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

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

May 21, 2019

Dear Stockholder:

Notice is hereby given that the Annual Stockholders' Meeting of the Manila Jockey Club, Inc. ("**Company**") will be held on **June 28, 2019 (*Friday*), 9:00 A.M.** at the Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite.

The Agenda of the meeting is as follows:

1. Call to Order
2. Proof of notice and determination of existence of quorum
3. Approval of the Minutes of the following: (i) Annual Stockholders' Meeting held on 29 June 2018, and (ii) Special Stockholders' Meeting held on 07 December 2018
4. President's Report
5. Approval of the Annual Report and the Audited Financial Statements of the Company for the period ended 31 December 2018
6. Approval of the amendment of Article Sixth of the Amended Articles of Incorporation to increase the number of directors from eleven (11) to fifteen (15)
7. Approval of the amendment of the following provisions of the Amended By-Laws:
   (i) Article II, Section 1, to increase the number of directors from eleven (11) to fifteen (15);
   (ii) Article II, Section 2, to increase the number of independent directors from two (2) to three (3);
   (iii) Article II, Section 8 and 8-A, to separate the positions of the Chairman of the Board of Directors and the Chief Executive Officer and delineate the duties and responsibilities of each; and
   (iv) Article VI, Section 1, to delegate to the Board of Directors the authority to amend or repeal the By-Laws, or adopt new By-Laws.
8. Approval and ratification of all acts of the Board of Directors, Board Committees and Management since the last Annual Stockholders' Meeting
9. Election of the members of the Board of Directors
10. Appointment of External Auditor
11. Adjournment

The foregoing items are fully disclosed in the Definitive Information Statement ("DIS") for the year 2019.

Stockholders of record as of May 02, 2019 shall be entitled to notice of, and to vote at, this year's Annual Meeting.

Stockholders unable to attend the Annual Meeting in person may execute and deliver a Proxy. The Proxy should be submitted on or before June 26, 2019, 9:00 a.m., at the Office of the Corporate Secretary at 12/F Strata 100 Building, F. Ortigas Road, Ortigas Center, 1605, Pasig City.

To facilitate your registration, please bring any valid form of identification with a photograph such as a passport, driver's license, or any government-issued ID.

Ferdinand A. Domingo

ATTY. FERDINAND A. DOMINGO
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC Form 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 23 2019
MARKET REGULATION DEPT.
BY: TIME: 3:26

1. Check the appropriate box:

   [ ] Preliminary Information Sheet
   [✓] Definitive Information Statement

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

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

4. SEC Identification Number: **PW803**

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

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

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

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

June 28, 2019, Friday at 9:00 a.m.
Turf Club, San Lazaro Leisure and Business Park, Brgy. Lantic, Carmona, Cavite

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **June 6, 2019**

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

Title of Each Class Outstanding	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	**996,161,286**

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

Yes __✓__ No ______

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

MANILA JOCKEY CLUB, INC.

INFORMATION STATEMENT

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

A. GENERAL INFORMATION

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

(a) Date: **June 28, 2019, Friday**

Time: **9:00 A.M.**

Place: **Turf Club, San Lazaro Leisure and Business Park, Carmona, Cavite**

Principal Office: **San Lazaro Leisure and Business Park, Brgy. Lantic, Carmona, Cavite**

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

June 6, 2019

Item 2. Dissenters' Right of Appraisal

Section 80 of the Revised Corporation Code ("**RCC**") provides that any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in in the following instances: (1) in case an amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence; (2) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code; (3) in case of merger or consolidation; and (4) in case of investment of corporate funds for any purpose other than the primary purpose of the Company.

Pursuant to Section 81 of the RCC, the appraisal right may be exercised by the dissenting stockholder who votes against the proposed corporate action, by making a written demand on the Company within thirty (30) days after the date on which the vote was taken, for payment of the fair market value of shares held. Failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the Company shall pay the stockholder, upon surrender of the certificate or certificates of stock representing the stockholder’s shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within sixty (60) days from the approval of the corporate action by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company, and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment. Upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer the shares to the Company.

No matter will be acted upon at the Annual Meeting which may give rise to the exercise of the right of appraisal.

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

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

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

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

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

As of May 2, 2019, there are 996,161,286 shares of the Company’s common stock outstanding and entitled to vote at the Annual Meeting.

(b) Record Date

Only stockholders of record at the close of business on **May 2, 2019** (the “**Record Date**”) acting in person or by proxy on the day of the Annual Meeting are entitled to notice of, and to vote at, the Annual Meeting.

(c) Election of directors

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

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

(1) Security Ownership of Certain Record and Beneficial Owners

As of Record Date, May 2, 2019, the following are the persons or groups known to the Company to be directly or indirectly the record and/or beneficial owner of more than 5% of the Company's voting securities:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**PCD Nominee Corporation** 37F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City Stockholder	PCD Participants*	Filipino	510,413,071	51.24%
Common	**ARCO Equities, Inc.** 12/F, Strata 100 Building F. Ortigas Jr., Ortigas Center Pasig City Stockholder	Alfonso R. Reyno, Jr., Alfonso Victorio G. Reyno III and Christopher G. Reyno are the controlling shareholders	Filipino	130,795,366	13.13%
Common	**Alfonso R. Reyno, Jr.** 12/F, Strata 100 Building F. Ortigas Jr., Ortigas Center Pasig City Stockholder	Same as Record Owner	Filipino	65,947,940	6.62%
Common	**Exequiel D. Robles** Sta. Lucia Realty East Grandmall 3/F, Bldg. 2, Marcos Highway cor. Felix Avenue, Cainta, Rizal Stockholder	Same as Record Owner	Filipino	56,911,100	5.71%

*PCD Nominee Corporation ("PCNC") is a wholly owned subsidiary of Philippine Central Depository, Inc. ("PCD") and is registered owner of the shares in the books of the Company's transfer agent. PCD participants deposit eligible securities in PCD through a process of lodgment, where legal title to the securities is transferred and held in trust by PCNC. The participants of PCD are the beneficial owners of such shares. ARCO Equities, Inc. owns 94,669,856 shares or 9.50%, and Alfonso R. Reyno, Jr. owns 37,481,822 shares or 3.76%, which are lodged under PCNC.

The table below shows persons or groups known to the Company as of May 2, 2019 to be directly or indirectly the record or beneficial owner of more than 5% of the Company's voting securities under the PCD Nominee Corporation:

Title of Class	PCD Participant	Citizenship	No. of Shares Held	Percent
Common	**BDO SECURITIES CORPORATION** 27/F Tower I & Exchange Plaza Ayala Ave., Makati City	Filipino	185,673,994	18.63%
Common	**FIRST INTEGRATED CAPITAL SECURITIES** Units 1211-1212 Tower I & Exchange Plaza, Ayala Ave. Cor. Paseo de Roxas, Makati City	Filipino	70,965,804	7.12%
Common	**TRANS-ASIA SECURITIES, INC.** RM. 601-S State Centre, 333 Juan Luna St., BR 287 Binondo 1006 Manila	Filipino	53,184,778	5.33%

As of Record Date, May 2, 2019, the number of shares held by foreign stockholders is 34,325,288 common shares, or 3.45% of the Company's total issued and outstanding shares.

(2) Security Ownership of Management

As of Record Date, May 2, 2019, the following are the securities beneficially owned by all directors and officers of the Company:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	%
Common	Alfonso R. Reyno, Jr.	103,429,762 (Direct) 23,378,093 (Indirect)	Filipino	10.38%
Common	Mariza Santos-Tan	5,190 (Direct)	Filipino	0.00%
Common	Alfonso Victorio G. Reyno III	5,249,999 (Direct) 20,783,321 (Indirect)	Filipino	0.53%
Common	Pedro O. Tan	459,000 (Direct)	Filipino	0.05%
Common	Christopher G. Reyno	5,249,999 (Direct) 18,269,970 (Indirect)	Filipino	0.53%
Common	Lucas C. Carpio, Jr.	1 (Direct)	Filipino	0.00%
Common	Ma. Luisa T. Morales	9,567,750 (Direct)	Filipino	0.96%
Common	John Anthony B. Espiritu	1 (Direct)	Filipino	0.00%
Common	Ferdinand A. Domingo	3,548,030 (Direct)	Filipino	0.36%
Common	Victor B. Valdepeñas	1 (Direct)	Filipino	0.00%
Common	Victor C. Fernandez	1 (Direct)	Filipino	0.00%
Common	Lemuel M. Santos	875,273 (Direct)	Filipino	0.09%

Directors and officers as a group hold a total of 128,385,007 common shares, equivalent to approximately 12.89% of the Company's issued and outstanding capital stock.

(3) Voting Trust Holders of 5% or More

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

(4) Changes in Control

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

Item 5. Directors and Executive Officers

(a) The Board of Directors

The following are the members of the Board:

Position	Names	Citizenship	Age
Chairman	Alfonso R. Reyno, Jr.	Filipino	74
Vice Chairman	Mariza Santos-Tan	Filipino	60
Director	Alfonso Victorio G. Reyno III	Filipino	48
Director	Pedro O. Tan	Filipino	81
Director	Christopher G. Reyno	Filipino	43
Director	Lucas C. Carpio, Jr.	Filipino	71
Director	Ma. Luisa T. Morales	Filipino	74
Director	John Anthony B. Espiritu	Filipino	55
Director	Ferdinand A. Domingo	Filipino	66
Independent Director	Victor B. Valdepeñas	Filipino	72
Independent Director	Victor C. Fernandez	Filipino	74

Set forth below are the business experience of the Board during the last five (5) years:

ALFONSO R. REYNO, JR., Filipino, was born on July 8, 1944. He graduated from the University of the Philippines in 1965 with a degree of Bachelor of Arts in Political Science and finished his Bachelor of Laws in the same school in 1969. He formerly occupied the following government positions: Deputy Minister of Defense (*1984-1986*), Member of the Batasang Pambansa (*1984-1986*), Vice Governor of Cagayan (*1980-1984*), Member of the Board of Trustees of the Cagayan State University (*1979-1986*). He occupies the following positions in various institutions: Chairman and President, Arco Management & Development Corporation, Arco Equities, Inc., Arco Ventures, Inc. (*1995 to Present)*, Bonaventure Development Corporation (*1983 to Present*); Managing Partner, Reyno Tiu Domingo & Santos Law Offices (*1976 to Present*); Chairman and President of MJC Investments Corporation (*2009 to presen*t). He was elected as director of the Company in year 1997.

MARIZA SANTOS-TAN, Filipino, was born on May 29, 1958. She graduated from the San Sebastian College with a degree of Bachelor of Science in Commerce. She occupies the following positions in various institutions: Director, Consolidated Insurance Co., Inc.; [indicate position], Unioil Resources and Holdings Co., Inc.; Vice-President and Corporate Secretary, Sta. Lucia Realty Development, Inc.; Director and Corporate Secretary, Sta. Lucia East Grandmall;

Director and Corporate Secretary, Orchard Golf and Country Club; President, Royale Tagaytay Golf and Country Club. She is currently a Vice Chairman of MJC Investments Corporation. She was elected as director of the Company in year 1997.

ALFONSO VICTORIO G. REYNO III, Filipino, was born on March 9, 1970. He graduated from the De La Salle University in 1992 with a degree of Bachelor of Arts and Commerce and finished his Bachelor of Laws in University of the Philippines in year 1996.He occupies the following positions in various institutions: President, Arco Ventures, Inc. (*1995 to Present*); Director, Arco Management & Development Corporation, Bonaventure Development Corporation, Arco Equities, Inc. (*1995 to present),* Junior Partner, Reyno Tiu Domingo & Santos Law Offices (*1999 to present*); Director, MJC Investments Corporation (*2009 to present*). He was elected as director of the Company in year 1997.

PEDRO A. TAN, Filipino, was born on November 13, 1937. He graduated from the Far Eastern University with a degree of Bachelor of Science in Business Administration. He occupies the following positions in various institutions: President, General Manager and Director, Triplex Enterprises, Inc. and Gibson Manufacturing Co., Inc.; President and Director, Burlington Philippines Industries, Inc., Evergrow Industries, Inc., and HPT Industries, Inc.; Treasurer and Director, Zipporah Holding Corporation, Blue Ridge Mineral Corporation, Highland Securities Philippines and Liberty Telecoms Holdings, Inc.; Director, MJC Investments Corporation. He was elected as director of the Company in year 1997.

CHRISTOPHER G. REYNO, Filipino, was born on October 30, 1975. He graduated from De La Salle University in 1997 with a degree of Bachelor of Arts in Liberal Arts. He occupies the following positions in various institutions: Director, ARCO Management & Development Corporation; Director, ARCO Ventures, Inc.; Director, ARCO Equities, Inc.; Director, Bonaventure Development Corporation; Technical Assistant to the Board of Directors, Philippine National Bank. He was elected as director of the Company in year 2002.

LUCAS C. CARPIO, JR., Filipino, was born on August 18, 1947. He graduated from De La Salle College with a degree of Bachelor of Arts in Political Science – History and finished his Bachelor of Laws degree in the Ateneo de Davao University in 1975. He occupies the following positions in various institutions: Assistant City Fiscal, Davao City; Manager – Litigation Group, Security Bank and Trust Company; Junior Associate, Yulo and Bello Law Offices; Managing Partner, Carpio and Bello Law Offices. He was elected as director of the Company in year 2017.

MA. LUISA T. MORALES, Filipino, was born on June 21, 1944. She graduated from Assumption College with a Bachelor of Arts in Commerce. She is a Director of Tormil Realty Corporation. She was elected as director of the Company in year 2013.

JOHN ANTHONY B. ESPIRITU, Filipino, was born on July 12, 1963. He graduated from University of Michigan with a degree of Bachelor of Business Administration in May 1985. He also obtained from said university a Masters degree in Business Administration in May 1990. He occupies the following positions in various institutions: Director of DATEM, Inc.; Chairman of Belares Food Corporation; Director of American Eye Correction Center. He was elected as director of the Company on 2008. He was elected as director of the Company in year 2008.

FERDINAND A. DOMINGO, Filipino, was born on June 22, 1952. He graduated from the University of the Philippines in 1972 with a degree of Bachelor of Arts in Political Science and finished his Bachelor of Laws in the same school in 1977. He previously occupied the following positions in various companies: Director, CICI General Insurance Corporation; Director, United Overseas Bank (*May 2001 to July 2002*); Corporate Secretary, Westmont Bank (*May 17, 2000 to January 16, 2004*); Director, PNB Holdings Ltd. and PNB Hongkong Branch (*1998 to February 2000*); Bank Attorney, Philippine National Bank (*1978-1984*); Corporate Secretary, Philippine Racing Club, Inc. (*1994-1997*); Legal Counsel and Corporate Secretary, National Steel Corporation (*May 3, 1995 to March 1997*). He currently occupies the following positions in various institutions, viz: Senior Partner, Reyno Tiu Domingo & Santos Law Offices; Corporate Secretary and General Counsel of MJC Investments Corporation. He was elected as director of the Company in year 1995.

VICTOR B. VALDEPEÑAS, Filipino, was born on July 28, 1946. He graduated from the University of the Philippines in 1966 with a degree of Bachelor of Science, Major in Economics and finished his Doctor of Philosophy in Economics in the same school in 1972. He previously occupied the following positions in various institutions, viz: Vice President and Country Treasurer of Citibank N.A. (from 1987-1994); Executive Vice President/Treasurer of Unionbank of the Philippines (1993-1997); consultant to the Chairman of National Economic Council; Assistant Director, National Planning Policy Research of National Economic Development Authority; Faculty Member of University of the Philippines; Professorial Lecturer of University of Sto. Tomas; Director of the University of the Philippines Alumni Association (2012-2015); President and Chief Operating Officer of Unionbank of the Philippines. He was elected as director of the Company in year 2015.

VICTOR C. FERNANDEZ, Filipino, was born on March 10, 1944. He graduated from University of the Philippines in 1967 with a degree of Bachelor of Arts, Major in Economics and finished his Bachelor of Laws in the same school in 1971. He previously occupied the following positions in various institutions: Deputy Ombudsman for Luzon, Office of the Ombudsman (*March 2003 to March 2010*); Senior Partner, Fernandez, Pacheco & Dizon Law Office (*1993 to February 2003*); Senior Partner, Fernandez, Velasco & Grapilon Law Offices (*1987 to 1993*); Senior Partner, Fernandez, Ambrocio & Fernandez Law Offices (*1982 to 1987*); Associate, Sen. Estanislao A. Fernandez Law Offices (*1972 to 1981*), Legal Consultant, World Bank – Supreme Court Project on the Review of the Criminal Justice System; Lecturer for both Mandatory Continuing Legal Education (MCLE) and Institute of judicial Academy, University of the Philippines. At present, he holds the following positions: Consultant, Local Water Utilities Administration (LWUA) and the Commission on Audit (COA). He was elected as director of the Company in year 2010.

<u>Nomination of Directors for 2019-2020</u>

The directors of the Company elected at the Annual Meeting shall hold office for one (1) year and until their respective successors have been elected and qualified.

The following are the nominees to the Board of Directors:

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

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

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

The respective business experiences of Messrs. Valdepeñas and Fernandez are set forth above. The matter of the nomination and election of Independent Directors form part of a set of guidelines for the Nomination Committee. These guidelines define qualifications, disqualifications and procedures for the screening and short listing of candidates nominated to the Board.

The members of the Nomination Committee are as follows:

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

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

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

(b) The Executive Officers

The following are the Executive Officers of the Company:

Position	Names	Citizenship	Age
Chairman and Chief Executive Officer	Alfonso R. Reyno, Jr.	Filipino	74
President and Chief Operating Officer	Alfonso Victorio G. Reyno III	Filipino	48
Treasurer	Pedro O. Tan	Filipino	81

Position	Names	Citizenship	Age
Chief Finance Officer	Nestor N. Ubalde	Filipino	60
Corporate Secretary and General Counsel	Ferdinand A. Domingo	Filipino	66
Assistant Corporate Secretary	Lemuel M. Santos	Filipino	68
Executive Vice President and Deputy COO for Administration	Peter Francis G. Zagala	Filipino	49
Corporate Information Officer	Chino Paolo Z. Roxas	Filipino	35

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

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

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

PETER FRANCIS G. ZAGALA, Filipino, was born in October 10, 1969. He graduated from the University of the Philippines (A.B., LL.B.). He is affiliated with and occupies the following position in various institutions in the last five (5) years, viz: Corporate Secretary, Arco Management & Development Corporation, Assistant Corporate Secretary, Arco Ventures, Inc. (1995 to present), Bonaventure Development Corporation, Arco Equities, Inc. (1995 to present), Junior Partner, Reyno Tiu Domingo & Santos Law Offices (1999 to present).

CHINO PAOLO Z. ROXAS, Filipino, was born on November 28, 1983. He graduated from the Ateneo de Manila University with a degree of Juris Doctor (J.D.). He was a Junior Associate with Bernas Law Office from 2008-2010.

(c) Family Relationships

Alfonso Victorio G. Reyno III and Christopher G. Reyno are the sons of Alfonso R. Reyno, Jr. Ma. Luisa T. Morales is the mother-in-law of Alfonso Victorio G. Reyno III.

Aside from the abovementioned, none of the members of the Board of Directors nor any Executive Officer of the Company is related by affinity or consanguinity.

(d) Involvement in Certain Legal Proceedings

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

(e) Certain Relationships and Related Transactions

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

		Amount		Receivable/ (Payable)			
	Nature	**2018**	2017	**2018**	2017	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office Space	**₱13,177,504**	₱11,780,277	**₱–**	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	**–**	–	**(13,734,482)**	(14,734,481)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances	**–**	1,161	**4,982,104**	4,982,104	Noninterest-bearing	Unsecured, no impairment
(Forward)							
Techsystems	Advances	**8,833**	9,034	**36,033**	27,200	Noninterest-bearing	Unsecured, no impairment

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

b. Compensation of key management personnel of the Group amounted to ₱91.6 million, ₱67.4 million and ₱62.2 million in 2018, 2017 and 2016, respectively. The Group has no standard arrangement with regard to the remuneration of its directors. The BOD received a total of ₱9.8 million in 2018, 2017, and 2016. Advances and loans to officers and employees amounted to ₱24.8 million and ₱14.7 million as of December 31, 2018 and 2017, respectively.

(f) Disagreement with a Director

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

Item 6. Compensation of Directors and Executive Officers

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

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
The CEO and three most highly compensated Executive Officers: • CEO and Chairman – Alfonso R. Reyno, Jr. • President and COO – Alfonso Victorio G. Reyno, III • Vice Chairman – Mariza Santos-Tan • Treasurer – Pedro O. Tan	2019*	18,750,072	-	-
	2018	18,750,072	-	-
	2017	9,810,000	179,247	-
All other Executive Officers and Directors as a group unnamed	2019	96,045,349	-	-
	2018	86,527,341	-	-
	2017	66,003,502	-	-

*Estimated compensation for the ensuring year is assumed to approximate the 2018 level.

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

Item 7. Independent Public Accountants

For year 2019, the accounting firm of Sycip Gorres Velayo & Co. (SGV), with Ms. Adeline D. Lumbres as partner-in charge, is being recommended by the Audit Committee for re-appointment by the stockholders at the Annual Meeting. SGV has accepted the Company's invitation to stand for re-appointment this year. Representatives of said firm are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. SGV has been the Company's independent public accountant/external auditor for the last five (5) years.

The Company complies with SRC Rule 68, Part I, Item 3(B)(iv)(ix) on (i) the rotation after every five (5) years of engagement of the independent auditor or in case of an audit firm, the signing partner, and (ii) the two-year cooling-off period on the re-engagement of the same signing partner or individual auditor. The Company engaged Ms. Josephine H. Estomo of SGV for the examination of the Company's financial statements for the years 2006 to 2010. She was replaced by Mr. Arnel F. de Jesus of SGV, for the years 2011 to 2015. For years 2016 to 2018, Ms. Adeline D. Lumbres was the partner-in-charge of SGV for the examination of the Company's financial statements.

External Audit Fees

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by SGV was ₱2.9 million for the year 2018, and ₱2.7 million for the year 2017.

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

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

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

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

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

Item 8. Compensation Plans

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

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

Not applicable.

Item 10. Modification or Exchange of Securities

Not applicable.

Item 11. Financial and Other Information

The consolidated audited financial statements of the Company for the period ended December 31, 2018 and the Quarterly Report (SEC Form 17-Q) for the period ended March 31, 2019 are attached as **Annexes "A"** and **"B"**. Management's Discussion and Analysis of Financial Condition and Results of Operations are incorporated in the Management Report.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

Not applicable.

Item 13. Acquisition or Disposition of Property

Not applicable.

Item 14. Restatement of Accounts

No action is to be taken with respect to the restatement of any of the Company's assets, capital or surplus account.

D. OTHER MATTERS

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

There is no action to be taken with respect to any report of the Company or of its directors, officers or committees, except the approval of (i) the minutes of the previous annual stockholders' meeting and special stockholders' meeting, and (ii) the Annual Report and Audited Financial Statements of the Company for the period ended December 31, 2018, all of which will be submitted for approval of the stockholders.

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

Date Filed	Subject
June 13, 2018	• Regular Meeting of the Board of Directors held on June 8, 2018 approving the amendment of the Company's Amended Articles of Incorporation to amend its primary purpose
July 4, 2018	• Results of the Annual Stockholders' Meeting and Organizational Meeting held on June 29, 2018
September 12, 2018	• Regular Meeting of the Board of Directors held on September 11, 2018 approving the: (i) increase of the Company's authorized capital stock from Php1B to Php2B, and (ii) declaration of 50% stock dividends from the Company's unrestricted retained earnings for the period ended December 31, 2017

Date Filed	Subject
October 5, 2018	• Special Meeting of the Board of Directors held on October 4, 2018 setting (i) the date, time, venue of the Special Stockholders' Meeting (SSM), (ii) record date for the SSM, and (iii) agenda for the SSM
October 5, 2018	• SEC Certificate of Filing of Amended Articles of Incorporation dated 2 October 2018 to change its primary purpose
December 12, 2018	• Results of the Special Stockholders' Meeting held on December 7, 2018
April 30, 2019	• SEC approval of the Company's application for increase of authorized capital stock from Php1B to Php2B

The approval of the minutes, Annual Report and audited financial statements for the period ended December 31, 2018, and ratification of all acts, proceedings and resolutions of the Board, the Board Committees, officers and management since the date of the last annual meeting require the affirmative vote of a majority of the votes cast at the Annual Meeting by the stockholders entitled to vote.

Item 16. Matters Not Required to be Submitted

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

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

The Company is presenting for stockholders' approval the following amendments approved by the Board on May 17, 2019:

(1) Amendment of Article Sixth of the Company's Articles of Incorporation and Article II, Section 1 of the Company's By-Laws to increase the number of directors from eleven (11) to fifteen (15). The purpose of the amendment is to allow the election of additional directors;

(2) Amendment of Article II, Section 2 of the Company's By-Laws to increase the number of independent directors from two (2) to three (3). The purpose of the amendment is to comply with the number of independent directors required under Section 22 of the RCC;

(3) Amendment of Article II, Section 8 and 8-A of the Company's By-Laws to separate the positions of Chairman of the Board and Chief Executive Officer and delineate the duties and responsibilities of each. The purpose of the amendment is to comply with Recommendation 5.4 of the Code of Corporate Governance for Publicly-Listed Companies;

(4) Amendment of Article VI, Section 1 of the Company's By-Laws to delegate to the Board the authority to amend or repeal the Company's By-Laws, or adopt new By-Laws. The purpose of the amendment is for efficiency in the amendment of the Company's By-Laws in order to make it consistent with the requirements of relevant laws and regulations.

Item 18. Other Proposed Action

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

1. Election of directors for 2019-2020; and
2. Appointment of external auditor.

Item 19. Voting Procedures

(a) Vote Required

Matters for Stockholders' Approval

The votes required for the matters submitted for the stockholders' approval, are as follows:

(i) For the proposed amendment to the Company's Articles of Incorporation, the affirmative vote of stockholders representing at least 2/3 of the outstanding capital stock of the Company;

(ii) For the proposed amendments to the Company's By-Laws, the affirmative vote of stockholders representing at least a majority of the outstanding capital stock of the Company;

(iii) For other matters other than the amendment of the Company's Articles of Incorporation and By-Laws, the affirmative vote of at least a majority of the quorum at the Annual Meeting.

Election of Directors

Pursuant to Section 23 of the RCC, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, as of the record date, in his own name in the stock and transfer book of the Company.

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

(b) Method of counting votes

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

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

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

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

The agenda for the Annual Meeting is as follows:

1. Call to order

2. Proof of notice and determination of existence of quorum

3. Approval of the minutes of the following: (i) Annual Stockholders' Meeting held on June 29, 2018, and (ii) Special Stockholders' Meeting held on December 7, 2018

4. President's Report

5. Approval of the Annual Report and the Audited Financial Statements of the Company for the period ended December 31, 2018

6. Approval of the amendment of Article Sixth of the Amended Articles of Incorporation to increase the number of directors from eleven (11) to fifteen (15)

7. Approval of the amendment of the following provisions of the Amended By-Laws: (i) Article II, Section 1, to increase the number of directors from eleven (11) to fifteen (15); (ii) Article II, Section 2, to increase the number of independent directors from two (2) to three (3); (iii) Article II, Section 8 and 8-A, to separate the positions of the Chairman of the Board of Directors and the Chief Executive Officer and delineate the duties and responsibilities of each; and (iv) Article VI, Section 1, to delegate to the Board of Directors the authority to amend or repeal the By-Laws, or adopt new By-Laws

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

9. Election of the members of the Board of Directors

10. Appointment of External Auditor

11. Adjournment

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig, Metro Manila, on 22 MAY 2019.

MANILA JOCKEY CLUB, INC.

By:

Ferdi A. Domingo

FERDINAND A. DOMINGO
Corporate Secretary

MANILA JOCKEY CLUB, INC.

MANAGEMENT REPORT

I. Consolidated Audited Financial Statements and Interim Financial Statements

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

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

There was no event in the past five (5) years where Sycip Gorres Velayo & Co. (SGV) and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

III. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Consolidated Audited Financial Statements as of December 31, 2018

The following discussion and analysis relate to the consolidated financial position and results of operation of Manila Jockey Club, Inc. and Subsidiaries and should be read in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the year ended December 31, 2018. Reference to "MJCI", the "Company", and the "Parent Company" pertains to Manila Jockey Club, Inc., while reference to the "Group" pertains to MJCI and its Subsidiaries.

