

# COVER SHEET

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S.E.C. Registration Number

MANILA JOCKEY CLUB, INC.

( Company's Full Name )

14 T H F L O O R S T R A T A 1 0 0 B L D G .  
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. CHINO PAOLO Z. ROXAS

Contact Person

687-9889

Company's Telephone Number

1 2 3 1  
Month Day

Fiscal Year

QUARTERLY REPORT  
ENDED SEPTEMBER 30, 2016

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

Document I.D.

Cashier

STAMPS

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended: September 30, 2016
2. Commission identification number: 803
3. BIR Tax Identification No. : 203-000-786-765
4. Exact name of issuer as specified in its charter: MANILA JOCKEY CLUB, INC.
5. Province, country or other jurisdiction of incorporation or organization:  
Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: San Lazaro Leisure and Business Park  
Governor's Drive, Brgy. Lantic  
Carmona Cavite  
  
Postal Code : 1003
8. Issuer's telephone number, including area code : (632) 687-9889
9. Former name, former address and former fiscal year, if changed since last report:  
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4  
and 8 of the RSA  

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares	996,170,748
11. Are any or all of the securities listed on a Stock Exchange?  
Yes [ X ] No [ ]

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

12. Indicate by check mark whether the registrant:

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

Yes [ X ] No [ ]

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

Yes [ X ] No [ ]

**PART I--FINANCIAL INFORMATION**

Item 1. Financial Statements.

- Please see attached -

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


- Please see attached -

**SIGNATURES**

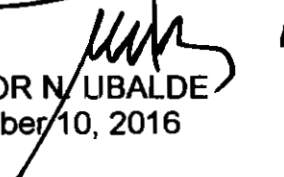
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

Corporate Information Officer:  
Date:

  
**CHINO PAOLO A. ROXAS**  
November 10, 2016

Chief Finance Officer:  
Date:

  
**NESTOR N. UBALDE**  
November 10, 2016

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015**

	UNAUDITED SEPTEMBER 2016	AUDITED DECEMBER 2015
(In Philippine Peso)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	106,746,801	134,470,762
Receivables (Note 8)	284,680,602	200,069,482
Inventories (Note 9)	90,317,368	94,804,252
Other current assets (Note 10)	18,075,825	11,331,636
<b>Total Current Assets</b>	<b>499,820,596</b>	<b>440,676,132</b>
<b>Noncurrent Assets</b>		
Real estate receivables - net of current portion (Note 8)	60,183,860	45,121,918
Investments in associates and joint ventures (Note 11)	2,234,136,206	2,301,262,044
Available-for-sale (AFS) financial assets (Note 12)	14,278,889	31,942,805
Property and equipment (Notes 13 and 31)	929,744,617	957,207,789
Investment properties (Note 14)	1,018,886,046	998,356,015
Other noncurrent assets (Note 15)	29,936,610	30,959,981
<b>Total Noncurrent Assets</b>	<b>4,287,166,228</b>	<b>4,364,850,552</b>
	<b>4,786,986,824</b>	<b>4,805,526,684</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term loans and borrowings (Note 16)	87,000,000	39,000,000
Accounts payable and other liabilities (Notes 17)	327,570,712	301,126,960
Income tax payable	804,816	6,907
<b>Total Current Liabilities</b>	<b>415,375,528</b>	<b>340,133,867</b>
<b>Noncurrent Liabilities</b>		
Accrued retirement benefits (Note 22)	38,282,230	38,982,230
Deferred tax liabilities - net	228,578,560	228,578,560
<b>Total Noncurrent Liabilities</b>	<b>266,860,790</b>	<b>267,560,790</b>
	<b>682,236,318</b>	<b>607,694,657</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	21,621,047	21,621,047
Net cumulative changes in fair values of AFS financial assets (Note 12)	3,996,198	3,923,214
Retained earnings (Note 28)	3,056,998,884	3,150,149,222
Treasury shares (Note 28)	(7,096)	(7,096)
Equity attributable to equity holders of the parent company	4,106,374,320	4,199,451,674
Noncontrolling interests	(1,623,814)	(1,619,647)
<b>Total Equity</b>	<b>4,104,750,506</b>	<b>4,197,832,027</b>
	<b>4,786,986,824</b>	<b>4,805,526,684</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

	UNAUDITED SEPTEMBER 2016	UNAUDITED SEPTEMBER 2015
	(In Philippine Peso)	
<b>REVENUES</b>		
Club races	143,090,612	155,072,725
Rent (Notes 13 and 14)	68,046,046	65,092,733
Real estate	72,013,147	17,077,470
Food and beverages	11,857,657	9,263,693
Others	63,053,293	16,714,077
	<b>358,060,754</b>	<b>263,220,697</b>
<b>COST OF SALES AND SERVICES (Note 18)</b>		
Club races	123,940,348	133,073,647
Rent	43,922,824	44,359,220
Real estate	6,650,931	(1,371,040)
Food and beverages	12,087,428	9,711,848
Others	52,481,133	16,629,004
	<b>239,082,664</b>	<b>202,402,679</b>
<b>GROSS INCOME</b>	<b>118,978,090</b>	<b>60,818,018</b>
General and administrative expenses (Note 19)	(130,592,680)	(122,444,793)
Selling expense (Note 9)	(6,361,394)	(1,036,898)
Interest income (Notes 7, 8, 12 and 23)	8,969,118	2,959,169
Finance costs (Notes 16 and 24)	(1,582,029)	(2,005,348)
Equity in net earnings (losses) of associates and joint ventures (Note 11)	(47,561,813)	14,066,932
Other income - net (Note 25)	17,420,663	21,502,759
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(40,730,044)</b>	<b>(26,140,161)</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)</b>		
Current	2,616,393	3,209,735
Deferred	-	-
	<b>2,616,393</b>	<b>3,209,735</b>
<b>NET INCOME (LOSS)</b>	<b>(43,346,437)</b>	<b>(29,349,896)</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>		
Net changes in fair values of AFS financial assets	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(43,346,437)</b>	<b>(29,349,896)</b>
Net income attributable to:		
Equity holders of the parent company	(43,342,270)	(29,349,896)
Noncontrolling interests	(4,167)	-
	<b>(43,346,437)</b>	<b>(29,349,896)</b>
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(43,342,270)	(29,349,896)
Noncontrolling interests	(4,167)	-
	<b>(43,346,437)</b>	<b>(29,349,896)</b>
<b>Basic/Diluted Earnings Per Share (Note 29)</b>	<b>(0.0435)</b>	<b>(0.0295)</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2016 AND 2015**

	UNAUDITED SEPTEMBER 2016	UNAUDITED SEPTEMBER 2015
	(In Philippine Peso)	
<b>REVENUES</b>		
Club races	44,758,847	53,180,446
Rent (Notes 13 and 14)	21,222,295	20,698,528
Real estate	29,259,043	19,558,865
Food and beverages	4,477,788	2,380,129
Others	48,502,355	1,899,886
	<b>148,220,329</b>	<b>97,717,854</b>
<b>COST OF SALES AND SERVICES (Note 18)</b>		
Club races	42,142,574	43,255,059
Rent	14,430,720	14,162,016
Real estate	2,535,439	2,690,577
Food and beverages	4,773,970	2,787,882
Others	32,928,471	1,878,373
	<b>96,811,174</b>	<b>64,773,907</b>
<b>GROSS INCOME</b>	<b>51,409,154</b>	<b>32,943,947</b>
General and administrative expenses (Note 19)	(46,232,334)	(39,463,211)
Selling expense (Note 9)	(2,053,670)	(1,556,780)
Interest income (Notes 7, 8, 12 and 23)	1,735,840	420,225
Finance costs (Notes 16 and 24)	(785,063)	(594,106)
Equity in net earnings (losses) of associates and joint ventures (Note 11)	(18,550,629)	5,968,545
Other income - net (Note 25)	5,486,134	5,640,694
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(8,990,567)</b>	<b>3,359,314</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 26)</b>		
Current	861,020	1,164,931
Deferred	-	-
	<b>861,020</b>	<b>1,164,931</b>
<b>NET INCOME (LOSS)</b>	<b>(9,851,587)</b>	<b>2,194,383</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>		
Net changes in fair values of AFS financial assets	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(9,851,587)</b>	<b>2,194,383</b>
Net income attributable to:		
Equity holders of the parent company	(9,851,587)	2,194,383
Noncontrolling interests	-	-
	<b>(9,851,587)</b>	<b>2,194,383</b>
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(9,851,587)	2,194,383
Noncontrolling interests	-	-
	<b>(9,851,587)</b>	<b>2,194,383</b>
<b>Basic/Diluted Earnings Per Share (Note 29)</b>	<b>(0.0099)</b>	<b>0.0022</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

**SEPTEMBER 2016 (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 Retained Earnings - unappropriated Benefits (Note 22)	Actuarial Gains on Retained Earnings - unappropriated Benefits (Note 22)	Treasury Shares (Note 28)	Subtotal	Noncontrolling Interests	Total
(In Philippine Peso)									
<b>BALANCES AT DECEMBER 31, 2015</b>	996,170,748	27,594,539	3,923,214	21,621,047	3,150,149,222	(7,096)	4,199,451,674	(1,619,647)	4,197,832,027
Total comprehensive income (loss) for the period	-	-	-	-	(43,342,270)	-	(43,342,270)	(4,167)	(43,346,437)
Cash dividends declared	-	-	-	-	(49,808,068)	-	(49,808,068)	-	(49,808,068)
Realization of change in FV of AFS financial assets	-	-	72,984	-	-	-	72,984	-	72,984
<b>BALANCES AS AT SEPTEMBER 30, 2016</b>	996,170,748	27,594,539	3,996,198	21,621,047	3,056,998,884	(7,096)	4,106,374,320	(1,623,814)	4,104,750,506

See accompanying Notes to Consolidated Financial Statements.

