 to the consolidated financial statements.

Estimates and Assumptions

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

*Determination of fair value of financial instruments*

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

As of June 30, 2015 and December 31, 2014, the fair values of financial assets and financial liabilities are disclosed in Note 32 to the consolidated financial statements.

*Estimation of allowance for doubtful accounts*

The allowance for doubtful accounts relating to receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total allowance to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used based on the best available facts and circumstances, including but not limited to, the length of

relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is made.

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

As of June 30, 2015 and December 31, 2014, the carrying value of receivables (including noncurrent portion of real estate receivables), net and allowance for doubtful accounts, are disclosed in Note 8 to the consolidated financial statements.

For the periods ended June 30, 2015 and 2014, provision for doubtful accounts are disclosed in Notes 8 and 19 to the consolidated financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Notes 8 and 25 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 June 30, 2015 and December 31, 2014, the cost of the real estate inventories, the amount written down to the cost and carrying value of the real estate inventories are disclosed in Note 9 to the consolidated financial statements.

#### *Estimation of percentage of completion*

The Group estimates the percentage of completion of ongoing projects for purposes of accounting for the estimated costs of development as well as real estate revenue to be recognized. The percentage of completion is based on the technical evaluation of the project engineers.

For the periods ended June 30, 2015 and 2014, cost of real estate sales are disclosed in Note 18 to the consolidated financial statements.

#### *Estimation of impairment of AFS financial assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Group treats 'significant' generally as 20% or more of original cost and 'prolonged' as greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities.

As of June 30, 2015 and December 31, 2014, the carrying value of the Group's AFS financial assets are disclosed in Note 12 to the consolidated financial statements. The Group believes that

its AFS financial assets are not impaired. Accordingly, no impairment loss was recognized for the periods ending June 30, 2015 and 2014.

*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.

As of June 30, 2015 and December 31, 2014 the carrying value of depreciable property and equipment are disclosed in Note 13 to the consolidated financial statements. The carrying value of depreciable investment property as of June 30, 2015 and December 31, 2014 are disclosed in Note 14 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 22 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 it is believed that the Group's 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 June 30, 2015 and December 31, 2014, carrying value of accrued retirement benefits are disclosed in Note 22 to the consolidated financial statements.

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## 6. Deconsolidation of MIC

In 2013, the Parent Company allowed a group of Strategic Investors to subscribe to MIC's majority shares of stock. As a result of this transaction, the Parent Company retained less than majority interest in MIC. The following assets and liabilities were derecognized at their book value as of January 18, 2013 from the consolidated statements of financial position of the Group:

	Book value
<b>Assets</b>	
Cash and cash equivalents	P483,892,026
Receivables	113,484,393
Other current assets	2,034,396
Property and equipment	122,216,859
Goodwill	75,816,953
Other noncurrent assets	72,096,000
	<u>869,540,627</u>
<b>Liabilities</b>	
Accounts payable and other liabilities	12,979,820
Income tax payable	3,500
	<u>12,983,320</u>
<b>Net Assets</b>	<u><u>P856,557,307</u></u>

The retained interest of the Group in MIC were remeasured at fair value, which resulted to the recognition of a gain on remeasurement amounting to ₱2.1 billion in 2013, presented as part of "Other income - net" account in the profit or loss (see Note 25).

## 7. Cash and Cash Equivalents

This account consists of:

	June 2015	December 2014
Cash on hand	₱10,832,498	₱10,704,469
Cash in banks	132,552,368	244,728,436
Cash equivalents	27,695,241	47,545,719
	<b>₱171,080,107</b>	<b>₱302,978,624</b>

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 ₱1.0 million and ₱0.8 million for the periods ended June 30, 2015 and 2014, respectively (see Note 23).

## 8. Receivables

This account consists of:

	June 2015	December 2014
Real estate receivables - current portion	₱82,120,117	₱100,213,730
Advances and loans to officers and employees (see Note 27)	10,209,906	5,243,121
Rent receivables (see Notes 13 and 14)	6,687,886	10,596,918
Receivable from Philippine Amusement and Gaming Corporation (PAGCOR) (see Note 31)	5,379,263	6,995,045
Due from related parties (see Note 27)	5,375,131	2,079,161
Dividends receivable (see Note 11)	4,875,919	29,792,491
Receivable from Metro Manila Turf Club (MMTC) (see Note 31)	4,085,989	16,360,723
Claims for tax credit certificates (TCC)	2,252,054	2,252,054
Deposits and advances to contractors (see Note 13)	1,778,413	1,778,413
Receivables from off-track betting (OTB) operators	1,250,821	1,965,943
Others	30,680,315	18,934,025
	<b>154,695,813</b>	<b>196,211,624</b>
Less: allowance for doubtful accounts	11,664,616	11,664,616
	<b>₱143,031,197</b>	<b>₱184,547,008</b>

### Real Estate Receivables

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

	June 2015	December 2014
Current	₱82,120,117	₱100,213,730
Noncurrent	106,290,000	128,751,041
	<b>₱188,410,116</b>	<b>₱228,964,771</b>

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 earned from real estate receivables amounted to ₱1.5 million and ₱10.4 million for the periods ended June 30, 2015 and 2014, respectively (see Note 23).

#### 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 June 30, 2015.

#### Other receivables

Other receivables include accrued interest and other various receivables.

#### Allowance for Doubtful Accounts

The following table shows the rollforward of the allowance for doubtful accounts pertaining to rent and other receivables as of June 30, 2015 and December 31, 2014:

	June 2015	December 2014
Balance at beginning of year	₱11,664,616	₱8,696,776
Provision during the period (see Note 19)	-	3,278,413
Amounts written off during the period	-	(310,573)
<b>Balance as of the end of the period</b>	<b>₱11,664,616</b>	<b>₱11,664,616</b>

Allowances for doubtful accounts amounting to ₱11.6 million as of June 30, 2015 and December 31, 2014 were based on specific assessment made by the management.