Discussion on Results of Operations

The following table shows a summary of results of the operations for the years ended 31 December 2018, 2017 and 2016:

	For the Years Ended December 31				
	2018	2017	2016	% change	% change
	(*Amount in millions of Philippine peso except EPS*)			2018 vs. 2017	2017 vs. 2016
Revenue					
Racing	₱141.7	₱186.1	₱188.5	-2.4%	-1.3%
Cockfighting	593.9	332.7	120.4	78.5%	176.3%
Real estate	112.1	122.9	113.8	-8.8%	8.0%
Rent	77.7	83.5	90.0	-6.9%	-7.2%
Food and beverages	26.0	18.3	16.2	42.1%	13.0%
Others	2.1	12.6	6.3	-83.3%	100.0%
	953.4	756.1	535.2	26.1%	41.3%
Cost					
Racing	179.7	176.7	170.1	1.9%	3.9%
Cockfighting	366.2	219.5	84.3	66.8%	160.4%
Real estate	11.2	13.3	12.4	-15.8%	7.3%
Rent	54.7	58.7	59.1	-6.8%	-0.7%
Food and beverages	30.5	17.3	18.9	76.3%	-8.5%
Others	10.2	12.5	6.2	-18.4%	101.6%
	652.5	498.0	351.0	31.0%	41.9%

(Forward)

	For the Years Ended December 31				
	2018	2017	2016	% change	% change
	(Amount in millions of Philippine peso except EPS)			2018 vs. 2017	2017 vs. 2016
Gross income	₱300.9	₱258.1	₱184.2	₱18.9%	₱40.1%
Operating expenses/losses	(315.6)	(252.3)	(220.9)	25.0%	14.2%
Equity in net earnings (losses) of associate and joint ventures	(133.8)	(135.2)	(70.5)	-1.0%	91.8%
Interest income	10.1	12.6	11.5	-19.8%	9.6%
Other income – net	15.8	8.4	27.9	88.1%	-69.9%
Benefit from (provision for) income tax	(15.4)	(11.3)	(9.6)	36.3%	17.7%
Net loss	(₱138.1)	(₱119.7)	(₱77.4)	16.0%	-2.0%
Earnings (losses) per share	(₱0.1343)	(₱0.1198)	(₱0.0774)	12.9%	61.4%

Comparison of Operating Results for the Years Ended December 31, 2018 and 2017

Gross Revenues and Cost of Sale and Services

Gross revenues from operations includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services, including currency exchange operations.

For the periods ended December 31, 2018 and 2017, the Group's gross revenues amounted to ₱953.4 million and ₱756.1 million, respectively. Compared to 2017, the gross revenue in 2018 increased by 26.1% or ₱197.3 million. The increase came primarily from cockfighting operations which improved as a result of the increase in the number of cockfights and OTB stations. Fights went up from 4,743 in 2017 to 8,392 in 2018.

Total cost of sales and services for the periods ended December 31, 2018 and 2017 amounted to ₱652.6 million and ₱498.0 million, respectively. It increased by ₱154.6 million or 31.0% in the current year. Bulk of the increase pertain to expenses incurred for the cockfighting operations.

Operating expenses

Operating expenses increased by 25.0% or ₱67.9 million. The increase pertains mainly to the administrative costs covering the whole year of 2018 incurred for the cockfighting operations which improved as a result of the increase in cockfighting days. These costs include salaries and allowances of support workforces, professional fees, and taxes and licenses paid.

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

For the period ended December 31, 2018 and 2017, equity in net losses of associates and joint venture amounted to ₱133.8 million and ₱135.2 million, respectively. The losses is due to the equity share in the net losses of MIC amounting to ₱166.4 million in 2018 from ₱174.2 million in 2017, due to the fixed cost (including depreciation of equipment and interest from bank loans) of the Winford Hotel and Casino in Sta. Cruz, Manila. These are tapered by the equity share in net earnings of SLBPO by ₱32.6 million, from ₱39.0 million in 2017 to ₱32.6 million in 2018.

Earnings (losses) per share

Earnings (losses) per share in 2018 and 2017 are (₱0.1343) and (₱0.1198), respectively which increased by 0.0145 as the Group registered a net loss attributable to the Parent Company amounting to ₱133.7 million and ₱119.8 million in 2018 and 2017, respectively. The increase is primarily due to equity share in the net losses from MIC amounting to ₱166.4 million in 2018.

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

Gross Revenues and Cost of Sale and Services

Gross revenues from operations includes revenue from racing, cockfighting, rentals, real estate sales, food and beverages and other ancillary services, including currency exchange operations.

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

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

Operating expenses

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

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

For the period ended December 31, 2017 and 2016, equity in net losses of associates and joint venture amounted to ₱135.2 million and ₱70.5 million, respectively. The losses is due to the increase in equity share in the net losses of MIC amounting to ₱174.2 million in 2017 from ₱97.3 million in 2016, due to the fixed cost (including depreciation of equipment and interest from bank loans) of the Winford Hotel and Casino in Sta. Cruz, Manila. These are tapered by the increase in equity share in net earnings of SLBPO by ₱12.2 million, from ₱26.8 million in 2016 to ₱39.0 million in 2017.

Earnings (losses) per share

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

Discussion on Financial Condition and Changes in Financial Condition

	For the Years Ended December 31				
	2018	2017	2016	% change	% change
	(*Amount in millions of Philippine peso except EPS and ratio*)			2018 vs. 2017	2017 vs. 2016
Cash and cash equivalents	₱332.3	₱225.6	₱171.9	47.30%	31.2%
Receivables	141.2	217.4	188.4	-35.05%	15.4%
Inventories	54.6	71.2	83.9	-23.31%	-15.1%
Other current assets	9.8	11.5	11.3	-14.78%	1.77%
Total current assets	537.9	525.7	455.5	2.32%	15.41%
Real estate receivables – net of current portion	61.5	51.2	108.6	20.12%	-53%
Investments in associates and joint ventures	2,132.1	2,204.3	2,205.4	-3.28%	0.00%
Property and equipment	831.8	880.6	920.9	-5.54%	-4.4%
(Forward)					
Investment properties	1,094.8	1,097.4	1,099.6	-0.24%	-0.2%
Deferred tax asset	1.8	1.6	–	12.50%	100%
Other non-current assets	65.7	65.2	42.7	0.77%	2.0%
Total noncurrent assets	4,187.7	4,300.3	4,377.2	-2.62%	-1.8%
Total assets	4,725.6	4,826	4,832.7	-2.08%	-0.1%
Short-term loans and borrowings	₱288.6	₱234.0	₱90.0	23.33%	160.0%
Accounts payable and other liabilities	386.1	342.0	312.4	12.89%	9.48%
Due to related parties	13.7	14.7	14.7	-6.80%	0.0%
Income tax payable	14.6	0.7	0.6	1985.71%	16.7%
Total current liabilities	703.0	591.4	417.7	19.04%	41.58%
Accrued retirement benefits	55.9	39.9	44.0	40.10%	-9.3%
Deferred tax liabilities – net	188.9	218.5	228.7	-13.55%	-5.2%
Total non-current liabilities	244.8	258.4	272.7	-5.26%	-5.24%
Total liabilities	947.8	849.8	690.4	11.65%	23.09%
Capital stock	996.2	996.2	996.2	0.00%	0.00%
Additional paid-in capital	27.6	27.6	27.6	0.00%	0.00%
Actuarial gains on accrued retirement benefits	17.4	27.6	24.1	-36.96%	14.5%
Net cumulative changes in fair values of AFS financial assets	5.0	5.0	5.0	0.00%	0.0%
Retained earnings	2,670.5	2,854.1	3,023.3	-6.43%	-5.6%
Treasury shares	(0.007)	(0.007)	(0.007)	0.00%	0.0%
Non-controlling interests	61.4	65.7	66.1	-6.54%	-0.7%
Total equity	3,777.8	3,976.2	4,142.3	-5.01%	-4.0%
Total liabilities and equity	4,725.6	4,826.0	4,832.7	-2.07%	-0.1%

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

Total Assets decreased due to the following:

1. For the year ended December 31, 2018, cash and cash equivalents of the Group increased by ₱106.7 million, which were generated from the following activities:

    a. Cash generated from operating activities amounted to ₱200.2 million, which are significantly coming from its horse racing, cockfighting, leasing activities and other activities such as food and beverage and foreign currency exchange activities.

    b. The Group used cash for its investing activities amounting to ₱89.9 million, which was the net result of the following major investing activities during the year:

    - Dividends received amounting to ₱22.4 million
    - Interest received amounting to ₱10.2 million
    - Payment for advances to an associate amounting to ₱84.98 million

- Payment for the acquisition of financial assets at fair value through other comprehensive income (FVOCI)/AFS financial assets amounting to ₱25.0 million
- Payment for the acquisition of property and equipment amounting to ₱31.7 million
- Payment for the acquisition of investment property amounting to ₱4.6 million
- Increase in other noncurrent assets amounting to Php3.2 million
- Proceeds from sale of property and equipment amounting to Php0.01 million
- Proceeds from sale of AFS financial assets amounting to Php27 million

c. The Group's financing activities during the year used cash amounting to ₱3.5 million, which is the net result of payment of interest, dividends and loans amounting to ₱10.1 million, ₱48.0 million and ₱69.4 million, respectively, which were partially offset by the proceeds from short-term loan obtained during the year which amounted to ₱124.0 million.

2. Receivable decreased mainly due to collection of trade receivables from real estate sales amounting to Php207.6 million which led to the overall decrease of total trade receivable by 53%.

3. Decrease in inventories amounting to Php16.6 million pertains mainly to the sale of condominium units, specifically in ALVEO during the year, and reclassification of inventories to investment properties for condominium units being leased out during the year which amounted to Php5.5 million.

4. The decrease in other current assets amounting to ₱1.7 million is due to prepaid income taxes applied against the Company's income tax payable.

5. The decrease in investment in associates and joint ventures pertains to the equity share in the net loss of MIC amounting to ₱166.4 million in 2018. This is offset by the equity in net earnings of SLBPO amounting to ₱32.6 million in 2018.

6. The decrease in property and equipment amounting to ₱48.8 million in 2018 is the net effect of the acquisitions made during the year amounting to ₱31.7 million, and the recognition of depreciation charges for the year amounting to ₱78.9 million.

7. Deferred tax asset represents NOLCO of ₱0.2 million and MCIT of ₱0.8 million of MCI, GSTI and Biohitech.

8. Noncurrent assets increased due to the following:

   a. Acquisition of treasury bonds by MJCI and MCI amounting to ₱15.0 million and ₱10.0 million, respectively. This was offset by the sale of retail treasury bonds (presented as financial assets as FVOCI) amounting to ₱0.9 million and downward fluctuation of the fair value of their financial assets amounting to ₱1.4 million.
   b. Increase in deferred input vat by ₱1.9 million and the amortization of franchise fee amounting to ₱1.8 million.

Total current liabilities in 2018 increased due to the following:

9. Short-term loans and borrowings increased by ₱54.6 million in 2018 from ₱234.0 million as of December 31, 2017 to ₱288.6 million as of December 31, 2018. The increase is the net result of additional short-term loans availed in 2018 totaling to ₱124.0 million and the repayments made during the year amounting to ₱69.4 million.

10. Accounts payable and other liabilities mainly increased as a result of the following:
    a. Increase in percentage tax payable ₱27.4 million (from ₱18.5 million as of December 31, 2017 and ₱45.9 million as of December 31, 2018). This pertains to taxes on commission income from cockfighting operations.
    b. Increase in cash bond on OTB/OCB operators of ₱5.5 million.
    c. Increase in unclaimed winnings of ₱9.0 million.
    d. Increased in documentary stamp tax payable for house racing activity of ₱1.9 million.

11. The Group's income tax payable amounted to Php14.6 million in 2018 which pertains to income tax due from the Parent Company and Manila Cockers Club, Inc. (MCI) (Php9.5 million and Php5.1 million, respectively).

Total noncurrent liabilities decreased due to the following:

12. As of December 31, 2018 and 2017, net deferred tax liabilities amounted to ₱188.9 million and ₱218.5 million, respectively. The decrease of ₱29.6 million in 2018 is primarily attributable to the decrease in deferred tax liabilities on the unrealized gain from real estate transaction and unrealized deemed cost adjustment on real properties.

Total Equity decreased due to the following:

13. Decrease in actuarial gains on accrued retirement benefits of ₱10.2 million (from ₱27.6 million as of December 31, 2017 to ₱17.4 million as of December 31, 2018).

14. Decrease in retained earnings of ₱183.6 million (from ₱2,854.1 million as of December 31, 2017 to ₱2,670.5 as of December 31, 2018). The decrease pertains to the following:

    a. Cash dividend decreased in 2018 totaling ₱49.8 million.
    b. Net loss recognized by the Group for the year 2018 amounting to ₱138.1 million.

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

Total Assets decreased due to the following:

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

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

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

- Dividends received amounting to ₱20.9 million
- Interest received amounting to ₱12.5 million
- Payment on advances to an associate amounting to ₱152.3 million
- Payment for the acquisition of Retail Treasury Bonds amounting to ₱22.0 million
- Payment for the acquisition of property and equipment amounting to ₱30.7 million
- Payment for the acquisition of investment property amounting to ₱10.2 million
- Increase in other noncurrent assets amounting to Php2.5 million

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

16. Decrease in receivables is due to the following:

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

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

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

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

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

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

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

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

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

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

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

Total current liabilities in 2017 increased due to the following:

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

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

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

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

Total noncurrent liabilities decreased due to the following:

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

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

Total Equity decreased due to the following:

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

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

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

TOP KEY PERFORMANCE INDICATORS:

	2018	2017
Current ratio	**0.76**	**0.89**
Debt to equity ratio	**0.08**	**0.06**
Asset to liability ratio	**4.98**	**5.68**
Asset to equity ratio	**1.25**	**1.21**
Interest rate coverage ratio	**2.60**	**3.09**
Sales to revenue ratio	**0.18**	**0.23**
Loss per share	**(₱0.1343)**	**(₱0.1198)**

Ratio Computation

Current ratio is computed by dividing current assets amounting to ₱538.0 million and ₱525.7 million as of December 31, 2018 and 2017, respectively over current liabilities amounting to ₱704.0 million and ₱591.5 million as of the same years. This indicates the ability of the company to pay its current liabilities using its current assets. Current ratio decreased in 2018 by 0.13.

Debt to equity ratio shows the extent to which the firm is financed by debt. It is computed by dividing interest-bearing debts by total equity. Total interest-bearing debts as of December 31, 2018 and 2017 amounted to ₱288.6 million and ₱234.0 million, respectively, while total equity as of December 31, 2018 and 2017 amounted to ₱3,776.8 million and ₱3,976.1 million, respectively.

The asset to liability ratio is also computed. This shows the relationship of the total assets of the Group with its total liabilities. Total assets as of December 31, 2018 and 2017 amounted to ₱4,725.6 million and ₱4,826.0 million, respectively, while the corresponding total liabilities as of December 31, 2018 and 2017 amounted to ₱948.9 million and ₱849.8 million, respectively.

Asset to equity ratio shows the relationship of total assets to the portion owned by shareholders. The formula for this ratio is total assets over total equity. As of December 31, 2018 and 2017, total assets amounted to ₱4,725.6 million and ₱4,826.0 million, respectively, while total equity amounted to ₱3,776.8 million and ₱3,976.2 million as of December 31, 2018 and 2017, respectively.

Interest rate coverage ratio indicates a group's ability to cover interest charges or finance costs. The ratio is derived by dividing the group's earnings/(losses) before interests, taxes, depreciation and amortization (EBITDA) over interest charges. For the year 2017 and 2016, EBITDA amounted to ₱24.6 million and ₱17.6 million, respectively. Finance costs, exclusive of bank charges amounted to ₱9.5 million and ₱5.7 million for years 2018 and 2017, respectively.

Sales to total revenue ratio is computed by dividing the income from horse racing amounting to ₱141.7 million and ₱186.1 million for years 2018 and 2017, respectively, to total revenue of the Group amounting to ₱953.4 million for the year ended December 31, 2018 and ₱756.1 million for the year ended December 31, 2017. It indicates the performance by percentage of the income from horse racing to total revenue of the Group. Sales and other revenues indicate the over-all performance of the Group as it conducts horse races.

Earnings (loss) per share is computed by dividing net income/(loss) attributable to equity holders of the parent company against the weighted average number of outstanding common shares. Net losses attributable to equity holders of the Parent Company amounts to ₱139.0 million and ₱119.8 million for years ended 2018 and 2017, respectively. In 2018 and 2017, the weighted average of outstanding common shares is 996.2 million.

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

IV. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Interim Financial Statements as of March 31, 2019 and 2018

Discussion on Operating Results for the Periods Ended March 31, 2019 and 2018

Revenues

Income from club races decreased by ₱8.0 million from ₱41.6 million for the period ended March 31, 2018 to ₱33.6 million for the same period in 2019. There were twenty-six (26) racing days from January to March 2019 compared to twenty-seven (27) for the same period in 2018.

Income from cockfighting operations for the period March 31, 2019 amounted to ₱324.7 million and ₱86.6 million for the same period in 2018 or an increase of ₱238.1 million. The cockfighting operation has become fully operational and revenue is increasing as a result of increase in the number of cockfights or derbies as well as cockfighting days. Fights/derbies were up from 1,495 in first quarter of 2018 to 3,743 for the same period in 2019. There were also 68 cockfighting days in 2019 compared to only 47 days in 2018.

The Group recognizes income from real estate sale which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Revenue from real estate is recognized under the percentage of completion (POC) method. The company recognized negative revenue for the period ended March 31, 2019 amounting to ₱0.5 million. For the same period in 2018, the Parent Company recognized a revenue amounting to ₱19.2 million. There were six (6) new sales in 2018 while only one (1) in 2019. The two (2) real estate units that were cancelled in 2019 also contributed to the negative revenue. No cancellations were recorded in 2018.

Revenue from sale of food and beverages increased by ₱1.1 million from ₱5.0 million for the period ended March 31, 2018 to ₱6.1 million covering the same period in 2019. Sales from food and beverages increased in 2019 as it has a direct effect on the greater number of cockfighting days compared to 2018.

Other revenues decreased by ₱0.3 million from ₱0.7 million for the period ended March 31, 2018 to ₱0.4 million for the same period in 2019. The decrease came primarily from the money changing operations of the Group's subsidiary, MJC Forex Corp.

Other Income

For the period ended December 31, 2019 and 2018, equity in net losses of associates and joint venture amounted to ₱22.8 million and ₱33.3 million, respectively. The losses recognized in the current period is due to the equity share in the net losses of MIC amounting to ₱30.7 million. These are tapered by the equity share in net earnings of SLBPO amounting to ₱7.9 million for the same period in 2019.

Interest income relates to real estate receivables, cash and cash equivalents and advances and loans to officers and employees. Interest income for the period ended March 31, 2019 amounted to ₱2.9 million compared to ₱6.9 million for the same period in 2018 or a decrease of ₱4.0 million. The decrease came primarily from the interest income from accretion of real estate receivables due to the cancellation of previously sold real estate units.

Other income – net increased by ₱1.9 million from ₱4.0 million for the period ended March 31, 2018 to ₱5.9 million for the same period in 2019. Income from advertising campaigns as well as parking fees increased in 2019. Income from subscriptions was also recognized in 2019 while there was nil in 2018.

Expenses

Cost of Sale and Services

Cost of racing services decreased by ₱8.8 million from ₱49.9 million for the period ended March 31, 2018 to ₱41.1 million for the same period in 2019. Taxes and licenses decreased by ₱5.9 million. No documentary stamp tax (DST) is recognized in 2019 as expense as it is properly recorded and remitted during the period compared to 2018 that the DST was not deducted from the total racing sales before dividends were paid to winning bettors. Commission paid to OTB operators also decreased as racing sales in 2019 declined. Commission given to OTB operators depends on the racing sales generated by the OTB station.

Direct costs from cockfighting increased by ₱127.3 million from ₱52.2 million for the period ended March 31, 2018 compared to ₱179.5 million for the same period in 2019. Percentage taxes, commission, breeders' subsidy, rent, cost of gamefowls and tellers' allowances are the expenses with significant increases in 2019. These expenses increased as there were more derbies/fights and greater number of cockfighting days in 2019 compared to 2018.

Cost of real estate pertains to the cost of real estate property recognized under the percentage of completion method, if the criteria of full accrual method are not satisfied. For the periods ended March 31,2019 and 2018, cost of real estate amounted to (₱0.2) million and ₱3.2 million, respectively. The decrease of ₱3.3 million is due to lesser number of real estate units sold in 2019 doubled by the reversal to inventory account of the cost of previously sold real estate units.

Rental cost of services increased by ₱0.5 million from ₱11.7 million for the period ended March 31, 2018 to ₱12.2 million for the same period in 2019. Software license from gaming operations is recognized as expense in 2019. Security services increased in 2019 by ₱0.2 million.

Cost of food and beverage amounted to ₱7.4 million and ₱6.6 million for the periods ended March 31, 2019 and 2018, respectively. The increase amounting to ₱0.9 million came primarily from purchased stocks, utilities and personnel costs.

The cost of sales for "Others" amounted to ₱2.1 million and ₱4.7 million for the periods ended March 31, 2019 and 2018, respectively. It decreased by ₱2.6 million in 2019. The variance relates mainly to the decrease in dollar purchases during the period.

General Operating Expenses

General and administrative expenses constitute costs of administering the business. For the period ended March 31, 2019, general and administrative expenses amounted to ₱85.1 million compared to ₱68.2 million for the same period in 2018. It increased by ₱19.9 million. Significant increases in general and administrative expenses include taxes and licenses for local business taxes; professional fees like legal and audit fees and personnel costs.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted from ₱1.5 million for the period ended March 31, 2018 to ₱0.04 million for the same period in 2019. There was only one real estate unit sold for the first quarter of 2019 compared to six units for the same period in 2018.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱4.5 million and ₱2.1 million for the periods ended March 31, 2019 and 2018, respectively, or an increase of ₱2.4 million which is due to the increase in outstanding principal balances of bank loans as of the end of year 2018.

Discussion on some Significant Changes in Financial Condition as of March 31, 2019 and December 31, 2018

Total assets increased due to the following:

1. For the period ended March 31, 2019, cash and cash equivalents amounted to ₱384.4 million from ₱332.3 million as of December 31, 2018. The increase can be attributed to collections brought about by the increase in revenue generated from cockfighting operations due to the increasing number of fights/derbies and cockfighting days.

2. Receivables, including real estate receivables-net of current portion increased by ₱36.0 million from ₱141.3 million as of December 31, 2018 to ₱177.3 million as of March 31, 2019. Receivable from off-track betting operators, current portion of real estate receivables and dividend receivable from a joint venture partner increased during the period.

3. Inventories decreased by ₱1.1 million in the current period from ₱54.6 million as of December 31, 2018 to ₱53.5 million as of March 31, 2019. The decrease came from the inventory on gamefowls.

4. Other current assets increased by ₱5.4 million from ₱9.8 million as of December 31, 2018 to ₱15.2 million as of March 31, 2019. The increase came from prepaid expenses like insurance and software licenses; input VAT on purchases and prepaid income taxes on creditable withholding taxes.

5. Investments in and advances to associates and joint ventures amounted to ₱2,142.6 million and ₱2,132.1 million as of March 31, 2019 and December 31, 2018, respectively. This account was decreased by the equity share in the net losses of MIC for the current period amounting to ₱30.7 million. It is also decreased by the dividends declared by SLBPO for the Parent Company amounting to ₱6.7 million. These decreases were tapered by the equity share of the Parent Company from the net earnings of SLBPO amounting to ₱7.9 million and the additional advances made by the Parent Company to MIC during the current period totaling to ₱40.0 million. The ne t effect of the decreases and increases amounted to ₱10.5 million.

6. Property and equipment decreased from ₱831.8 million as of December 31, 2018 to ₱825.4 million as of March 31, 2019. The decrease in property and equipment amounting to ₱6.4 million in the current period is the net effect of the depreciation charges recognized and the acquisitions of property and equipment during the period.

7. Investment properties decreased by ₱3.2 million from ₱1,094.8 million as of December 31, 2018 to ₱1,091.6 million as of March 31, 2019. The decrease is due to the depreciation charges recognized during the period for the Vertex One building.

8. Other noncurrent assets increased by ₱0.2 million from ₱65.7 million as of December 31, 2018 to ₱65.9 million as of March 31, 2019. The variance is the net effect of the increase in deferred input VAT and deposits and the decrease in franchise fee.

Total Current Liabilities increased due to the following:

9. Short-term loans and borrowings decreased by ₱17.6 million in the current period from ₱288.6 million as of December 31, 2018 to ₱271.0 million as of March 31, 2019. The decrease refers to the repayments made during the period.

10. Accounts payable and other liabilities increased by increased by ₱60.6 million from ₱386.1 million as of December 31, 2018 to ₱447.0 million as of March 31, 2019.Documentary stamps payable increased by ₱11.1 million due to higher sales generated in March 2019 as it has 10 racing days compared to December 2018 which had 7 racing days. Documentary stamp tax is computed based on gross receipts. There were also increases in unclaimed winnings by ₱17.2 million, cash bond from OTB/OCB operators by ₱2.1 million and percentage tax payable by ₱12.5 million.

11. Income tax payable increased by ₱19.1 million from ₱14.6 million as of December 31, 2018 to ₱33.7 million as of March 31, 2019. The increase refers mainly to the income tax expense recognized by the Group covering the first quarter of 2019.

12. Due to related parties amounted to ₱13.7 million as of March 31, 2019 and December 31, 2018.

Total Noncurrent Liabilities decreased due to the following:

13. Accrued retirement benefits as of December 31, 2018 amounted to ₱55.9 million and ₱49.5 million as of March 31, 2019. The decrease amounting to ₱6.4 million is the net effect of the contributions made to the retirement fund during the current period amounting to ₱9.7 million and the retirement expense recognized amounting to ₱3.3 million.

Total Equity increased due to the following:

14. Retained earnings increased by ₱18.8 million from ₱2,670.5 as of December 31, 2018 to ₱ 2,689.3 million as of March 31, 2019. The increase ₱18.8 million increase pertains to the net earnings of the Group covering the first quarter of 2019.

15. Non-controlling interest decreased by ₱0.5 million in the current period which represents primarily the 56.87% share of minority interest in the net losses of ARWRI for the period ended March 31, 2019.

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.

TOP FIVE (5) KEY PERFORMANCE INDICATORS:

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

	MAR 2019	DEC 2018
Current Ratio	**0.82**	0.77
Asset to Liability Ratio	**4.78**	4.79
	MAR 2019	MAR 2018
Sales to Revenue Ratio	**0.09**	0.24
Sales to Expenses Ratio	**0.10**	0.21
Earnings Per Share	**₱0.0189**	(₱0.0524)

Current ratio or working capital ratio is a measure of a company's liquidity or its ability to meet maturing obligations. It is computed by dividing current assets over current liabilities. Total current assets as of March 31, 2019 and December 31, 2018 amounted to ₱630.3 million and ₱538.0 million, respectively. As of March 31, 2019, and December 31, 2018, total current liabilities amounted to ₱765.4 million and ₱703.1 million, respectively. The Group's current ratio of 0.82 shows that it has ₱0.82 current assets to support ₱1.00 current liabilities.

The asset to liability ratio or solvency ratio exhibits the relationship of total assets with total liabilities. It is computed by dividing total assets over total liabilities. As of March 31, 2019, and December 31, 2018, total assets amounted to ₱4,799.8 million and ₱4,725.7 million, respectively while total liabilities as of March 31, 2019 amounted to ₱1003.8 million and ₱948.0 million as of

December 31, 2018. The Group's asset to liability ratio of 4.78 shows that for every ₱1.00 liability, it has a ₱4.78 asset to support it.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the periods ended March 31, 2019 and 2018 amounted to ₱33.6 million and ₱41.6 million, respectively. Total operating revenue for the period ended March 31, 2019 amounted to ₱383.0 million and ₱172.7 million for the same period in 2018.

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 periods ended March 31, 2019 and 2018 amounted to ₱33.6 million and ₱41.6 million, respectively, while total expenses amounted to ₱ 331.7 million for the period ended March 31, 2019 and ₱200.0 million for the same period in 2018.

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 income attributable to equity holders of the parent company for the period ended March 31, 2019 amounted to ₱ 18.8 million while there was a net loss attributable to the equity holders of the parent company for the period ended March 31, 2018 amounting to ₱52.2 million. The weighted average number of outstanding common shares as of March 31, 2019 and 2018 totaled to 996.2 million.

V. BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

(1) Business Development

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

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

The Parent Company is presently engaged in the construction, operations and maintenance of a racetrack located in Cavite, Philippines and in the holding or conducting of horse races therein with bettings both directly or indirectly by means of mechanical, electric and/or computerized totalizator. It has a congressional franchise granted on November 23, 1997 under Republic Act (R.A.) No. 8407 to hold such races and to maintain the race track, which will expire on November 23, 2022. The Parent Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (JV) arrangements with certain developers.

Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2018	2017
Subsidiaries					
Biohitech Philippines, Inc. (Biohitech)	Philippines	Waste management	Philippine Peso	**50.00**	50.00
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	**100.00**	100.00
New Victor Technology, Ltd.(NVTL)	Hong Kong	Gaming	Philippine Peso	**100.00**	100.00
San Lazaro Resources and Development Corporation (SLRDC)	Philippines	Real estate	Philippine Peso	**100.00**	100.00
SLLP Holdings, Inc. (SLLPHI)	Philippines	Holdings	Philippine Peso	**100.00**	100.00
Hi-Tech Harvest Limited	Hong Kong	Marketing	Philippine Peso	**100.00**	100.00
Apo Reef World Resorts, Inc. (ARWRI)	Philippines	Beach Resorts Complex	Philippine Peso	**56.87**	56.87
Joint Ventures					
Gamespan, Inc. (Gamespan)	Philippines	Gaming	Philippine Peso	**50.00**	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	**30.00**	30.00
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	**22.31**	22.31
Techsystems, Inc. (Techsystems)	Philippines	Information technology	Philippine Peso	**33.33**	33.33

Subsidiaries

The Parent Company holds 100% interest in SLLP Holdings, Inc. (SLLPHI) and San Lazaro Resources and Development Corporation (SLRDC), which are both incorporated and domiciled in the Philippines. The Parent Company holds a 50% interest in Biohitech Philippines, Inc. (Biohitech), a domestic corporation.To date, SLLPHI, SLRDC and Biohitech have yet to start commercial operations.

On August 16, 2010, the Parent Company formed and organized another wholly owned domestic corporation, MJC Forex Corporation (MFC). It is engaged in the business of money changing or currency exchange and dealing and brokering in all currencies with local or foreign individuals and other entities. It started its commercial operations on May 29, 2012.

On July 23, 2013, the Parent Company formed and organized a wholly owned domestic corporation, Gametime Sports & Technologies, Inc. (Gametime). The primary purpose of Gametime is to design, conceptualize, operate and provide technological service and advancements and/or alternative technological facilities for sports and recreational gaming through multiple platforms. It started its commercial operations in 2016.

On September 23, 2013, another wholly owned domestic corporation was organized, the Manilacockers Club, Inc. Its primary purpose is to engage in the business of cockfighting which include but not limited to the construction, establishment and operation of cockpits, the conduct and broadcast of cockfights, and the accepting of bets thereon through conventional and electronic means. It started its commercial operations on December 5, 2015.

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

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

In 2015, a new wholly owned subsidiary was incorporated in Hong Kong under the corporate name of Hi-Tech Harvest Limited. The primary purpose of this subsidiary is for the marketing and advertising of the cockfighting operations of MCI and the services provided by Gametime to the international setting and possible customers. As of December 31, 2018, Hi-tech Harvest Limited has not yet started commercial operations.

On February 22, 2016, the Parent Company entered into a share purchase agreement with ACL Development Corporation ("ACL") to purchase 9.8 million shares of ARWRI, a company owning parcels of land in Mamburao, Mindoro, for a total consideration of P9.9 million. Furthermore, on August 25, 2016, the Company paid P20.0 million to subscribe to 80.0 million shares of ARWRI at par value of P1.00 per share, equivalent to P=80.0 million, after ARWRI increased its authorized capital stock from 100.0 million shares to 200.0 million shares. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3, Business Combination, and was therefore accounted for as an acquisition of assets.

As of December 31, 2018 and 2017, the Parent Company has an outstanding subscription payable to ARWRI amounting to P37.0 million and P48.5 million, respectively, which are eliminated in the consolidated financial statements.

Associates

On January 23, 2009, the Parent Company acquired a 50.23% interest in MJC Investments Corporation, doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC), a publicly listed company incorporated and domiciled in the Philippines. The acquisition was made in accordance with the provisions of the Memorandum of Agreement (MOA) entered into by both parties in 2008, wherein the Parent Company will transfer its non-core assets to MIC under a property for share exchange subject to agreed conditions. In 2013, after the investments made by the 18 Strategic Investors in MIC, the Parent Company still has significant influence over MIC through its retained interest of 28% in MIC. As of December 31, 2018 the Parent Company still has a 22.31% interest in MIC.

The Parent Company has a 33% ownership in Techsystems, Inc. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the

Parent Company. As of December 31, 2018, Techsystems has not yet started commercial operations.

Joint Ventures

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

Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation. As of December 31, 2018, Gamespan has not yet started its commercial operations.

Bankruptcy Proceedings

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

Material Reclassification, Merger, Consolidation

No material reclassification, merger, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business that occurred during the calendar year ending December 31, 2018.

(2) Business Description

RACING OPERATIONS

(1) Horse Races

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

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

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

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

The Company is expanding its OTB network in Metro Manila as well as in provincial areas. As of December 31, 2018, the Company now has a total of 210 quality OTB stations, 45 of which are located in provincial areas. The OTB sales account for 92.02% of the total sales generated from the races.

(3) Competition

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

(4) Government Regulations

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

(5) Risks

(a) Disease

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

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

(b) Weather

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

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

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

REAL ESTATE DEVELOPMENT

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

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

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

Township Development Components:

1. Racing Business

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

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

3. Real Estate Business

   Canyon Ranch

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

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

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

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

4. MCC Arena

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

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

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

In 2018, there were 28 derbies held at the Cockers Arena which happened across 228 cockfighting days. Total sales amounted to Php8,414,557,858.00 which came from the following: OTB sales Php7,090,588,409.00, On-site sales (1,034,951,225), and Fastbet sales (289,018,224). Guaranteed cash prize for 2017, amounted to (81,550,026)

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

5. PFF-FIFA Football National Training Center

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

The construction of the pitch from the sub base layer, drainage system up to the turf and infill of the pitch was done by ACT Global and Specicon Philipines Inc., the accredited contractors for the Goal Project 3. The artificial turf has also been installed with aluminum goal posts, nets, team benches and pathways. The field was inaugurated 9 September 2017. Shortly thereafter, the field was tested and passed the requirements as a FIFA Quality Pro Turf pitch.

6. MJC Multi-Purpose Pitch

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

Thru 2016 & 2017, the centerfield hosted several MJC-sponsored sporting events, including: Copa San Lazaro, MJC's very own bi-annual football tournament; Mabuhay Futbol League tune-up games; Kiwanis Futbol Festival and several practice games from different football clubs in the area. Of note in 2017 MJC Partnered with the Manila Nomads Rugby Club top bring the Manila 10s to the San Lazaro Leisure & Business Park. This International Social Rugby Tournament was dubbed by ESPN as the "BEST SOCIAL RUGBY TOURNAMENT IN THE WORLD". To complement these events, twenty (20) 20-seater bleachers and outdoor tents were purchased. Further plans are being studied to further improve the area and increase foot traffic.

Finally, as part of its CSR activities, the company also launched the MJC Football Academy. The program holds free football clinic is open to all children and young adults residing in the surrounding barangays with the aim of providing better opportunities to the youth through sports.

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

Township Development Components:

1. SM City San Lazaro
2. Ayala Land Inc. Joint Venture Developments

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

    b. ALVEO

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

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

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

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

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

Celadon Residences (Alveo)

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

Celadon Park (Alveo)

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

Avida Towers (AVIDA)

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

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

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

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

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

Philippine Economic Zone Authority (PEZA) – Winford Hotel

Presidential Proclamation No. 1727 signed by President Arroyo on February 13, 2009, created and designated several parcels of land owned by the Company at the site of the former San

Lazaro race track in Sta. Cruz, Manila consisting of 74,244 square meters, as a tourism economic zone with information technology component and to be known as the San Lazaro Tourism and Business Park.

Pursuant to the proclamation, the Company's affiliate, MJIC and the PEZA signed on February 24, 2015, the Registration Agreement to entitle MJIC to develop and operate as tourism economic zone. A certificate of registration was thereafter, issued.

Philippine Economic Zone Authority (PEZA) – Carmona Property

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

Philippine Economic Zone Authority – Sta. Cruz Property

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

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

Apo Reef World Resorts Inc. / Mamburao Property

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

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

Moreover, APO Reef World Resorts Inc. is approximately 34 nautical miles, from Apo Reef, the second largest contiguous coral reef in the world and the largest in the Philippines. Proclaimed as *Protected Area* under the category of National Park. Its diverse corals are approximately 34 sq.

km. of reef where different species of fish, marine mammals and invertebrates thrive. This shall serve as the main attraction for the development, which aims to boost both local and international tourism in the country. APO Reef World Resorts aims to become a diving mecca and getaway destination to tourist all around the world.

GAMING OPERATIONS

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

The Company has a total of 200 slot machines, 135 of which are company-owned while 65 are on a revenue-sharing arrangement with Jade Entertainment and Gaming Corporation. Based on the lease contract with PAGCOR, the company shall supply 200 slot machines together with the floor management system. In consideration thereof, the Company shall receive thirty-five percent (35%) of the gross win as its share from the VIP Club.

With regards to the gaming pit, PAGCOR leases from the Company an area of 189.231 square meters for the table games P587.08 per square meter subject to an escalation rate of 5% per year. The Lease commenced on January 16, 2019 and will end on January 15, 2022.

On March 18, 2010, MJC Investments Corporation was granted a Permit to Operate by PAGCOR for the establishment, maintenance and operation of casino namely, PAGCOR San Lazaro, within the San Lazaro Tourism and Business Park.

Employees

The Company has raceday and monthly employees.

As of December 31, 2018, the total number of raceday employees is 418 employees. On the other hand, the total number of monthly rank and file employees and officers is 202 employees.

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

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

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

ITEM 2. PROPERTIES

(1) Sta. Cruz and Carmona, Cavite Property

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

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

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

(2) <u>Undivided Interest in a parcel of land</u>

The Company also has an undivided interest in a parcel of land in Batangas which has a carrying value amounting to P56.7 million as of December 31, 2018.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

VI. COMPANY'S DIRECTORS AND EXECUTIVE OFFICERS

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

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

1. *Market Information*

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

Quarter Period	CY 2019		CY 2018		CY 2017	
	High	Low	High	Low	High	Low
1st Quarter	5.34	4.64	6.82	4.10	2.79	2.00
2nd Quarter	-	-	5.91	3.83	2.65	2.20
3rd Quarter	-	-	6.22	4.00	3.25	2.00
4th Quarter	-	-	5.91	4.50	6.56	2.70

Source: Philippine Stock Exchange, Inc.

As of May 21, 2019, the closing price of the Company's common shares in the PSE is at PhP 3.79 per share.

2. ***Holders***

As of May 2, 2019, there are approximately 956 holders of common shares of the Company.

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

Top Twenty (20) Stockholders as of May 2, 2019

Stockholder Name	Number Of Shares	Percentage
PCD Filipino	510,413,071.00	51.24%
ARCO EQUITIES INC.	98,770,857.00	9.92%
REYNO JR., ALFONSO R.	65,947,940.00	6.62%
ROBLES, EXEQUIEL D.	56,911,100.00	5.71%
REDWOOD OAK VENTURES, INC.	42,524,305.00	4.27%
PCD Non-Filipino	33,978,788.00	3.41%
ARCO EQUITIES, INC.	32,024,509.00	3.21%
ESPIRITU, EDGARDO B.	23,963,405.00	2.41%
PALOS VERDES REALTY CORP.	23,435,143.00	2.35%
JUT HOLDINGS, INC.	11,497,077.00	1.15%
TORMIL REALTY & DEVELOPMENT CORP.	10,585,992.00	1.06%
MORALES, DANTE D. MORALES &/OR MARIA LUISA T.	9,567,731.00	0.96%
VILLARAZA, F. ARTHUR L.	9,182,246.00	0.92%
BONAVENTURE DEVELOPMENT CORPORATION	6,917,295.00	0.69%
TAN, RUDDY C.	3,978,166.00	0.40%
DOMINGO, FERDINAND A.	3,548,030.00	0.36%
APEX MANAGEMENT & DEVELOPMENT GROUP INC.	3,398,275.00	0.34%
STA. LUCIA REALTY DEVELOPMENT,INC.	2,869,066.00	0.29%
CHAN, VICTOR G.	2,466,461.00	0.25%
PRIETO, MONICA L.	2,172,921.00	0.22%

3. ***Dividends***

Cash dividends were declared for the years ended December 31, 2018, 2017 and 2016 as follows:

	2018	2017	2016
Cash Dividend Per Share (PhP)	₱0.05	₱0.05	₱0.05
Declaration Date	April 12, 2018	July 4, 2017	May 24, 2016
Record Date	May 7, 2018	July 18, 2017	June 10, 2016
Payment Date	May 31, 2018	July 30, 2017	June 30, 2016

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

4. ***Recent sale of unregistered securities***

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

VIII. CORPORATE GOVERNANCE

(a) Evaluation System To Measure Compliance with Manual of Corporate Governance

The Company evaluates compliance with the Code of Corporate Governance for Publicly-Listed Companies ("CG Code") using the Integrated Annual Corporate Governance Report ("I-ACGR").

(b) Measures Being Undertaken to Fully Comply with Leading Practices on Good Corporate Governance

The Company exerts its best efforts to comply with the provisions of the CG Code and its Revised Manual on Corporate Governance (the "Manual"). The directors and key officers of the Company attend the Corporate Governance Seminar mandated by the SEC.

(c) Plan to Improve Corporate Governance

The Company shall continue to exert its best efforts to comply with the provisions embodied in the CG Code and its Manual. It shall also endeavor to address the recommendations of the I-ACGR said Manual.

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

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

MANILA JOCKEY CLUB, INC.

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

CERTIFICATION

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

IN WITNESS WHEREOF, I have signed this Certificate on this 20th of MAY 2019, 2019 at Pasig City, Philippines.

CHINO PAOLO Z. ROXAS
Corporate Information Officer

SUBSCRIBED AND SWORN to before me this 22 MAY 2019 at Pasig City, affiant exhibiting to me his Tax Identification No. 268-712-136.

Doc. No. 392;
Page No. 66;
Book No. VI;
Series of 2019.

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. 159 (2018-2019)
UNTIL DECEMBER 31, 2019
PTR NO. 5228066/1-7-2019/PASIG
IBP NO. 059263//1-7-2019/ QC
CITIES OF PASIG SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

CERTIFICATION OF INDEPENDENT DIRECTORS

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

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

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

Company	Position/Relationship	Period of Service
Destiny Lend Fund Inc.	Independent Director	2017 to present

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

4. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

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

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

DONE this day of 22 MAY 2019 2019 at Pasig City.

VICTOR C. FERNANDEZ
Affiant

SUBSCRIBED AND SWORN to before me this day of 22 MAY 2019 at Pasig City, affiant personally appeared before me and exhibited to me his Tax Identification No. 155-565-214 issued in the Philippines.

Doc. No. 331;
Page No. 66;
Book No. VI;
Series of 2019.

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. 169 (2018-2019)
UNTIL DECEMBER 31, 2019
PTR NO. 5228066/1-7-2019/PASIG
IBP NO. 059263//1-7-2019/ QC
CITIES OF PASIG SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **VICTOR B. VALDEPEÑAS**, Filipino, of legal age and a resident of No. 6 Vernon St., Filinvest Homes I, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of Manila Jockey Club, Inc. ("MJC") and have been its Independent Director since 2015.

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

Company	Position/Relationship	Period of Service
Dusit Hospitality Education Philippines	Director	
Foodshere Inc.	Director	
HUMWA Philippines	Director	
V1 Bus Lines	Director	

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

4. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

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

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

DONE this day of 22 MAY 2019 2019 at Pasig City.

Vdaepenas

VICTOR B. VALDEPENAS
Affiant

SUBSCRIBED AND SWORN to before me this day of 22 MAY 2019 at Pasig City, affiant personally appeared before me and exhibited to me his Tax Identification No. 106-906-639 issued in the Philippines.

Doc. No. 333
Page No. 66;
Book No. VI;
Series of 2019.

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. 169 (2018-2019)
UNTIL DECEMBER 31, 2019
PTR NO. 5228066/1-7-2019/PASIG
IBP NO. 059263//1-7-2019/ QC
CITIES OF PASIG SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

MANILA JOCKEY CLUB, INC.

RACING SINCE 1867

March 29, 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MANILA JOCKEY CLUB, INC.** Is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as of and for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Alfonso G. Reyno III
President and Chief Operating Officer

Nestor N. Ubalde
Chief Financial Officer

Signed this ___ day of 11 APR 2019.

SUBSCRIBED AND SWORN TO before me this 11 APR 2019 at PASIG CITY affiant exhibiting to me his / her Conpetent evidence of Identity.

Passport No. P9293732A, 07/07/2017, DFA Manila
Passport No. P1394618A, 12/27/2016, DFA Manila
DL No. 4-89 106906, 03/04/2023, Quezon City

DOC. NO. 249;
PAGE NO. 49;
BOOK NO. VI;
SERIES OF 2019;

JING-JING S. ROMERO
NOTARY PUBLIC
APPOINTMENT NO. 169 (2018-2019)
UNTIL DECEMBER 31, 2019
PTR NO. 5228066/1-7-2019/PASIG
IBP NO. 059263//1-7-2019/ QC
CITIES OF PASIG SAN JUAN AND PATEROS
ROLL OF ATTORNEY NO. 60827

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Jockey Club, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required by Revenue Regulations 15-2010 in Note 33 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila Jockey Club, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the parent company financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2017, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332568, January 3, 2019, Makati City

April 3, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

MANILA JOCKEY CLUB, INC.

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31 2018	2017
ASSETS		
Current Assets		
Cash (Note 6)	₱204,884,177	₱144,411,793
Receivables (Note 7)	198,392,708	277,570,411
Inventories (Note 8)	52,125,219	68,598,177
Other current assets (Note 9)	3,176,659	7,652,176
Total Current Assets	458,578,763	498,232,557
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	61,541,708	51,158,362
Investments in and advances to subsidiaries, associates and joint ventures (Note 10)	1,199,734,739	992,255,522
Property and equipment (Notes 11 and 28)	813,029,192	851,292,670
Investment properties (Notes 10, 12 and 14)	966,325,456	973,502,765
Other noncurrent assets (Notes 1 and 13)	55,701,034	65,251,047
Total Noncurrent Assets	3,096,332,129	2,933,455,366
	₱3,554,910,892	₱3,431,687,923
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 14)	₱288,636,040	₱234,000,000
Accounts payable and other liabilities (Note 15)	308,402,824	304,446,880
Income tax payable (Note 24)	9,482,701	–
Due to related parties (Note 25)	40,964,367	23,014,211
Subscription payable (Notes 1 and 25)	128,875,000	48,500,000
Total Current Liabilities	776,360,932	609,961,091
Noncurrent Liabilities		
Accrued retirement benefits (Note 20)	55,637,438	39,858,117
Deferred tax liabilities - net (Note 24)	188,910,255	218,520,696
Total Noncurrent Liabilities	244,547,693	258,378,813
	1,020,908,625	868,339,904
Equity		
Capital stock (Note 26)	996,170,748	996,170,748
Actuarial gains on accrued retirement benefits (Note 20)	17,413,770	27,637,707
Net cumulative changes in fair values of financial assets at FVOCI/AFS financial assets (Note 13)	4,597,612	4,950,148
Retained earnings (Note 26)	1,515,827,233	1,534,596,512
Treasury shares (Note 26)	(7,096)	(7,096)
Total Equity	2,534,002,267	2,563,348,019
	₱3,554,910,892	₱3,431,687,923

See accompanying Notes to Parent Company Financial Statements.

MANILA JOCKEY CLUB, INC.

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUES		
Club races	₱141,697,231	₱186,133,893
Real estate	112,116,802	122,882,258
Rent (Notes 11, 12 and 28)	170,385,083	110,206,085
Food and beverages	31,547,076	22,962,647
	455,746,192	442,184,883
COST OF SALES AND SERVICES (Note 16)		
Club races	185,571,840	181,301,153
Real estate (Note 8)	11,162,675	13,273,169
Rent	48,170,124	56,261,658
Food and beverages	30,540,261	21,972,152
	275,444,900	272,808,132
GROSS INCOME	180,301,292	169,376,751
General and administrative expenses (Note 17)	(224,226,977)	(198,962,955)
Selling expense (Note 8)	(10,508,951)	(12,072,532)
Finance costs (Notes 14 and 22)	(10,122,258)	(5,789,713)
Interest income (Notes 6, 7 and 21)	9,598,646	12,398,321
Other income - net (Note 23)	87,733,153	60,289,595
INCOME BEFORE INCOME TAX	32,774,905	25,239,467
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)		
Current	28,369,507	12,376,608
Deferred	(26,633,386)	(11,699,547)
	1,736,121	677,061
NET INCOME	31,038,784	24,562,406
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Net changes in fair value of financial assets measured at FVOCI/AFS financial assets (Note 13)	(375,889)	(12,473)
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax (Note 20)	(10,223,937)	3,503,985
Net changes in fair value of financial assets measured at FVOCI (Note 13)	23,353	–
TOTAL COMPREHENSIVE INCOME	₱20,462,311	₱28,053,918
Basic/Diluted Earnings Per Share (Note 32)	₱0.0312	₱0.0247

See accompanying Notes to Parent Company Financial Statements.

MANILA JOCKEY CLUB, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Capital Stock (Note 26)	Actuarial Gains on Accrued Retirement Benefits (Note 20)	Net Cumulative Changes in Fair Values of Financial Assets at FVOCI/AFS Financial Assets (Note 13)	Retained Earnings (Note 26)	Treasury Shares (Note 26)	Total
BALANCES AT DECEMBER 31, 2017	**₱996,170,748**	**₱27,637,707**	**₱4,950,148**	**₱1,534,596,512**	**(₱7,096)**	**₱2,563,348,019**
Total comprehensive income (loss) for the year	–	(10,223,937)	(352,536)	31,038,784	–	20,462,311
Cash dividends declared	–	–	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2018	**₱996,170,748**	**₱17,413,770**	**₱4,597,612**	**₱1,515,827,233**	**(₱7,096)**	**₱2,534,002,267**
BALANCES AT DECEMBER 31, 2016	₱996,170,748	₱24,133,722	₱4,962,621	₱1,559,842,166	(₱7,096)	₱2,585,102,161
Total comprehensive income (loss) for the year	–	3,503,985	(12,473)	24,562,406	–	28,053,918
Cash dividends declared	–	–	–	(49,808,060)	–	(49,808,060)
BALANCES AT DECEMBER 31, 2017	₱996,170,748	₱27,637,707	₱4,950,148	₱1,534,596,512	(₱7,096)	₱2,563,348,019

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

MANILA JOCKEY CLUB, INC.

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱32,774,905	₱25,239,467
Adjustments for:		
Depreciation (Note 18)	79,997,946	76,531,884
Dividend income (Note 23)	(53,586,673)	(41,027,257)
Finance costs (Note 22)	10,122,258	5,789,713
Interest income (Note 21)	(9,598,646)	(12,398,321)
Amortization of franchise fee (Notes 13 and 16)	1,794,000	1,794,000
Gain on sale of:		
Financial assets at FVOCI/AFS financial assets (Notes 13 and 23)	271,966	–
Property and equipment (Notes 11 and 23)	(25,000)	(100,000)
Unrealized foreign exchange loss - net (Note 23)	96,350	50,375
Impairment loss on AFS financial assets (Note 13)	–	50,000
Gain on reversal of liabilities (Note 23)	(5,400,000)	–
Operating income before working capital changes	56,447,106	55,929,861
Decrease (increase) in:		
Receivables	77,397,146	29,211,466
Inventories	10,932,642	13,283,807
Other current assets	4,475,517	(368,862)
Increase (decrease) in:		
Due to related parties	17,950,156	12,748,392
Accounts payable and other liabilities	7,562,550	16,180,854
Accrued retirement benefits (Note 20)	2,578,329	828,035
Cash generated from operations	177,343,446	127,813,553
Income taxes paid, including creditable withholding and final taxes	(18,886,806)	(12,376,608)
Net cash provided by operating activities	158,456,640	115,436,945
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in:		
Investments in and advances to subsidiaries, associates and joint ventures (Note 10)	(84,979,217)	(171,004,429)
Decrease (increase) in other noncurrent assets (Note 13)	22,131,512	(2,456,722)
Acquisition of:		
Property and equipment (Note 11)	(29,037,423)	(25,400,570)
Financial assets at FVOCI/AFS financial assets (Notes 13 and 23)	(15,000,000)	(22,000,000)
Proceeds from sale of property and equipment	–	91,360
Dividends received (Notes 10 and 23)	44,911,131	20,923,259
Interest received (Note 21)	9,711,979	12,316,719
Net cash used in investing activities	(52,262,018)	(187,530,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans and borrowings (Note 14)	124,000,000	217,000,000
Payments of:		
Short-term loans and borrowings (Note 14)	(69,363,960)	(63,000,000)
Subscriptions	(42,125,000)	(11,500,000)
Interest paid	(10,122,258)	(5,789,713)
Dividends paid (Note 26)	(48,014,670)	(49,968,704)
Net cash provided by (used in) financing activities	(45,625,888)	86,741,583
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(96,350)	(50,375)
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,472,384	14,597,770
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	144,411,793	129,814,023
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱204,884,177	₱144,411,793

See accompanying Notes to Parent Company Financial statements.

1. Corporate Information

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

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

The Company is presently engaged in the construction, operations and maintenance of a racetrack located in Cavite, Philippines, and in the holding or conducting of horse races therein with bettings both directly or indirectly by means of mechanical, electric and/or computerized totalizator. It has a congressional franchise granted on November 23, 1997 under Republic Act (R.A.) No. 8407 to hold such races and to maintain the race track, which will expire on November 23, 2022 (see Note 13). The Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (JV) arrangements with certain developers.

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

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

The parent company financial statements as at and for the years ended December 31, 2018 and 2017 were authorized for issuance by the Board of Directors (BOD) on April 3, 2019.

Investment in Subsidiaries, Associates and Interest in Joint Ventures

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2018	2017
Subsidiaries					
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	100.00	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	100.00	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	100.00	100.00
San Lazaro Resources and Development Corporation (SLRDC) [(a)]	Philippines	Real estate	Philippine Peso	100.00	100.00
SLLP Holdings, Inc. (SLLPHI) [(a)]	Philippines	Holdings	Philippine Peso	100.00	100.00
Hi-Tech Harvest Limited (Hi-Tech Harvest) [(a)]	Hong Kong	Marketing	Philippine Peso	100.00	100.00
Apo Reef World Resort, Inc. (AWRI) [(a)]	Philippines	Beach Resorts Complex	Philippine Peso	56.87	56.87
Biohitech Philippines, Inc. (Biohitech) [(a)]	Philippines	Waste management	Philippine Peso	50.00	50.00
Interest in Joint Ventures					
Gamespan, Inc. (Gamespan) [(a)]	Philippines	Gaming	Philippine Peso	50.00	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	30.00	30.00

(Forward)

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2018	2017
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MJC)	Philippines	Gaming	Philippine Peso	22.31	22.31
Techsystems, Inc. (Techsystems)[a]	Philippines	Information Technology	Philippine Peso	33.33	33.33

[a] *Not yet started commercial operation as of December 31, 2018*

On February 22, 2016, the Company entered into a share purchase agreement with ACL Development Corporation ("ACL") to purchase 9.8 million shares of ARWRI, a company owning parcels of land in Mamburao, Mindoro, for a total consideration of ₱9.9 million. Furthermore, on August 25, 2017, the Company paid ₱20.0 million to subscribe to 80.0 million shares of ARWRI at par value of ₱1.00 per share equivalent to ₱ 80.0 million after ARWRI increased its authorized capital stock from 100.0 million to 200.0 million shares.

As of December 31, 2018 and 2017, the Company has outstanding subscriptions payable to ARWRI amounting to ₱37.0 million and ₱48.5 million, respectively.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The parent company financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) in 2018 and available for sale (AFS) financial assets in 2017, which are carried at fair value. The Parent Company financial statements are presented in Philippine Peso (Peso or ₱), the Company's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

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

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018.

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The adoption of these amendments did not have any impact on the parent company financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

  The Company chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
  - The Company will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
  - The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening retained earnings or other component of equity, as applicable.
  - As comparative information is not restated, the Company is not required to provide a third statement of financial position at the beginning of the earliest comparative period presented.

As of January 1, 2018, the Company has reviewed and assessed all of its existing financial assets. The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Company in its evaluation of the classification and measurement categories under PFRS 9 are discussed in Note 4.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018:

	PAS 39		PFRS 9	
Financial Assets	Category	Amount	Amount	Category
Cash	Loans and receivable (L&R)			Amortized cost (AC)
Cash in bank		₱126,229,745	₱126,229,745	
Receivables	L&R	328,723,773	328,723,773	AC
Trade		215,313,898	215,313,898	
Advances and nontrade		113,409,875	113,409,875	
Deposits	L&R	3,375,580	3,375,580	AC
	L&R	₱458,329,098	₱458,329,098	
Investments in Debt and Equity Instruments[a]	AFS	₱35,199,339	₱35,199,339	FVOCI

(a) As of January 1, 2018, the Company have irrevocably designated all debt and equity investments as FVOCI as these investments are strategic in nature.

The Company does not have financial assets and financial liabilities which had previously been designated at FVTPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

The Company does not have impairment allowance in 2017 measured in accordance with PAS 39 that needs to be reconciled to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018.

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except receivables and those measured at FVTPL are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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 new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

  1. Identify the contracts with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue as the entity satisfies a performance obligation.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.
  The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to

all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018. Therefore, the comparative information were not restated and were reported under PAS 11, PAS 18 and related Interpretations.