**SEPTEMBER 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 Retained Earnings - unappropriated Benefits (Note 22)	Actuarial Gains on Retained Earnings - unappropriated Benefits (Note 22)	Treasury Shares (Note 28)	Subtotal	Noncontrolling Interests	Total
(In Philippine Peso)									
<b>BALANCES AT DECEMBER 31, 2014</b>	996,170,748	27,594,539	5,216,306	21,144,472	3,245,679,278	(7,096)	4,295,798,247	(2,281,966)	4,293,516,281
Net income (loss) for the period	-	-	-	-	(29,349,896)	-	(29,349,896)	-	(29,349,896)
Cash dividends declared and paid during the period	-	-	-	-	(49,808,064)	-	(49,808,064)	-	(49,808,064)
Realization of change in FV of AFS	-	-	(1,584,183)	-	-	-	(1,584,183)	-	(1,584,183)
<b>BALANCES AS AT SEPTEMBER 30, 2015</b>	996,170,748	27,594,539	3,632,124	21,144,472	3,166,521,518	(7,096)	4,215,056,104	(2,281,966)	4,212,774,138

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**

	UNAUDITED SEPTEMBER 2016	UNAUDITED SEPTEMBER 2015
	(In Philippine Peso)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(40,730,044)	(26,140,161)
Adjustments for:		
Depreciation (Notes 13, 14 and 20)	60,816,599	59,351,309
Equity in net earnings (losses) of associates and joint ventures (Note 11)	***	(14,066,932)
Interest income (Note 23)	(8,969,118)	(2,959,169)
Finance costs (Note 24)	1,582,029	2,005,348
Amortization of franchise fee (Note 18)	1,345,500	1,345,500
Dividend income from AFS financial assets	(382,063)	
Loss (gain) on sale of:		
Property and equipment	(467,712)	
AFS financial assets (Note 12)	(324,286)	(2,582,793)
Operating income before working capital changes	60,432,718	16,953,102
Decrease (increase) in:		
Receivables	(99,673,062)	41,531,290
Inventories	4,486,884	(1,138,395)
Other current assets	(6,744,189)	(1,356,556)
Increase (decrease) in:		
Accounts payable and other liabilities	26,443,752	(33,716,846)
Accrued retirement benefits (Note 22)	(700,000)	(4,815,834)
Cash generated from operations	(15,753,897)	17,456,761
Income taxes paid, including creditable withholding and final taxes	(1,818,484)	(15,591,106)
Net cash provided by (used in) operating activities	(17,572,381)	1,865,655
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (Note 23)	8,969,118	2,959,169
Dividends received (Notes 11 and 25)	19,564,029	17,723,164
Decrease (increase) in other noncurrent assets	(322,129)	(339,314)
Acquisitions of fixed assets and investment properties	(54,470,056)	(27,742,882)
Acquisitions of AFS financial assets		(14,797,900)
Proceeds from sale of:		
Property and equipment	467,712	-
AFS financial assets (Note 12)	18,213,734	12,712,561
Net cash provided by (used in) investing activities	(7,577,592)	(9,485,202)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of:		
Short-term loans and borrowings (Note 16)	(35,000,000)	(29,437,500)
Long-term loans and borrowings (Note 16)	-	(10,714,286)
Subscription payable	-	(42,808,835)
Proceeds from short term loans	83,000,000	
Interest paid	(1,582,029)	(2,005,348)
Dividends paid	(48,991,959)	(49,808,064)
Net cash provided by (used in) financing activities	(2,573,988)	(134,774,033)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(27,723,961)</b>	<b>(142,393,580)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>134,470,762</b>	<b>302,978,624</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 7)</b>	<b>106,746,801</b>	<b>160,585,044</b>

See accompanying Notes to Consolidated Financial Statements.



**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2016 AND 2015**

	UNAUDITED SEPTEMBER 2016	UNAUDITED SEPTEMBER 2015
(In Philippine Peso)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (Loss) before income tax	(8,990,567)	3,359,314
Adjustments for:		
Depreciation (Notes 13, 14 and 20)	20,313,621	19,712,261
Equity in net earnings (losses) of associates and joint ventures (Note 11)	"	(5,968,545)
Interest income (Note 23)	(1,735,840)	(420,225)
Finance costs (Note 24)	785,063	594,106
Amortization of franchise fee (Note 18)	448,500	448,500
Dividend income from AFS financial assets	(382,063)	188,193
Loss (gain) on sale of:		
Property and equipment	-	-
AFS financial assets (Note 12)	(315,186)	(380,234)
Operating income before working capital changes	28,674,158	17,533,370
Decrease (increase) in:		
Receivables	(58,219,304)	2,582,608
Inventories	764,356	2,673,003
Other current assets	(5,807,933)	886,718
Increase (decrease) in:		
Accounts payable and other liabilities	6,994,813	25,787,260
Accrued retirement benefits (Note 22)	(1,400,000)	426,296
Cash generated from operations	(28,993,910)	49,889,255
Income taxes paid, including creditable withholding and final taxes	(853,050)	279,190
Net cash provided by (used in) operating activities	(29,846,960)	50,168,445
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received (Note 23)	1,735,840	308,627
Dividends received (Notes 11 and 25)	6,080,234	(18,652,180)
Decrease (increase) in other noncurrent assets	82,516	93,877
Acquisitions of fixed assets and investment properties	(26,602,655)	(13,007,598)
Acquisition of AFS financial assets		(14,797,900)
Proceeds from sale of:		
Property and equipment	-	-
AFS financial assets (Note 12)	16,967,741	1,821,210
Net cash provided by (used in) investing activities	(1,736,323)	(44,233,964)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of:		
Short-term loans and borrowings (Note 16)	(18,000,000)	(11,437,500)
Long-term loans and borrowings (Note 16)		(3,571,428)
Subscription payable		-
Proceeds from short term loans		
Interest paid	(785,063)	(594,106)
Dividends paid	816,106	(826,511)
Net cash provided by (used in) financing activities	(17,968,957)	(16,429,545)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(49,552,241)</b>	<b>(10,495,064)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF QUARTER</b>	<b>156,299,042</b>	<b>171,080,107</b>
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER (Note 7)</b>	<b>106,746,801</b>	<b>160,585,043</b>

See accompanying Notes to Consolidated Financial Statements.

**MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES**  
**AGING SCHEDULE OF RECEIVABLES**  
**AS OF SEPTEMBER 30, 2016**

UNAUDITED  
(In Philippine Peso)

**A. AGING OF ACCOUNTS RECEIVABLES**

	TOTAL	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120 DAYS
1 Real estate receivables - net of current portion	176,272,580	6,184,933	3,122,078	4,014,430	4,592,786	158,358,353
2 Rent Receivables	14,978,894	6,718,683	2,994,792	1,927,376	794,070	2,543,972
3 Receivables from off-track betting (OTB) operators	9,465,560	9,242,624	15,668	1,848	31	205,389
4 Receivable from food and beverage operations	2,520,272	905,383	396,804	310,988	30,992	876,105
5 Advances and loans to officers and employees	12,904,776	2,870,123	697,732	69,076	1,461,139	7,806,706
6 Dividends receivable	6,080,234	771,780	3,257,463	2,050,991	-	-
7 Due from related parties	4,992,637	20,636	9,059	27,262	427,123	4,508,557
8 Claims for tax credit certificates (TCC)	2,252,054	-	-	-	-	2,252,054
9 Advances to suppliers	2,091,871	1,617,384	171,399	17,143	-	285,945
10 Deposit and advances to contractors	1,778,413	-	-	-	-	1,778,413
11 Others	75,895,925	54,710,067	491,620	400,404	333,848	19,959,986
TOTAL	309,233,216	83,041,612	11,156,615	8,819,519	7,639,989	198,575,480
Less: Allowance for doubtful accounts	24,552,614	-	-	-	-	24,552,614
<b>RECEIVABLES - NET</b>	<b>284,680,602</b>	<b>83,041,612</b>	<b>11,156,615</b>	<b>8,819,519</b>	<b>7,639,989</b>	<b>174,022,867</b>

**B. ACCOUNT DESCRIPTIONS**

	TYPE OF RECEIVABLES	DESCRIPTION	COLLECTION PERIOD
1 Real estate receivables - net of current portion		Sales on real estate operations	Monthly
2 Rent Receivables		Receivables on leasing transactions from stables, building and other facilities	Daily/Monthly
3 Receivables from off-track betting (OTB) operators		Receivables from racing operations	Daily/Weekly
4 Receivable from food and beverage operations		Receivables from customers from restaurant operations	Daily/Weekly/Monthly
5 Advances and loans to officers and employees		Advances granted to and loans availed by officers and employees	Semi-monthly/Monthly
6 Dividends receivable		Dividends from share in the net earnings of a jointly controlled entity	Quarterly
7 Due from related parties		Receivables for advances made in behalf of related parties	Monthly
8 Claims for tax credit certificates (TCC)		Claim for refund on tax unduly paid	Annually
9 Advances to suppliers		Prepayments made to suppliers of goods and services	Monthly
10 Deposit and advances to contractors		Claims for deposits paid to contractors	Monthly
11 Others		Various deposits and advances	Daily/Semi-monthly/Monthly

**C. OPERATING CYCLE**

Calendar Year

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

### **Discussion on Operating Results for the Periods Ended September 30, 2016 and 2015**

#### **Revenues**

Income from racing operations decreased by ₱12.0 million from ₱155.1 million for the period ended September 30, 2015 to a total of ₱143.1 million for the same period in 2016. The 2015 interim period had a total of eighty seven (87) race days compared to eighty six (86) in 2016. Aside from the one (1) day difference, the variance can be attributed to the decrease in the average sales per day and closure of off-track betting (OTB) stations for reasons like permit issues or low sales.