The Parent Company directly wrote-off receivables amounting to nil during the period ended June 30, 2015 and ₱5.0 million for year 2014.

## 9. Inventories

This account consists of:

	June 2015	December 2014
Real estate:		
Condominium units for sale - at cost	₱47,273,465	₱42,928,254
Land held for development - at cost	38,189,898	38,189,898
Memorial lots for sale - at net realizable value	8,730,099	8,870,166
Residential units for sale - at cost	4,605,856	4,749,383
	98,799,317	94,737,701
Food and beverages - at cost	313,802	564,020
	<b>₱99,113,119</b>	<b>₱95,301,721</b>

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company.

During the periods ended June 30, 2015 and December 31, 2014, no impairment loss was recognized.

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, 2014 and 2013. The construction of Tower 3 of Alveo is 53.82% and 39.82% complete as of June 30, 2015 and December 31, 2014, respectively.

#### Residential units for sale

On February 24, 2004, the Parent Company entered into a Joint Venture Agreement (JVA) with Century Communities Corporation (CCC) for the development of 17.09 hectares of the Parent Company's 33-hectare property in Carmona, Cavite into an exclusive residential subdivision with some commercial areas. As of December 31, 2014, the project is 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 of CCC in accordance with the JDA/JVA.

### 10. Other Current Assets

This account consists of:

	June 2015	December 2014
Prepayments	₱5,526,109	₱4,570,892
Input VAT	1,361,568	74,574
Others	79,154	78,091
	<b>₱6,966,831</b>	<b>₱4,723,557</b>

### 11. Investment in Associates and Joint Ventures

Investment in associates and joint ventures consist of:

	June 2015	December 2014
<b>Investment in associates</b>		
MIC	₱2,290,924,516	₱2,294,664,038
Techsystems	—	—
	<b>2,290,924,516</b>	<b>2,294,664,038</b>
<b>Investment in joint ventures</b>		
Gamespan	9,792,161	9,792,161
SLLBPO	6,259,168	5,691,837
	<b>16,051,329</b>	<b>15,483,998</b>
	<b>₱2,306,975,845</b>	<b>₱2,310,148,036</b>

#### Investment in Associates



MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of June 30, 2015. As of December 31, 2014, the Group's interest was 28.32%. The movements and details of the accounts are as follows:

	June 2015	December 2014
Investment in associate at beginning of year	P2,294,664,038	P2,301,520,445
Equity in net earnings (loss) of associate during the period	(3,739,522)	(6,856,407)
Investment in associate at end of period	P2,290,924,516	P2,294,664,038

The summarized financial information of MIC are as follows:

	June 2015	December 2014
Total assets	P 3,137,745,643	P2,492,588,611
Total liabilities	201,404,042	209,906,893
Equity	2,936,341,601	2,282,681,718
Income	3,589,277	10,178,114
Expenses	20,352,097	34,397,147
Net loss	16,762,820	24,219,033

The difference between the carrying value of investment in MIC against the share in net assets of MIC as at June 30, 2015 and December 31, 2014 represents goodwill.

*Techsystems.* The investment in associate, Techsystems, pertains to the acquisition cost of P1.0 million representing 33% ownership by the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of June 30, 2015 and December 31, 2014, investment in Techsystems is fully provided with allowance. As of June 30, 2015, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems are as follows:

	June 2015	December 2014
Total liabilities	P5,167,650	P5,167,650
Capital deficiency	(5,167,650)	(5,167,650)
Expenses	-	-
Net loss	-	-

#### Investment in Joint Ventures

*SLLBPO.* On December 12, 2008, the Parent Company entered into a JVA with Ayala Land, Inc. (ALI) to create SLLBPO, 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 JDA with ALI.

The movement of the equity in joint venture of the San Lazaro JV for periods ended June 30, 2015 and December 31, 2014 are as follow:

	June 2015	December 2014
Balance at beginning of year	P5,691,837	P3,159,925
Equity in net earnings for the period	11,837,909	23,955,135
Share on dividends declared	(11,270,578)	(21,423,223)
Balance at end of year	P6,259,168	P5,691,837

The summarized financial information of the San Lazaro JV as of June 30, 2015 and December 31, 2014 are as follow:

	June 2015	December 2014
Current assets	P175,283,373	P226,959,095
Noncurrent assets	7,806,396	6,916,636
Current liabilities	108,926,047	169,336,009
Noncurrent liabilities	38,196,138	39,426,738
Equity	35,967,584	25,112,984
Income	47,592,927	90,205,228
Expenses	8,133,228	10,354,776
Net income	39,459,698	79,850,452

The Parent Company has no share in any contingent liabilities or capital commitments of the JV as of June 30, 2015 and December 31, 2014. There are also no accumulated earnings that are restricted as of June 30, 2015 and December 31, 2014.

*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 June 30, 2015, Gamespan has not yet started its commercial operations.

The summarized financial information of the Gamespan is as follows:

	June 2015	December 2014
Current assets	P20,184,979	P20,184,979
Noncurrent assets	29,167	29,167
Current liabilities	629,824	629,824
Equity	19,584,322	19,584,322
Expenses	-	-
Net loss	-	-

The movement of the equity in joint venture in Gamespan are as follows:

	June 2015	December 2014
Balance at beginning of year	P9,792,161	P9,792,161
Equity in net earnings for the year	-	-
Balance at end of year	P9,792,161	P9,792,161

## 12. AFS Financial Assets

This account consists of:

	June 2015	December 2014
Quoted equity securities	P1,387,358	P3,092,778
Treasury bond	-	8,621,690
Club membership shares:		
Quoted	4,680,000	4,680,000
Unquoted	193,500	193,500
Preferred shares:		
Quoted	5,109,750	5,109,750
Unquoted	370,047	370,047
	P11,740,655	P22,067,765

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

	June 2015	December 2014
Balance at beginning of year	₱22,067,765	₱21,242,951
Additions during the period	-	8,129,767
Disposal during the period	(10,327,110)	(8,987,827)
Unrealized mark-to-market gains (losses) during the period	-	1,682,874
Balance at end of the period	₱11,740,655	₱22,067,765

The Group's AFS financial assets are carried at fair value with net cumulative gains reflected as "Net cumulative changes in fair values of AFS financial asset" in the equity section of the Group's consolidated statements of financial position".