The Company has concluded that it is acting as an agent in its club racing operations because the Company does not have exposure to the significant risks and rewards associated with the sale of goods or rendering of services. The amount the company earns is predetermined, being either fixed fee per transaction or a stated percentage of the amount billed to the customer. The Company acts as a principal in all other arrangements (i.e., real estate sales and rental services) because the Company is the primary obligor who is responsible for providing goods and services to the customers and the Company bears the credit risk.

The adoption of PFRS 15 as at January 1, 2018 did not have a material impact on the parent company financial statements.

The following table summarizes the revenue streams of the Company according to timing of recognition:

Point in time:	
Revenue from:	
Club races	**₱141,697,231**
Food and beverages	**31,547,076**
	₱173,244,307
Over time:	
Revenue from real estate*	**₱112,116,802**

**The real estate projects were already completed as at January 1, 2018.*

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

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

  The amendments are not applicable to the Company since none of the entities within the Company are considered as venture capital organization or other qualifying entities.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The adoption of these amendments did not result in any impact on the parent company financial statements.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  The adoption of this interpretation did not result in any impact on the parent company financial statements.

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income (OCI), provided that the contractual cash flows are SPPI on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- *Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures.*

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

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

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

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

  The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Company does not expect any effect on its financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

4. Summary of Significant Changes in Accounting Policies and Disclosures

Current versus Noncurrent Classification

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

Fair Value Measurement
The Company measures financial instruments at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 29.

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

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

The principal or the most advantageous market must be accessible by the Company.

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

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

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

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

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

- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

Financial Instruments – Classification and Measurement *(applicable starting January 1, 2018 upon adoption of PFRS 9)*
Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:
- financial assets measured at AC
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model. The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. The parent company has no losses arising from impairment.

The Company's financial assets at AC includes cash in banks, receivables and deposits.

Financial assets at fair value through other comprehensive income (FVOCI)
Debt instruments. A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

As of December 31, 2018, the Company elected to classify irrevocably all debt investments as financial assets at FVOCI.

Equity instruments. The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

As of December 31, 2018, the Company elected to classify irrevocably all equity investments as financial asset at FVOCI.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets at FVTPL are measured as at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the parent company statements of comprehensive income.

Additionally, even if the asset meets the AC or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Company does not have financial asset at FVTPL.

Classification of financial liabilities
Financial liabilities are measured at AC, except for the following:
- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

<u>Reclassifications of financial instruments *(applicable starting January 1, 2018 upon adoption of PFRS 9)*</u>
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

<u>Impairment of Financial Assets *(applicable starting January 1, 2018 upon adoption of PFRS 9)*</u>
PFRS 9 introduces a single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Company recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at AC and FVOCI;
- contract assets;
- trade receivables;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL. For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired. Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowance

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Company tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term

- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers certain debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Determining the stage for impairment. At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Company from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy

The Company writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Financial Assets and Financial Liabilities *(applicable until December 31, 2017 prior to the adoption of PFRS 9)*

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

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

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

The Company has no financial assets or liabilities at FVTPL and held-to-maturity investments as of December 31, 2017.

Determination of Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either i) in the principal market for the asset or liability; or ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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 FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the parent company statements of comprehensive income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cashflows of the original debt instrument, the financial liability is not derecognized.

"Day 1" Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the parent company statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only

recognized in the parent company statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the parent company statements of financial position if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

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

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

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

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

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

- Share of the revenue from services rendered jointly, recorded as part of the "Rent Income"
- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

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

Property and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU)'s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

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

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

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

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

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

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

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

The Company currently does not have potential dilutive common shares.

Revenue Recognition *(applicable starting January 1, 2018 upon the adoption of PFRS 15)*
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding incentives, output tax, and other sales taxes or duties.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as an agent in its club racing operations and as principal in all other arrangements (i.e., real estate sales and rental services).

Commission income from club races
Revenue is recognized at a point in time based on a percentage of gross receipts from ticket sales from horse racing operations in accordance with the Parent Company's franchise agreement.

Revenue from food and beverages
Revenue from food and beverage is recognized at point in time when the control of the goods is transferred to the customer, generally when the goods are delivered.

Real estate sales
The Parent Company derives its real estate revenue from sale of condominium units and memorial lots. Revenue from sales of real estate projects from the joint venture are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Parent Company's performance does not create an asset with an alternative use and the Parent Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Parent Company uses the output method. The Parent Company recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the third-party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the statements of financial position.

The real estate projects were already completed as of December 31, 2018.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the statements of financial position.

Cost recognition
The Company recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Revenue Recognition *(applicable until December 31, 2017 prior to the adoption of PFRS 15)*
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is received. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as an agent in its club racing and as principal in all other arrangements (i.e., real estate sales and rental services).

The specific recognition criteria described below must also be met before revenue is recognized.

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

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

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

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

Any excess of collections over the recognized revenue are included in the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the 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 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 statements of comprehensive income upon sale is determined with reference to the costs of the land contributed for the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

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

The real estate projects were already completed as of December 31, 2017.

Revenue Recognition (applicable for both periods presented)

Rental income from stables, building and other facilities

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

Interest income

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

Dividend income

Revenue is recognized when the Company's right to receive the payment is established, which is generally when the shareholders approves the dividend.

Cost of Sales and Services and Expenses

Cost of club races, cost of rental services, cost food and beverages and expenses are recognized in the Company's statements of comprehensive income at the date they are incurred.

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

Other Comprehensive Income (OCI)

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

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

Retirement Benefits Cost
The Company has noncontributory funded defined benefit plans, administered by trustees, covering substantially all of its regular employees.

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

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

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

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

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

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

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

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

The Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Taxes
Current tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

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

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

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

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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

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

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

Foreign Currency Denominated Transactions and Translations
Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the Company's statements of comprehensive income.

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

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

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

Segment Reporting
The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on the Company's operating segments is presented in Note 27 to the notes to parent company financial statements.

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

Determination if joint control exists in a joint venture
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has joint control in San Lazaro BPO Complex Joint Venture and

Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly for all relevant activities by the venturers through its BOD (see Note 1).

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

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

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

Transfer of inventories to investment property
The Company transferred the condominium units held for sale to investment property on the commencement of an operating lease with a third party. The inventory will be transferred to investment property when, and only when, there is a change in use evidenced by commencement of an operating lease to another party.

During 2018, the Company reclassified the condominium units previously recognized as inventory to investment property amounting to ₱5.5 million as disclosed in Notes 8 and 12.

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

a. *Operating lease commitments - the Company as lessor*
The Company has entered into lease agreements on certain items of its property and equipment and investment properties. The Company has determined that it retains all the significant risks and rewards of ownership of these properties; i.e., ownership of the assets remains with the Company at the end of the lease term. Accordingly, the lease agreements are accounted for as operating leases (see Notes 11, 12 and 28).

b. *Operating lease commitments - the Company as lessee*
The Company has entered into a lease agreement for the lease of office and parking lots where it has determined that the risks and rewards related to the leased assets are retained by the lessor; i.e., ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease (see Note 28).

Impairment of noncurrent nonfinancial assets
The Company assesses at each reporting date whether there is any indication that its investments in subsidiaries, an associates and interest in joint ventures, property and equipment, advances to an

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

There are no impairment of noncurrent nonfinancial assets in 2018 and 2017. The carrying values of the Company's investment in subsidiaries, an associates and interest in joint venture, property and equipment, investment properties, and franchise fee of December 31, 2018 and 2017 are disclosed in Notes 10, 11, 12 and 13 to the parent company financial statements, respectively.

Estimates and Assumptions

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

Estimation of allowance for doubtful accounts (applicable until December 31, 2017 prior to the adoption of PFRS 9)

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

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

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

In 2017, provision for doubtful accounts are disclosed in Notes 7 and 17 to the parent company financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Notes 7 and 23 to the parent company financial statements.

Provision for ECL of financial assets (applicable starting January 1, 2018 upon the adoption of PFRS 9)

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for its receivables from real estate.

The provision matrix is initially based on the Company's historical observed default rates. The Company shall calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of actual default in the future.

The provision for ECL on the Company's receivables in 2018 is disclosed in Notes 7 and 17 to the parent company financial statements. The carrying amount of receivables as of December 31, 2018 is disclosed in Note 7 to the financial statements.

Provision for ECL of financial assets not held at FVPL (applicable starting January 1, 2018 upon the adoption of PFRS 9)
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPl. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For debt instruments at fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category, a reputable credit rating agency and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from a reputable credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Determination of NRV of real estate inventories
The Company's estimates of the NRV of real estate inventories are based on the most reliable evidence available at the time the estimates are made of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of the NRV in each subsequent period. When the circumstances

that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

As of December 31, 2018 and 2017, the cost of the real estate inventories, the amount written down to NRV and the carrying value of the real estate inventories are disclosed in Note 8 to the parent company financial statements.

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

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

As of December 31, 2017, the carrying value of the Company's AFS financial assets is disclosed in Note 13 to the parent company financial statements. Impairment loss of ₱0.1 million were recognized in 2017.

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

There were no changes in the useful lives of property and equipment and investment properties in 2018 and 2017. As of December 31, 2018 and 2017, the carrying amount of depreciable property and equipment are disclosed in Note 11 to the parent company financial statements. The carrying amount of depreciable investment property as of December 31, 2018 and 2017 are disclosed in Note 12 to the parent company financial statements.

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

As of December 31, 2018 and 2017, recognized deferred tax assets are disclosed in Note 24 to the parent company financial statements.

Provisions
The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed to the Company.

No provisions were recognized as of December 31, 2018 and 2017.

Estimation of retirement benefits cost and obligations
The determination of the obligation and retirement benefits cost is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. Actual results that differ from the Company's assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

As of December 31, 2018 and 2017, the carrying value of accrued retirement benefits are disclosed in Note 20 to the parent company financial statements. Retirement benefits cost in 2018 and 2017 are disclosed in Note 20 to the parent company financial statements.

6. Cash

This account consists of:

	2018	2017
Cash on hand	₱22,366,286	₱18,182,048
Cash in banks	182,517,891	126,229,745
	₱204,884,177	₱144,411,793

Cash in banks generally earns interest at the respective bank deposit rates. Interest income earned amounted to ₱0.3 million and ₱0.7 million in 2018 and 2017, respectively (see Note 21).

7. Receivables

This account consists of:

	2018	2017
Trade		
Real estate receivables - current portion	₱66,479,721	₱172,355,182
Rent receivables (Notes 11, 12 and 28)	17,358,859	14,984,657
Receivables from off-track betting (OTB) operators	3,714,974	841,466
Nontrade		
Due from related parties (Note 25)	45,387,205	53,340,899
Dividends receivable (Notes 10, 23 and 25)	34,551,949	25,876,407
Advances and loans to officers and employees (Note 25)	18,149,468	12,973,854
Receivable from third parties	17,216,681	7,133,880
Advances to suppliers	14,950,062	13,133,143
Deposits and advances to contractors	1,778,413	1,778,413
Others	11,582,329	11,221,582
	231,169,661	313,639,483
Less: Allowance for doubtful accounts	32,776,953	36,069,072
	₱198,392,708	₱277,570,411

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

	2018	2017
Current	₱66,479,721	₱172,355,182
Noncurrent	61,541,708	51,153,362
	₱128,021,429	₱223,508,544

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

Interest income from accretion of real estate receivables amounted to ₱6.6 million and ₱9.9 million in 2018 and 2017, respectively (see Note 21).

Advances and Loans to Officers and Employees
The Company grants salary loans and advances to its officers. The loans bear an average interest rate of 9% per annum. Interest income on advances and loans to officers and employees amounted to ₱0.9 million and ₱0.4 million in 2018 and 2017, respectively (see Note 21).

Receivable from Third Parties
Receivable from third parties bear an interest of 12% per annum and are generally settled within 30-90 day term. Interest income earned on receivable from third parties is ₱1.1 million and ₱0.8 million in 2018 and 2017, respectively (see Note 21).

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

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

Allowance for Doubtful Accounts
Movements in the allowance for doubtful accounts are summarized below:

	2018		
	Trade	Nontrade	Total
Balance at beginning of year	₱24,020,769	₱12,048,303	₱36,069,072
Provision during the year (Note 17)	12,139,762	11,285	12,151,047
Amounts written off during the year	(15,443,166)	–	(15,443,166)
Balance at end of year	₱20,717,365	₱12,059,588	₱32,776,953

	2017		
	Trade	Nontrade	Total
Balance at beginning of year	₱24,386,627	₱13,135,845	₱37,522,472
Provision during the year (Note 17)	12,684,800	1,164,511	13,849,311
Amounts written off during the year	(13,050,657)	(2,252,054)	(15,302,711)
Balance at end of year	₱24,020,770	₱12,048,302	₱36,069,072

The Company directly wrote-off receivables amounting to nil and ₱0.1 million in 2018 and 2017, respectively.

8. Inventories

This account consists of:

	2018	2017
Real estate:		
Land held for development - at cost	₱38,189,898	₱38,189,898
Memorial lots for sale - at NRV	6,489,904	8,379,931
Condominium units for sale - at cost	3,880,628	18,693,592
Residential units for sale - at cost	2,783,562	2,783,562
	51,343,992	68,046,983
Food and beverages - at cost	781,227	551,194
	₱52,125,219	₱68,598,177

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Company. In 2018 and 2017, revenue from real estate pertains to sale of completed condominium units and memorial lots.

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

	2018	2017
Balance at beginning of year	₱68,046,983	₱81,320,152
Cost of real estate sold (Note 16)	(11,162,675)	(13,273,169)
Reclassification (Note 12)	(5,540,316)	–
Balance at end of year	₱51,343,992	₱68,046,983

In 2018 and 2017, no impairment loss was recognized. The cost of memorial lots for sale as at December 31, 2018 and 2017 amounted to ₱6.7 million and ₱9.8 million, respectively.

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

Significant provisions of the agreements are discussed below.

Condominium units for sale

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

Towers 1 to 5 of Avida and Towers 1 and 2 of Alveo are fully completed as of December 31, 2018 and 2017. The construction of Tower 3 of Alveo is 100.00% and 99.99% complete as of December 31, 2018 and 2017.

Residential units for sale
On February 24, 2004, the Company entered into an agreement with CCC for the development of 17.09 hectares of the Company's 33-hectare property in Carmona, Cavite into an exclusive residential subdivision with some commercial areas. As of December 31, 2018, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the parent company statements of comprehensive income, is the share of the Company in the marketing cost pertaining to real estate operations. The amount of marketing cost in 2018 and 2017 amounted to ₱10.5 million and ₱12.1 million, respectively.

9. Other Current Assets

This account consists of:

	2018	2017
Prepaid expenses	**₱2,783,905**	₱3,323,965
Prepaid income tax	**–**	4,076,088
Others	**392,754**	252,123
	₱3,176,659	₱7,652,176

Prepaid expenses include prepayments made for insurance and licenses.

Others include prepaid insurance and fuel and oil inventory.

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

This account consists of:

	2018		2017	
	% of Ownership	Cost	% of Ownership	Cost
Subsidiaries (Note 1):				
SLLPHI	**100.00%**	**₱6,250,000**	100.00%	₱6,250,000
MFC	**100.00%**	**4,000,000**	100.00%	4,000,000
Biohitech	**50.00%**	**1,500,000**	50.00%	1,500,000
Gametime	**100.00%**	**10,000,000**	100.00%	10,000,000
MCI	**100.00%**	**132,500,000**	100.00%	10,000,000
SLRDC	**100.00%**	**156,500**	100.00%	156,500

(Forward)

	2018		2017	
	% of Ownership	Cost	% of Ownership	Cost
Hi-tech Harvest	100.00%	₱84,456	100.00%	₱84,456
ARWRI	56.87%	89,850,000	56.87%	89,850,000
		244,340,956		121,840,956
Associates:				
MIC	22.31%	708,160,137	22.31%	708,160,137
Techsystems	33.33%	1,000,000	33.33%	1,000,000
		709,160,137		709,160,137
Investment in joint venture:				
Gamespan, Inc.	50.00%	10,000,000	50.00%	10,000,000
		963,501,093		841,001,093
Advances		237,233,646		152,254,429
		1,200,734,739		993,255,522
Less allowance for impairment of investment in associate		1,000,000		1,000,000
		₱1,199,734,739		₱992,255,522

Investment in associates

MIC. Investment in MIC pertains to the Company's 22.31% interest in MIC as of December 31, 2018 and 2017. MIC started its commercial operations on January 6, 2016.

The Company extended advances amounting to ₱237.2 million and ₱152.3 million as of December 31, 2018 and 2017, respectively for future share subscriptions.

The summarized financial information of MIC are as follows:

	2018	2017
Current assets	₱758,436,369	₱897,918,988
Noncurrent assets	5,942,138,476	6,051,105,774
Current liabilities	1,415,410,010	1,301,980,534
Noncurrent liabilities	4,242,646,586	3,878,241,036
Equity	1,042,518,249	1,768,803,192
Income	625,209,640	469,722,606
Expenses	1,369,623,942	1,259,957,781
Net loss	744,414,302	790,235,175

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

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership by the Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Company. As of December 31, 2018 and 2017, investment in Techsystems is fully provided with allowance.

As of December 31, 2018, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems are as follows:

	2018	2017
Total current liabilities	₱5,184,317	₱5,184,317
Capital deficiency	(5,184,317)	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Company which it may distribute to different broadcasters to maximize viewership and participation. As of December 31, 2018, Gamespan has not yet started its commercial operations.

The summarized financial information of the Gamespan is as follows:

	2018	2017
Current assets	₱20,184,979	₱20,184,979
Noncurrent assets	29,167	29,167
Current liabilities	629,824	629,824
Equity	19,584,322	19,584,322

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

Dividend receivable from the JV amounted to ₱4.7 million and ₱3.4 million as of December 31, 2018 and 2017, respectively (see Note 7).

Share on dividends declared amounted to ₱23.4 million and ₱18.1 million in 2018 and 2017, respectively.

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

	2018	2017
Current assets	₱300,750,720	₱254,648,235
Noncurrent assets	16,452,036	18,063,655
Current liabilities	113,460,146	107,759,329
Noncurrent liabilities	53,952,149	45,871,866
Equity	149,790,461	119,080,695
Dividends	77,998,078	60,448,356
Income	183,319,154	217,264,535
Expenses	74,611,310	87,233,520
Net income	108,707,844	130,031,015

The Company has no share in any contingent liabilities or capital commitments of the JV as of December 31, 2018 and 2017. There are also no accumulated earnings that are restricted as of December 31, 2018 and 2017.

11. Property and Equipment

Movements in this account are as follows:

	2018				
	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	12,946	–	2,469,336	349,904,869
Building and improvements	657,792,884	–	–	279,528	658,072,412
Machinery and equipment	361,496,538	21,648,976	(59,308)	–	383,086,206
Transportation equipment	40,241,785	2,891,964	(61,323)	–	43,072,426
Furniture and fixtures	16,734,039	1,200,253	–	–	17,934,292
	1,728,557,216	25,754,139	(120,631)	2,748,864	1,756,939,588
Accumulated depreciation					
Land improvements	196,229,945	16,690,656	–	–	212,920,601
Building and improvements	365,714,383	27,057,644	–	–	392,772,027
Machinery and equipment	302,041,280	19,079,616	(38,728)	–	321,082,168
Transportation equipment	29,129,803	3,382,661	(61,323)	–	32,451,141
Furniture and fixtures	13,160,498	1,069,744	–	–	14,230,242
	906,275,909	67,280,321	(100,051)	–	973,456,179
Net book value	822,281,307	(41,526,182)	(20,580)	2,748,864	783,483,409
Construction in progress	29,011,363	3,283,284	–	(2,748,864)	29,545,783
	₱851,292,670	(₱38,242,898)	(₱20,580)	₱–	₱813,029,192

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

Depreciation Charges

The amount of depreciation is allocated as follows:

	2018	2017
Cost of club races (Notes 16 and 18)	₱42,350,135	₱39,825,103
General and administrative expenses (Notes 17 and 18)	18,096,152	15,708,102
Cost of rent services (Notes 16 and 18)	6,508,445	8,144,360
Cost of food and beverages (Notes 16 and 18)	325,589	427,694
	₱67,280,321	₱64,105,259

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

Capitalized Borrowing Costs
No interest on loans was capitalized in 2018 and 2017. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of December 31, 2018 and 2017 amounted to ₱29.8 million and ₱32.6 million, respectively.

Land
In 2001, the Company acquired a parcel of land located in Carmona, Cavite, from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Company amounted to ₱433.7 million. No payments were made in 2018 and 2017. The outstanding payable amounting to ₱89.9 million as of December 31, 2018 and 2017 is included under "Accounts payable and other liabilities" in the parent company statements of financial position (see Note 15).

In 2018 and 2017, the Company acquired new short-term loans amounting to ₱124.0 million and ₱217.0 million, respectively. Certain loans are secured by real estate mortgages on land with carrying value of ₱216.0 million as of December 31, 2018 and 2017 (see Note 14).

Assets Under Operating Lease
The Company has various operating lease agreements for its building improvements, specifically, cluster stables, with horse owners. The lease agreements provide for fixed monthly payments which are subject to rental escalations and renewal options. The carrying value of the cluster stables that are leased out on these operating leases amounted to ₱23.1 million and ₱24.8 million as of December 31, 2018 and 2017, respectively. Rent income from stable rentals with horse owners in 2018 and 2017 amounted to ₱44.6 million and ₱72.4 million, respectively.

The Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires in 2018 and 2017 amounted to ₱0.6 million and ₱0.5 million, respectively.

Operating Lease Commitment with Philippine Amusement and Gaming Corporation (PAGCOR) - the Company as Lessor
In 2013, the Company entered into a lease contract for three years commencing on July 10, 2013 with PAGCOR to lease an area of 189.231 square meters for a monthly fixed rental of ₱587.08 per square meter for its casino and related activities. In February 2017, the Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR amounted to ₱1.2 million in 2018 and 2017 (see Note 28).

Lease of Equipment with PAGCOR
In October 2013, the Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on 2017. In May 2018, the Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

In 2018 and 2017, income from the lease agreement with PAGCOR amounted to ₱12.1 million and ₱20.5 million, respectively (see Note 28).

Impairment

In 2018 and 2017, due to continuous decline in revenues from club races, the Company assessed that its property and equipment used in its racing activities may be impaired as of December 31, 2018 and 2017. These property and equipment related to the Company's racing activities have a carrying amount of ₱472.2 million as of December 31, 2018 and 2017 prior to impairment assessment.

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

The management assessed that the property and equipment have estimated recoverable value as measured by its value-in-use of ₱2.2 billion as of December 31, 2018 and 2017. A significant portion of the value in use pertains to the estimated terminal value of the land where the property is situated, which currently has significant appraisal value due to enhancement of property prices from the development within the surrounding properties. The calculation made by the independent appraiser depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales prices based on internal and external factors.

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

Discount Rates

The discount rate used is the post-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas. Management assumed discount rates of 10.9 percent in 2018 for the impairment of property and equipment, the pre-tax equivalent of which is 11.1 percent. An increase of 76.01 percent in the discount rates would give a value-in-use equal to the carrying amount of the cash generating units in 2018.

Revenues

Average growth rates in revenues are based on the Company's expectation of market developments and the changes in the environment in which it operates. The Company anticipated declining revenue growth of -2 percent to -3 percent within the forecast period, based on past historical performance as well as expectations on the operating results of the business. A further decline in revenues of more than 100 percent would give a value-in-use equal to the carrying amount of the cash generating units in 2018, primarily due to the land value of the property sufficient to absorb any potential operating losses within the forecast period.

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

12. Investment Properties

This account consists of:

	2018	2017
Land:		
Sta. Cruz property held for capital appreciation	₱359,631,580	₱359,631,580
Sta. Cruz property held for lease	238,168,692	238,168,692
Carmona property (Note 14)	109,750,785	109,750,785
Undivided interest in a parcel of land in Batangas	56,723,976	56,723,976
	764,275,033	764,275,033
Building:		
Developed office units (Note 10)	172,050,657	177,226,424
Retail development area (Note 10)	29,999,766	32,001,308
	202,050,423	209,227,732
	₱966,325,456	₱973,502,765

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

	2018		
	Land	**Building**	**Total**
Cost	₱764,275,033	₱310,665,629	₱1,074,940,662
Condominium units held for lease (Note 8)	–	5,540,316	5,540,316
	764,275,033	316,205,945	1,080,480,978
Accumulated Depreciation			
Balance at beginning of year	–	101,437,897	101,437,897
Depreciation (Notes 16 and 18)	–	12,717,625	12,717,625
Balance at end of year	–	114,155,522	114,155,522
Net Book Value	₱764,275,033	₱202,050,423	₱966,325,456

	2017		
	Land	**Building**	**Total**
Cost	₱764,275,033	₱310,665,629	₱1,074,940,662
Accumulated Depreciation			
Balance at beginning of year	–	89,011,272	89,011,272
Depreciation (Notes 16 and 18)	–	12,426,625	12,426,625
Balance at end of year	–	101,437,897	101,437,897
Net Book Value	₱764,275,033	₱209,227,732	₱973,502,765

Depreciation amounting to ₱12.7 million and ₱12.4 million for the period ended December 31, 2018 and 2017, are included as part of "Cost of rental services" (see Note 16).

Philippine Economic Zone Authority (PEZA) zones

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

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

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

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

Sta. Cruz Property - Held for Lease

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

Under the JDA, the Company agreed to contribute the necessary cash to fully finance the construction and development of the retail development area and its corresponding share (30%) of the development of the office units. In return for their respective contributions, the parties will distribute and allocate the developed units among themselves.

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

As of December 31, 2018 and 2017, the Company's contribution to the JDA amounting to ₱310.7 million is presented as the cost of "Building" under "Investment properties" in the parent company statements of financial position.

In 2018 and 2017, rent income amounted to ₱16.9 million and ₱15.6 million, respectively. Direct operating expenses related to the investment properties amounted to ₱0.1 million in 2018 and 2017.

Undepreciated capitalized interest relating to the Building Complex as of December 31, 2018 and 2017 amounted to ₱5.3 million and ₱5.4 million, respectively.

Fair Market Values

As of December 31, 2018, the aggregate fair value of the Company's investment properties amounted to ₱5.1 billion. Fair values of the Carmona property, Sta. Cruz properties and the building as of December 27, 2017 and January 3, 2018 have been determined based on valuation performed by independent professional appraisers using replacement cost approach method and market data approach method. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2018 from the most recent revaluations performed by independent appraisers. Investment property was classified as Level 3 in 2018 and 2017 as to the qualification of fair value hierarchy.

13. Other Noncurrent Assets

This account consists of:

	2018	2017
Financial assets at FVOCI/AFS financial assets:		
Debt securities	₱15,050,042	₱22,005,460
Quoted equity securities	9,201,393	13,193,879
Deferred input VAT	13,538,829	11,573,543
Deposits	10,465,503	9,238,898
Franchise fee (Note 1)	7,208,839	9,002,839
Others	236,428	236,428
	₱55,701,034	₱65,251,047

Financial Assets at FVOCI/AFS Financial Assets
The reconciliation of the carrying amounts of AFS financial assets is as follows:

	2018	2017
Balance at beginning of year	₱35,199,339	₱13,261,812
Additions during the year	15,000,000	22,000,000
Disposal during the year	(27,265,460)	–
Unrealized mark-to-market losses during the year	1,317,556	(62,473)
Balance at end of year	₱24,251,435	₱35,199,339

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

	2018	2017
Balance at beginning of year	₱4,950,148	₱4,962,621
Impairment loss reclassified to profit or loss (Note 23)	–	50,000
Disposal during the year	(265,460)	–
Unrealized mark-to-market losses during the year	(87,076)	(62,473)
Balance at end of year	₱4,597,612	₱4,950,148

Loss on sale of Financial assets at FVOCI/AFS financial assets is ₱0.3 million in 2018 and nil in 2017 and 2016 (see Note 23). Dividend income from these investments amounted ₱0.4 million in 2018 and 2017 and ₱0.5 in 2016 (see Note 23). Interest income on these investments in ₱0.7 million in 2018 and ₱0.6 million in 2017 (see Note 21).

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

	2018	2017
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	35,847,161	34,053,161
Amortization for the year (Note 16)	1,794,000	1,794,000
Balance at end of year	37,641,161	35,847,161
	₱7,208,839	₱9,002,839

Franchise fee has remaining amortization period of 4 years as of December 31, 2018.

14. Short-term Loans and Borrowings

As of December 31, 2018 and 2017, outstanding balance of short-term loans and borrowings amounted to ₱288.6 million and ₱234.0 million, respectively. These loans bear average interest of 4.3% and 3.5% in 2018 and 2017, respectively. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

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

	2018	2017
Balance at the beginning of year	₱234,000,000	₱80,000,000
Additions	124,000,000	217,000,000
Payment	(69,363,960)	(63,000,000)
Balance at end of year	₱288,636,040	₱234,000,000

In 2018 and 2017, the Company acquired new short-term loans amounting to ₱124.0 million and ₱217.0 million, respectively. Certain loans are secured by real estate mortgages on the land of Carmona property with carrying value of ₱216.0 million as of December 31, 2018 and 2017 (see Note 11).