The Group recognizes income from real estate sales which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Revenue from real estate is recognized under the percentage of completion (POC) method. The company recognized revenues amounting to ₱72.0 million for the three quarters of 2016 and ₱17.1 million covering the same period in 2015. The increase in revenue from real estate transactions amounting to ₱54.9 million is the net effect of sales and cancellations during the periods ended. There were twenty seven units sold in 2016 compared to twenty one in 2015. Further, fewer units were cancelled in 2016 compared to 2015.

Revenue from the leasing of stables, buildings and other facilities increased by ₱3.0 million from ₱65.1 million for the period ended September 30, 2015 to ₱68.1 million for the same period in 2016. The variance is due to the yearly escalation of rental rates for retail units of the Company's Vertex One building. The increase can also be attributed to the continuous promotional activities like the granting of discounts to retain regular stable lessees as well as to attract other horse owners to house their racehorses at the Company's cluster stables.

Gross revenue from the restaurant operations increased the Group's total revenues by ₱2.6 million in 2016 from ₱9.3 million for the period ended September 30, 2015 to ₱11.9 million covering the same period in 2016.

Other revenues come from the operations of MJC Forex on its foreign currency transactions and from derbies conducted by Manilacockers. For the period ended September 30, 2016, the Group recognized a total of ₱63.1 million in gross revenues from these transactions compared to ₱16.7 million for the same period in 2015. The increase amounting to ₱46.4 million came primarily from cockfighting operations which started in December 2015.

Interest income relates to real estate receivables and cash and cash equivalents. Interest income amounted to ₱9.0 million and ₱3.0 million for the periods ended September 30, 2016 and 2015, respectively. The increase of ₱6.0 million came mainly from real estate transactions under the installment method.

Equity in net earnings/losses of associates and joint ventures is recognized by the Group. The account decreased by ₱61.7 million from positive ₱14.1 million for the period ended September 30, 2015 to negative ₱47.6 million for the same period in 2016. For the periods ended September 30, 2016 and 2015, the Group's equity share in the net loss of MJC Investments Corp (MIC) amounted to ₱68.1 million and ₱5.7 million, respectively, while the Group's share in the net earnings of SLBPO Joint Venture amounted to ₱20.5 million and ₱19.8 million for the periods ended September 30, 2016 and 2015, respectively.

Other income - net decreased by ₱4.1 million from ₱21.5 million for the period ended September 30, 2015 to ₱17.4 million for the same period in 2016. No income from services rendered to MMTTC was

recognized in 2016 as the arrangement in providing services to the other race club has ended in October 2015.

### Expenses

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

Cost of racing services decreased by ₱9.1 million from ₱133.1 million for the period ended September 30, 2015 to ₱123.9 million for the same period in 2016. The one day difference in total racedays has an effect on the direct expenses in the conduct of horseracing. This includes salaries and allowances of raceday personnel, utilities, thermal ticket supplies and commission of OTB owners. In addition, retro allowances and signing bonuses were paid to raceday employees in 2015 when the CBA for raceday employees was renewed and changes were effected.

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 September 30, 2016 and 2015 amounted to ₱6.7 million and (₱1.4) million, respectively. The increase of ₱8.1 million is the net effect of the costs of real estate units sold during the current period and the costs of real estate units sold in prior years that were reverted back to inventory account when these units were cancelled. In 2016, there were more units sold and lesser cancellations as compared to 2015.

Rental cost of services decreased by ₱0.5 million from ₱44.4 million for the period ended September 30, 2015 to ₱43.9 million for the same period in 2016. The variance can be ascribed to the expenses incurred in 2015 for the repair of LCD monitors of slot machines for the casino operations.

Cost of food and beverage for the periods ended September 30, 2016 and 2015 amounted to ₱12.1 million and ₱9.7 million, respectively. The variance of ₱2.4 million is due mainly to utility expense apportioned to areas covered by the restaurant operations. Purchases for restaurant stocks also increased in 2016.

The cost of sales for "Others" amounted to ₱52.5 million and ₱16.6 million for the periods ended September 30, 2016 and 2015, respectively. It increased by ₱35.9 million in 2016. The variance relates primarily to direct cost of services incurred by Manilacockers during its cockfighting operations which started in December 2015.

#### **General Operating Expenses**

General and administrative expenses constitute costs of administering the business. For the period ended September 30, 2016, the balance of this account is ₱130.6 million or an increase of ₱8.2 million compared with the same period in 2015 which registered an amount of ₱122.4 million. Increases in utilities and personnel costs including contracted and security services contributed to the variance. Travel expenses in 2016 also increased as some executives attended the 2016 Asian Racing Conference held in India.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to ₱6.4 million for the period ended September 30, 2016 compared to ₱1.0 million for the same period in 2015. Marketing fees increased in 2016 as more real estate units were sold during the period.

Finance costs pertain primarily to interest expenses on bank loans availed for working capital requirements. Interest and bank charges decreased by ₱0.4 million from ₱1.6 million for the period ended September 30, 2016 and ₱2.0 million covering the same period in 2015. Long term loans from a local bank was fully paid in November 2015.

## CHANGES IN FINANCIAL CONDITION

### Discussion on some Significant Changes in Financial Condition as of September 30, 2016 and December 31, 2015

#### ASSETS

##### *Total current assets increased due to the following:*

Cash and cash equivalents as of September 30, 2016 amounted to ₱106.7 million compared to its balance as of December 31, 2015 which amounted to ₱134.5 million. The decrease of ₱27.7 million can be ascribed to the usage of the special savings account as additional working funds to pay off immediate and due obligations during the period.

Receivables increased by ₱84.6 million from its balance of ₱200.1 million as of December 31, 2015 compared to its balance as of September 30, 2016 which amounted to ₱ 284.7 million. Receivables from real estate transactions increased due to the new sales in 2016 of residential and condominium units under the installment method. Receivables from OTB operators and advances and loans to employees also increased during the period. Dividends receivable as equity share in the net earnings of a joint venture covering the third quarter of 2016 is higher than that of the fourth quarter of 2015.

Inventories relate to real estate units, memorial lots, food and beverage items and gamefowls. Total inventories amounted to ₱90.3 million as of September 30, 2016 and ₱94.8 million as of December 31, 2015. The decrease of ₱4.5 million is mainly attributed to real estate units sold during the period ended September 30, 2016.

Other current assets increased by ₱6.8 million from its December 31, 2015 balance of ₱11.3 million compared to its balance of ₱18.1 million as of September 30, 2016. The increase is primarily due to the recorded prepaid expenses on totalizator software licenses and employees' HMO which are being amortized over periods covered.

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

Real estate receivables - net of current portion increased by ₱15.1 million from ₱45.1 million as of December 31, 2015 to ₱60.2 million as of September 30, 2016.

Investment in associates and joint ventures decreased by ₱67.1 million from ₱2,301.3 million as of December 31, 2015 to ₱2,234.1 million as of September 30, 2016. The investment account is decreased by ₱68.0 million from the Group's share in the net loss of MJCI. On the other hand, the Group's share in the net earnings of SLBPO amounting to ₱20.5 million increased the investment account but was subsequently decreased by the recognition of dividends amounting to ₱19.6 million.

Available-for-sale financial assets as of September 30, 2016 and December 31, 2015 amounted to ₱14.3 million and ₱31.9 million, respectively. The decrease of ₱17.6 million is due to the sale of equity securities in 2016.

Property and equipment decreased by ₱27.5 million from its December 31, 2015 balance of ₱957.2 million to ₱929.7 million as of September 30, 2016. The decrease is the net effect of acquisitions of various machineries and equipment during 2016 and the recognition of depreciation expense during the period.

Investment properties as of September 30, 2016 amounted to ₱1,018.9 million and ₱998.4 million as of December 31, 2015. The increase of ₱20.5 million is the net effect of the depreciation expense recognized on the BPO building (retail and developed office) located at Sta. Cruz, Manila and the acquisition of land properties.

Other non-current assets as of September 30, 2016 and December 31, 2015 amounts to ₱29.9 million and 31.0 million, respectively. The decrease of ₱1.1 million can be attributed to the amortization of franchise fee.

## **LIABILITIES AND EQUITY**

### ***Total current liabilities increased due to the following:***

Short-term loans and borrowings amounted to ₱39.0 million as of December 31, 2015 and ₱87.0 million as of September 30, 2016. It increased by ₱48.0 million which is the net effect of the additional short term bank loans availed in 2016 totaling to ₱83.0 million and total payments of principal balances amounting to ₱35.0 million.