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

	June 2015	December 2014
Balance at beginning of year	₱5,216,306	₱9,013,593
Unrealized mark-to-market gains (losses) during the period	-	1,682,874
Realized mark-to-market gains during the period	(1,638,319)	(5,480,161)
Balance at end of period	₱3,577,988	₱5,216,306

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

Dividend income from these investments amounted to ₱0.2 million for the period ended June 30, 2015 and ₱0.8 for the same period in 2014 (see Note 25).

### 13. Property and Equipment

Movement in this account are as follows:

	June 2015				June 30
	January 1	Additions	Disposals	Reclassifications and adjustments	
<b>Cost</b>					
Land	₱304,869,383	₱-	₱-	₱-	₱304,869,383
Land improvements	337,492,757	-	-	-	337,492,757
Building and improvements	661,605,396	-	-	-	661,605,401
Machinery and equipment	555,443,590	3,080,048	-	-	558,524,407
Transportation equipment	29,804,488	-	-	-	29,804,488
Furniture and fixtures	25,183,095	523,712	-	-	25,706,802
	1,914,398,709	3,603,760	-	-	1,918,002,469
<b>Accumulated depreciation</b>					
Land improvements	152,708,178	6,677,429	-	-	159,385,607
Building and improvements	284,186,659	13,776,553	-	-	297,963,211
Machinery and equipment	417,945,108	11,105,324	-	-	429,050,437
Transportation equipment	25,064,785	973,692	-	-	26,038,481
Furniture and fixtures	20,032,161	893,507	-	-	20,925,660
	899,936,891	33,426,505	-	-	933,363,396
<b>Net book value</b>	1,014,461,818	(29,822,745)	-	-	984,639,073
Construction in progress	13,565,089	11,131,524	-	-	24,696,613
	₱1,028,026,907	(₱18,691,221)	₱-	₱-	₱1,009,336,455

	December 2014				December 31
	January 1	Additions	Disposals	Reclassifications and adjustments	
<b>Cost</b>					
Land	₱304,869,383	₱-	₱-	₱-	₱304,869,383
Land improvements	337,492,757	-	-	-	337,492,757
Building and improvements	653,338,416	740,992	-	7,525,988	661,605,396

December 2014

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Machinery and equipment	486,071,333	69,499,228	(126,971)	-	555,443,590
Transportation equipment	28,974,488	830,000	-	-	29,804,488
Furniture and fixtures	21,838,820	3,344,275	-	-	25,183,095
	1,832,585,197	74,414,495	(126,971)	7,525,988	1,914,398,709
Accumulated depreciation					
Land improvements	139,302,268	13,405,910	-	-	152,708,178
Building and improvements	256,367,159	27,819,500	-	-	284,186,659
Machinery and equipment	397,754,720	20,190,388	-	-	417,945,108
Transportation equipment	22,844,590	2,220,195	-	-	25,064,785
Furniture and fixtures	18,315,331	1,716,830	-	-	20,032,161
	834,584,068	65,352,823	-	-	899,936,891
Net book value	998,001,129	9,061,672	(126,971)	7,525,988	1,014,461,818
Construction in progress	17,435,481	3,655,596	-	(7,525,988)	13,565,089
	<b>₱1,015,436,610</b>	<b>₱12,717,268</b>	<b>(₱126,971)</b>	<b>₱-</b>	<b>₱1,028,026,907</b>

### Depreciation Charges

The amount of depreciation is allocated as follows:

	June 2015	June 2014
Cost of club races (see Notes 18 and 20)	<b>₱18,892,621</b>	₱19,151,883
General and administrative expenses (see Notes 19 and 20)	<b>2,708,196</b>	8,938,349
Cost of rental services (see Notes 18 and 20)	<b>11,600,389</b>	8,639,332
Cost of food and beverages (see Notes 18 and 20)	<b>224,530</b>	281,582
	<b>₱33,425,736</b>	₱37,011,146

### Capitalized Borrowing Costs

No interest on loans was capitalized for the periods ended June 30, 2015 and 2014.

### Carmona Property

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from KPPI Land Corporation (KPPI) valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made during the periods ended June 30, 2015 and December 31, 2014. The outstanding balance of ₱89.9 million as of June 30, 2015 and December 31, 2014 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position (see Note 17).

### Assets Under Operating Lease

The Parent Company has various operating lease agreements for its building and 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 ₱29.2 million and ₱30.0 million as of June 30, 2015 and December 31, 2014, respectively. Rent income from stable rentals for the periods ended June 30, 2015 and 2014 amounted to ₱22.2 million and ₱22.4 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 ₱0.3 million for the periods ending June 30, 2015 and 2014.

### 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 for a monthly fixed rental of ₱510.51 per square meter for its casino and related activities.

Rent income from PAGCOR amounted to ₱0.6 million for the same periods ending June 30, 2015 and 2014.