Interest expense on short-term loans amounted to ₱9.5 million and ₱5.5 million in 2018 and 2017, respectively (see Note 22).

15. Accounts Payable and Other Liabilities

This account consists of:

	2018	2017
Due to RALI (Note 11)	₱89,900,000	₱89,900,000
Accounts payable	74,333,367	76,789,470
Cash bond on OTB operators	33,980,321	28,520,754
Documentary stamps payable	25,262,379	23,338,521
Unclaimed winnings (Note 28)	15,888,348	11,481,515
Deferred VAT Output	13,059,748	6,059,247
Rental deposits	11,245,137	9,584,174
Taxes on winnings	6,360,050	7,557,851
Dividends payable (Note 26)	5,974,351	4,180,958
Accrued expenses	4,277,190	13,244,691
Due to Dangerous Drug Board	2,118,923	1,394,138
Retention payable	1,978,343	1,978,343
Withholding taxes payable	1,940,963	1,786,276
Due to contractors	1,683,538	7,083,538
VAT payable	1,646,343	4,709,364
Telebet accounts payable	1,492,981	2,080,691
Due to winning horse owners	1,415,052	141,606
Taxes on horse prize	1,284,766	1,449,145
Due to OTB operators	1,179,942	2,007,935
Others	13,381,082	11,158,663
	₱308,402,824	₱304,446,880

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

Cash bond on OTB operators serves as security deposits received by the Company from OTB operators at the inception of the OTB operations. These are refunded to OTB operators upon termination of the operations. Due to OTB operators are unpaid commissions to the OTB operators that are settled within the next operating cycle.

During the year, the Company recognized gain on reversal of liabilities amounting to ₱5.4 million in 2018 and nil in 2017. (see Note 23).

16. Cost of Sales and Services

Cost of club races consists of:

	2018	2017
Personnel costs (Notes 19 and 20)	₱56,319,598	₱55,649,723
Depreciation (Notes 11 and 18)	42,350,135	39,825,103
Utilities	18,658,897	16,795,453
Commission	14,451,469	18,859,744
Taxes and licenses	7,434,664	785,904
Software license	6,812,312	8,789,224
Prizes and winnings	6,000,056	7,084,174
Contracted services	4,997,314	4,979,643
Rent (Note 28)	4,549,535	4,341,011
Transportation and travel	4,293,866	3,883,796
Repairs and maintenance	3,910,560	2,602,282
Meetings and conferences	3,699,227	4,691,535
Security services	2,320,343	1,946,966
Supplies	2,007,133	1,806,245
Gas, fuel and oil	1,958,186	1,275,783
Amortization of franchise fee (Note 13)	1,794,000	1,794,000
Semi-expendable equipment	431,594	487,514
Insurance	410,468	324,556
Others	3,172,483	5,378,497
	₱185,571,840	₱181,301,153

Cost of real estate sold amounted to ₱11.2 million and ₱13.3 million in 2018 and 2017, respectively (see Note 8).

Cost of rent services consists of:

	2018	2017
Depreciation (Notes 11, 12 and 18)	₱19,226,070	₱20,570,985
Utilities	12,698,724	11,027,316
Personnel costs (Notes 19 and 20)	4,158,264	3,614,998
Contracted services	3,641,174	4,344,281
Software license	2,285,350	2,832,000

(Forward)

	2018	2017
Security services	₱1,934,441	₱1,517,397
Repairs and maintenance	1,000,803	3,575,558
Meetings and conferences	925,479	4,198,654
Rent (Note 28)	897,861	1,504,958
Franchise tax – gaming	607,154	1,025,732
Others	794,804	2,049,779
	₱48,170,124	₱56,261,658

Cost of food and beverages consists of:

	2018	2017
Purchased stocks	₱15,949,510	₱8,445,275
Utilities	5,712,048	4,798,198
Contracted services	3,502,448	4,084,970
Personnel cost (Notes 19 and 20)	2,491,135	2,144,609
Meetings and conferences	716,189	321,104
Depreciation (Notes 11 and 18)	325,589	427,694
Semi-expendable equipment	286,475	399,024
Supplies	185,142	97,666
Repairs and maintenance	152,487	87,545
Communication	69,203	103,098
Others	1,150,035	1,062,969
	₱30,540,261	₱21,972,152

Others include individually insignificant items.

17. General and Administrative Expenses

This account consists of:

	2018	2017
Personnel costs (Notes 19 and 20)	₱80,924,272	₱69,633,666
Contracted services	18,403,899	18,478,025
Depreciation (Notes 11 and 18)	18,096,152	15,708,102
Rent (Note 28)	12,243,618	9,575,469
Provision for doubtful accounts (Note 7)	12,151,046	13,849,311
Repairs and maintenance	11,822,542	9,507,482
Utilities	11,221,166	11,727,709
Professional fees	8,208,612	9,009,531
Security services	7,140,045	5,960,691
Taxes and licenses	7,139,278	2,518,790
Meetings and conferences	6,053,335	9,388,638
Gas, fuel and oil	4,449,893	3,589,223
Transportation and travel	4,266,311	1,531,902
Directors' fee	3,963,024	1,211,500
Entertainment, amusement and recreation	1,717,881	2,104,547
Supplies	1,607,968	1,235,629

(Forward)

	2018	2017
Advertising	₱1,332,171	₱388,623
Insurance	1,118,865	923,840
Membership dues	936,838	1,018,461
Commission	931,432	286,537
Semi-expendable equipment	646,989	804,325
Trainings and programs	288,207	1,147,428
Others	9,563,433	9,363,526
	₱224,226,977	₱198,962,955

18. Depreciation

This account consists of:

	2018	2017
Cost of club races (Notes 11 and 16)	₱42,350,135	₱39,825,103
Cost of rent services (Notes 11, 12 and 16)	19,226,070	20,570,985
General and administrative expenses (Notes 11 and 17)	18,096,152	15,708,102
Cost of food and beverages (Notes 11 and 16)	325,589	427,694
	₱79,997,946	₱76,531,884

19. Personnel Costs

This account consists of:

	2018	2017
Salaries and wages	₱119,513,312	₱108,868,830
Retirement benefits costs (Note 20)	9,554,186	8,928,035
Other employee benefits	14,825,771	13,246,131
	₱143,893,269	₱131,042,996

20. Retirement Benefits Costs

The Company has four tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation reports are as of December 31, 2018.

The details of the retirement benefits costs are as follows:

	2018	2017
Current service costs	₱7,342,013	₱6,670,572
Interest costs - net of interest income	2,212,173	2,257,463
	₱9,554,186	₱8,928,035

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

	2018	2017
Actuarial gain (loss) in defined benefit obligation	(₱10,632,291)	₱4,708,466
Remeasurement gain (loss) in plan assets	(3,973,333)	297,228
	(14,605,624)	5,005,694
Less tax effect	4,381,687	1,501,709
	(₱10,223,937)	₱3,503,985

The details of accrued retirement benefits are as follows:

	2018	2017
Defined benefit obligation	₱103,221,604	₱85,248,923
Fair value of plan assets	(47,584,166)	(45,390,806)
	₱55,637,438	₱39,858,117

Movements in the accrued retirement benefits are as follows:

	2018	2017
Balance at beginning of year	₱39,858,117	₱44,035,776
Net retirement benefits costs for the year	9,554,186	8,928,035
Contributions for the year	(8,284,606)	(8,100,000)
Defined benefit income recognized in OCI	14,605,624	(5,005,694)
Benefits paid from book reserves	(95,883)	–
Balance at end of year	₱55,637,438	₱39,858,117

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

	2018	2017
Defined benefit obligation at beginning of year	₱85,248,923	₱82,671,995
Current service costs	7,342,013	6,670,572
Interest costs	4,944,438	4,695,769
Actuarial loss (gain) due to:		
Change in financial assumptions	(11,666,043)	1,015,174
Experience adjustments	22,271,250	(5,455,464)
Change in demographic assumptions	27,084	(268,176)
Benefits paid	(4,946,061)	(4,080,947)
Defined benefit obligation at end of year	₱103,221,604	₱85,248,923

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

	2018	2017
Fair value of plan assets at beginning of year	₱45,390,806	₱38,636,219
Interest income	2,732,265	2,438,306
Contributions	8,284,606	8,100,000
Actuarial gain (loss)	(3,973,333)	297,228
Benefits paid	(4,850,178)	(4,080,947)
Fair value of plan assets at end of year	₱47,584,166	₱45,390,806
Actual return on plan assets	(₱1,241,068)	₱2,735,534

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

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

	2018	2017
Cash and cash equivalents	₱6,717,013	₱25,077,637
Investment in unit investment trust fund	6,539,607	–
Investment in government securities	30,441,209	18,569,877
Others	4,377,681	2,215,321
	48,075,510	45,862,835
Liabilities	(491,344)	(472,029)
	₱47,584,166	₱45,390,806

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

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investment in unit investments trust fund includes ready-made investments such as money market securities, bonds and equities with return from capital gains on top of interest income; and,
- Others include investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bears interest rates ranging from 2.5% to 8.5% and have maturities from 2019 to 2031.

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

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

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

	2018	2017
Discount rates	7.50%	5.80%
Expected rate of salary increase		
Monthly employees	4.00%	4.00%
Race day employees	3.50%	4.00%

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

	Effect on Net Retirement Liability		
	Increase (decrease)	2018	2017
Discount rate	+1.00%	(₱5,294,961)	(₱5,313,018)
	-1.00%	6,004,105	6,080,891
Salary increase rate	+1.00%	6,164,928	5,301,968
	-1.00%	(5,518,389)	(4,715,700)

The weighted average duration of the defined benefit obligation as of December 31, 2018 and 2017 are 5.5 and 6.7 years, respectively.

Shown below are the expected future benefit payments as of December 31, 2018 and 2017, respectively:

	2018	2017
Less than 1 year	₱38,592,903	₱20,730,931
More than 1 year to 5 years	37,141,385	30,271,783
More than 5 years to 10 years	52,491,210	49,105,500
Over 10 years	255,758,558	209,246,105

21. Interest Income

Interest income related to:

	2018	2017
Real estate receivables (Note 7)	₱6,627,464	₱9,929,750
Receivable from third parties (Note 7)	1,075,667	843,333
Advances and loans to officers and employees (Note 7)	909,638	346,997
Financial assets at FVOCI/AFS financial assets (Note 13)	661,549	566,667
Cash (Note 6)	324,328	711,574
	₱9,598,646	₱12,398,321

22. Finance Costs

Interest expense related to:

	2018	2017
Short-term loans (Note 14)	₱9,520,466	₱5,549,249
Bank charges and others	601,792	240,464
	₱10,122,258	₱5,789,713

23. Other Income - net

	2018	2017
Dividend income (Notes 10 and 25)	₱53,211,923	₱40,634,507
Management fees (Note 25)	12,000,000	7,571,636
Income from advertising campaign	11,222,677	2,681,166
Gain on reversal of liabilities	5,400,000	–
Parking fees	4,613,857	3,707,679
Entrance fees	865,996	1,955,099
Dividend income from AFS financial assets/financials assets at FVOCI (Note 13)	374,750	392,750
Gain (loss) on sale of AFS financial assets (Note 13)	(271,966)	–
Income due to cancellations	136,080	134,087
Gain on sale of property and equipment	25,000	100,000
Loss on receivable write-off (Note 7)	–	(71,029)
Impairment loss on AFS financial assets (Note 13)	–	(50,000)
Others – net	154,836	3,233,700
	₱87,733,153	₱60,289,595

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

Others include various individually insignificant items of income and expenses.

24. Income Tax

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

	2018	2017
Deferred tax assets on:		
Accrued retirement benefits	₱16,691,231	₱11,957,435
Allowance for doubtful accounts	9,833,086	10,820,722
Advance rentals and non-refundable deposits	3,373,540	2,875,252
PAS 17 adjustment on rent expense	3,593,373	2,191,375
Unamortized past service cost	1,943,229	2,020,448
Unearned income	1,168,727	597,322
Provision for inventory write-down	435,297	435,297
Impairment loss on AFS financial assets/financial assets at FVOCI	–	156,000
PAS 17 adjustment on rent income	319,724	110,362
Allowance for impairment on investment in associate	300,000	300,000
Unrealized foreign exchange loss - net	28,904	15,113
	37,687,111	31,479,326
Deferred tax liabilities on:		
Unrealized gain from real estate transactions	(30,277,509)	(51,646,552)
Undepreciated capitalized borrowing costs	(10,466,426)	(11,409,991)
Fair value adjustments on financial assets at FVOCI	(1,248,632)	–

(Forward)

	2018	2017
Deferred tax liabilities on (recognized directly in OCI):		
Unrealized deemed cost adjustment on real estate properties*	(₱184,604,799)	(₱186,943,479)
	(226,597,366)	(250,000,022)
Net deferred tax liabilities	(₱188,910,255)	(₱218,520,696)

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

The provision for current tax consists of the following:

	2018	2017
Regular corporate income tax (RCIT)	₱28,173,583	₱12,122,673
Final tax on interest income	195,924	253,935
	₱28,369,507	₱12,376,608

b. The reconciliation of the Company's provision for (benefit from) income tax at statutory tax rate to the provision for (benefit from) income tax shown in the parent company statements of comprehensive income is as follows:

	2018	2017
Benefit from income tax at statutory rate	₱9,832,472	₱7,571,840
Additions to (reductions in) income tax resulting from tax effects of:		
Nontaxable income	(16,076,002)	(12,308,177)
Nondeductible expenses	8,078,239	5,541,222
Interest income subjected to final tax	(98,588)	(127,824)
Provision for (benefit from) income tax	₱1,736,121	₱677,061

25. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

a. Advances from/to subsidiaries, associate, special purpose entity (SPE) and stockholder:

	Nature	Amount		Receivable/(Payable)		Terms	Conditions
		2018	2017	2018	2017		
Subsidiaries:							
NVTL	Advances[1]	₱310,663	₱–	₱3,745,390	₱3,434,727	Non-interest bearing	Unsecured, no impairment
	Payable[11]	–	–	(2,570,715)	(2,570,715)	Non-interest bearing	Unsecured, unguaranteed
SLLPHI	Advances[1]	8,833	9,034	36,033	27,200	Non-interest bearing	Unsecured, no impairment
MFC	Advances[1]	–	–	134,720	–	Non-interest bearing	Unsecured, no impairment
	Payable	–	102,500	(180,000)	(102,500)	Non-interest bearing	Unsecured, unguaranteed
	Dollar purchases	22,334,257	14,567,052	–	–	Non-interest bearing	Unsecured, unguaranteed

(Forward)

	Nature	Amount 2018	Amount 2017	Receivable/(Payable) 2018	Receivable/(Payable) 2017	Terms	Conditions
Biohitech	Advances[i]	₱8,833	₱9,034	₱36,033	₱27,200	Non-interest bearing	Unsecured, no impairment
MCI	Advances[i]	(5,952,189)	19,387,308	–	5,952,189	Non-interest bearing	Unsecured, no impairment
	Payables[ii]	11,315,218	4,363,248	(22,087,857)	(10,772,639)	Non-interest bearing	Unsecured, unguaranteed
	Receivables[i]	92,664,147	26,986,529	–	20,581,136	Non-interest bearing	Unsecured, no impairment
	Dividend income	29,812,500	22,500,000	29,812,500	22,500,000	Non-interest bearing	Unsecured, no impairment
	Subscriptions	122,500,000	10,000,000	(91,875,000)	–	Non-interest bearing	Unsecured, unguaranteed
Gametime	Advances[i]	12,465,363	3,347,987	12,006,439	6,376,955	Non-interest bearing	Unsecured, no impairment
	Share in expenses[ii]	622,650	1,094,576	(2,217,765)	(1,453,779)	Non-interest bearing	Unsecured, unguaranteed
	Service fee[ii]	5,868,952	7,577,787	(14,088,030)	(8,217,078)	Non-interest bearing	Unsecured, unguaranteed
	Management fees[i]	12,000,000	7,571,636	16,829,323	8,480,232	Non-interest bearing	Unsecured, no impairment
	Wagers[i]	3,099,691	2,196,699	5,163,680	1,750,630	Non-interest bearing	Unsecured, no impairment
	Receivables[i]	41,683	6,360	88,795	42,110	Non-interest bearing	Unsecured, no impairment
Hi-tech	Advances[i]	–	–	208,795	208,795	Non-interest bearing	Unsecured, no impairment
Apo Reef World Resorts Inc.	Advances[i]	9,822	–	1,460,244	1,450,421	Non-interest bearing	Unsecured, no impairment
	Advances and others[i]	659,616	–	659,616	–	Non-interest bearing	Unsecured, no impairment
Associates:							
Techsystems	Advances[i]	8,833	9,034	36,033	27,200	Non-interest bearing	Unsecured, no impairment
MIC	Advances[i]	–	1,161	4,982,104	4,982,104	Non-interest bearing	Unsecured, no impairment
Affiliate:							
Arco Management and Development Corporation (AMDC)	Lease of office space	13,177,504	11,780,227	–	–	Non-interest bearing	Unsecured, no impairment

(i) Included in the "Receivables" account (see Note 7).
(ii) Included in the "Due to related parties" account in the parent company statements of financial position.

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2018 and 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

b. Compensation of key management personnel of the Company amounted to ₱86.5 million and ₱66.0 million in 2018 and 2017, respectively. The Company has no standard arrangement with regard to the remuneration of its directors. In 2018 and 2017, the BOD received a total of ₱9.8 million. Advances and loans to officers and employees amounted to ₱18.1 million and ₱13.0 million as of December 31, 2018 and 2017, respectively (see Note 7).

26. Equity

Capital Stock

The details of the Company's capital stock as of December 31, 2018 and 2017 are as follows:

	Number of Shares	Amount
Common shares - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued and outstanding (held by 962 and 970 equity holders in 2018 and 2017, respectively)	996,170,748	₱996,170,748
	996,170,748	₱996,170,748

On September 11, 2018, the BOD approved the increase of the Parent Company's authorized capital stock from ₱1.0 billion divided into one billion share with a par value of ₱1.00 per share to ₱2.0 billion divided into two billion shares with a par value of ₱1.00 per share.

Retained Earnings

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to ₱1.1 billion.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury and deemed cost adjustment totaling ₱430.7 million and ₱436.2 million as of December 31, 2018 and December 31, 2017, respectively.

The components of the deemed cost adjustment are as follows:

	2018	2017
Real estate inventories	₱49,275,332	₱57,070,919
Investment properties	566,074,010	566,074,010
Revaluation increment	615,349,342	623,144,929
Deferred income tax liability	(184,604,803)	(186,943,479)
Deemed cost adjustment	₱430,744,539	₱436,201,450

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

On April 12, 2018, the BOD of the Company approved the appropriations of the following:

- declaration of cash dividends of ₱0.05 per share or ₱49.8 million;
- payment for the subscription to Stock Rights Offering of its affiliate, MIC, amounting to ₱201.8 million; and
- payment for the subscription to the increase in the authorized capital stock of its subsidiary, MCI, amounting to ₱30.6 million.

As of December 31, 2018, appropriated retained earnings amounted to ₱282.2 million.

On April 3, 2019, the BOD approved the reversal of appropriation of retained earnings amounting to ₱282.2 million.

Declaration of Dividends

The following are the details of dividends declared in 2018 and 2017:

Type of Dividend	Date of Declaration	Date of Record	Dividends per Share
Cash	**April 12, 2018**	**May 28, 2018**	**₱0.05**
	June 30, 2017	June 10, 2016	0.05
Stock	**December 7, 2018**	**To be announced**	**50.00%**

As of December 31, 2018 and 2017, outstanding dividends payable amounted to ₱6.0 million and ₱4.2 million, respectively (see Note 15).

During the special stockholders' meeting held on December 7, 2018, the stockholders approved the declaration of 50% stock dividends from the Company's unrestricted retained earnings for the period ended December 31, 2017, to be taken from an increase in the Company's authorized capital stock. As of December 31, 2018, the approval of the SEC has not been obtained.

27. Operating Segment Information

The Company's operating businesses are recognized and managed separately according to the nature of the products and services provided. The Company's four reportable operating segments are the operation and maintenance of race tracks and holding of horse races, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Company does not have any major customers.

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

As of December 31, 2018 and 2017, the Company has no transactions between reportable segments. The Company measures the segment net income or loss, segment assets and segment liabilities for each reportable segment in a manner similar to the measurement of the Company's total comprehensive income.

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

Segment Revenue and Expenses

The segment results for the years ended December 31 are as follows:

	2018					
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱141,697,231	₱118,744,266	₱170,385,083	₱31,547,076	₱90,704,334	₱553,077,990
Costs and expenses	(185,571,840)	(21,671,625)	(48,170,124)	(30,540,261)	(234,349,235)	(520,303,085)
Income (loss) before income tax	(43,874,609)	97,072,641	122,214,959	1,006,815	(143,644,901)	32,774,905
Provision for income tax	–	–	–	–	(1,736,121)	(1,736,121)
Net income (loss)	(₱43,874,609)	₱97,072,641	₱122,214,959	₱1,006,815	(₱145,381,022)	₱31,038,784

	2017					
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱186,133,893	₱132,812,008	₱133,437,024	₱22,962,647	₱39,527,227	₱514,872,799
Costs and expenses	(181,301,153)	(3,343,419)	(33,030,719)	(21,972,152)	(249,985,889)	(489,633,332)
Income (loss) before income tax	4,832,740	129,468,589	100,406,305	990,495	(210,458,662)	25,239,467
Provision for income tax	–	–	–	–	(677,061)	(677,061)
Net income (loss)	₱4,832,740	₱129,468,589	₱100,406,305	₱990,495	(₱211,135,723)	₱24,562,406

Finance costs, other income-net and provision for income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis, and are not provided to the chief operating decision maker at the operating segment level in 2018 and 2017.

Segment Assets and Liabilities and Other Information

The segment assets and liabilities as of December 31, 2018 and 2017 and capital expenditures for the years then ended are as follows:

	2018					
	Club Races	**Real Estate**	**Rent**	**Food and Beverage**	**Unallocated**	**Total**
Assets	**₱834,382,595**	**₱215,021,931**	**₱486,995,511**	**₱11,267,008**	**₱2,007,243,847**	**₱3,554,910,892**
Liabilities	**96,457,483**	**32,152,717**	**62,826,457**	**–**	**829,471,968**	**1,020,908,625**
Capital expenditures	**5,588,158**	**–**	**1,286,606**	**23,127**	**22,139,532**	**29,037,423**
Depreciation	**42,350,135**	**–**	**19,226,070**	**325,589**	**18,096,152**	**79,997,946**

	2017					
	Club Races	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱795,202,198	₱308,704,848	₱502,006,516	₱8,382,429	₱1,817,391,932	₱3,431,687,923
Liabilities	(71,465,984)	(236,881,780)	(73,837,911)	–	(486,154,229)	(868,339,904)
Capital expenditures	10,819,478	–	–	212,973	14,368,119	25,400,570
Depreciation	39,825,103	–	20,570,985	427,694	15,708,102	76,531,884

28. Commitments and Contingencies

Commitments

The following are the significant commitments of the Company:

a. Operating Lease Commitment - the Company as Lessee

On January 1, 2008, the Company renewed its lease agreement with AMDC, an affiliate under common control, for the lease of office space and four parking lots. The lease is for a period of five years starting 2008 and includes an annual escalation rate of 5.0%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the 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%, which expired on December 31, 2017. As of December 31, 2018, the lease contract is still under renewal.

On January 1, 2011, the Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2018 is ₱332,297, subject to an annual escalation rate of 5.0%.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2018	2017
Within one year	₱4,186,943	₱3,987,564
After one year but not more than five years	4,396,290	8,583,233
	₱8,583,233	₱12,570,797

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

In 2013, the Company entered into a lease contract for three years commencing on July 10, 2013 with PAGCOR to lease an area of 189.231 square meters for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. The agreement expired on June 30, 2016. In February 2017, the Company renewed the lease agreement with PAGCOR valid until June 30, 2023.

Rent income from PAGCOR amounted to ₱1.2 million in 2018 and 2017.

c. In October 2013, the Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on June 30, 2016. In February 2017, the Company renewed the lease agreement with PAGCOR valid until June 30, 2023.

In 2018 and 2017, income from the lease agreement with PAGCOR amounted to ₱12.1 million and ₱20.5 million, respectively.

d. In April 2018, the Company entered into a lease agreement with Jade Entertainment and Gaming Technologies, Inc., where the latter shall supply, install, commission, conduct and provide marketing for Casino, including but not limited to, food and beverages, entertainment, promotions, consumables for membership station, at a minimum of three percent (3%) of gross revenue of the machines as computed annually.

e. On January 1, 2018, the Company entered into new lease agreement with MCI for the use of existing facilities at MJCI complex in Carmona, Cavite which are: a.) the cockpit arena located at the ground floor of the turf club with an aggregated area of 315 square meters, b.) maintenance of the staging area or the gamefowls houses 1 and 2, and c.) the gamefowls farm stabling the gamefowls and open area for the preparation and pointing of the gamefowls. The lease has a fixed monthly rate of ₱1.5 million and a variable lease equivalent to 13% of the Company's gross revenue exclusive of 12% VAT which commenced on January 1, 2018 ending December 31, 2018. Rent income from the lease agreement with MCI amounted to ₱92.7 million.

f. In 2018, the Company entered into a lease agreement with Datem, Inc. for eight (8) months to lease an area of 16,719 sqm. in Sta. Cruz, Manila for a monthly fixed rental of ₱150,000, exclusive of VAT. In 2018, rent income from these lease agreements amounted to ₱1.2 million.

g. In 2018, the Parent Company entered into various lease agreements for one year to lease condominium units in Alveo and Avida for a monthly fixed rental of ₱24,000 - ₱25,000 inclusive of VAT. The lease agreements are renewable for another one (1) year upon mutual agreements of both parties. In 2018, rent income from these lease agreements amounted to ₱1.1 million.

h. Claims and Legal Actions

As of December 31, 2018 and 2017, there are pending claims and legal actions against or in favor of the Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these financial statements. In the opinion of the Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Company and any liability or loss arising therefrom would be taken up when the final resolution of the claims and actions are determined.

Contingencies:

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

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

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

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

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

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of April 3, 2019 the status is still pending before the Supreme Court.

29. Financial Instruments

The following tables present the fair value hierarchy of the Company's financial assets at FVOCI/AFS financial assets, loans and borrowings, and investment properties:

	2018				
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets at FVOCI	₱24,251,435	₱24,251,435	₱24,251,435	₱–	₱–
Deposits**	3,375,580	3,375,580	–	–	3,375,580
Loans and borrowings	288,636,040	288,636,040	–	–	288,636,040
Investment properties	966,325,456	5,074,995,805	–	–	5,074,995,805
	₱1,282,588,511	₱5,391,258,860	₱24,251,435	₱–	₱5,367,007,425

***Included in the "Other noncurrent assets" account in the parent company statements of financial position.*

	2017				
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱34,566,042	₱34,566,042	₱34,566,042	₱–	₱–
Deposits**	3,375,580	3,375,580	–	–	3,375,580
Loans and borrowings	234,000,000	234,000,000	–	–	234,000,000
Investment properties	973,502,765	4,508,295,209	–	–	4,508,295,209
	₱1,245,444,387	₱4,780,236,831	₱34,566,042	₱–	₱4,745,670,789

***Included in the "Other noncurrent assets" account in the parent company statements of financial position.*

As of December 31, 2018 and 2017, the parent company financial assets at FVOCI/AFS financial assets measured at fair value under the Level 1 hierarchy totaled ₱24.3 million and ₱34.6 million, respectively. There were no financial instruments measured at fair value under the Level 2 and Level 3 hierarchy.

In 2018 and 2017, the carrying value of cash in banks (except cash on hand), receivables, deposits, accounts payable and other liabilities (except statutory liabilities), short-term loans and borrowings and due to related parties approximate their fair value due to the short-term nature of the accounts.

30. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise cash in bank except cash on hand, receivables, financial assets at FVOCI AFS financial assets, deposits, accounts payable and other liabilities, interest-bearing loans and borrowings, due to related parties and subscription payable. The main purpose of these financial instruments is to finance the Company's operations.

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

Cash flow interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no exposure to the risk of changes in market interest rate because the Company's interest-bearing loans and borrowings carry fixed interest rates (see Note 14).

Equity price risk
Equity price risk is the risk that the fair values of quoted equity securities will fluctuate because of changes in the level of indices and the value of individual stocks. The Company is exposed to equity price risk because of quoted equity investments held by the Company, which are classified in the parent company statements of financial position as AFS financial assets/Financial assets at FVOCI.

The following table demonstrates the sensitivity of the Company's equity to a reasonably possible change in the PSE index (PSEi), with all other variables held constant, for the years ended December 31, 2018 and 2017:

	Increase (decrease) in PSEi	Effect on equity
2018	+14%	₱5,516,740
	-14%	(5,516,740)
2017	+14%	₱4,839,246
	-14%	(4,839,246)

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

The Company's foreign currency risk relates to its foreign currency-denominated cash in banks. To manage this risk, management closely monitors the movements in exchange rates and regularly assesses future foreign exchange rate movements.