Accounts payable and other liabilities as of September 30, 2016 amounted to ₱327.6 million or an increase of ₱26.5 million compared to its December 31, 2015 balance of ₱301.1 million. The increase came from unclaimed winnings, accrued expenses and VAT payable. The increase in dividends payable came from the ₱0.05 cash dividends with payment date of June 30, 2016. Percentage tax payable also increased with Manilacockers' cockfighting operations in full swing.

As of September 30, 2016 and December 31, 2015, income tax payable balances are ₱0.8 million and ₱6,907, respectively. The increase amounting to ₱0.8 million is the provision for income tax expense made by the Parent Company covering the third quarter of 2016 payable in November 2016.

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

Accrued retirement benefit as of September 30, 2016 amounted to ₱38.3 million or a decrease of ₱0.7 million compared with its December 31, 2015 balance of ₱39.0 million. It is the net effect of the retirement expense recognized covering the three quarters 2016 totaling to ₱6.3 million and the remittances made to the retirement fund account amounting to ₱7.0 million.

### ***Total equity decreased due to:***

Unappropriated retained earnings amounted to ₱3,057.0 million as of September 30, 2016 and ₱3,150.1 million as of December 31, 2015. It decreased by ₱93.1 million. Total net loss recognized by the Group covering the three quarters of 2016 amounted to ₱43.3 million. The declaration of the ₱0.05 cash dividend in 2016 amounting to ₱49.8 million likewise decreased the retained earnings account.

Noncontrolling interests has a variance of ₱4,167 which relates to the net loss of Biohitech attributable to the minority interest.

## **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:

	SEPT 2016	DEC 2015
Current Ratio	1.20	1.30
Asset to Liability Ratio	7.02	7.91

	SEPT 2016	SEPT 2015
Sales to Revenue Ratio	0.40	0.59
Sales to Expenses Ratio	0.38	0.47
Earnings Per Share	(P0.0435)	(P0.0295)

Current ratio or working capital ratio is computed by dividing current assets over current liabilities. Total current assets as of September 30, 2016 and December 31, 2015 amounted to P499.8 million and P440.7 million, respectively. As of September 30, 2016 and December 31, 2015, total current liabilities amounted to P415.4 million and P340.1 million, respectively.

Asset to liability ratio or solvency ratio is computed by dividing total assets over total liabilities. As of September 30, 2016 and December 31, 2015, total assets amounted to P4,787.0 million and P4,805.5 million, respectively. Total liabilities as of September 30, 2016 amounted to P682.2 million and P607.7 million as of December 31, 2015.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the period ended September 30, 2016 and 2015 amounted to P143.1 million and P155.1 million, respectively. Total operating revenue for the period ended September 30, 2016 amounted to P358.1 million and P263.2 million for the same period in 2015.

Sales to expenses ratio is computed by dividing income from horse racing over total expenses which include cost of sales and services, general and administrative expenses, selling expenses and finance costs. Income from club races for the period ended September 30, 2016 and 2015 amounted to P377.6 million and P101.9 million, respectively, while total expenses amounted to P231.7 million for the period ended September 30, 2016 and P327.9 million for the same period in 2015.

Earnings per share is computed by dividing net income (loss) attributable to equity holders of the parent company over the weighted average number of outstanding common shares. Net loss attributable to equity holders of the parent company for the period ended September 30, 2016 and 2015 amounted to P43.3 million and P29.3 million, respectively. The weighted average number of outstanding common shares as of September 30, 2016 and 2015 totaled to 996.2 million.

**Analysis of plan of operations**

The Company is committed in improving its financial performance by rationalizing current operations and venturing in opportunities allied with the core business of the Parent Company.

The Group's wholly owned subsidiary, Manilacockers Club, Inc. ("MCI") is now fully operational. From its initial opening in December 2015, it is being well received by cockfighting patrons and to date, the potential is encouraging.

Gametime's operation is already on for switching both for the technical and operational aspects of the business. Gametime will likewise be a game changer for the parent company since this will operate as the service provider for cockfighting, horse racing and other gaming businesses. Under mobile betting

application, Gametime is seen as the transformation of the traditional betting from manual to electronic starting from loading up to payment of bets. Real time Pay Per View (PPV) cockfighting for international clients will soon be catered using Gametime. Inquiries had started coming in and hopefully in a year's time, PPV cockfighting will be launched. On the marketing side, ads are great potentials and this has yet to be factored in the revenue stream both for MCI and Gametime.

Apo Reef World Resorts, Inc. located in Mamburao, Occidental Mindoro will be another up and coming diversification for the parent company. The Company is on for consolidation of titles adjacent to the more than 3 kilometer beach front. There had been initial talks with big time resort operators/investors to develop Apo Reef resorts and Management is optimistic that this will replicate the beaches of Boracay in Antique. Management had already started pencil pushing for the initial budget of the project.

The Tayuman, Sta. Cruz project will soon take another lift after the venture with ALI had ceased. The Parent Company in a MOA arrangement with a big time real estate developer already started conceptualizing erecting high rise mixed commercial and residential condominium buildings on the remaining idle lots in Tayuman, Sta Cruz. The parent company will assume the commercial units that will add up to the recurring rental revenue stream of Vertex.

The stable lease has continuously provided ample revenue support to the Parent Company. It has introduced measures to attract more horse owners to stable their horses in the Complex by providing discounts and promos. Prompt maintenance and cleanliness of the stables are the core values of stable rental business and this mainly attracts first time and returning stable owners to stable their horses at San Lazaro.

The invitation to the Philippine Football Federation to house its national football activities in Carmona added to the growing exciting opportunities to generate additional revenues for the Parent Company in terms of recurring rental income from business locators, print and TV advertisements, restaurant goers, etc.

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

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

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



## 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 Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership	
				SEPT. 2016	DEC. 2015
<b>Subsidiaries</b>					
Biohitech Philippines, Inc. (Biohitech)	Philippines	Waste management	Philippine Peso	<b>50.00</b>	50.00
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	<b>100.00</b>	100.00
Manilacockers Club, Inc. (MCC)	Philippines	Gaming	Philippine Peso	<b>100.00</b>	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	<b>100.00</b>	100.00
New Victor Technology, Ltd.(NVTL)	Hong Kong	Gaming	Philippine Peso	<b>100.00</b>	100.00
San Lazaro Resources and Development Corporation (SLRDC)	Philippines	Real estate	Philippine Peso	<b>100.00</b>	100.00
S.I.P Holdings, Inc. (SLLPHI)	Philippines	Holdings	Philippine Peso	<b>100.00</b>	100.00
Hi-Tech Harvest Limited	Hong Kong	Marketing	Philippine Peso	<b>100.00</b>	100.00

#### Joint Ventures

Gamespan, Inc. (Gamespan)	Philippines	Gaming	Philippine Peso	<b>50.00</b>	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	<b>30.00</b>	30.00

#### Associates

##### MJC Investment Corporation

Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Real estate and Gaming	Philippine Peso	<b>22.31</b>	22.31
Techsystems, Inc. (Techsystems)	Philippines	Information technology	Philippine Peso	<b>33.00</b>	33.00

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 Interpretations

The Group applied for the first time certain amendments, which are effective for annual periods beginning on or after January 1, 2015. The adoption of these amendments did not have any significant impact on the financial statements.

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*

### Annual Improvements to PFRSs (2010-2012 cycle)

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

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*;
- PFRS 13, *Fair Value Measurement - Portfolio Exception*; and
- PAS 40, *Investment Property*.

#### Future Changes in Accounting Policies

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Group.

*No definite adoption date prescribed by the SEC and FRSC* ▪ Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

*Effective January 1, 2016*

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)*;
- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*;
- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)*;
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative (Amendments)*;
- PFRS 14, *Regulatory Deferral Accounts*;
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants (Amendments)*; and
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*.

#### Annual Improvements to PFRSs (2012-2014 cycle)

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*;
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*;
- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*;
- PAS 19, *Employee Benefits - regional market issue regarding discount rate*; and
- PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*.

*Effective January 1, 2018*

- PFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

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.

- **International Financial Reporting Standards (IFRS) 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, 2018 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.

*Effective January 1, 2019*

- **IFRS 16, *Leases***

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 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; and
- 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 2015 and 2014 that are not held by the Group and are presented separately in the consolidated statements of comprehensive income (loss) 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 consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. 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.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the statement of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

#### Fair Value Measurement

The Group measures financial instruments at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 32.

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

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

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

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

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

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

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

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

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

### Cash and Cash Equivalents

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

### Financial Assets and Financial Liabilities

The Group recognizes a financial asset or a financial liability in the 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 March 31, 2016 and December 31, 2015, the Group has no financial assets or financial liabilities at FVPL and HTM investments.

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

#### *a. Loans and receivables*

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

Included in this category are the Group's cash in banks and cash equivalents, receivables and deposits (presented as part of "Other noncurrent assets" in the consolidated statements of financial position) as of March 31, 2016 and December 31, 2015.



*b. AFS financial assets*

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

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

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

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

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

The Group's AFS financial assets consist of investments in quoted and unquoted equity securities, quoted debt securities, preferred shares and club membership shares as of March 31, 2016 and December 31, 2015.

*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.

Derecognition of Financial Assets and Financial Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-

through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

#### *Financial liabilities*

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

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

#### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statements of comprehensive income (loss). Interest income (recorded as finance income in the statement of income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been

transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of income.

#### *Assets carried at cost*

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

#### *AFS financial assets*

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of comprehensive income (loss), is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of comprehensive income (loss).

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of comprehensive income (loss), the impairment loss is reversed through the statements of comprehensive income (loss).