#### 14. Investment Properties

This account consists of:

	June 2015	December 2014
Land:		
Sta. Cruz property held for capital appreciation (see Note 16)	₱359,631,580	₱359,631,580
Sta. Cruz property held for lease	238,168,692	238,168,692
Carmona property (see Note 16)	109,750,785	109,750,785
Undivided interest in a parcel of land in Carmona	56,723,976	56,723,976
	<b>764,275,033</b>	<b>764,275,033</b>
Building:		
Developed office units (see Note 11)	203,289,134	208,501,675
Retail development area (see Note 11)	37,005,160	38,005,932
	<b>240,294,294</b>	<b>246,507,607</b>
	<b>₱1,004,569,327</b>	<b>₱1,010,782,640</b>

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

	June 2015		
	Land	Building	Total
<b>Cost</b>	<b>₱764,275,033</b>	<b>₱310,665,629</b>	<b>₱1,074,940,662</b>
<b>Accumulated Depreciation</b>			
Balance at beginning of year	-	(64,158,022)	(64,158,022)
Depreciation for the period(see Notes 18 and 20)	-	(6,213,315)	(6,213,315)
Balance at end of period	-	(70,371,337)	(70,371,337)
<b>Net Book Value</b>	<b>₱764,275,033</b>	<b>₱240,294,294</b>	<b>₱1,004,569,327</b>

	December 2014		
	Land	Building	Total
<b>Cost</b>	<b>₱764,275,033</b>	<b>₱310,665,629</b>	<b>₱1,074,940,662</b>
<b>Accumulated Depreciation</b>			
Balance at beginning of year	-	(51,731,397)	(51,731,397)
Depreciation (see Notes 18 and 20)	-	(12,426,625)	(12,426,625)
Balance at end of year	-	(64,158,022)	(64,158,022)
<b>Net Book Value</b>	<b>₱764,275,033</b>	<b>₱246,507,607</b>	<b>₱1,010,782,640</b>

The Carmona property with carrying value of ₱109.8 million and the 5.1 hectare property in Sta. Cruz with carrying value of ₱359.6 million as of June 30, 2015 and December 31, 2014, respectively, are used by the Parent Company as collateral for its long-term loans obtained from a bank. These long term loans are expected to be paid in November 2015. A property used as collateral respective to this loan agreement is also expected to be unrestricted and available upon completion of payment (see Note 16). Depreciation amounting to ₱1.0 million for the period ended June 30, 2015 and December 31, 2014 for the retail units, are included as part of "Cost of rental services" while the amount of ₱5.2 million for the period ended June 30, 2015 and 2014 are classified under general and administrative expenses.

#### 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 June 30, 2015 and December 31, 2014, 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. For the period ending June 30, 2015, rental income from the retail area amounted to ₱4.2 million.

No interest on loans was capitalized during 2015 and 2014. Undepreciated capitalized interest relating to the Building Complex as of June 30, 2015 and December 31, 2014 amounted to ₱6.4 million.

#### Fair Market Values

As of June 30, 2015 and December 31, 2014, the aggregate fair value of the Parent Company's investment properties amounted to ₱3.3 billion. Fair values of the Carmona property and Sta. Cruz property have been determined based on valuation performed by independent professional appraisers using the sales comparison approach and income approach by land residual technique with reports dated January 18, 2012 and May 5, 2010, respectively. Management believes that there are no material changes in fair value on these investment properties as of June 30, 2015 and December 31, 2014 from the most recent revaluations performed by independent appraisers.

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## 15. Other Noncurrent Assets

This account consists of:

	June 2015	December 2014
Franchise fee (see Note 1)	₱13,487,839	₱14,384,839
Deferred input VAT	8,769,186	8,884,652
Deposits	9,034,446	8,485,789
Others	236,932	236,932
	<b>₱31,528,403</b>	<b>₱31,992,212</b>

### Franchise Fee

Movements in the carrying amounts of franchise fees are shown below:

	June 2015	December 2014
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	30,465,161	28,671,161
Amortization for the period (see Note 18)	897,000	1,794,000
Balance at end of period	<b>31,362,161</b>	<b>30,465,161</b>
	<b>₱13,487,839</b>	<b>₱14,384,839</b>

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

### Short-term Loans

As of June 30, 2015 and December 31, 2014, outstanding balance of short-term loans and borrowings amounted to ₱56.4 million and ₱74.4 million, respectively. These loans were obtained for working capital requirements and bear average interest of 3.5% and 3.25% in 2015 and 2014, respectively. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

Interest expense on short-term loans amounted to ₱1.1 million for the period ended June 30, 2015 and ₱1.4 million for the same period in 2014. (see Note 24).

Short-term loans amounting to ₱18.0 million were paid during the period ending June 30, 2015 and ₱ 6.0 million for the same period in 2014.

### Long-term Loans

	June 2015	December 2014
Bank loans	₱10,714,286	₱14,285,715
Less: current portion	10,714,286	14,285,715
Noncurrent portion	₱-	₱-

These loans bear interest of 3.25% with maturity date of November 2015. These loans are payable in equal quarterly installments and interest rates are subject to quarterly repricing. Loans amounting to ₱7.1 million were paid during the periods ended June 30, 2015 and 2014. The loans are secured by real estate mortgages on Carmona property with a carrying value of ₱109.8 million as of June 30, 2015 and December 31, 2014 and Sta. Cruz property with carrying value of ₱359.6 million as of June 30, 2015 and December 31, 2014.

Interest expense on these long term bank loans amounted to ₱ 0.2 million and ₱0.5 million for the periods ended June 30, 2015 and 2014, respectively. (see Note 24).

## 17. Accounts Payable and Other Liabilities

This account consists of:

	June 2015	December 2014
Due to KPPI (see Note 13)	₱89,900,000	₱89,900,000
Accounts payable	82,857,055	91,757,028
Cash bond on OTB operators	31,544,909	32,094,081
Documentary stamps payable	18,329,604	28,888,879
Provision for probable losses (see Note 31)	13,135,947	13,135,947
Accrued expenses	11,714,596	10,056,537
Due to concessionaires	8,238,253	7,961,441
Due to contractors	7,083,538	27,558,182
Trade payable and buyers' deposits	5,400,983	5,687,887
Dividends payable - racing	4,427,014	3,340,275
Taxes on winnings	4,208,799	8,458,554
Retention payable	2,893,213	1,775,464
VAT payable	2,683,327	6,643,393
Due to MMTC	2,293,240	12,006,725
Due to OTB operators	1,673,517	2,528,019
Due to Philracom	218,190	2,352,250
Due to horse owners	(573)	3,345,922
Others	9,048,014	6,836,638
	<b>₱295,649,626</b>	<b>₱354,327,222</b>

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

Accrued expenses include normal and recurring expenses incurred by the Company. Accounts payable account pertains to normal purchases and expenses made in a regular basis. Deposits made by tenants are recorded to due to concessionaires account.