The Company's outstanding foreign currency-denominated financial asset pertaining to cash in banks as of December 31 and its Peso equivalent are as follows:

	United States (US) Dollar	Philippine Peso
2018	US$1,913	₱100,592
2017	1,642	82,007

As of December 31, 2018 and 2017, the applicable closing exchange rates were ₱52.58 and ₱49.93 to US$1, respectively. Net foreign exchange loss amounted to ₱96,350 and ₱50,375 in 2018 and 2017, respectively (see Note 23).

The sensitivity of the Company's income before income tax to a reasonably possible change in the US Dollar exchange rate against the Peso, with all other variables held constant, has no significant effect in the financial statements for the years ended December 31, 2018 and 2017.

Credit risk
Credit risk arises because the counterparty may fail to discharge its contractual obligations. The Company transacts only with related parties and recognized and creditworthy third parties. Receivable

balances are monitored on an ongoing basis. Further, management intensifies its collection efforts to collect from defaulting third parties.

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

The table below shows the maximum exposure to credit risk of the Company as of December 31, 2018 and 2017.

	2018	2017
Loans and receivables:		
Cash in banks	₱182,517,891	₱126,229,745
Receivables:		
Real estate receivables*	109,133,058	201,620,173
Due from related parties	45,375,920	53,340,899
Dividends receivable	34,551,949	25,876,407
Advances and loans to officers and employees	18,149,468	12,973,854
Receivable from third parties	16,132,801	6,050,000
Rent receivables - net	15,998,220	13,320,614
Advances to suppliers	9,645,515	7,828,596
Receivables from OTB operators	3,246,618	373,110
Others	7,700,867	7,340,120
	259,934,416	328,723,773
Deposits**	3,375,580	3,375,580
Financial assets at FVOCI/AFS financial assets	24,251,435	35,199,339
	₱470,079,322	₱493,528,437

**Inclusive of noncurrent real estate receivables*
*** Included in "Other noncurrent assets" in the parent company statements of financial position*

The tables below show the credit quality of financial assets as of December 31.

	2018			
	Standard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash in banks	₱182,517,891	₱–	₱–	₱182,517,891
Receivables				
Real estate receivables	109,133,058	–	18,888,371	128,021,429
Due from related parties	45,375,920	–	11,285	45,387,205
Dividends receivable	34,551,949	–	–	34,551,949
Advances and loans to officers and employees	18,149,468	–	–	18,149,468
Receivable from third parties	16,132,801	–	1,083,880	17,216,681
Rent receivables	15,998,220	–	1,360,639	17,358,859
Advances to suppliers	9,645,515	–	5,304,547	14,950,062
Deposits and advances to contractors	–	–	1,778,413	1,778,413
Receivables from OTB operators	3,246,618	–	468,356	3,714,974
Others	7,700,867	–	3,881,462	11,582,329
	259,934,416	–	32,776,953	292,711,369
Deposits*	3,375,580	–	–	3,375,580
Financial assets at FVOCI	24,251,435	–	–	24,251,435
	₱470,079,322	₱–	₱32,776,953	₱502,856,275

	2017			
	Standard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash in banks	₱126,229,745	₱–	₱–	₱126,229,745
Receivables				
Real estate receivables	201,620,173	–	21,888,371	223,508,544
Due from related parties	53,340,899	–	–	53,340,899
Dividends receivable	25,876,407	–	–	25,876,407
Rent receivables	13,320,614	–	1,664,043	14,984,657
Advances and loans to officers and employees	12,973,854	–	–	12,973,854
Advances to suppliers	7,828,596	–	5,304,547	13,133,143
Receivable from third parties	6,050,000	–	1,083,880	7,133,880
Deposits and advances to contractors	–	–	1,778,413	1,778,413
Receivables from OTB operators-net	373,110	–	468,356	841,466
Others	7,340,120	–	3,881,462	11,221,582
	328,723,773	–	36,069,072	364,792,845
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	35,199,339	–	–	35,199,339
	₱493,528,437	₱–	₱36,069,072	₱529,597,509

** Included in "Other noncurrent assets" account in the parent company statements of financial position.*

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

Financial instruments and cash deposits

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

Receivables

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

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5.0% of the total receivables.

These receivables have no history of significant default or delinquency in collections but have a reasonable probability of non-collectability. Past due but not impaired loans and receivables amounted to nil as of December 31, 2018 and 2017.

Liquidity risk

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

The Company maximizes the net cash inflows from operations to finance its working capital requirements.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted payments (principal and interest) and the profile of the financial assets used to manage the Company's liquidity risk.

December 31, 2018

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short term loans and borrowings*	₱301,047,390	₱–	₱–	₱–	₱301,047,390
Accounts payable and other liabilities**	370,199,638	–	–	–	370,199,638
Due to related parties	40,964,367	–	–	–	40,964,367
	₱712,211,395	₱–	₱–	₱–	₱712,211,395

*Amounts are inclusive of interest amounting to ₱12.4 million for December 31, 2018.
**Amounts are exclusive of nonfinancial liabilities amounting to ₱67.1 million.

	Within 1 year	>1 year to <3 years	3 years to <5 years	Total
Financial assets at AC:				
Cash in banks	₱182,517,891	₱–	₱–	₱182,517,891
Receivables	259,934,416	–	–	259,934,416
Deposits*	–	–	3,375,580	3,375,580
	442,452,307	–	3,375,580	445,827,887
Financial assets at FVOCI	24,251,435	–	–	24,251,435
	₱466,703,742	₱–	₱3,375,580	₱470,079,322

*Included in "Other noncurrent assets" in the parent company statements of financial position.

December 31, 2017

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short term loans and borrowings*	₱242,190,000	₱–	₱–	₱–	₱242,190,000
Accounts payable and other liabilities**	282,965,118	–	–	–	282,965,118
Due to related parties	23,014,211	–	–	–	23,014,211
	₱548,169,329	₱–	₱–	₱–	₱548,169,329

*Amounts are inclusive of interest amounting to ₱8.2 million for December 31, 2017.
**Amounts are exclusive of nonfinancial liabilities amounting to ₱70 .0 million.

	Within 1 year	>1 year to <3 years	3 years to <5 years	Total
Loans and receivables:				
Cash in banks	₱126,229,745	₱–	₱–	₱126,229,745
Receivables	328,723,773	–	–	328,723,773
Deposits*	–	–	3,375,580	3,375,580
	454,953,518	–	3,375,580	458,329,098
AFS financial assets	34,566,042	–	–	34,566,042
	₱489,519,560	₱–	₱3,375,580	₱492,895,140

*Included in "Other noncurrent assets" in the parent company statements of financial position.

Changes in liabilities arising from financing activities

2018

	December 31, 2017	Cash flows	Interest expense	Dividends declared	Additional subscription	December 31, 2018
Short-term loans and borrowings (Note 14)	₱234,000,000	₱54,636,040	₱–	₱–	₱–	₱288,636,040
Dividends payable (Note 15)	4,180,958	(48,014,670)	–	49,808,063	–	5,974,351
Subscription payable	48,500,000	(42,125,000)	–	–	122,500,000	128,875,000
Interest payable	–	(10,122,258)	10,122,258	–	–	–
Total liabilities from financing activities	₱286,680,958	(₱45,625,888)	₱10,122,258	₱49,808,063	₱122,500,000	₱423,485,391

2017

	December 31, 2016	Cash flows	Interest expense	Dividends declared	December 31, 2017
Short-term loans and borrowings (Note 14)	₱80,000,000	₱154,000,000	₱–	₱–	₱234,000,000
Dividends payable (Note 15)	4,341,602	(49,968,704)	–	49,808,060	4,180,958
Subscription payable	60,000,000	(11,500,000)	–	–	48,500,000
Interest payable	–	(5,789,713)	5,789,713	–	–
Total liabilities from financing activities	₱144,341,602	₱86,741,583	₱5,789,713	₱49,808,060	₱286,680,958

31. Capital Management

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

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

	2018	2017
Capital stock	₱996,170,748	₱996,170,748
Net cumulative changes in fair values of AFS financial assets	4,597,612	4,950,148
Remeasurement on retirement benefits	17,413,770	27,637,707
Retained earnings	1,515,827,233	1,534,596,512
Treasury shares	(7,096)	(7,096)
	₱2,534,002,267	₱2,563,348,019

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

32. Basic/Diluted EPS

Basic/diluted EPS were computed as follows:

	2018	2017
Net income	₱31,038,784	₱24,562,406
Divided by weighted average number of outstanding common shares	996,170,748	996,170,748
Basic/diluted earnings per share	₱0.0312	₱0.0247

The Company does not have potential dilutive common shares as of December 31, 2018 and 2017. Therefore, the basic and diluted earnings per share are the same as of those dates.

Weighted average number of outstanding common shares is restated to reflect the effect of stock dividends declared in December 9, 2018 (see Note 26).

33. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes and license fees paid or accrued during the taxable year 2018.

a. Details of the Company's gross receipts, output VAT and input VAT accounts are as follows:

	Gross Receipts	Output VAT
Taxable sales	₱439,150,501	₱52,698,060
Sales to government	2,452,008	294,241
Zero - rated sales	23,753,673	-
Exempt sales	52,632,307	-
	₱517,988,489	₱52,992,301

The amount of VAT input taxes claimed are broken down as follows:

Balance at the beginning of the year	₱1,555,746
Current year's purchases:	
Domestic purchases of services	18,176,695
Domestic purchases of goods other than capital goods not subject to amortization	4,740,113
Importation of goods other than capital goods	-
Services rendered by non-residents	1,392,403
Purchase of capital goods exceeding ₱1.0 million	2,496,374
Purchase of capital goods not exceeding ₱1.0 million	101,372
Input tax used for the year	(25,126,853)
Balance at the end of the year	₱3,335,850

b. In 2018, the company paid VAT amounting to ₱30,928,4697 including 2017 VAT payable of ₱4,709,364.

c. Documentary stamp taxes (DST) paid/accrued by the Company are shown below:

	2018
Loan instruments	₱1,442,015
Sale for races	5,883,531
	₱7,325,546

d. Other taxes and licenses:

National:	
BIR annual registration	₱1,000
Local:	
Mayor's permit	943,640
Racing permit	367,640
Community tax certificate	10,665
Barangay clearance	14,515
Annual inspection fee	71,343
Others:	
DST-races	5,883,531
Deficiency taxes	3,956,320
DST on bank loan renewal	1,442,015
Final taxes	552,017
Annual listing fee (SEC)	504,085
GAB/Philracom/Occupational permits/licenses of employees, tellers, racing officials	301,232
Annual fastbet mobile license	237,419
CWT on payment of loans	76,438
Registration of vehicles	35,519
Real property tax	27,954
Processing fee-firearm	23,280
Annual water permit	10,022
Payment to SEC-Preliminary Info Statement 2018	7,575
Others taxes	111,059
	₱14,577,269

e. The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation	₱7,729,150
Expanded withholding taxes	8,307,920
Final withholding income tax	4,280,944
Value-added tax and other percentage tax	1,392,403
Fringe benefit tax	135,145
	₱21,845,562

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	0	0	0	0	0	8	0	3	

COMPANY NAME

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
962	06/30	12/31

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

MANILA JOCKEY CLUB, INC.

RACING SINCE 1867

March 29, 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **MANILA JOCKEY CLUB, INC.** Is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of **December 31, 2018 and 2017** and for the years ended **December 31, 2018, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Alfonso R. Reyno, Jr.	**Alfonso G. Reyno III**	**Nestor N. Ubalde**
Chairman and CEO	President and COO	Chief Finance Officer

SUBSCRIBED AND SWORN to before me this APR 11 2019 day of ________________, affiants personally appeared before me, exhibiting to me their respective government issued identification cards with photographs as follows:

NAMES	PASSPORT / DRIVER'S LICENCE / PRC NO.	DATE OF ISSUE	PLACE OF ISSUE
Alfonso R Reyno, Jr.	P4293732A	09/07/2017	DFA Manila
Alfonso G. Reyno III	P1394618A	12/27/2016	DFA Manila
Nestor N. Ubalde	DL No. N04-89 106906	expires ~~03/04/2023~~	Quezon City

Doc. No. 99
Page No. 18
Book No. 40
2019

FERDINAND D. AYAHAO
NOTARY PUBLIC
Until December 31, 2019
Appointment No. 106(2018-2019)
For Pasig City, Pateros and San Juan City
Attorney's Roll No. 46377
IBP LRN 02459; O.R. No. 535886; 06-21-2001
MCLE No. V-0019276; 04-13-16
PTR No. 5174565; 01-08-19; Pasig City
4F Goldicop Tower A, Jose Ma. Escriva Drive
Ortigas Center, Pasig City

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

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

Opinion

We have audited the consolidated financial statements of Manila Jockey Club, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Investment in a Significant Associate

The Group has an investment in MJC Investments Corporation (MIC) that is accounted for under the equity method. As of December 31, 2018, the Group's investment in MIC amounted to ₱1.8 billion, representing 39% of the total consolidated assets. For the year ended December 31, 2018, the Group's equity in the net loss of MIC amounted to ₱166.4 million. Effective January 1, 2018, the Group adopted the new revenue recognition standard under the modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Group's revenue recognition policies, processes, and procedures, which affects the Group's equity in the net loss of MIC. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in: determining whether the criteria for the recognition of hotel, food and beverage revenue of MIC is met; determining whether there are other promises in the contract that are separate performance obligations; allocation of the transaction price among the performance obligations; and determining the timing of satisfaction of performance obligation.

Audit Response

We obtained an understanding of MIC's process for implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption documentation and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis, to align with the Group's accounting policies, processes and procedures. For hotel, food and beverage revenue streams, we obtained sample contracts and reviewed whether the contract selected meet the criteria for revenue recognition under PFRS 15; whether all services within the contracts have been identified; and whether management has identified all components of the transaction price. We also tested the standalone selling price for each of the services included within the sample of contracts. Further, we reviewed and checked whether the MIC's timing of revenue recognition is based on when the performance occurs and control of the related goods or services is transferred to the customer. We also recomputed the Group's equity in net loss of MIC.

Assessment of Impairment of Property and Equipment

Under PFRS, the Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the assets' recoverable amount, which is the value higher between the cash-generating unit's fair value less cost to sell or value in use. In 2018, due to continuous decline in revenues from club races, the Group performed impairment testing on its property and equipment used in its racing activities amounting to ₱450.5 million. The value in use included a terminal value based on appraisal of the property performed by an independent appraiser. This impairment test is significant to our audit because the property and equipment related to the Group's racing activities is material to the consolidated financial statements. In addition, management's assessment process is highly judgmental and involves significant estimation based on assumptions, specifically the forecasted revenue growth rate and weighted average cost of capital, which are affected by expected future market or economic conditions. Also, the calculation made by the independent appraiser depends on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales prices based on internal and external factors.

The Group's policy on impairment assessment and the related judgment are disclosed in Notes 4 and 5 to the consolidated financial statements while the carrying values of property and equipment are included in Note 11 to the consolidated financial statements.

Audit Response

We involved our internal specialist to assist us in evaluating the assumptions and methodologies used by the Group in its value-in-use calculation. These assumptions include the forecasted revenue growth, weighted average cost of capital and the fair value of the property used in determining the terminal value.

We reviewed the basis and assumptions for estimates of free cash flows, in particular those relating to the forecasted revenue growth, which we compared against historical performance of the cash-generating unit, available comparable market data in the Philippines, regionally and worldwide. We tested the parameters used in the determination of the discount rate against market data. We also assessed the competence and objectivity of the appraiser by reference to their qualification, experience and reporting responsibilities. We also involved our internal specialist in the review of the methodology and assumptions used in the appraisal. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listing of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price.

We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of the property and equipment.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20 IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2016, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332568, January 3, 2019, Makati City

April 3, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱332,347,036	₱225,600,519
Receivables (Note 7)	141,247,956	217,376,219
Inventories (Note 8)	54,573,219	71,249,177
Other current assets (Note 9)	9,811,267	11,492,232
Total Current Assets	537,979,478	525,718,147
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	61,541,708	51,153,362
Investments in and advances to associates and joint ventures (Note 10)	2,132,053,983	2,204,296,039
Property and equipment (Notes 11 and 29)	831,782,460	880,606,916
Investment properties (Notes 10, 12, 14 and 29)	1,094,755,913	1,097,375,496
Deferred tax assets - net (Note 24)	1,812,371	1,560,435
Other noncurrent assets (Note 13)	65,734,395	65,251,047
Total Noncurrent Assets	4,187,680,830	4,300,243,295
	₱4,725,660,308	₱4,825,961,442
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 14)	₱288,636,040	₱234,000,000
Accounts payable and other liabilities (Note 15)	386,149,748	342,041,930
Income tax payable	14,592,986	711,292
Due to related parties (Note 25)	13,734,482	14,734,481
Total Current Liabilities	703,113,256	591,487,703
Noncurrent Liabilities		
Accrued retirement benefits (Note 20)	55,944,377	39,858,117
Deferred tax liabilities - net (Note 24)	188,910,254	218,473,818
Total Noncurrent Liabilities	244,854,631	258,331,935
	947,967,887	849,819,638
Equity		
Capital stock (Note 26)	996,170,748	996,170,748
Additional paid-in capital	27,594,539	27,594,539
Actuarial gains on accrued retirement benefits	17,413,770	27,637,707
Net cumulative changes in fair value of financial assets measured at FVOCI (Note 13)	4,620,965	4,950,148
Retained earnings (Note 26)	2,670,524,084	2,854,097,244
Treasury shares (Note 26)	(7,096)	(7,096)
Equity attributable to equity holders of the parent company	3,716,317,010	3,910,443,290
Non-controlling interests (Note 1)	61,375,411	65,698,514
Total Equity	3,777,692,421	3,976,141,804
	₱4,725,660,308	₱4,825,961,442

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

	Years Ended December 31		
	2018	2017	2016
REVENUES			
Club races	₱141,697,231	₱186,133,893	₱188,544,440
Cockfighting	593,872,171	332,720,611	120,386,418
Real estate	112,116,802	122,882,258	113,821,575
Rent (Notes 11, 12 and 29)	77,720,936	83,510,985	89,991,462
Food and beverages	25,984,620	18,279,403	16,179,911
Others	2,053,444	12,552,818	6,293,366
	953,445,204	756,079,968	535,217,172
COST OF SALES AND SERVICES (Note 16)			
Club races	179,702,888	176,748,807	170,087,781
Cockfighting	366,212,756	219,540,390	84,290,876
Real estate (Note 8)	11,162,675	13,273,169	12,409,471
Rent	54,726,627	58,686,527	59,134,068
Food and beverages	30,540,261	17,294,587	18,878,743
Others	10,247,713	12,460,838	6,233,686
	652,592,920	498,004,318	351,034,625
GROSS INCOME	300,852,284	258,075,650	184,182,547
General and administrative expenses (Note 17)	(294,925,280)	(234,115,796)	(208,834,259)
Selling expense (Note 8)	(10,508,951)	(12,072,532)	(9,675,864)
Interest income (Notes 6, 7, 13, and 21)	10,053,611	12,574,451	11,520,608
Finance costs (Notes 14 and 22)	(10,136,613)	(6,096,804)	(2,442,332)
Equity in net losses of associates and joint ventures (Note 10)	(133,821,849)	(135,219,490)	(70,529,999)
Other income - net (Note 23)	15,773,394	8,367,127	27,906,430
LOSS BEFORE INCOME TAX	(122,713,404)	(108,487,394)	(67,872,869)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	42,223,245	24,573,178	10,569,906
Deferred	(26,848,453)	(13,261,272)	(982,473)
	15,374,792	11,311,906	9,587,433
NET LOSS	(138,088,196)	(119,799,300)	(77,460,302)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net changes in fair value of financial assets measured at FVOCI (Note 13)	77,943	(12,473)	1,039,407
Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains on remeasurement of retirement benefits, net of tax (Note 20)	(10,223,937)	3,503,985	2,512,675
Net changes in fair value of financial assets measured at FVOCI (Note 13)	(407,126)	-	-
TOTAL COMPREHENSIVE LOSS	(₱148,641,316)	(₱116,307,788)	(₱73,908,220)
Net loss attributable to:			
Equity holders of the parent company	(₱133,765,093)	(₱119,358,594)	(₱77,077,258)
Noncontrolling interests	(4,323,103)	(440,706)	(383,044)
	(₱138,088,196)	(₱119,799,300)	(₱77,460,302)
Total comprehensive loss attributable to:			
Equity holders of the parent company	(₱144,318,213)	(₱115,867,082)	(₱73,525,176)
Non-controlling interests	(4,323,103)	(440,706)	(383,044)
	(₱148,641,316)	(₱116,307,788)	(₱73,908,220)
Basic/Diluted Loss Per Share (Note 27)	(₱0.1343)	(₱0.1198)	(₱0.0774)

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock (Note 26)	Additional Paid-In Capital	Actuarial Gains on Accrued Retirement Benefits (Note 20)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 13)	Retained Earnings (Note 26)	Treasury Shares (Note 26)	Total	Non-controlling Interests	Equity
BALANCES AT DECEMBER 31, 2017	₱996,170,748	₱27,594,539	₱27,637,707	₱4,950,148	₱2,854,097,244	(₱7,096)	₱3,910,443,290	₱65,698,514	₱3,976,141,804
Total comprehensive income (loss) for the year	–	–	(10,223,937)	(329,183)	(133,765,093)	–	(144,318,213)	(4,323,103)	(148,641,316)
Cash dividends declared (Note 26)	–	–	–	–	(49,808,067)	–	(49,808,067)	–	(49,808,067)
BALANCES AT DECEMBER 31, 2018	₱996,170,748	₱27,594,539	₱17,413,770	₱4,620,965	₱2,670,524,084	(₱7,096)	₱3,716,317,010	₱61,375,411	₱3,777,692,421
BALANCES AT DECEMBER 31, 2016	₱996,170,748	₱27,594,539	₱24,133,722	₱4,962,621	₱3,023,263,901	(₱7,096)	₱4,076,118,435	₱66,139,220	₱4,142,257,655
Total comprehensive income (loss) for the year	–	–	3,503,985	(12,473)	(119,358,594)	–	(115,867,082)	(440,706)	(116,307,788)
Cash dividends declared (Note 26)	–	–	–	–	(49,808,063)	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2017	₱996,170,748	₱27,594,539	₱27,637,707	₱4,950,148	₱2,854,097,244	(₱7,096)	₱3,910,443,290	₱65,698,514	₱3,976,141,804
BALANCES AT DECEMBER 31, 2015	₱996,170,748	₱27,594,539	₱21,621,047	₱3,923,214	₱3,150,149,222	(₱7,096)	₱4,199,451,674	(₱1,619,647)	₱4,197,832,027
Share in acquisition of net assets (Note 1)	–	–	–	–	–	–	–	68,141,911	68,141,911
Total comprehensive income (loss) for the year	–	–	2,512,675	1,039,407	(77,077,258)	–	(73,525,176)	(383,044)	(73,908,220)
Cash dividends declared (Note 26)	–	–	–	–	(49,808,063)	–	(49,808,063)	–	(49,808,063)
BALANCES AT DECEMBER 31, 2016	₱996,170,748	₱27,594,539	₱24,133,722	₱4,962,621	₱3,023,263,901	(₱7,096)	₱4,076,118,435	₱66,139,220	₱4,142,257,655

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(₱122,713,404)	(₱108,487,394)	(₱67,872,869)
Adjustments for:			
Equity in net losses of associates and joint ventures (Note 10)	133,821,849	135,219,490	70,529,999
Depreciation (Notes 11, 12 and 18)	91,569,353	83,382,678	82,283,581
Finance costs (Note 22)	10,136,613	6,096,804	2,442,332
Interest income (Note 21)	(10,053,611)	(12,574,451)	(11,520,608)
Gain on reversal of liabilities (Notes 15 and 23)	(5,400,000)	–	(13,135,947)
Amortization of franchise fee (Notes 13 and 16)	1,794,000	1,794,000	1,794,000
Dividend income (Notes 13 and 23)	(374,750)	(392,750)	(451,750)
Loss (gain) on disposal:			
Property and equipment (Notes 11 and 23)	1,646,482	(91,900)	(467,712)
Financial assets at FVOCI/AFS financial assets (Notes 13 and 23)	271,966	–	(364,020)
Unrealized foreign exchange loss - net	89,737	54,973	191,722
Impairment loss on financial assets at FVOCI/AFS financial assets (Notes 13 and 23)	–	50,000	1,983,500
Operating income before working capital changes	100,788,235	105,051,450	65,412,228
Decrease (increase) in:			
Receivables	67,079,694	26,187,905	(49,667,736)
Inventories	11,135,642	12,684,807	10,870,268
Other current assets	1,684,427	(239,657)	(840,540)
Increase (decrease) in:			
Accounts payable and other liabilities	47,714,425	29,814,946	18,472,135
Accrued retirement benefits (Note 20)	1,924,861	828,035	8,643,081
Due to related parties	(999,999)	–	(2,308,906)
Cash generated from operations	229,327,285	174,327,486	50,580,530
Income taxes paid, including creditable withholding and final taxes	(29,091,224)	(24,433,972)	(9,085,126)
Net cash provided by operating activities	200,236,061	149,893,514	41,495,404
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to an associate (Note 10)	(84,979,217)	(152,254,429)	–
Acquisitions of property and equipment (Note 11)	(31,729,334)	(30,700,704)	(34,000,742)
Acquisitions of financial assets at FVOCI/AFS financial assets (Note 13)	(25,000,000)	(22,000,000)	–
Dividends received (Notes 10 and 23)	22,411,131	20,923,259	23,656,616
Interest received	10,158,983	12,492,583	11,912,196
Acquisitions of investment property (Note 12)	(4,557,726)	(10,162,850)	(9,268,938)
Decrease (increase) in other noncurrent assets	(3,191,891)	(2,456,722)	1,995
Acquisition of a subsidiary, net of cash received (Note 1)	–	–	(14,306,870)
Proceeds from sale of:			
Financial assets at FVOCI/AFS financial assets (Note 13)	26,993,494	–	18,100,920
Property and equipment	10,000	148,710	467,712
Net cash used in investing activities	(89,884,560)	(184,010,153)	(3,437,111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans and borrowings (Note 14)	124,000,000	217,000,000	98,000,000
Payment of short-term loans and borrowings (Note 14)	(69,363,960)	(73,000,000)	(47,000,000)
Dividends paid by the Parent Company (Note 26)	(48,014,674)	(49,968,707)	(49,057,359)
Interest paid	(10,136,613)	(6,096,804)	(2,442,332)
Net cash provided by (used in) financing activities	(3,515,247)	87,934,489	(499,691)

(Forward)

	Years Ended December 31		
	2018	2017	2016
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(₱89,737)	(₱54,973)	(₱191,722)
NET INCREASE IN CASH AND CASH EQUIVALENTS	106,746,517	53,762,877	37,366,880
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	225,600,519	171,837,642	134,470,762
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱332,347,036	₱225,600,519	₱171,837,642

See accompanying Notes to Consolidated Financial Statements

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 15 2019
RECEIVED

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 13). The Parent Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (JV) arrangements with certain developers.

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

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

The consolidated financial statements as at and for the years ended December 31, 2018 and 2017 was authorized for issuance by the Board of Directors (BOD) on April 3, 2019.

Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2018	2017
Subsidiaries					
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	100.00	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	100.00	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	100.00	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	100.00	100.00
San Lazaro Resources and Development Corporation (SLRDC) [a]	Philippines	Real estate	Philippine Peso	100.00	100.00
SLLP Holdings, Inc. (SLLPHI) [a]	Philippines	Holdings	Philippine Peso	100.00	100.00
Hi-Tech Harvest Limited [a]	Hong Kong	Marketing	Philippine Peso	100.00	100.00
Apo Reef World Resorts, Inc. (ARWRI) [a]	Philippines	Beach Resorts Complex	Philippine Peso	56.87	56.87
Biohitech Philippines, Inc. (Biohitech) [a]	Philippines	Waste management	Philippine Peso	50.00	50.00
Joint Ventures					
Gamespan, Inc. (Gamespan) [a]	Philippines	Gaming	Philippine Peso	50.00	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	30.00	30.00

(Forward)

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership 2018	2017
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Gaming	Philippine Peso	22.31	22.31
Techsystems, Inc. (Techsystems) [a]	Philippines	Information Technology	Philippine Peso	33.33	33.33

[a] *Not yet started commercial operation as of December 31, 2018*

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

The identifiable assets and liabilities of ARWRI at the date of acquisition were:

	Amount
Assets	
Cash	₱15,543,130
Investment properties (see Note 13)	104,440,943
Subscription receivable	60,000,000
Other noncurrent assets	225,000
	180,209,073
Liabilities	
Accounts payable	(5,173,775)
Other noncurrent liabilities	(17,043,387)
	(22,217,162)
Total net assets acquired	157,991,911
Non-controlling interest - 43.13%	(68,141,911)
Purchase consideration	₱89,850,000

In the 2016 consolidated statements of cash flow, the net cash outflow on the acquisition amounting to ₱14.3 million was derived as follows:

Cash paid at acquisition date	₱29,850,000
Less cash and cash equivalents acquired	15,543,130
Net cash outflow at acquisition date	₱14,306,870

As of December 31, 2018 and 2017, the Parent Company has an outstanding subscription payable to ARWRI amounting to ₱37.0 million and ₱48.5 million, respectively, which are eliminated in the consolidated financial statements against the subscription receivable above.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) in 2018 and available for sale (AFS) financial assets in 2017, which are carried at fair value. The consolidated financial statements are presented in Philippine Peso (₱ or Peso), the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

Statement of Compliance

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

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended standards as at January 1, 2018:

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The adoption of these amendments did not have any impact on the consolidated financial statements.