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

### Inventories

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

#### *Real Estate Inventories*

Real estate inventories include completed and on-going projects of the Group, and are stated at the lower of cost and net realizable value. Real estate inventories include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

The carrying values of revalued real estate properties as of January 1, 2004 transferred to real estate inventories in 2005 were considered as the assets' deemed cost as of the said date in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*.

### Investments in Associates and Joint Ventures

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

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

Under the equity method, the cost of investment in associate and joint venture is carried in the 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 statements of comprehensive income (loss) reflect the share of the results of operations of the associate and joint venture. Where there has been a change recognized directly in the equity of the associate and the joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the 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.

For interest in joint operation, the Group accounts for each assets, liabilities, revenue, share in revenue and expense separately. The Group would recognize in relation to its interest its:

- Assets, including its share in any assets jointly held
- Liabilities, including its share of any liabilities jointly incurred
- Revenue from the sale of its share of the real estate inventories
- Share of the revenue from services rendered jointly
- Expenses, including its share of expenses incurred jointly

### Property and Equipment

Property and equipment, except for land, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of property and equipment comprises its purchase price, nonrefundable taxes, any related capitalizable borrowing costs, and other directly

attributable costs of bringing the property and equipment to its working condition and location for its intended use. Land is stated at cost.

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

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

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

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

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

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

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

#### Investment Properties

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

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

Depreciation of investment properties commences once they become available for use and is calculated on a straight-line basis over the estimated useful life of 25 years.

Depreciation ceases at the earlier of the date that the asset is classified as held for sale in accordance with PFRS 5 and the date the asset is derecognized. The estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from the items of investment property.

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

Transfers are made 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 statements of financial position, is accounted for at cost less accumulated amortization and any accumulated impairment in value. Costs incurred for the renewal of the Parent Company's franchise for another 25 years starting November 23, 1997 have been capitalized and are amortized over the period covered by the new franchise. The carrying value of the franchise is reviewed for impairment when there are indicators of impairment and any impairment loss is recognized in the profit or loss.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its investment in associates, interest in joint ventures, property and equipment, investment properties and franchise fee may be impaired. If 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 the profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Capital Stock

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

#### Retained Earnings

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

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

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

#### Dividend Distribution

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

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income attributable to equity holders of the Parent Company for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

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

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

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Group has concluded that it is acting as an agent in its club racing 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 contract price (which embodies economic benefits) will flow to the Company. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

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

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

Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position.

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

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

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

*Rental income from stables, building and other facilities*

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

*Interest income*

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

*Dividend income*

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



#### Cost of Sales and Services and Expenses

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

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

#### Other Comprehensive Income (OCI)

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

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 nonroutine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

### Leases

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

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

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

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

#### *The Group as a lessee*

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

#### *The Group as a lessor*

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

### Borrowing Costs

Borrowing costs 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 liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

#### *VAT*

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

#### Foreign Currency Denominated Transactions and Translations

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

#### Provisions

Provisions are recognized when: (1) the Group has a present obligation (legal or constructive) as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

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 on 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 Lázaro BPO Complex Joint Venture and Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly by the venturers through its BOD.

#### *Determination of joint venture or joint operation*

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

Management has determined that arrangement for ventures with Avida, Alveo and CCC are classified as joint operations.

#### *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. 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. As such, the lease agreement was accounted for as an operating lease.

#### *Impairment of noncurrent nonfinancial assets*

The Group assesses at each reporting date whether there is any indication that its interest in associates and joint ventures, property and equipment, investment properties and franchise fee may be impaired. Indication of impairment 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 in 2016 and 2015.

#### *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.

#### Estimates and Assumptions

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

#### *Estimation of allowance for doubtful accounts*

The allowance for doubtful accounts relating to receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total allowance to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used based on the best

available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is made.

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

#### *Determination of NRV of real estate inventories*

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

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

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

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

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

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

There were no changes in the useful lives of property and equipment and investment property in 2016 and 2015.

#### *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. 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.

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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.

The retained interest of the Group in MIC is at 22.31% as of September 30, 2016 and December 31, 2015.

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## 7. Cash and Cash Equivalents

This account consists of:

	SEPT 2016	DEC 2015
Cash on hand	₱19,290,601	₱9,742,835
Cash in banks	63,341,110	95,908,691
Cash equivalents	24,115,091	28,819,236
	<b>₱106,746,801</b>	<b>₱134,470,762</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 ₱1.8 million and ₱1.4 million for the periods ended September 30, 2016 and 2015, respectively (see Note 23).

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## 8. Receivables

This account consists of:

	SEPT 2016	DEC 2015
<b>Trade</b>		
Real estate receivables – net of noncurrent portion	₱176,272,581	₱168,468,704
Rent receivables	14,978,894	17,315,306
Receivable from offtrack betting station (OTB) operators	9,465,560	1,150,427
Receivable from food and beverage operations	2,520,272	-
<b>Non-trade</b>		
Advances and loans to officers and employees	12,904,776	6,171,609
Dividends receivable	6,080,234	3,640,837
Due from related parties	4,992,637	4,116,424
Claims for tax credit certificates	2,252,054	2,252,054
Advances to suppliers	2,091,871	2,296,102
Deposit and advances to contractors	1,778,413	1,778,413
Receivable from Metro Manila Turf Club (MMTC)	-	653,863
Others	75,895,925	16,778,356
	<b>309,233,216</b>	<b>224,622,095</b>
Less: allowance for doubtful accounts	24,552,614	24,552,613
	<b>₱284,680,602</b>	<b>₱200,069,482</b>

### Real Estate Receivables

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

	SEPT 2016	DEC 2015
Current	<b>₱176,272,580</b>	₱168,468,704
Noncurrent	<b>60,183,860</b>	45,121,918
	<b>₱236,456,440</b>	₱213,590,622

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

Interest income from accretion of real estate receivables amounted to ₱7.2million and ₱1.6 million for the periods ended September 30, 2016 and 2015, respectively (see Note 23).

### Advances and Loans to Officers and Employees

The Parent Company grants salary loans and advances to its officers, payable through salary deductions. The loans bear an average interest rate of 9% per annum.

### Advances to Suppliers

Advances to suppliers are non-interest bearing payments and are recorded to appropriate accounts upon actual receipt of goods, which is normally within twelve months or within the normal operating cycle.

### 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 November 10, 2016.

### Other Non-trade Receivables

Other non-trade receivables include accrued interest and other various individually insignificant items.

### Allowance for Doubtful Accounts

The following table shows the rollforward of the allowance for doubtful accounts as of September 30, 2016 and December 31, 2015:

	SEPT 2016	DEC 2015
Balance at beginning of year	<b>₱24,552,613</b>	₱11,664,616
Provision during the period (see Note 19)	-	13,249,397
Amounts written off during the period	-	(324,890)
Recovery of doubtful accounts	-	(36,510)
Balance as of the end of the period	<b>₱24,552,613</b>	₱24,552,613



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## 9. Inventories

This account consists of:

	SEPT 2016	DEC 2015
Real estate:		
Condominium units for sale - at cost	<b>₱35,991,930</b>	₱42,771,653
Land held for development - at cost	<b>38,189,898</b>	38,189,898
Memorial lots for sale - at net realizable value	<b>8,379,931</b>	8,449,965
Residential units for sale - at cost	<b>4,516,932</b>	4,318,107
	<b>87,078,692</b>	93,729,623
Food and beverages - at cost	<b>435,511</b>	527,629
Gamefowls	<b>2,803,165</b>	547,000
	<b>₱90,317,368</b>	<b>₱94,804,252</b>

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

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

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, 2015 and 2014. The construction of Tower 3 of Alveo is 78.64% and 63.0% complete as of September 30, 2016 and December 31, 2015, 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, 2015, the project is completed.

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. The amount of marketing cost for the periods ended September 30, 2016 and 2015 amounted ₱6.4 million and ₱1.0 million, respectively.

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## 10. Other Current Assets

This account consists of:

	SEPT 2016	DEC 2015
Prepaid expenses	₱10,361,975	₱6,099,400
Prepaid income tax	4,849,125	4,968,118
Others	2,864,725	264,118
	<b>₱18,075,825</b>	<b>₱11,331,636</b>

Others include prepaid insurance, input VAT and rental deposit.

## 11. Investment in Associates and Joint Ventures

Investment in associates and joint ventures consist of:

	SEPT 2016	DEC 2015
<b>Investment in associates</b>		
MIC	₱2,214,583,492	₱2,282,630,067
Techsystems	-	-
	<b>2,214,583,492</b>	<b>2,282,630,067</b>
<b>Investment in joint ventures</b>		
Gamespan	9,792,161	9,792,161
SLLBPO	9,760,552	8,839,816
	<b>19,552,713</b>	<b>18,631,977</b>
	<b>₱2,234,136,206</b>	<b>₱2,301,262,044</b>

### Investment in Associates

*MIC.* Investment in MIC pertains to the Group's 22.31% interest in MIC as of September 30, 2016 and December 31, 2015, respectively. The movements and details of the accounts are as follows:

	SEPT 2016	DEC 2015
Investment in associate at beginning of year	₱2,282,630,067	₱2,294,664,038
Equity in net loss of associate during the period	(68,046,575)	(12,033,971)
Investment in associate at end of period	<b>₱2,214,583,492</b>	<b>₱2,282,630,067</b>

The summarized financial information of MIC are as follows:

	SEPT 2016	DEC 2015
Current assets	₱1,204,565,778	₱2,212,327,114
Noncurrent assets	5,304,787,925	3,854,328,316
Current liabilities	334,989,942	625,230,122
Noncurrent liabilities	3,474,676,860	2,475,451,860
Equity	2,699,686,901	2,965,973,448
Income	143,840,570	4,793,659
Expenses	448,866,836	58,733,468
Net loss	<b>305,026,266</b>	<b>53,939,809</b>

*Techsystems.* The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33% ownership by the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of September 30, 2016 and December 31, 2015, investment in Techsystems is fully provided with allowance. As of November 10, 2016, Techsystems has not yet started commercial operation. The summarized financial information of Techsystems is as follows:

	SEPT 2016	DEC 2015
Total liabilities	₱5,167,650	₱5,167,650
Capital deficiency	(5,167,650)	(5,167,650)

#### Investment in Joint Ventures

*Gamespan.* Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation. As of November 10, 2016, Gamespan has not yet started its commercial operations.