## 18. Cost of Sales and Services

Cost of club races consists of:

	June 2015	June 2014
Personnel costs (see Note 21)	₱26,793,606	₱24,237,595
Depreciation (see Notes 13 and 20)	18,892,621	19,151,883
Commission	10,776,500	10,999,963
Utilities	10,514,184	9,890,062
Supplies	3,553,559	2,280,589
Transportation and travel	3,379,058	2,753,519
Contracted services	2,386,343	2,176,821
Taxes and licenses	2,069,303	1,862,885
Rent	1,707,085	1,641,359
Added prizes and race sponsorships	1,309,566	-
Meetings and conferences	1,173,818	844,949
Security services	983,594	1,105,680
Amortization of franchise fee (see Note 15)	897,000	897,000
Repairs and maintenance	781,686	1,732,151
Gas, fuel and oil	486,877	628,172



	June 2015	June 2014
Others	4,113,787	2,240,098
	<b>₱89,818,588</b>	<b>₱82,442,728</b>

Cost of real estate sold amounted to (₱4.2) million for the period ended June 30, 2015 and ₱2.1 million for the same period in 2014.

Cost of rental services consists of:

	June 2015	June 2014
Depreciation (see Notes 13, 14 and 20)	₱12,601,159	₱8,639,332
Utilities	6,823,137	2,804,338
Food and beverage expenses	2,483,970	269,142
Contracted services	2,256,106	1,089,637
Personnel costs (see Note 21)	1,512,985	1,212,598
Security services	1,026,195	720,471
Repairs and maintenance	920,804	849,121
Rent expense	900,137	-
Taxes and licenses	755,357	-
Advertisements, promotions, etc.	337,950	-
Travel and transportation	235,481	-
Others	343,923	339,044
	<b>₱30,197,205</b>	<b>₱15,923,682</b>

Cost of food and beverages consists of:

	June 2015	June 2014
Purchased stocks	₱2,048,677	₱3,120,110
Contracted services	1,998,833	1,321,727
Personnel cost (see Note 21)	1,178,859	1,254,704
Meetings and conferences	437,143	219,303
Depreciation (see Notes 13 and 20)	224,530	281,582
Utilities	218,964	1,383,524
Rent	215,691	14,036
Repairs	109,837	14,138
Supplies	85,960	55,465
Commission	51,299	-
Gas, fuel and oil	30,300	21,250
Security services	-	57,974
Others	323,873	356,696
	<b>₱6,923,966</b>	<b>₱8,100,508</b>

## 19. General and Administrative Expenses

This account consists of:

	June 2015	June 2014
Personnel costs (see Note 21)	₱31,510,005	₱35,563,247
Professional fees	8,130,400	3,799,372
Depreciation (see Notes 13 and 20)	7,920,738	8,938,349
Contracted services	6,165,255	7,209,382
Repairs and maintenance	5,089,200	3,874,784
Utilities	4,977,781	9,616,356
Taxes and licenses	4,130,974	2,960,431
Meetings and conferences	3,038,246	3,354,433
Rent (see Note 31)	3,033,070	2,775,083
Security services	2,146,809	2,366,214

	June 2015	June 2014
Gas, fuel and oil	1,381,114	1,906,866
Supplies	751,218	384,800
Director's fee	698,500	678,500
Insurance	661,972	499,769
Transportation and travel	644,441	1,592,368
Membership dues	507,409	530,962
Commission expense	230,410	898,349
Advertising	170,617	544,809
Seminars and trainings	129,553	592,769
Others	1,663,868	2,853,095
	<b>₱82,981,582</b>	<b>₱90,939,936</b>

## 20. Depreciation

This account consists of:

	June 2015	June 2014
Cost of club races (see Notes 13 and 18)	₱18,892,621	₱19,151,883
General and administrative expense (see Notes 13 and 19)	7,920,738	8,938,349
Cost of rental services (see Notes 13, 14 and 18)	12,601,159	8,639,332
Cost of food and beverages (see Notes 13 and 18)	224,530	281,582
	<b>₱39,639,048</b>	<b>₱37,011,145</b>

## 21. Personnel Costs

This account consists of:

	June 2015	June 2014
Salaries and wages	₱55,023,548	₱53,070,565
Retirement benefits costs (see Note 22)	3,278,161	6,642,770
Other employee benefits	2,693,747	2,554,810
	<b>₱60,995,455</b>	<b>₱62,268,145</b>

## 22. Retirement Benefits Costs

The Parent Company has two tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation reports are as of December 31, 2014.

The details of the retirement benefits costs are as follows:

	June 2015	June 2014
Current service costs	₱3,157,870	₱2,204,339
Interest costs	-	1,196,759
Past service costs	120,291	-
	<b>₱3,278,161</b>	<b>₱3,401,099</b>

Movements in the accrued retirement benefits follow:

	June 2015	December 2014
Balance at beginning of year	P42,512,894	P35,061,172
Net retirement benefits costs for the year	3,157,870	7,578,888
Contributions for the year	(8,400,000)	(5,456,989)
Defined benefit cost recognized in OCI	-	5,329,823
Direct payments from book reserve	-	-
<b>Balance at end of year</b>	<b>P 37,270,764</b>	<b>P42,512,894</b>

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 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 3.5% to 8.5% and have maturities from 2015 to 2031; and
- Investments in government securities consist of AFS financial assets.