- *PFRS 9, Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

The Group applied PFRS 9 using the modified retrospective approach. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2016 and 2017 does not reflect the requirements of PFRS 9.
- The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening retained earnings or other component of equity, as applicable.
- As comparative information is not restated, the Group is not required to provide a third consolidated statement of financial position at the beginning of the earliest comparative period presented.

As of January 1, 2018, the Group has reviewed and assessed all of its existing financial assets. The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Group in its evaluation of the classification and measurement categories under PFRS 9 are discussed in Note 4.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018:

Financial Assets	PAS 39		PFRS 9	
	Category	Amount	Amount	Category
Cash and cash equivalents	Loans and Receivable (L&R)	₱201,432,422	₱201,432,422	Amortized Cost (AC)
Cash in banks		176,432,422	176,432,422	
Cash equivalents		25,000,000	25,000,000	
Receivables	L&R	268,529,581	268,529,581	AC
Trade		218,736,191	218,736,191	
Advances and nontrade		49,793,390	49,793,390	
Deposits	L&R	9,413,104	9,413,104	AC
	L&R	₱479,375,107	₱479,375,107	AC
Investments in Debt and Equity instruments [a]	AFS	₱35,199,339	₱35,199,339	FVOCI

[a] As of January 1, 2018, the Group have irrevocably designated all debt and equity investments as FVOCI as these investments are strategic in nature.

The Group does not have financial assets and financial liabilities which had previously been designated at FVTPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

The Group does not have impairment allowance in 2017 measured in accordance with PAS 39 that needs to be reconciled to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018.

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except receivables and those measured at FVTPL are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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 new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

1. Identify the contracts with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue as the entity satisfies a performance obligation.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018. Therefore, the comparative information were not restated and were reported under PAS 11, PAS 18 and related Interpretations.

The Group has concluded that it is acting as an agent in its club racing and cockfighting operations because the Group does not have exposure to the significant risks and rewards associated with the sale of goods or rendering of services. The amount the group earns is predetermined, being either fixed fee per transaction or a stated percentage of the amount billed to the customer. The Group acts as a principal in all other arrangements (i.e., real estate sales and rental services) because the Group is the primary obligor who is responsible for providing goods and services to the customers and the Group bears the credit risk.

The adoption of PFRS 15 as at January 1, 2018 did not have a material impact on the consolidated financial statements.

The following table summarizes the revenue streams of the Group according to timing of recognition:

Point in time:	
Revenue from:	
Club races	₱141,697,231
Cockfighting	593,872,171
Food and beverages	25,984,620
	₱761,554,022
Over time:	
Revenue from real estate*	₱112,116,802

**The real estate projects were already completed as at January 1, 2018.*

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

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

  These amendments are not applicable to the Group since none of the entities within the Group are considered as venture capital organization or other qualifying entities.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The adoption of these amendments did not result in any impact on the consolidated financial statements.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  The adoption of this interpretation did not result in any impact on the consolidated financial statements.

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

Effective beginning on or after January 1, 2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income (OCI), provided that the contractual cash flows are SPPI on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The Group will adopt the amendments as it becomes applicable effective January 1, 2019.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting this standard.

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

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

  The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

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

Deferred effectivity

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

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

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

  These amendments may apply to future transactions of the Group.

4. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to the transactions between members of the Group are eliminated in full consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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

Non-controlling Interests. Non-controlling interests represent the portion of profit or loss and net assets in Biohitech and ARWRI in 2018 and 2017 that are not held by the Group and are presented separately in the consolidated statements of comprehensive income and consolidated statements of financial position separate from equity attributable to equity holders of the parent.

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

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

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

Initial Measurement

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "General and administrative expenses" account in the consolidated statements of comprehensive income.

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the statements of profit or loss in accordance with PAS 39. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in consolidated profit or loss.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

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

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

Acquisition of Assets
When assets are acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not adjudged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identified assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current or noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

<u>Fair Value Measurement</u>
The Group measures financial instruments and non-financial assets at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 30.

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

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

The principal or the most advantageous market must be accessible 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 consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Cash and Cash Equivalents

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

Financial Instruments – Classification and Measurement *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*

Classification of financial assets. Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at AC
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Group's financial assets at AC includes cash in banks, receivables, and deposits.

Financial assets at fair value through other comprehensive income (FVOCI)
Debt instruments. A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in consolidated profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in consolidated profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

As of December 31, 2018, the Group elected to classify irrevocably all debt instruments as financial assets at FVOCI.

Equity instruments. The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to consolidated profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in consolidated profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

As of December 31, 2018, the Group elected to classify irrevocably all equity instruments as financial asset at FVOCI.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets at FVTPL are measured as at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statements of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statements of comprehensive income.

Additionally, even if the asset meets the AC or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group does not have financial assets at FVTPL.

Classification of financial liabilities

Financial liabilities are measured at AC, except for the following:
- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of financial instruments *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*
PFRS 9 introduces a single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at AC and FVOCI;
- contract assets;
- trade receivables;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL. For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired. Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowance

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers certain debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Determining the stage for impairment. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy

The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Financial Assets and Financial Liabilities *(applicable until December 31, 2017 prior to the adoption of PFRS 9)*

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

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

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

The Group has no financial assets or liabilities at FVTPL and held-to-maturity investments as of December 31, 2017.

Determination of Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either i) in the principal market for the asset or liability; or ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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 FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

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

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

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

c. *Other financial liabilities*

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

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

Impairment of Financial Assets

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement, nd has neither transferred nor retained substantially all the risks and rewards of ownership of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability or part of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cashflows of the original debt instrument, the financial liability is not derecognized.

"Day 1" Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

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

Real Estate Inventories

Real estate inventories include completed projects of the Group, and are stated at the lower of cost and net realizable value. Cost of real estate inventories pertains to the cost of land. Real estate inventories include properties held for development, completed condominium units for sale and memorial lots for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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

Investments in Associates and Joint Ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investment in its associate and joint venture are accounted using the equity method.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint venture and its carrying value, and then recognizes the loss as "Equity in net earnings (losses) of associates and joint ventures" in the consolidated statements of comprehensive income.

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

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

- Assets which include real estate inventories, developed office units and retail development units presented under "Investment Properties" account.
- Liabilities, including its share of any liabilities jointly incurred, recorded as "Accrued Expenses"
- Revenue from the sale of its share of the real estate inventories, recorded as "Real Estate Revenue"
- Share of the revenue from services rendered jointly, recorded as part of the "Rental Income"
- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

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

Property and Equipment

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

Investment Properties

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

Capital Stock and Additional Paid-in Capital

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

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

Retained Earnings

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

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

Dividend Distribution

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

Earnings per Share (EPS)

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

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

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

Revenue Recognition (applicable starting January 1, 2018 upon the adoption of PFRS 15)
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding incentives, output tax, and other sales taxes or duties.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as an agent in its club racing and cockfighting operations and as principal in all other arrangements (i.e., real estate sales and rental services).

Commission income from club races
Revenue is recognized at a point in time based on a percentage of gross receipts from ticket sales from horse racing operations in accordance with the Parent Company's franchise agreement.

Commission income from cockfighting
Revenue is recognized at a point in time based on a percentage of gross receipts from ticket sales of cockfighting operations.

Revenue from food and beverages
Revenue from food and beverage is recognized at point in time when the control of the goods is transferred to the customer, generally when the goods are delivered.

Real estate sales
The Parent Company derives its real estate revenue from sale of condominium units and memorial lots. Revenue from sales of real estate projects from the joint venture are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Parent Company's performance does not create an asset with an alternative use and the Parent Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Parent Company uses the output method. The Parent Company recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the third-party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

The real estate projects were already completed as of December 31, 2018.

Cost recognition
The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

<u>Revenue Recognition (applicable until December 31, 2017 prior to adoption of PFRS 15)</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as an agent in its club racing and cockfighting operations and as principal in all other arrangements (i.e., real estate sales and rental services).

The specific recognition criteria described below must also be met before revenue is recognized.

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

Commission income from cockfighting
Revenue is recognized as earned based on a percentage of gross receipts from ticket sales of cockfighting operations.

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

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

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

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

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

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

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

The real estate projects were already completed as of December 31, 2017.

Revenue Recognition (applicable for both periods presented)
Rental income from stables, building and other facilities
Revenue from the lease of stables, building and other facilities is recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

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

Dividend Income
Revenue is recognized when the Parent Company's right to receive the payment is established, which is generally when the shareholders approves the dividend.

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

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

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

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

Retirement Benefits Cost
The Parent Company has noncontributory funded defined benefit plans, administered by trustees, covering substantially all of its regular employees.

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

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in consolidated 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 consolidated 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 an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as an operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as revenue in the period in which they are earned.

Taxes

Current tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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

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

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

<u>Foreign Currency Denominated Transactions and Translations</u>
Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

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

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

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

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on the Group's operating segments is presented in Note 28 to the consolidated financial statements.

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3.
Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

On August 25, 2016, the Parent Company acquired 56.87 percent of the total capital stock of Apo Reef World Resorts, Inc. for ₱89.9 million. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3 since the Parent Company acquired only inputs in the form of parcels of land situated in Mamburao, Mindoro and was not able to acquire any processes. There were no indicators of substantive processes and/or services acquired or provided as of acquisition date (see Notes 1 and 12).

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

a. *Operating lease commitments - the Group as a lessor*
The Group has entered into lease agreements on certain items of its property and equipment and investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties. i.e. ownership of the assets remains with the Group at the end of the lease terms. Accordingly, the lease agreements are accounted for as operating leases (see Notes 12 and 29).

b. *Operating lease commitments - the Parent Company as lessee*
The Parent Company has entered into a lease agreement for the lease of office and parking lots where it has determined that the risks and rewards related to the leased assets are retained by the lessor. i.e. ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease (see Note 29).

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

In 2018, due to continuous decline in revenues from club races, the Group performed impairment testing on its property and equipment used in its racing activities amounting to ₱450.5 million. The value in use included a terminal value based on appraisal of the property performed by an independent appraiser. As a result, no impairment of noncurrent nonfinancial assets was recorded in 2018 and 2017. The carrying values of the Group's interest in associates and joint ventures, property and equipment, investment properties, and franchise fee of December 31, 2018 and 2017 are disclosed in Notes 10, 11, 12 and 13 to the consolidated financial statements, respectively.

Transfer of inventories to investment property
The Parent Company treats condominium units held as inventory transferred to investment property on the commencement of an operating lease with a third party. The inventory will be transferred to investment property when, and only when, there is a change in use evidenced by commencement of an operating lease to another party.

During 2018, the Parent Company reclassified the condominium units previously recognized as inventory to investment property amounting to ₱5.5 million as disclosed in Notes 8 and 12.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimation of allowance for doubtful accounts (applicable until December 31, 2017 prior to the adoption of PFRS 9).
The allowance for doubtful accounts relating to receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total allowance to be provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is made.

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

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

In 2017 and 2016, provision for doubtful accounts are disclosed in Notes 7 and 17 to the consolidated financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Notes 7 and 23 to the consolidated financial statements.

Provision for ECL of financial assets (applicable starting January 1, 2018 upon the adoption of PFRS 9)
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for its receivables from real estate.

The provision matrix is initially based on the Group's historical observed default rates. The Group shall calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of actual default in the future.

The provision for ECL on the Group's receivables in 2018 is disclosed in Notes 7 and 17 to the consolidated financial statements . The carrying amount of receivables as of December 31, 2018 is disclosed in Note 7 to the financial statements.

Provision for ECL of financial assets not held at FVPL (applicable starting January 1, 2018 upon the adoption of PFRS 9)
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category, a reputable credit rating agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from a reputable credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

As of December 31, 2018 and 2017, the cost of the real estate inventories, the amount written down to NRV and the carrying value of the real estate inventories are disclosed in Note 8 to the consolidated financial statements.

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

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

As of December 31, 2017, the carrying value of the Group's AFS financial assets is disclosed in Note 13 to the consolidated financial statements. Impairment loss of ₱0.1 million and ₱2.0 million were recognized in 2017 and 2016, respectively.

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

There were no changes in the useful lives of property and equipment and investment properties in 2018, 2017, and 2016. As of December 31, 2018 and 2017 the carrying amount of depreciable property and equipment are disclosed in Note 11 to the consolidated financial statements. The carrying amount of depreciable investment property as of December 31, 2018 and 2017 are disclosed in Note 12 to the consolidated financial statements.

Provisions
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed to the Group.

No provisions were recognized as of December 31, 2018 and 2017.

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

As of December 31, 2018 and 2017, the Parent Company's deferred tax assets and subsidiaries' unrecognized deferred tax assets are disclosed in Note 24 to the consolidated financial statements.

Estimation of retirement benefits cost and obligations
The determination of the obligation and cost for retirement benefits cost is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 20 and include among others, discount rates, expected rate of return on plan assets and expected rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore generally affect the recognized expense and recorded obligation in such future period. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement and other retirement obligations.

As of December 31, 2018 and 2017, the carrying value of accrued retirement benefits are disclosed in Note 20 to the consolidated financial statements. Retirement benefits cost in 2018, 2017 and 2016 are disclosed in Notes 19 and 20 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	₱26,183,225	₱24,168,097
Cash in banks	296,163,811	176,432,422
Cash equivalents	10,000,000	25,000,000
	₱332,347,036	₱225,600,519

Cash in banks generally earns interest at the respective bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months and earn interest at the respective short-term deposit rates. Interest income earned amounted to ₱0.8 million, ₱0.9 million, and ₱0.6 million in 2018, 2017, and 2016, respectively (see Note 21).

7. Receivables

This account consists of:

	2018	2017
Trade		
Real estate receivables - current portion	₱66,479,721	₱172,355,182
Rent receivables (Notes 11, 12 and 29)	17,358,859	14,984,657
Receivables from off-track/off-cockpit betting (OTB/OCB) operators	4,442,505	1,406,515
Receivables from food and beverage operations	4,423,786	2,857,244
Non-trade		
Advances and loans to officers and employees (Note 25)	24,754,227	14,710,930
Receivable from third parties	20,428,691	10,545,688
Advances to suppliers	16,011,079	13,886,233
Receivable from contractors	5,803,672	5,641,495
Due from related parties (Note 25)	5,018,137	5,009,304
Dividends receivable (Note 10)	4,739,449	3,376,407
Others	7,138,738	8,996,528
	176,598,864	253,770,183
Less ECL/allowance for doubtful accounts	35,350,908	36,393,964
	₱141,247,956	₱217,376,219

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

	2018	2017
Current	₱66,479,721	₱172,355,182
Noncurrent	61,541,708	51,153,362
	₱128,021,429	₱223,508,544

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

Interest income from accretion of real estate receivables amounted to ₱6.6 million, ₱9.9 million, and ₱7.9 million in 2018, 2017, and 2016, respectively (see Note 21).

Advances and Loans to Officers and Employees
The Parent Company grants salary loans and advances to its officers. The loans bear an average interest rate of 9% per annum. Interest income earned on advances and loans to officers and employees amounted to ₱0.9 million in 2018, ₱0.3 million in 2017, and ₱0.6 million in 2016 (see Note 21).

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

Receivable from Third Parties
Receivable from third parties bear an interest of 12% per annum and are generally settled within 30-90 day term. Interest income earned on receivable from third parties amounted to ₱1.1 million in 2018, ₱0.8 million in 2017, and ₱2.1 million in 2016 (see Note 21).

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

ECL/Allowance for Doubtful Accounts
Movements in the allowance for doubtful accounts are summarized below:

	2018		
	Trade	Nontrade	Total
Balance at beginning of year	₱24,020,769	₱12,373,195	₱36,393,964
Provision during the year (Note 17)	12,544,700	1,861,909	14,406,609
Amounts written off during the year	(15,443,165)	–	(15,443,165)
Recovery of doubtful accounts	–	(6,500)	(6,500)
Balance at end of year	₱21,122,304	₱14,228,604	₱35,350,908

	2017		
	Trade	Nontrade	Total
Balance at beginning of year	₱24,386,627	₱13,468,947	₱37,855,574
Provision during the year (Note 17)	12,684,799	1,164,512	13,849,311
Amounts written off during the year	(13,050,657)	(2,252,054)	(15,302,711)
Recovery of doubtful accounts	–	(8,210)	(8,210)
Balance at end of year	₱24,020,769	₱12,373,195	₱36,393,964

The Group directly wrote-off receivables amounting to nil, ₱3.8 million and ₱0.5 million in 2018, 2017, and 2016, respectively.

8. Inventories

This account consists of:

	2018	2017
Real estate:		
Land held for development - at cost	₱38,189,898	₱38,189,898
Memorial lots for sale - at net realizable value	6,489,904	8,379,931
Condominium units for sale - at cost	3,880,628	18,693,592
Residential units for sale - at cost	2,783,562	2,783,562
	51,343,992	68,046,983
Gamefowls - at cost	2,448,000	2,651,000
Food and beverages - at cost	781,227	551,194
	₱54,573,219	₱71,249,177

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company. In 2018 and 2017, revenue from real estate pertains to sale of completed condominium units and memorial lots.

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

	2018	2017
Balance at beginning of year	₱68,046,983	₱81,320,152
Cost of real estate sold (Note 16)	(11,162,675)	(13,273,169)
Reclassification (Note 12)	(5,540,316)	-
Balance at end of year	₱51,343,992	₱68,046,983

In 2018, 2017 and 2016, no impairment loss was recognized. The cost of memorial lots for sale as at December 31, 2018 and 2017 amounted to ₱6.7 million and ₱9.8 million, respectively.

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.

<u>Condominium units for sale</u>
On February 26, 2005, the Parent Company entered into Joint Development Agreements (JDAs) with Avida and Alveo for the development of 5.2 hectares and 1.3 hectares (the "Project Areas"), respectively, of the 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, 2018 and 2017. The construction of Tower 3 of Alveo is 100.00%, 99.99%, and 88.10% complete as of December 31, 2018, 2017 and 2016, respectively.

Residential units for sale

On February 24, 2004, the Parent Company entered into an agreement with 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, 2018, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. The amount of marketing cost in 2018, 2017 and 2016 amounted to ₱10.5 million, ₱12.1 million and ₱9.7 million, respectively (see Note 16).

Gamefowls

The movements in the gamefowl inventory account are as follows:

	2018	2017
Balance at beginning of year	₱2,651,000	₱2,052,000
Purchases	39,976,555	32,460,968
Cost of gamefowls used (Note 16)	(40,179,555)	(31,861,968)
Balance at end of year	₱2,448,000	₱2,651,000

There were no write-down of inventories in 2018 and 2017.

9. Other Current Assets

This account consists of:

	2018	2017
Prepaid expenses	₱5,195,100	₱5,657,591
Input VAT	2,865,044	292,836
Deferred Input VAT	698,818	978,138
Deposit	174,206	174,206
Prepaid income tax	79,347	4,137,338
Others	798,752	252,123
	₱9,811,267	₱11,492,232

Prepaid expenses include prepayments made for insurance and licenses.

Others include fuel and oil and rental deposit.

10. Investments in and Advances to Associates and Joint Ventures

This account consists of:

	2018	2017
Cost	₱2,312,510,445	₱2,312,510,445
Equity in net losses of associates and joint ventures		
Beginning balance	(260,468,835)	(107,114,838)
Equity in net losses during the year	(133,821,849)	(135,219,490)
Share on dividends declared	(23,399,424)	(18,134,507)
	(417,690,108)	(260,468,835)
	1,894,820,337	2,052,041,610
Advances to an associate	237,233,646	152,254,429
	₱2,132,053,983	₱2,204,296,039

	2018	2017
Investment in associates		
MIC	₱1,844,622,146	₱2,011,056,348
Techsystems	–	–
	1,844,622,146	2,011,056,348
Investment in joint ventures		
Gamespan	9,792,161	9,792,161
SLBPO	40,406,030	31,193,101
	50,198,191	40,985,262
	1,894,820,337	2,052,041,610
Advances to an associate	237,233,646	152,254,429
	₱2,132,053,983	₱2,204,296,039

Investment in and Advances to Associates

MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of December 31, 2018 and 2017. MIC started its commercial operations on January 6, 2016. The movements and details of the accounts are as follows:

	2018	2017
Investment in associate	₱2,011,056,348	₱2,185,285,142
Equity in net losses of the associate	(166,434,202)	(174,228,794)
	1,844,622,146	2,011,056,348
Advances to an associate	237,233,646	152,254,429
	₱2,081,855,792	₱2,163,310,777

Advances to MIC pertains to deposit for future stock subscriptions.

The summarized financial information of MIC is as follows:

	2018	2017
Current assets	₱758,436,369	₱897,918,988
Noncurrent assets	5,942,138,475	6,051,105,774
Current liabilities	1,415,410,010	1,301,980,534
Noncurrent liabilities	4,242,646,586	3,878,241,036
Equity	1,042,518,249	1,768,803,192
Income	625,209,640	469,722,606
Expenses	1,369,623,942	1,259,957,781
Net loss	744,414,302	790,235,175

The difference between the carrying values of investment in MIC against the share in net asset of MIC as of December 31, 2018 and December 31, 2017 represents goodwill amounting to ₱1.6 billion.

Fair value of the investment in MIC as of December 31, 2018 and 2017 amounted to ₱1.8 billion and ₱2.4 billion, respectively.

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

On September 17, 2018, the BOD approved the offer price for the rights shall be ₱1.00 per rights share, if paid in full upon submission of the application to subscribe and ₱2.00 per right share, if paid on installment basis.

Significant Contracts between MIC and PAGCOR

The following are the significant contracts between MIC, an associate, and PAGCOR:

a) Permit to Operate granted to MIC
   On March 18, 2010, MIC was granted a Permit to Operate (PTO) by PAGCOR for the establishment, maintenance and operation of PAGCOR San Lazaro. The PTO shall be for a period of fifteen (15) years commencing on January 6, 2016, the date of actual operation of PAGCOR San Lazaro. MIC's management assessed that MIC is the operator of PAGCOR San Lazaro, in accordance with the provision of the PTO.

   The agreement provides that while MIC is in the process of forming its own management team and is cognizant of PAGCOR's expertise, experience and competence in gaming operations, MIC requested PAGCOR to manage PAGCOR San Lazaro by giving PAGCOR an exclusive and direct control to supervise and manage PAGCOR San Lazaro's casino operations.

   For the duration of the agreement, MIC shall receive forty percent (40%) of PAGCOR San Lazaro's monthly gross revenues after deducting the players' winnings/prizes, the taxes that may be imposed on these winnings/prizes, franchise tax, and applicable subsidies and rebates.

   Furthermore, upon revocation, termination or expiration of the PTO, MIC undertakes to ship out of the Philippine territory, the gaming equipment and gaming paraphernalia in pursuance of Presidential Decree 519 and Letter of Instruction 1176 within 60 calendar days from the date of receipt or possession of the gaming equipment and gaming paraphernalia.

For income tax purposes, MIC's revenue share in gaming operations is exempt from income tax in accordance with Section 13 of P.D. 1869, as amended, otherwise known as the "PAGCOR Charter". Under P.D. 1869, earnings derived from the operation of casinos shall be imposed a 5% franchise tax, in lieu of all kinds of taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority.

b) Traditional Bingo Operation
On January 19, 2015, MIC was granted by PAGCOR the right to operate a traditional bingo operation at Winford Hotel and Casino. The terms of the bingo operation shall be coterminous with the term of the PTO. Under the agreement, MIC shall remit monthly to PAGCOR 15% of the total gross receipt from sale of bingo tickets and cards, including electronically stored bingo cards played through an electronic device, instant game tickets and bingo game variant cards.

The agreement provides, among others, that all capital and operating expenditure (including the prizes) related to the bingo operation shall be for the sole account of MIC.

c) Junket Agreement granted to Trafalgar Square and Leisure Corp. (a wholly owned subsidiary of MIC) (TSLC)
On May 16, 2016, TSLC was granted by PAGCOR the authority to bring in pre-registered foreign players to play in designated junket gaming areas in Winford Hotel and Casino with an initial four junket gaming tables. Operation of gaming tables in excess of the initial four junket gaming tables shall be subject to PAGCOR's approval. The agreement is effective for a period of three years, commencing on day 1 of the gaming operation at the junket area but not later than six months from the date of the agreement.

In consideration of the grant by PAGCOR, TSLC shall pay PAGCOR higher of (a) a monthly Minimum Guarantee Fee of US$10 thousand per table or (b) ten percent (10%) of the monthly gross winnings generated from the junket gaming operations. In addition to the monthly fee, TSLC shall remit five percent (5%) of the Monthly Gross Winnings of the Junket Gaming Operations to PAGCOR as Franchise Tax.

TSLC shall also deposit to PAGCOR the following:

a) an amount equivalent to six (6) months of the Minimum Guarantee Fee of the Table Gaming Mix in the Junket Gaming Operation prior to the actual operation of the junket tables.
b) an Administrative Charge Deposit in the amount equivalent to six months manpower cost of PAGCOR's Monitoring Team for the Junket Gaming Operation prior to the actual operation, which shall be made to cover TSLC's share in the cost of salaries and benefits of PAGCOR personnel assigned at the junket area in case the junket operations are suspended for reasons other than force majeure or fortuitous event.
c) a cash bond in the amount of ₱1.0 million upon execution of the Junket Agreement in favor of PAGCOR to ensure and secure TSLC's compliance with the terms and conditions of the agreement and PAGCOR's pre-operating requirements.

All interest income accruing out of the above deposits shall pertain to PAGCOR.

Should TSLC cease operations, for reasons such as violation of terms or conditions as stated in the agreement with PAGCOR, one year or more after the commencement of the agreement but before the end of its term, only TSLC's cash bond and administrative charge deposit shall be forfeited in favor of PAGCOR. The gaming deposit shall be returned to TSLC after deducting any unpaid fees owed by the TSLC to PAGCOR.

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership of the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of December 31, 2018 and 2017, investment in Techsystems is fully provided with allowance. As of December 31, 2018, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems is as follows:

	2018	2017
Total liabilities	₱5,184,317	₱5,184,317
Capital deficiency	(5,184,317)	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation. As of December 31, 2018, Gamespan has not yet started its commercial operations.

Reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follow:

	2018	2017
Current assets	₱20,184,979	₱20,184,979
Noncurrent assets	29,167	29,167
Current liabilities	(629,824)	(629,824)
Equity	19,584,322	19,584,322
Percentage of ownership	50%	50%
	₱9,792,161	₱9,792,161

Equity investment in joint venture in Gamespan amounted to ₱9.8 million in 2018 and 2017. Equity in net earnings amounted to nil in 2018 and 2017.

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

The movement of the equity in joint venture of the San Lazaro JV for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance at beginning of year	₱31,193,101	₱10,318,304
Equity in net earnings for the year	32,612,353	39,009,304
Share on dividends declared	(23,399,424)	(18,134,507)
Balance at end of year	₱40,406,030	₱31,193,101

Dividends receivable from the JV amounted to ₱4.7 million and ₱3.4 million in 2018 and 2017, respectively (see Note 7).

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

	2018	2017
Current assets	₱300,750,720	₱254,648,235
Noncurrent assets	16,452,036	18,063,655
Current liabilities	113,460,146	107,759,329
Noncurrent liabilities	53,952,149	45,871,866
Equity	149,790,461	119,080,695
Dividends	77,998,078	60,448,356
Income	183,319,154	217,264,535
Expenses	74,611,310	87,233,520
Net income	108,707,844	130,031,015

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follows:

	2018	2017
Net assets	₱149,790,461	₱119,080,695
Percentage of ownership	30%	30%
	44,937,138	35,724,209
Other adjustments	(4,531,108)	(4,531,108)
	₱40,406,030	₱31,193,101

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

	2018	2017	2016
MIC	(₱166,434,202)	(₱174,228,794)	(₱97,344,925)
SLBPO	32,612,353	39,009,304	26,814,926
Gamespan	–	–	–
	(₱133,821,849)	(₱135,219,490)	(₱70,529,999)

As of December 31, 2018 and 2017, the Group has no share in any contingent liabilities or capital commitments.