The summarized financial information of the Gamespan is as follows:

	SEPT 2016	DEC 2015
Current assets	₱20,184,979	₱20,184,979
Noncurrent assets	29,167	29,167
Current liabilities	629,824	629,824
Equity	19,584,322	19,584,322

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

	SEPT 2016	DEC 2015
Balance at beginning of year	₱9,792,161	₱9,792,161
Equity in net earnings for the period	—	—
Balance at end of period	₱9,792,161	₱9,792,161

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

The movement of the equity in joint venture of the San Lazaro JV for periods ended September 30, 2016 and December 31, 2015 is as follows:

	SEPT 2016	DEC 2015
Balance at beginning of year	₱8,839,816	₱5,691,837
Equity in net earnings for the period	20,484,762	24,511,980
Share on dividends declared	(19,564,026)	(21,364,001)
Balance at end of period	₱9,760,552	₱8,839,816

Dividend receivable from the JV amounted to ₱6.1 million and ₱3.6 million as of September 30, 2016 and December 31, 2015, respectively.

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

	SEPT 2016	DEC 2015
Current assets	₱174,247,618	₱170,004,540
Noncurrent assets	18,203,443	15,837,279
Current liabilities	115,642,495	107,827,582
Noncurrent liabilities	29,169,714	33,444,496
Equity	47,638,852	44,569,741
Income	110,968,320	95,060,877
Expenses	42,685,780	13,354,278
Net income	68,282,540	81,706,599

## 12. AFS Financial Assets

This account consists of:

	SEPT 2016	DEC 2015
At fair value:		
Debt securities	₱-	₱16,536,916
Equity securities	13,645,592	14,772,592
At cost:		
Equity securities	633,297	633,297
	<b>₱14,278,889</b>	<b>₱31,942,805</b>

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

	SEPT 2016	DEC 2015
Balance at beginning of year	₱31,942,805	₱ 22,067,765
Additions during the period	-	21,297,900
Disposal during the period	(17,663,916)	(11,713,950)
Unrealized mark-to-market gains (losses) during the period	-	291,090
Balance at end of the period	<b>₱14,278,889</b>	<b>₱31,942,805</b>

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

	SEPT 2016	DEC 2015
Balance at beginning of year	₱3,923,214	₱5,216,306
Unrealized mark-to-market gains (losses) during the period	-	1,289,700
Realized mark-to-market gains during the period	72,984	(2,582,792)
Balance at end of period	<b>₱3,996,198</b>	<b>₱3,923,214</b>

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

Dividend income from these investments amounted to ₱0.4 million and ₱0.3 million for the periods ended September 30, 2016 and 2015, respectively.

### 13. Property and Equipment

Movements in this account are as follows:

SEPT 2016					
	January 1	Additions	Disposals	Reclassifications and adjustments	Sept 30
<b>Cost</b>					
Land	₱304,869,383	P-	P-	P-	₱ 304,869,383
Land improvements	347,337,228	85,359	-	(65,733)	371,729,377
Building and improvements	668,447,375	1,477,207	-	65,733	645,600,051
Machinery and equipment	524,608,616	18,293,151	-	(1,775,791)	531,470,724
Transportation equipment	34,790,311	3,943,643	(2,432,758)	(412,500)	35,888,696
Furniture and fixtures	25,870,761	552,861	-	-	26,773,139
	1,905,923,674	24,352,221	(2,432,758)	(2,188,291)	1,916,331,370
<b>Accumulated depreciation</b>					
Land improvements	166,660,852	1,658,862	-	-	168,319,714
Building and improvements	311,790,077	29,878,682	-	-	341,651,018
Machinery and equipment	441,554,463	17,277,335	-	-	449,514,361
Transportation equipment	26,876,141	2,076,893	(2,432,758)	-	26,520,276
Furniture and fixtures	21,762,364	1,191,454	-	-	22,965,524
	968,643,897	52,083,227	(2,432,758)	-	1,008,970,894
Net book value	937,279,777	(27,731,005)	-	(2,188,291)	907,360,476
Construction in progress	19,928,012	2,637,482	-	(181,356)	22,384,139
	₱957,207,789	(₱25,093,524)	P-	(₱2,369,647)	₱ 929,744,617

DEC 2015					
	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
<b>Cost</b>					
Land	₱304,869,383	P-	P-	P-	₱304,869,383
Land improvements	337,492,757	1,237,262	-	8,607,209	347,337,228
Building and improvements	661,605,396	1,407,286	-	5,434,693	668,447,375
Machinery and equipment	555,443,590	6,362,671	(37,197,645)	-	524,608,616
Transportation equipment	29,804,488	4,985,823	-	-	34,790,311
Furniture and fixtures	25,183,095	687,666	-	-	25,870,761
	1,914,398,709	14,680,708	(37,197,645)	14,041,902	1,905,923,674
<b>Accumulated depreciation</b>					
Land improvements	152,708,178	13,952,674	-	-	166,660,852
Building and improvements	284,186,659	27,603,418	-	-	311,790,077
Machinery and equipment	417,945,108	23,609,355	-	-	441,554,463
Transportation equipment	25,064,785	1,811,356	-	-	26,876,141
Furniture and fixtures	20,032,161	1,730,203	-	-	21,762,364
	899,936,891	68,707,006	-	14,041,902	968,643,897
Net book value	1,014,461,818	(54,026,298)	(37,197,645)	-	937,279,777
Construction in progress	13,565,089	20,404,825	-	(14,041,902)	19,928,012
	₱1,028,026,907	(₱33,621,473)	(₱37,197,645)	P-	₱957,207,789

#### Depreciation Charges

The amount of depreciation is allocated as follows:

	SEPT 2016	SEPT 2015
Cost of club races (see Notes 18 and 20)	₱29,296,727	₱28,259,317
General and administrative expenses (see Notes 19 and 20)	5,019,998	4,012,161
Cost of rental services (see Notes 18 and 20)	16,879,153	17,419,332
Cost of food and beverages (see Notes 18 and 20)	300,752	340,531
	₱51,496,630	₱50,031,340

#### Carmona Property

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2016 and 2015. The outstanding balance of ₱89.9 million as of September 30, 2016 and December 31, 2015 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position.

#### Assets Under Operating Lease

The Parent Company has various operating lease agreements for its building improvements, specifically, cluster stables, with horse owners. The lease agreements provide for fixed monthly payments which are subject to rental escalations and renewal options. The carrying value of the cluster stables that are leased out on these operating leases amounted to ₱27.0 million and ₱28.3 million as of September 30, 2016 and December 31, 2015, respectively. Rent income from stable rentals for the periods ended September 30, 2016 and 2015 amounted to ₱34.8 million and ₱33.2 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 ₱0.4 million for the periods ended September 30, 2016 and 2015.

#### Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

In 2013, the Parent Company entered a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities.

Rent income from PAGCOR amounted to ₱0.9 million for the same periods ending September 30, 2016 and 2015.

#### Lease of Equipment with PAGCOR

In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease one thousand four hundred twenty seven (1,427) sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until June 30, 2016. As of reporting date, renewal agreements are still underway.

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#### 14. Investment Properties

This account consists of:

	SEPT 2016	DEC 2015
Land:		
Sta. Cruz property held for capital appreciation (see Note 16)	<b>₱359,631,580</b>	₱359,631,580
Sta. Cruz property held for lease	<b>238,168,692</b>	238,168,692
Carmona property (see Note 16)	<b>109,750,785</b>	109,750,785
Undivided interest in a parcel of land in Carmona	<b>56,723,976</b>	56,723,976

	SEPT 2016	DEC 2015
Land properties in Mindoro	29,850,000	
	794,125,034	764,275,033
<b>Building:</b>		
Developed office units (see Note 11)	190,257,779	198,076,593
Retail development area (see Note 11)	34,503,233	36,004,389
	224,761,012	234,080,982
	<b>₱1,018,886,046</b>	<b>₱998,356,015</b>

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

	SEPT 2016		
	Land	Building	Total
<b>Cost</b>			
Balance at beginning of year	₱764,275,033	₱310,665,629	₱1,074,940,662
Additions	29,850,000	-	29,850,000
Disposals	-	-	-
Balance at end of period	794,125,033	310,665,629	1,104,790,661
<b>Accumulated Depreciation</b>			
Balance at beginning of year	-	(76,584,647)	(76,584,647)
Depreciation for the period(see Notes 18 and 20)	-	(9,319,969)	(9,319,969)
Balance at end of period	-	(85,904,616)	(85,904,616)
<b>Net Book Value</b>	<b>₱794,125,033</b>	<b>₱224,761,012</b>	<b>₱1,018,886,046</b>

	DEC 2015		
	Land	Building	Total
<b>Cost</b>			
Balance at beginning of year	₱764,275,033	₱310,665,629	₱1,074,940,662
Accumulated Depreciation			
Balance at beginning of year	-	(64,158,022)	(64,158,022)
Depreciation for the period(see Notes 18 and 20)	-	(12,426,625)	(12,426,625)
Balance at end of period	-	(76,584,647)	(76,584,647)
<b>Net Book Value</b>	<b>₱764,275,033</b>	<b>₱234,080,982</b>	<b>₱998,356,015</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 September 30, 2016 and December 31, 2015 are used by the Parent Company as collateral for its long-term loans obtained from a bank. These long term loans have already been paid in November 2015 thereby releasing the liens related to the properties.