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.
- Liabilities of the plan pertain to trust fee payable and retirement benefits payable.

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### 23. Interest Income

Interest income related to:

	June 2015	June 2014
Real estate receivables (see Note 8)	P1,497,934	P10,363,861
Cash and cash equivalents (see Note 7)	1,032,163	783,458
Due from related parties (see Note 27)	-	-
Treasury bond (see Note 12)	8,847	214,375
	<b>P2,538,944</b>	<b>P11,361,694</b>

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### 24. Finance Costs

Interest expense related to:

	June 2015	June 2014
Short-term loans (see Note 16)	P1,146,433	P1,971,515
Long-term loans (see Note 16)	237,913	-
Bank charges and others	26,897	21,401
	<b>P1,411,242</b>	<b>P1,992,916</b>

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### 25. Other Income - net

	June 2015	June 2014
Service income	P6,286,759	P-

	June 2015	June 2014
Gain on sale of retail treasury bonds	2,006,702	-
Income from advertising campaign	1,307,417	-
Gain (loss) on sale of AFS (see Notes 12)	195,857	1,289,076
Gain on reversal of liabilities	-	-
Dividend income from AFS financial assets (see Note 12)	188,193	762,891
Dividend income-JV	-	-
Foreign exchange gain (loss) - net	3,870	-
Recoveries from leasing activities	2,327,580	-
Miscellaneous income	976,452	9,765,103
Forfeited real estate collections	909,431	-
Others - net	1,659,804	299,298
	<b>₱15,862,066</b>	<b>₱12,113,281</b>

Service income pertains to technical services rendered by the Parent Company to Metro Manila Turf Club.

## 26. Income Taxes

	June 2015	June 2014
RCIT	₱1,836,824	₱-
MCIT		1,514,295
Final tax on interest income	207,980	198,106
	<b>₱2,044,804</b>	<b>₱1,712,402</b>

## 27. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the 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		Receivable/ (Payable)		Terms	Conditions
		June 2015	Dec. 2014	June 2015	Dec. 2014		
<b>Subsidiaries:</b>							
Biohitech Korea (BHK)	Advances	₱-	₱-	(₱38,640,000)	(₱38,640,000)	Noninterest-bearing	Unsecured, no impairment
Arco Management Development Corporation (AMDC)	Lease of office Space	3,188,743	6,667,610	(641,379)	-	Noninterest-bearing	Unsecured, no impairment
<b>Associates:</b>							
MIC	Advances	1,642,729	1,133,990	3,720,891	2,078,161	Non interest-bearing	Unsecured, no impairment
	Subscription payable	(42,808,835)	-	-	(42,808,835)	Noninterest-bearing	Unsecured, no impairment
Techsystems			-	1,000	1,000	Noninterest-bearing	Unsecured, no impairment

- a. In 2009, Biohitech obtained advances from its affiliate, BHK, to finance the construction of the building housing the fermentation machine and for the importation of additional machines.

The advances are due and demandable and non-interest bearing and remain outstanding as of June 30, 2015. The conversion of these advances into shares of stock of Biohitech is still subject for approval by the BOD and has not been finalized as of June 30, 2015.

- b. The Parent Company has a lease agreement with AMDC in the lease of office space and parking lots (see Note 31).

## 28. Equity

### Capital Stock

The details of the Parent Company's capital stock as of June 30, 2015 and December 31, 2014 are as follows:

	June 2015		December 2014	
	Number of Shares	Amount	Number of Shares	Amount
Common shares - ₱1 par value				
Authorized - 1,000,000,000 shares				
Issued and outstanding (held by 973 equity holders in 2015 and 2014, respectively)	996,170,748	₱996,170,748	948,734,898	₱948,734,898
Stock dividend issued during the period/year	-	-	47,435,850	47,435,850
	996,170,748	₱996,170,748	996,170,748	₱996,170,748

### Appropriation of Retained Earnings

In 2014, the BOD approved the release of the appropriation of retained earnings as of December 31, 2013. The Company's appropriated retained earnings for building improvements amounted to ₱17.2 million as of December 31, 2013.

### Declaration of Dividends

The following are the details of the dividends declared in 2015, 2014 and 2013:

Type of Dividend	Date of Declaration	Date of Record	Date of Payment	Dividends per Share
<b>Cash</b>	March 6, 2015	March 20, 2015	April 17, 2015	₱0.05
	April 8, 2014	May 20, 2014	June 16, 2014	0.05
	May 30, 2013	June 18, 2013	June 28, 2013	0.05
<b>Stock</b>	April 8, 2014	July 14, 2014	August 7, 2014	5%
	May 30, 2013	July 18, 2013	August 13, 2013	10%

As of June 30, 2015 and December 31, 2014, outstanding dividends payable amounted to ₱ 3.7 million and ₱2.8 million, respectively.

### Restriction on Retained Earnings

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

### Deemed Cost Adjustment

As of June 30, 2015 and December 31, 2014, the unappropriated retained earnings includes the remaining balance of the deemed cost adjustment which arose when the Group transitioned to PFRS.

The components of the deemed cost adjustment are as follows:

	June 2015	December 2014
Real estate inventories	P76,676,550	P76,676,550
Investment properties	566,074,010	566,074,010
Revaluation increment	642,750,560	642,750,560
Deferred tax liability	(192,825,169)	(192,825,169)
Deemed cost adjustment	P449,925,391	P449,925,391

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.

#### Cost of shares held by a subsidiary

In 2012, MIC transferred to SPPC 25,031,656 shares of MJCI pursuant to the provisions of the MOA signed on August 6, 2012 (see Note 6). The transfer resulted in an increase in additional paid-in capital amounting to P27.6 million in 2015 and 2014.