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.

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.

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**15. Other Noncurrent Assets**

This account consists of:

	SEPT 2016	DEC 2015
Franchise fee (see Note 1)	₱11,245,339	₱12,590,839
Deferred input VAT	9,168,477	9,512,949
Deposits	9,286,365	8,619,765
Others	236,429	236,428
	<b>₱29,936,610</b>	<b>₱30,959,981</b>

Franchise Fee

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

	SEPT 2016	DEC 2015
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	32,259,161	30,465,161
Amortization for the period (see Note 18)	1,345,500	1,794,000



Balance at end of period	33,604,661	32,259,161
	<b>₱11,245,339</b>	<b>₱12,590,839</b>

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

### Short-term Loans

As of September 30, 2016 and December 31, 2015, outstanding balance of short-term loans and borrowings availed from a local bank amounted to ₱87.0 million and ₱39.0 million, respectively. These loans were obtained for working capital requirements and bear average interest of 3.5% in 2016 and 2015. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

In March and June 2016, the Parent Company availed additional short term bank loans from a local bank totaling to ₱83.0 million to be used as working capital, to finance construction projects and for purchase of equipment. As of September 30, 2016, the balance of these loans amounted to ₱67.0 million.

Long-term loans and borrowings were fully paid in November 2015.

Total interest expense on short-term loans amounted to ₱1.5 million and ₱2.0 million for the periods ended September 30, 2016 and 2015, respectively.

## 17. Accounts Payable and Other Liabilities

This account consists of:

	SEPT 2016	DEC 2015
Due to RALI	<b>₱89,900,000</b>	₱89,900,000
Accounts payable	75,586,673	85,568,757
Cash bond on OTB operators	28,983,239	30,398,961
Accrued expenses	27,184,001	12,324,381
Documentary stamps payable	14,228,296	22,354,124
Provision for probable losses	13,135,947	13,135,947
Unclaimed winnings	11,233,775	5,642,733
Due to concessionaires	9,423,616	8,619,334
Percentage Tax Payable	8,877,341	-
Trade payable and buyers' deposits	7,836,232	5,888,432
Due to contractors	7,083,538	7,083,538
Dividends payable	4,407,004	3,590,898
Taxes on winnings	3,614,911	6,576,083
VAT payable	2,100,479	1,095,862
Retention payable	1,960,343	2,211,943
Due to OTB operators	1,368,208	1,983,749
Due to Philracom	235,946	963,909
Due to horse owners	-	1,238,769
Others	20,411,164	2,549,540
	<b>₱327,570,712</b>	<b>₱301,126,960</b>

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

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

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

#### 18. Cost of Sales and Services

Cost of club races consists of:

	SEPT 2016	SEPT 2015
Personnel costs (see Note 21)	₱37,938,398	₱40,551,124
Depreciation (see Notes 13 and 20)	29,296,727	28,259,317
Utilities	15,064,074	15,758,324
Commission	14,736,972	16,355,333
Transportation and travel	5,201,957	5,246,452
Contracted services	3,664,596	3,540,496
Taxes and licenses	2,723,266	2,674,732
Repairs and maintenance	2,653,341	1,278,773
Meetings and conferences	2,172,849	1,955,775
Rent	2,006,694	2,591,734
Added/guaranteed prizes and race sponsorships	1,622,383	2,073,548
Security services	1,475,049	1,353,064
Amortization of franchise fee (see Note 15)	1,345,500	1,345,500
Supplies	965,834	3,794,204
Gas, fuel and oil	588,837	810,306
Others	2,483,870	5,484,966
	<b>₱123,940,348</b>	<b>₱133,073,647</b>

Cost of real estate sold amounted to ₱6.7 million and (₱1.4) million for the periods ended September 30, 2016 and 2015, respectively.

Cost of rental services consists of:

	SEPT 2016	SEPT 2015
Depreciation (see Notes 13, 14 and 20)	₱18,380,308	₱15,184,884
Utilities	7,219,669	9,383,719
Food and beverage expenses	5,128,458	4,178,736
Contracted services	3,364,825	3,234,518
Personnel costs (see Note 21)	2,348,502	2,213,266
Rent expense	1,997,922	1,529,052
Repairs and maintenance	1,612,982	4,949,369
Security services	1,241,363	1,333,213
Taxes and licenses	1,002,879	1,049,570
Others	1,625,914	1,302,893
	<b>₱43,922,824</b>	<b>₱44,359,220</b>

Cost of food and beverages consists of:

	SEPT 2016	SEPT 2015
Purchased stocks	₱2,631,512	₱1,465,792
Utilities	3,354,087	1,442,331
Contracted services	3,224,957	3,170,190
Personnel cost (see Note 21)	1,238,329	1,648,851
Meetings and conferences	623,381	664,495
Depreciation (see Notes 13 and 20)	300,752	340,531
Supplies	219,295	87,289
Repairs	74,155	156,928
Rent	56,547	223,731
Commission	24,493	64,978
Gas, fuel and oil	600	37,800
Others	339,320	408,932
	<b>₱12,087,428</b>	<b>₱9,711,848</b>

Cost of services – Others is composed of dollar purchases for foreign currency transactions of MJC Forex amounting to ₱4.5 million for the period ended September 30, 2016 and direct expenses for cockfighting operations totaling to ₱47.9 million for the period ended September 30, 2016.

#### 19. General and Administrative Expenses

This account consists of:

	SEPT 2016	SEPT 2015
Personnel costs (see Note 21)	₱50,586,866	₱48,485,675
Depreciation (see Note 13 and 20)	12,838,811	11,830,974
Contracted services	10,111,074	9,320,138
Utilities	9,167,799	7,831,836
Repairs and maintenance	6,604,620	6,712,678
Rent (see Note 31)	6,225,647	4,552,125
Meetings and conferences	5,822,149	4,742,529
Professional fees	5,348,357	9,709,335
Security services	5,041,763	3,037,707
Taxes and licenses	4,221,609	4,608,031
Transportation and travel	2,032,727	1,036,185
Supplies	1,960,413	1,162,217
Gas, fuel and oil	1,936,588	2,120,144
Advertising	902,625	403,919
Director's fee	758,500	802,000
Membership dues	696,828	796,403
Insurance	503,787	883,733
Seminars and trainings	438,517	216,174
Commission expense	282,190	380,120
Others	5,111,810	3,812,870
	<b>₱130,592,680</b>	<b>₱122,444,793</b>

#### 20. Depreciation

This account consists of:

	SEPT 2016	SEPT 2015
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Cost of club races (see Note 18)	<b>₱29,296,727</b>	₱28,259,317
Cost of rental services (see Note 18)	<b>18,380,308</b>	18,920,488
General and administrative expense (see Note 19)	<b>12,838,811</b>	11,830,974
Cost of food and beverages (see Note 18)	<b>300,752</b>	340,531
	<b>₱60,816,599</b>	₱59,351,309

## 21. Personnel Costs

This account consists of:

	<b>SEPT 2016</b>	<b>SEPT 2015</b>
Salaries and wages	<b>₱81,822,684</b>	₱82,994,472
Retirement benefits costs (see Note 22)	<b>6,300,000</b>	5,693,150
Other employee benefits	<b>3,989,411</b>	4,211,294
	<b>₱92,112,095</b>	₱92,898,917

## 22. Retirement Benefits Costs

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

	<b>SEPT 2016</b>	<b>SEPT 2015</b>
Current service costs	<b>₱6,300,000</b>	₱5,684,166
Past service cost	-	8,984
	<b>₱6,300,000</b>	₱5,693,150

The components of remeasurements, before tax effect, in the consolidated statements of comprehensive income are as follows:

	<b>SEPT 2016</b>	<b>DEC 2015</b>
Balance at beginning of year	<b>₱38,982,230</b>	₱42,512,894
Net retirement benefits costs for the year	<b>6,300,000</b>	8,646,931
Contributions for the year	<b>(7,000,000)</b>	(11,496,773)
Defined benefit cost recognized in OCI	-	(680,822)
Balance at end of year	<b>₱38,282,230</b>	₱38,982,230

The plan assets of the Group are being held by its trustee banks. The investing decisions of the plan are made by the authorized officers of the Group. The following table presents the carrying amounts and fair values of the combined assets of the plan less liabilities:

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

### 23. Interest Income

Interest income related to:

	SEPT 2016	SEPT 2015
Real estate receivables (see Note 8)	<b>₱7,197,930</b>	₱1,594,012
Cash and cash equivalents (see Note 7)	<b>1,771,188</b>	1,356,310
Treasury bond (see Note 12)	-	8,847
	<b>₱8,969,118</b>	₱2,959,169

### 24. Finance Costs

Interest expense related to:

	SEPT 2016	SEPT 2015
Short-term loans (see Note 16)	<b>₱1,537,069</b>	₱1,664,323
Long-term loans (see Note 16)	-	300,949
Bank charges and others	<b>44,960</b>	40,075
	<b>₱1,582,029</b>	₱2,005,348

### 25. Other Income – net

	SEPT 2016	SEPT 2015
Tenants' reimbursements	<b>₱3,791,793</b>	₱3,214,655
Forfeited collections on real estate	<b>2,717,295</b>	1,112,288
Income from parking rentals	<b>2,468,363</b>	-
Breakages (fractional centavos on winning dividends)	<b>2,353,489</b>	-
Income from advertising campaign	<b>2,009,879</b>	1,786,603
Gain on sale of fully depreciated fixed assets	<b>467,712</b>	-
Dividend income from AFS financial assets (see Note 12)	<b>382,063</b>	280,797
Gain (loss) on sale of AFS financial assets	<b>324,286</b>	576,091
Service income	-	9,444,931
Gain on sale of retail treasury bonds	-	2,006,702
Others - net	<b>2,905,783</b>	3,080,693
	<b>₱17,420,663</b>	₱21,502,759

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

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

Others include various individually insignificant items of income and expenses.