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### 29. Basic/Diluted EPS

Basic/diluted earnings per share were computed as follows:

	June 2015	December 2014
Net income attributable to equity holders of the Parent Company	(P31,544,278)	P1,754,367
Divided by weighted average number of outstanding common shares	996,170,748	996,170,748
Basic/diluted earnings per share	(P0.0317)	P0.0018

The Parent Company does not have potential dilutive common shares as of June 30, 2015 and December 31, 2014. Therefore, the basic and diluted earnings per share are the same as of those dates.

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### 30. Operating Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided. The Group's 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, and rental of stables, building and other facilities. 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 June 30, 2015 and December 31, 2014, 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 periods ended June 30, 2015 and 2014 are as follows:

June 2015						
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱108,179,038	(₱74,031)	₱46,721,785	₱6,883,564	₱30,291,883	₱192,002,240
Cost and expenses	(89,818,588)	4,581,499	(30,197,205)	(6,923,966)	(99,143,455)	(221,501,715)
Income (loss) before income tax	18,360,451	4,507,468	16,524,580	(40,402)	(68,851,572)	(29,499,475)
Provision for income tax	-	-	-	-	2,044,804	2,044,804
Net income (loss)	₱18,360,451	₱4,507,468	₱16,524,580	(₱40,402)	(₱70,896,376)	(₱31,544,278)

June 2014						
	Club Races	Real Estate	Rent	Food and beverage	Unallocated	Total
Segment revenue	₱102,929,804	₱19,400,820	₱39,861,318	₱5,417,689	₱36,248,951	₱203,858,582
Cost and expenses	(82,442,728)	(2,089,230)	(15,923,682)	(8,100,508)	(109,986,410)	(218,542,558)
Income (loss) before income tax	20,487,076	17,311,590	23,937,636	(2,682,819)	(73,737,459)	(14,683,976)
Provision for income tax	-	-	-	-	(1,712,402)	(1,712,402)
Net income (loss)	₱20,487,076	₱17,311,590	₱23,937,636	(₱2,682,819)	(₱75,449,861)	(₱16,396,378)

Finance costs, other income (charges) and income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis and are not provided to the chief operating decision maker at the operating segment level for the periods ended June 30, 2015 and 2014.

### Segment Assets and Liabilities and Other Information

The table below shows the segment assets and liabilities as of and for the periods ended June 30, 2015 and 2014:

June 2015						
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱906,620,762	₱309,361,065	₱442,049,723	₱2,986,286	₱3,237,093,146	₱4,890,631,939
Liabilities	80,487,004	5,400,983	65,649,473	-	528,568,860	680,106,319
Capital expenditures	761,818	-	1,031,277	189,673	10,785,667	12,768,434
Interest income	-	1,497,934	-	-	1,041,010	2,538,944
Finance cost	-	-	-	-	1,411,242	1,411,242
Depreciation	9,409,561	-	12,601,159	224,530	7,920,738	39,639,048

June 2014						
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱831,544,815	₱1,263,708,131	₱347,795,033	₱1,108,874	₱2,638,356,526	₱5,082,513,376
Liabilities	110,975,804	315,550,423	57,078,191	-	316,015,258	799,619,678
Capital expenditures	4,413,591	-	8,984,992	312,348	579,207	14,290,138
Interest income	-	10,363,861	-	-	997,833	11,361,694
Finance cost	-	-	-	-	1,992,916	1,992,916
Depreciation	18,892,621	-	8,639,332	281,582	8,938,349	37,011,145

## **31. Commitments and Contingencies**

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

- a. Operating Lease Commitment - the Parent Company as Lessee

On January 1, 2008, the Parent Company renewed its lease agreement with AMDC, an affiliate, for the lease of office space on the 14<sup>th</sup> floor of Strata 100 building and 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 and will expire in December 31, 2017.

On January 1, 2011, the Parent Company entered into a new lease agreement with AMDC for the lease of office space at 12<sup>th</sup> floor of Strata 100 building. The lease is for a period of five years starting 2011 with a yearly escalation of 5.0%. The contract will expire in December 31, 2015.

b. Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

In 2013, the Company entered a lease contract for three years commencing 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.

c. On October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease one thousand four hundred twenty seven (1,427) square meters 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 pay 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.

d. In 2014, the Parent Company, together with MMTTC, entered into an agreement that allows horse racing aficionados from both clubs to place bets on either clubs' race day using the telephone betting (TELEBET) account of the bettor from the other club, provided that the account has a balance upon placing of wagers.

e. Claims and Legal Actions

As of June 30, 2015 and December 31, 2014, there are pending claims and legal actions against or in favor of the Parent Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these financial statements. In the opinion of the Parent Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Parent Company and any liability or loss arising there from would be taken up when the final resolution of the claims and actions are determined.

f. 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 exceeded 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 Parent Company filed a *Petition for Declaratory Relief* on November 6, 2013. As of June 30, 2015, the status is still pending before the Regional Trial Court of Bacoor, Cavite.

The Parent Company recognized provision for probable loss amounting to ₱13.1 million as of June 30, 2015 and December 31, 2014.

### 32. Financial Instruments

The following tables provide the fair value hierarchy of the Group's AFS and loans and borrowings:

June 2015					
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	₱11,740,655	₱11,740,655	₱11,670,905	₱-	₱69,750
Loans and borrowings	63,580,357	63,580,357	-	-	63,580,357
	<b>₱75,321,012</b>	<b>₱75,321,012</b>	<b>₱11,670,905</b>	<b>₱-</b>	<b>₱63,650,107</b>

December 2014					
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	₱21,504,218	₱21,504,218	₱21,434,468	₱-	₱69,750
Loans and borrowings	88,723,214	88,723,214	-	-	88,723,214
	<b>₱110,227,432</b>	<b>₱110,227,432</b>	<b>₱21,434,468</b>	<b>₱-</b>	<b>₱88,792,964</b>

Fair value under Level 3 hierarchy pertains to PLDT shares amounting to ₱0.07 million expected to redeemed within 10 years effective January 19, 2012. There were no financial instruments measured at fair value under the Level 2 hierarchies.