## 26. Income Taxes

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

	SEPT 2016	SEPT 2015
Current	₱2,429,750	₱2,937,157
Final tax on interest income	186,643	270,847
	<b>₱2,616,393</b>	<b>₱3,208,004</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
		SEPT 2016	DEC 2015	SEPT 2016	DEC 2015		
Arco Management Development Corporation (AMDC)	Lease of office/parking space	7,072,499	6,884,042	-	-	Noninterest-bearing	Unsecured, no impairment
MIC	Advances	867,880	2,028,930	4,974,971	4,107,091	Non interest-bearing	Unsecured, no impairment
Techsystems	Advances	8333	8333	17,667	9,333	Noninterest-bearing	Unsecured, no impairment

## 28. Equity

### Capital Stock

The details of the Parent Company's capital stock as of September 30, 2016 and December 31, 2015 are as follows:

	SEPT 2016		DEC 2015	
	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 2016 and 2015, respectively)	996,170,748	₱996,170,748	996,170,748	₱996,170,748
Stock dividend issued during the period/year	-	-	-	-
	<b>996,170,748</b>	<b>₱996,170,748</b>	<b>996,170,748</b>	<b>₱996,170,748</b>

### Declaration of Dividends

The following are the details of the dividends declared in 2016 and 2015:

Type of Dividend	Date of Declaration	Date of Record	Date of Payment	Dividends per Share
Cash	May 24, 2016	June 10, 2016	June 30, 2016	₱0.05
	March 6, 2015	March 20, 2015	April 17, 2016	0.05

#### 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 as of September 30, 2016 and December 31, 2015.

#### Deemed Cost Adjustment

As of September 30, 2016 and December 31, 2015, the unappropriated retained earnings include the remaining balance of the deemed cost adjustment which arose when the Parent Company transitioned to PFRS.

The components of the deemed cost adjustment are as follows:

	SEPT 2016	DEC 2015
Real estate inventories	₱76,560,900	₱76,560,900
Investment properties	566,074,010	566,074,010
Revaluation increment	642,634,910	642,634,910
Deferred tax liability	(192,790,473)	(192,790,473)
<b>Deemed cost adjustment</b>	<b>₱449,844,437</b>	<b>₱449,844,437</b>

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.

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#### 29. Basic/Diluted EPS

Basic/diluted earnings (loss) per share were computed as follows:

	SEPT 2016	DEC 2015
Net income (loss) attributable to equity holders of the Parent Company	(₱43,342,270)	(₱45,721,993)
Divided by weighted average number of outstanding common shares	996,170,748	996,170,748
<b>Basic/diluted earnings per share</b>	<b>(₱0.0435)</b>	<b>(₱0.0459)</b>

The Parent Company does not have potential dilutive common shares as of September 30, 2016 and December 31, 2015. Therefore, the basic and diluted earnings (loss) 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 and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

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

As of September 30, 2016 and December 31, 2015, the Group has no transactions between reportable segments. The Group measures the segment net income or loss, segment assets and segment liabilities for each reportable segment in a manner similar to the measurement of the Group's total comprehensive income.

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

### Segment Revenue and Expenses

The segment results for the periods ended September 30, 2016 and 2015 are as follows:

	SEPT 2016						Total
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated		
Segment revenue	₱ 143,090,612	₱ 81,928,372	₱ 71,837,840	₱ 11,857,657	₱ 28,174,242	₱ 336,888,721	
Cost and expenses	(123,940,348)	(13,012,325)	(43,922,824)	(12,087,428)	(184,655,842)	(377,618,766)	
Income (loss) before income tax	19,150,264	68,916,047	27,915,016	(229,772)	(156,481,600)	(40,730,045)	
Provision for income tax					2,616,393	2,616,393	
Net income (loss)	₱ 19,150,264	₱ 68,916,047	₱ 27,915,016	₱ (229,772)	(₱ 159,097,993)	(₱ 43,346,437)	

	SEPT 2015						Total
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated		
Segment revenue	₱ 164,517,656	₱ 19,783,769	₱ 68,307,387	₱ 9,263,693	₱ 39,877,052	₱ 301,749,557	
Cost and expenses	(133,073,647)	334,142	(44,359,220)	(9,711,848)	(141,079,145)	(327,889,718)	
Income (loss) before income tax	31,444,009	20,117,911	23,948,167	(448,155)	(101,202,093)	(26,140,161)	
Provision for income tax					3,209,735	3,209,735	
Net income (loss)	₱ 31,444,009	₱ 20,117,911	₱ 23,948,167	(₱ 448,155)	(₱ 104,411,827)	(₱ 29,349,896)	

### 31. Commitments and Contingencies

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

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

On January 1, 2008, the Parent Company renewed its lease agreement with AMDC, an affiliate, for the lease of office space and four parking lots. The lease is for a period of five years starting 2008 and includes an annual escalation rate of 5.0%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the Parent Company renewed its lease agreement with AMDC on February 5, 2013 with a monthly rate



of ₱427,550, subject to an annual escalation rate of 5.0%, and will expire on December 31, 2017.

On January 1, 2011, the Parent Company entered into another lease agreement with AMDC for another office space. The lease is for a period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2016 is ₱301,403, subject to an annual escalation rate of 5.0%.

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

In 2013, the Parent Company entered a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities.

Rent income from PAGCOR amounted to ₱0.9 million for the periods ended September 30, 2016 and 2015.

- c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease one thousand four hundred twenty seven (1,427) sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement shall be effective until June 30, 2016. As of reporting date, the renewal of the agreement is still underway.

d. Claims and Legal Actions

As of September 30, 2016 and December 31, 2015, 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 therefrom would be taken up when the final resolution of the claims and actions are determined.

e. Unclaimed Dividends on Winnings

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

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

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

agreement between the Parent Company and the bettor under the principle of autonomy of contracts.

As part of its audit of the PHILRACOM, the Commission on Audit (COA) issued an *Independent Auditor's Report* dated March 27, 2013 wherein COA opined that unclaimed dividends of winning bettors should be forfeited in favor of the government and should form part of the National Treasury. However, in the same report, COA acknowledged the absence of any legislative mandate as regards the disposition of unclaimed dividends. Thus, COA required the PHILRACOM to request for a Declaratory Relief from the Department of Justice to resolve the issue on the nature of unclaimed dividends.

To resolve the foregoing issue, the Parent Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Motion for Summary Judgment filed by Manila Jockey Club, Inc. was granted.

The Parent Company recognized provision for probable loss amounted to ₱13.1 million as of September 30, 2016 and December 31, 2015.

### 32. Financial Instruments

The following tables provide the fair value hierarchy of the Group's AFS financial assets September 30, 2016 and December 31, 2015:

	Carrying Amounts	Fair Value	Fair value measurement using		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱14,278,889	₱14,278,889	₱14,278,889	₱-	₱-

### 33. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents (except cash on hand), receivables, AFS financial assets, deposits, accounts payable and other liabilities, interest-bearing loans and borrowings, 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 noninterestbearing 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.

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

*Financial instruments and cash deposits*

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

*Receivables*

Credit risk from receivables is managed by the Group through an established policy, procedures and control relating to credit risk management of receivables from customers, OTB operators, lessees, related parties and other counterparties.

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 8. The Group

does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5% of the total receivables.

These receivables have no history of significant default or delinquency in collections but have a reasonable probability of non-collectability.

*Liquidity risk*

The Group monitors and maintains a certain level of cash and cash equivalents to finance the Group's operation, ensure continuity of funding and to mitigate the effect of fluctuations in cash flows. It maintains a balance between continuity of funding and flexibility by regularly evaluating its projected and actual cash flows through the use of bank loans and extension of suppliers' credit terms. The Group maximizes the net cash inflows from operations to finance its working capital requirements.

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### 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:

	SEPT 2016	DEC 2015
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	3,996,198	3,923,214
Remeasurement on retirement benefits	21,621,047	21,621,047
Retained earnings	3,056,998,884	3,150,149,222
Treasury shares	(7,096)	(7,096)
Noncontrolling interest	(1,623,814)	(1,619,647)
	<b>P4,104,750,506</b>	<b>P4,197,832,027</b>

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

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### 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).