Unquoted AFS shares amounted to ₱0.6 million as at June 30, 2015 and December 31, 2014. Carrying amount of these shares is equal to its fair value as at June 30, 2015 and December 31, 2014.

As of June 30, 2015 and December 31, 2014, the carrying value of cash and cash equivalents, receivables, deposits and accounts payable and other liabilities and due to related parties approximates its fair value due to the short-term nature of the transaction.

### 33. Financial Risk Management Objectives and Policies

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

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

#### *Cash flow interest rate risk*

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

The Group's interest rate risk management policy focuses on reducing the overall interest expense and exposure to changes in interest rates. Risk of changes in market interest rates is related primarily to the Group's interest on financial instruments classified as floating rate as it can cause a change in the amount of interest payments.

Interest on financial instruments classified as floating rate is repriced at intervals of less than a year. The financial instruments of the Group that bear fixed interest rates or are noninterest-bearing are not included in the succeeding analyses. The Group invests excess funds in short-term investments in order to mitigate any increase in interest rate on borrowings.

#### *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.

The Group's outstanding foreign currency-denominated financial asset pertaining to cash in banks as of June 30, 2015 and December 31, 2014 and its Peso equivalent are as follows:

	United States (US) Dollar	Philippine Peso
<b>June 2015</b>	<b>US\$9,813</b>	<b>₱442,449</b>
December 2014	US\$5,609	₱250,847

As of June 30, 2015 and December 31, 2014, the applicable closing exchange rates were ₱45.09 to US\$1 and ₱44.617 to US\$1, respectively.

*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 June 30, 2015 and December 31, 2014.

	June 2015	December 2014
<b>Loans and receivables:</b>		
<b>Cash and cash equivalents:</b>		
Cash in banks	₱132,552,368	₱244,728,436
Cash equivalents	27,695,241	47,545,719
	<b>160,247,609</b>	<b>292,274,155</b>
<b>Receivables:</b>		
Real estate receivables**	188,410,116	228,964,771
Advances and loans to officers and employees	10,209,906	5,243,121
Rent receivables	5,490,088	9,399,120
Receivable from PAGCOR	5,379,263	6,995,045
Due from related parties	5,375,131	2,079,161
Dividends receivable	4,875,919	29,792,491
Receivable from MMTC	4,085,989	16,360,723
Receivables from OTB operators	1,250,821	1,965,943
Others	20,213,496	8,467,207
	<b>245,290,730</b>	<b>309,267,582</b>
<b>Deposits*</b>	<b>3,375,580</b>	<b>3,375,580</b>
	<b>₱408,913,919</b>	<b>₱604,917,317</b>

\* Included in "Other noncurrent assets" account in the consolidated statements of financial position.

\*\*Includes non-current real estate receivable

The tables below show the credit quality of financial assets as of June 30, 2015 and December 31, 2014:

	June 2015			Total
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	
<b>Loans and receivables:</b>				
<b>Cash and cash equivalents:</b>				
Cash in banks	₱132,552,368	₱-	₱-	₱ 132,552,368
Cash equivalents	27,695,241	-	-	27,695,241
<b>Receivables:</b>				
Real estate receivable	188,410,116	-	-	188,410,116
Advances and loans to officers and employees	10,209,906	-	-	10,209,906
Rent receivables	5,490,088	-	1,197,798	6,687,886
Receivable from PAGCOR	5,379,263	-	-	5,379,263
Due from related parties	5,375,131	-	-	5,375,131
Dividends receivable	4,875,919	-	-	4,875,919
Receivable from MMTC	4,085,989	-	-	4,085,989
Receivables from OTB operators	1,250,821	-	-	1,250,821
Others	20,213,496	-	10,466,818	30,680,315
<b>Deposits*</b>	<b>3,375,580</b>	<b>-</b>	<b>-</b>	<b>3,375,580</b>

June 2015				
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
	P408,913,919	P-	P11,664,616	P420,578,535

\* Included in "Other noncurrent assets" account in the consolidated statements of financial position.

December 2014				
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
<b>Loans and receivables:</b>				
<b>Cash and cash equivalents:</b>				
Cash in banks	P244,728,436	P-	P-	P244,728,436
Cash equivalents	47,545,719	-	-	47,545,719
<b>Receivables:</b>				
Real estate receivable	228,964,771	-	-	228,964,771
Dividends receivable	29,792,491	-	-	29,792,491
Receivable from MMTC	16,360,723	-	-	16,360,723
Rent receivables	9,399,120	-	1,197,798	10,596,918
Receivable from PAGCOR	6,995,045	-	-	6,995,045
Advances and loans to officers and employees	5,243,121	-	-	5,243,121
Due from related parties	2,079,161	-	-	2,079,161
Receivables from OTB operators	1,965,943	-	-	1,965,943
Others	8,467,207	-	10,466,818	18,934,025
Deposits*	3,375,580	-	-	3,375,580
	P604,917,317	P-	P11,664,616	P616,581,933

\* Included in "Other noncurrent assets" account in the consolidated statements of financial position.

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

#### *Cash in banks and deposits*

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

#### *Receivables*

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

#### *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.

### **34. 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:

	June 2015	December 2014
Capital stock	P996,170,748	P996,170,748
Additional paid-in capital	27,594,539	27,594,539
Net cumulative changes in fair values of AFS financial assets	3,577,988	5,216,306
Remeasurement on retirement benefits	21,144,472	21,144,472
Retained earnings:		
Appropriated	-	-
Unappropriated	3,164,326,935	3,245,679,278
Treasury shares	(7,096)	(7,096)
Noncontrolling interest	(2,281,966)	(2,281,966)
	<b>P4,210,525,620</b>	<b>P4,293,516,281</b>

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

### 35. Other Matters

On April 4, 2014, a MOA was executed between the Parent Company and 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.