11. Property and Equipment

Movements in this account are as follows:

2018

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	12,946	–	2,469,336	349,904,869
Building and improvements	672,002,701	–	–	279,528	672,282,229
Machinery and equipment	558,027,885	23,180,110	(59,308)	–	581,148,687
Transportation equipment	42,243,675	2,891,964	(100,823)	–	45,034,816
Furniture and fixtures	31,390,116	1,808,807	–	–	33,198,923
	1,955,956,347	27,893,827	(160,131)	2,748,864	1,986,438,907
Accumulated depreciation					
Land improvements	196,229,945	16,690,656	–	–	212,920,601
Building and improvements	366,433,337	33,367,993	–	–	399,801,330
Machinery and equipment	488,474,113	22,855,652	(38,728)	–	511,291,037
Transportation equipment	29,627,711	3,790,520	(81,731)	–	33,336,500
Furniture and fixtures	25,205,852	2,146,907	–	–	27,352,759
	1,105,970,958	78,851,728	(120,459)	–	1,184,702,227
Net book value	849,985,389	(50,957,901)	(39,672)	2,748,864	801,736,680
Construction in progress	30,621,527	3,835,507	(1,662,390)	(2,748,864)	30,045,780
	₱880,606,916	(₱47,122,394)	(₱1,702,062)	₱–	₱831,782,460

2017

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	347,422,587	–	–	–	347,422,587
Building and improvements	671,933,272	69,429	–	–	672,002,701
Machinery and equipment	547,259,336	10,814,549	(46,000)	–	558,027,885
Transportation equipment	36,907,586	6,420,089	(1,084,000)	–	42,243,675
Furniture and fixtures	26,972,004	4,418,112	–	–	31,390,116
	1,935,364,168	21,722,179	(1,130,000)	–	1,955,956,347
Accumulated depreciation					
Land improvements	181,443,068	14,786,877	–	–	196,229,945
Building and improvements	339,102,860	27,330,477	–	–	366,433,337
Machinery and equipment	464,814,282	23,685,121	(25,290)	–	488,474,113
Transportation equipment	27,319,907	3,335,704	(1,027,900)	–	29,627,711
Furniture and fixtures	23,387,978	1,817,874	–	–	25,205,852
	1,036,068,095	70,956,053	(1,053,190)	–	1,105,970,958
Net book value	899,296,073	(49,233,874)	(76,810)	–	849,985,389
Construction in progress	21,643,002	8,978,525	–	–	30,621,527
	₱920,939,075	(₱40,255,349)	(₱76,810)	₱–	₱880,606,916

Loss on sale of property and equipment amounted to ₱1.7 million in 2018 and gain on sale of property and equipment amounted to ₱0.1 million in 2017 and ₱0.5 in 2016 (see Note 23).

Depreciation Charges

The amount of depreciation is allocated as follows:

	2018	2017	2016
Cost of club races (Notes 16 and 18)	₱42,350,135	₱39,825,103	₱39,173,091
General and administrative expenses (Notes 17 and 18)	19,885,463	17,556,385	17,163,151
Cost of rental services (Notes 16 and 18)	13,064,948	10,569,229	12,513,033
Cost of cockfighting (Notes 16 and 18)	3,225,593	2,577,642	613,941
Cost of food and beverages (Notes 16 and 18)	325,589	427,694	393,740
	₱78,851,728	₱70,956,053	₱69,856,956

Construction in Progress

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

Capitalized Borrowing Costs

No interest on loans was capitalized in 2018 and 2017. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of December 31, 2018 and 2017 amounted to ₱29.8 million and ₱32.6 million, respectively.

Land

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2018, 2017 and 2016. The outstanding balance of ₱89.9 million as of December 31, 2018 and 2017 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position (see Note 15).

In 2018 and 2017, the Parent Company acquired new short-term loans amounting to ₱124.0 million and ₱217.0 million, respectively. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of December 31, 2018 and 2017 (see Note 14).

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 ₱23.1 million and ₱24.8 million as of December 31, 2018 and 2017, respectively. Rent income from stable rentals in 2018, 2017, and 2016 amounted to ₱44.6 million, ₱45.7 million and ₱46.4 million, respectively.

The Parent Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.6 million in 2018 and ₱0.5 million in 2017 and 2016.

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. In February 2017, the Parent Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR amounted to ₱1.2 million in 2018, 2017, and 2016 (see Note 29).

Lease of Equipment with PAGCOR
In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on 2017. In May 2018, the Parent Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

In 2018, 2017 and 2016, income from the lease agreement with PAGCOR amounted to ₱12.1 million, ₱20.5 million and ₱26.5 million, respectively (see Note 29).

Impairment
In 2018 and 2017, due to continuous decline in revenues from club races, the Parent Company assessed that its property and equipment used in its racing activities may be impaired as of December 31, 2018 and 2017. These property and equipment related to the Parent Company's racing activities have a carrying amount of ₱472.2 million as of December 31, 2018 and 2017 prior to impairment assessment.

The recoverable amount of the CGU has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on a five (5) year prospective financial information approved by management. Management determined that the key assumptions underlying the said prospective financial information are based on reasonable estimates after considering historical performance and its expectations on prospects and development within the forecast period.

Management assessed that the property and equipment have estimated recoverable value as measured by its value in use of ₱2.2 billion as of December 31, 2018 and 2017. A significant portion of the value in use pertains to the estimated terminal value of the land where the property is situated, which currently has significant appraisal value due to enhancement of property prices from the development within the surrounding properties. The calculation made by the independent appraiser depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales prices based on internal and external factors.

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

Discount Rates
The discount rate used is the post-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Parent Company used discount rates based on the industry's weighted average cost of capital (WACC). The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas. Management assumed discount rates of 10.9 percent in 2018 for the impairment of property and equipment, the pre-tax equivalent of which is 11.1 percent. An increase of 76.01 percent in the discount rates would give a value in use equal to the carrying amount of the cash-generating units in 2018.

Revenues
Average growth rates in revenues are based on the Parent Company's expectation of market developments and the changes in the environment in which it operates. The Parent Company anticipated revenue growth of -2 percent to -3 percent within the forecast period, based on past historical performance as well as expectations on the operating results of the business. A further decline in revenues of more than 100 percent would give a value-in-use equal to the carrying amount of the cash generating units in 2018, primarily due to the land value of the property sufficient to absorb any potential operating losses within the forecast period.

Accordingly, the Parent Company recognized no impairment loss on the property and equipment used in its racing activities during the year.

12. Investment Properties

This account consists of:

	2018	2017
Land:		
Sta. Cruz property held for capital appreciation	₱359,631,580	₱359,631,580
Sta. Cruz property held for lease	238,168,692	238,168,692
Carmona property	109,750,785	109,750,785
Mamburao property (Note 1)	128,430,457	123,872,731
Undivided interest in a parcel of land in Batangas	56,723,976	56,723,976
	892,705,490	888,147,764
Building:		
Developed office units (Note 10)	172,050,657	177,226,424
Retail development area (Note 10)	29,999,766	32,001,308
	202,050,423	209,227,732
	₱1,094,755,913	₱1,097,375,496

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

	2018		
	Land	Building	Total
Cost			
Balance at beginning of year	₱888,147,764	₱310,665,629	₱1,198,813,393
Additions	4,557,726	–	4,557,726
Condominium units held for lease (Note 8)	–	5,540,316	5,540,316
Balance at end of year	892,705,490	316,205,945	1,208,911,435
Accumulated Depreciation			
Balance at beginning of year	–	101,437,897	101,437,897
Depreciation (Notes 16 and 18)	–	12,717,625	12,717,625
Balance at end of year	–	114,155,522	114,155,522
Net Book Value	₱892,705,490	₱202,050,423	₱1,094,755,913

	2017		
	Land	Building	Total
Cost			
Balance at beginning of year	₱877,984,914	₱310,665,629	₱1,188,650,543
Additions	10,162,850	–	10,162,850
Balance at end of year	888,147,764	310,665,629	1,198,813,393
Accumulated Depreciation			
Balance at beginning of year	–	89,011,272	89,011,272
Depreciation (Notes 16 and 18)	–	12,426,625	12,426,625
Balance at end of year	–	101,437,897	101,437,897
Net Book Value	₱888,147,764	₱209,227,732	₱1,097,375,496

Depreciation amounting to ₱12.7 million and ₱12.4 million for the period ended December 31, 2018 and 2017, are included as part of "Cost of rental services" (see Note 16).

Philippine Economic Zone Authority (PEZA) zones

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.

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 - 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.

As of December 31, 2018 and 2017, the Parent Company's contribution to the JDA amounting to ₱310.7 million is presented as the cost of "Building" under "Investment properties" in the consolidated statements of financial position.

In 2018, 2017 and 2016, rent income amounted to ₱16.9 million, ₱15.6 million, and ₱15.4 million, respectively. Direct operating expenses related to the investment properties amounted to ₱0.1 million in 2018, 2017 and 2016.

Undepreciated capitalized interest relating to the Building Complex as of December 31, 2018 and 2017 amounted to ₱5.3 million and ₱5.4 million, respectively.

Fair Market Values
As of December 31, 2018, the aggregate fair value of the Parent Company's investment properties amounted to ₱5.2 billion. Fair values of the Carmona property, Sta. Cruz properties and the building as of February 15, 20, and 22, 2019 have been determined based on valuation performed by independent professional appraisers using replacement cost approach method and market data approach method. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2018 from the most recent revaluations performed by independent appraisers. Investment property was classified as Level 3 in 2018 and 2017 as to the qualification of fair value hierarchy.

Carrying value of the Mamburao property amounting to ₱128.4 million as of December 31, 2018 approximates its fair value since the property is only acquired in 2017. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2018 from the most recent revaluations performed by independent appraisers.

Investment property was classified as Level 3 in 2018 and 2017 as to the qualification of fair value hierarchy.

13. Other Noncurrent Assets

This account consists of:

	2018	2017
Financial assets at FVOCI /AFS financial assets:		
Debt securities	₱25,083,403	₱22,005,460
Quoted equity securities	9,201,393	13,193,879
Deferred input VAT	13,538,829	11,573,543
Deposits	10,465,503	9,238,898
Franchise fee (Note 1)	7,208,839	9,002,839
Others	236,428	236,428
	₱65,734,395	₱65,251,047

Financial Assets at FVOCI/AFS Financial Assets
The reconciliation of the carrying amounts of financial assets at FVOCI /AFS financial assets is as follows:

	2018	2017
Balance at beginning of year	₱35,199,339	₱13,261,812
Additions during the year	25,000,000	22,000,000
Disposal during the year	(27,265,460)	–
Unrealized mark-to-market losses during the year	1,350,917	(62,473)
Balance at end of year	₱34,284,796	₱35,199,339

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

	2018	2017
Balance at beginning of year	₱4,950,148	₱4,962,621
Impairment loss reclassified to profit or loss (Note 23)	–	50,000
Disposal during the year	(265,460)	–
Unrealized market-to-market gains (losses) during the year	1,350,917	(62,473)
Balance at end of year	₱6,035,605	₱4,950,148

Loss on sale of financial assets at FVOCI/AFS financial assets is ₱0.3 million in 2018 and nil in 2017 and 2016 (see Note 23). Dividend income from these investments is ₱0.4 million in 2018 and 2017 and ₱0.5 million in 2016 (see Note 23). Interest income from these investments is ₱0.7 million in 2018, ₱0.6 million in 2017, and ₱0.4 million in 2016 (see Note 21).

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

	2018	2017
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	35,847,161	34,053,161
Amortization for the year (Note 16)	1,794,000	1,794,000
Balance at end of year	37,641,161	35,847,161
	₱7,208,839	₱9,002,839

Franchise fee has remaining amortization period of four (4) years as of December 31, 2018.

14. Short-term Loans and Borrowings

As of December 31, 2018 and 2017, outstanding balance of short-term loans and borrowings amounted to ₱288.6 million and ₱234.0 million, respectively. These loans bear average interest of 4.3% and 3.5% in 2018 and 2017, respectively. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

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

	2018	2017
Balance at beginning of year	₱234,000,000	₱90,000,000
Additions	124,000,000	217,000,000
Payments	(69,363,960)	(73,000,000)
Balance at end of year	₱288,636,040	₱234,000,000

In 2018 and 2017, the Parent Company acquired new short-term loans amounting to ₱124.0 million and ₱217.0 million, respectively. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of December 31, 2018 and 2017 (see Note 11).

MCI also acquired short-term loan amounting to ₱10.0 million in 2016. This loan was obtained for working capital requirements and bear average interest of 3.6%. The promissory note covering said loan has a term of three (3) months. This has been fully paid in 2017.

Interest expense on short-term loans amounted to ₱9.5 million, ₱5.7 million, and ₱2.3 million in 2018, 2017 and 2016, respectively (see Note 22).

15. Accounts Payable and Other Liabilities

This account consists of:

	2018	2017
Accounts payable	₱92,012,605	₱93,136,507
Due to RALI (Note 11)	89,900,000	89,900,000
Percentage tax payable	45,923,182	18,573,779
Cash bond on OTB/OCB operators	34,130,421	28,617,454
Documentary stamps payable	25,262,379	23,338,521
Accrued expenses	22,636,407	27,775,656
Unclaimed winnings	21,206,678	12,242,665
Rental deposits	11,245,137	9,584,174
Taxes on winnings	6,360,050	7,557,851
Dividends payable (Note 26)	5,974,351	4,180,958
Withholding taxes payable	4,474,568	2,904,394
Retention payable	1,978,343	1,978,343
Due to contractors	1,683,538	7,083,538
VAT payable	1,646,342	4,709,364
Due to winning horse owners	1,415,052	141,606
Due to OTB operators	1,179,942	2,007,935
Others	19,120,753	8,309,185
	₱386,149,748	₱342,041,930

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

Cash bond on OTB/OCB operators serves as security deposits received by the Group from OTB/OCB operators at the inception of the operation. These are refunded to OTB/OCB operators upon termination of the OTB/OCB operations. Due to OTB/OCB operators are unpaid commissions to the operators that are settled within the next operating cycle.

During the year, the Parent Company recognized gain on reversal of liabilities amounting to ₱5.4 million (see Note 23).

16. Cost of Sales and Services

Cost of club races consists of:

	2018	2017	2016
Personnel costs (Notes 19 and 20)	₱56,319,598	₱55,649,723	₱52,157,866
Depreciation (Notes 11 and 18)	42,350,135	39,825,103	39,173,091
Utilities	18,658,897	17,567,928	18,956,762
Commission	14,451,469	18,859,744	19,374,126
Taxes and licenses	7,434,664	785,904	929,895
Prizes and winnings	6,000,056	7,084,174	529,786
Contracted services	4,997,314	4,979,643	4,850,812
Rent (Note 29)	4,549,535	4,341,011	2,768,240
Transportation and travel	4,293,866	3,883,796	6,716,499
Repairs and maintenance	3,910,560	2,602,282	3,417,993
Meetings and conferences	3,699,227	4,691,535	3,553,408
Security services	2,320,343	1,946,966	2,067,864
Supplies	2,007,133	1,806,245	1,426,712
Gas, fuel and oil	1,958,186	1,275,783	1,820,590
Amortization of franchise fee (Note 13)	1,794,000	1,794,000	1,794,000
Software license	943,360	2,029,443	2,704,856
Semi-expandable equipment	431,594	487,514	345,620
Insurance expense	410,468	324,556	304,671
Others	3,172,483	6,813,457	7,194,990
	₱179,702,888	₱176,748,807	₱170,087,781

Cost of real estate sold amounted to ₱11.2 million, ₱13.3 million, ₱12.4 million in 2018, 2017 and 2016, respectively (see Note 8).

Cost of cockfighting consists of:

	2018	2017	2016
Percentage tax	₱106,898,138	₱58,638,378	₱21,669,555
Breeders' subsidy	73,291,268	37,872,315	14,117,719
Commission	54,977,213	28,874,445	10,610,873
Gamefowls (Note 8)	40,179,555	31,861,968	10,515,520
Tellers allowances	12,716,256	9,573,299	7,017,375
Rent	11,001,560	189,474	1,469,159
Communication	10,892,533	11,718,083	3,089,439
Professional fees	7,418,839	6,314,562	5,183,273
Repairs and maintenance	4,394,104	1,512,375	237,518
Transportation and travel	4,478,425	4,088,316	2,138,074

(Forward)

	2018	2017	2016
Supplies	₱4,456,718	₱3,204,790	₱1,275,201
Depreciation (Notes 11 and 18)	3,225,593	2,577,642	613,941
Semi expendable equipment	2,662,127	253,343	345,620
Security services	2,566,311	970,365	1,004,237
Taxes and licenses	1,776,140	4,185,950	511,556
Fuel and oil	878,188	677,706	277,525
Meetings and conferences	816,414	6,677,837	-
Personnel costs (Notes 19 and 20)	800,236	218,010	-
Others	22,783,138	10,131,532	4,214,291
	₱366,212,756	₱219,540,390	₱84,290,876

Cost of rent services consists of:

	2018	2017	2016
Depreciation (Notes 11, 12 and 18)	₱25,782,5734	₱22,995,854	₱24,939,658
Utilities	12,698,724	11,027,316	9,767,528
Personnel costs (Notes 19 and 20)	4,158,264	3,614,998	3,183,738
Contracted services	3,641,174	4,344,281	4,410,255
Software license	2,285,350	2,832,000	1,055,849
Security services	1,934,441	1,517,397	1,703,955
Repairs and maintenance	1,000,803	3,575,558	1,939,274
Meetings and conferences	925,479	4,198,654	6,142,331
Rent (Note 29)	897,861	1,504,958	2,619,677
Franchise tax - gaming	607,154	1,025,732	1,324,861
Others	794,804	2,049,779	2,046,942
	₱54,726,627	₱58,686,527	₱59,134,068

Cost of food and beverages consists of:

	2018	2017	2016
Purchased stocks	₱15,949,510	₱3,767,710	₱6,067,167
Utilities	5,712,048	4,798,198	4,272,947
Contracted services	3,502,448	4,084,970	4,265,731
Personnel cost (Notes 19 and 20)	2,491,135	2,144,609	1,465,083
Meetings and conferences	716,189	321,104	785,919
Depreciation (Notes 11 and 18)	325,589	427,694	393,740
Semi-expendable equipment	286,475	399,024	118,880
Supplies	185,142	97,666	223,124
Repairs and maintenance	152,487	87,545	118,835
Communication	69,203	103,098	191,787
Others	1,150,035	1,062,969	975,530
	₱30,540,261	₱17,294,587	₱18,878,743

17. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Personnel costs (Notes 19 and 20)	₱87,458,794	₱73,991,810	₱69,933,935
Depreciation (Notes 11 and 18)	19,885,463	17,556,385	17,163,151
Professional fees	19,771,088	12,127,562	8,823,025
Contracted services	19,179,526	18,478,025	13,707,990
Taxes and licenses	16,791,400	3,237,494	2,060,452
Provision for doubtful accounts (Note 7)	14,406,609	13,849,311	13,658,247
Rent (Note 29)	12,868,031	10,291,250	8,740,857
Repairs and maintenance	12,605,860	9,626,114	8,874,026
Utilities	11,618,745	11,956,238	11,098,944
Service fee	10,267,905	13,844,376	9,395,943
Meetings and conferences	9,510,263	10,259,111	7,685,300
Security services	8,310,375	6,857,941	6,810,480
Donations	7,959,213	2,227,280	–
Entertainment, amusement and recreation	6,605,699	2,995,232	1,953,741
Transportation and travel	5,799,987	2,016,617	3,911,430
Gas, fuel and oil	5,324,128	3,755,207	4,315,708
Directors' fee	3,963,024	1,211,500	919,500
Supplies	2,358,716	1,731,357	1,787,468
Advertising	2,287,089	1,850,122	1,559,931
Insurance	1,313,929	1,522,454	1,003,235
Membership dues	1,135,312	1,018,461	887,739
Semi-expendable equipment	672,499	890,998	658,274
Seminars and trainings	341,151	916,851	687,242
Patronage fee	–	3,242,354	4,197,231
Others	14,490,474	8,661,746	9,000,410
	₱294,925,280	₱234,115,796	₱208,834,259

18. Depreciation

This account consists of:

	2018	2017	2016
Cost of club races (Notes 11 and 16)	₱42,350,135	₱39,825,103	₱39,173,091
Cost of rent services (Notes 11, 12 and 16)	25,782,573	22,995,854	24,939,658
General and administrative expense (Notes 11 and 17)	19,885,463	17,556,385	17,163,151
Cost of cockfighting (Notes 11 and 16)	3,225,593	2,577,642	613,941
Cost of food and beverages (Notes 11 and 16)	325,589	427,694	393,740
	₱91,569,353	₱83,382,678	₱82,283,581

19. Personnel Costs

This account consists of:

	2018	2017	2016
Salaries and wages	₱125,094,050	₱112,942,284	₱105,222,332
Retirement benefits costs (Note 20)	9,861,125	8,928,035	9,129,671
Other employee benefits	16,272,852	13,748,831	12,388,619
	₱151,228,027	₱135,619,150	₱126,740,622

20. Retirement Benefits Costs

The Group has four tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation report as of December 31, 2018.

The details of the retirement benefits costs are as follows:

	2018	2017	2016
Current service costs	₱7,648,952	₱6,670,572	₱6,057,113
Interest costs – net of interest income	2,212,173	2,257,463	2,299,051
Past service costs	–	–	773,507
	₱9,861,125	₱8,928,035	₱9,129,671

The components of remeasurements included in the consolidated statements of comprehensive income are as follows:

	2018	2017	2016
Actuarial gain (loss) in defined benefit obligation	(₱10,632,291)	₱4,708,466	₱5,669,926
Remeasurement gain (loss) in plan assets	(3,973,333)	297,228	(2,080,391)
	(14,605,624)	5,005,694	3,589,535
Less tax effect	4,381,687	(1,501,709)	(1,076,860)
	(₱10,223,937)	₱3,503,985	₱2,512,675

The details of accrued retirement benefits are as follows:

	2018	2017
Defined benefit obligation	₱103,528,543	₱85,248,923
Fair value of plan assets	(47,584,166)	(45,390,806)
	₱55,944,377	₱39,858,117

Movements in the accrued retirement benefits are as follows:

	2018	2017
Balance at beginning of year	₱39,858,117	₱44,035,776
Net retirement benefits costs for the year	9,861,125	8,928,035
Contributions for the year	(8,284,606)	(8,100,000)
Defined benefit income recognized in OCI	14,605,624	(5,005,694)
Benefits paid from book reserves	(95,883)	–
Balance at end of year	₱55,944,377	₱39,858,117

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

	2018	2017
Defined benefit obligation at beginning of year	₱85,248,923	₱82,671,995
Current service costs	7,648,952	6,670,572
Interest costs	4,944,438	4,695,769
Actuarial loss (gain) due to:		
Change in financial assumptions	(11,666,043)	1,015,174
Experience adjustments	22,271,250	(5,455,464)
Change in demographic assumptions	27,084	(268,176)
Benefits paid	(4,946,061)	(4,080,947)
Defined benefit obligation at end of year	₱103,528,543	₱85,248,923

Changes in fair value of plan assets are as follows:

	2018	2017
Fair value of plan assets at beginning of year	₱45,390,806	₱38,636,219
Interest income	2,732,265	2,438,306
Contributions	8,284,606	8,100,000
Actuarial gain (loss)	(3,973,333)	297,228
Benefits paid	(4,850,178)	(4,080,947)
Fair value of plan assets at end of year	₱47,584,166	₱45,390,806
Actual return on plan assets	(₱1,241,068)	₱2,735,534

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:

	2018	2017
Cash and cash equivalents	₱6,717,013	₱25,077,637
Investment in unit investment trust fund	6,539,607	–
Investment in government securities	30,441,209	18,569,877
Others	4,377,681	2,215,321
	48,075,510	45,862,835
Liabilities	(491,344)	(472,029)
	₱47,584,166	₱45,390,806

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

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investment in unit investment trust fund includes ready-made investments such as money market securities, bonds and equities with return from capital gains on top of interest income; and,
- Others include investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bears variable interest rates ranging from 2.5% to 8.5% and have maturities from 2019 to 2031.

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

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

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

	2018	2017	2016
Discount rates	7.50%	5.80%	6.25%
Expected rate of salary increase			
Monthly employees	4.00%	4.00%	3.50%
Race day employees	3.50%	4.00%	4.00%

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

	Effect on Net Retirement Liability		
	Increase (Decrease)	2018	2017
Discount rate	1.00%	(₱5,294,961)	(₱5,313,018)
	(1.00%)	6,004,105	6,080,891
Salary increase rate	(1.00%)	(6,164,928)	(5,301,968)
	1.00%	5,518,389	4,715,700

The weighted average duration of the defined benefit obligation as of December 31, 2018 and 2017 are 5.5 and 6.7 years, respectively.

Shown below are the expected future benefit payments as of December 31.

	2018	2017
Less than 1 year	₱38,592,903	₱20,730,931
More than 1 year to 5 years	37,141,385	30,271,783
More than 5 years to 10 years	52,491,210	49,105,500
Over 10 years	255,758,558	209,246,105

21. Interest Income

Interest income related to:

	2018	2017	2016
Real estate receivables (Note 7)	₱6,627,464	₱9,929,750	₱7,884,098
Receivable from third parties (Note 7)	1,075,667	843,333	2,087,197
Advances and loans to officers and employees (Note 7)	909,638	346,997	616,727
Cash and cash equivalents (Note 6)	779,293	887,704	581,369
Financial assets at FVOCI/AFS financial assets (Note 13)	661,549	566,667	351,217
	₱10,053,611	₱12,574,451	₱11,520,608

22. Finance Costs

Interest expense related to:

	2018	2017	2016
Short-term loans (Note 14)	₱9,520,466	₱5,682,596	₱2,339;387
Bank charges and others	616,147	414,208	102,945
	₱10,136,613	₱6,096,804	₱2,442,332

23. Other Income - net

	2018	2017	2016
Income from advertising campaign	₱4,382,677	₱2,681,166	₱3,587,638
Gain on reversal of liabilities (Note 15)	5,400,000	–	13,135,947
Parking fees	4,613,857	3,707,679	3,258,631
Gain (loss) on disposal of property and equipment (Note 11)	(1,646,482)	91,900	467,712
Income from subscriptions	1,284,627	300,308	501
Entrance fee	865,996	1,963,199	1,191,625
Dividend income from financial asset at FVOCI/AFS financial assets (Note 13)	374,750	392,750	451,750
Gain (loss) on sale of financial asset at FVOCI/AFS financial assets (Note 13)	(271,966)	–	364,020
Income due to cancellations	136,080	134,087	2,773,254
Foreign exchange loss - net	(96,350)	(50,375)	(187,421)

(Forward)

	2018	2017	2016
Loss on receivable write-off (Note 7)	₱–	(₱3,769,784)	(₱496,128)
Impairment loss on financial assets at FVOCI/AFS financial assets (Note 13)	–	(50,000)	(1,983,500)
Others – net	730,205	2,966,197	5,342,401
	₱15,773,394	₱8,367,127	₱27,906,430

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.

24. Income Taxes

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

	2018	2017	2016
RCIT	₱41,426,165	₱24,031,849	₱10,346,248
MCIT	510,399	278,328	2,539
Final tax on interest income	286,681	263,001	221,119
	₱42,223,245	₱24,573,178	₱10,569,906

Biohitech and SLLPHI have no provision for income tax in 2018, 2017 and 2016.

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

	2018	2017
Deferred tax assets on:		
Accrued retirement benefits	₱16,783,313	₱11,957,435
Allowance for doubtful accounts	10,556,633	10,867,600
Advance rentals and non-refundable deposits	3,373,540	2,875,252
PAS 17 adjustment on rent expense	3,593,373	2,191,375
Unamortized past service cost	1,943,229	2,020,448
Unearned income	1,168,727	597,322
MCIT	780,612	273,846
Provision for inventory write-down	435,297	435,297
PAS 17 adjustment on rent income	319,724	110,362
Allowance for impairment on investment in associate	300,000	300,000
NOLCO	226,139	1,286,589
Impairment loss on AFS financial assets	–	156,000
Unrealized foreign exchange loss - net	28,904	15,113
	39,509,491	33,086,639
Deferred tax liabilities on:		
Unrealized gain from real estate transactions	(30,277,509)	(51,646,552)
Undepreciated capitalized borrowing costs	(10,466,426)	(11,409,991)

(Forward)

	2018	2017
Deferred tax liabilities on (recognized directly in other comprehensive income):		
Unrealized deemed cost adjustment on real estate properties*	(₱184,604,799)	(₱186,943,479)
Fair value adjustments of financial assets at FVOCI	(1,258,640)	–
	(226,607,374)	(250,000,022)
Net deferred tax liabilities	(₱187,097,883)	(₱216,913,383)

**Reversal of deferred tax liabilities is through profit or loss, except for investment properties (see Note 26).*

	2018	2017
Deferred tax assets - net	₱1,812,371	₱1,560,435
Deferred tax liabilities - net	(188,910,254)	(218,473,818)
	(₱187,097,883)	(₱216,913,383)

c. Details of the unrecognized deferred tax assets relate to the following:

	2018	2017
Impairment loss on property and equipment	₱1,795,330	₱–
NOLCO	1,502,282	597,016
Provision for doubtful accounts	48,639	50,589
MCIT	10,665	7,021
Unrealized foreign exchange loss (gain)	(1,983)	1,379
	₱3,354,933	₱656,005

d. Details of NOLCO and MCIT of each entity in the Group are as follows:

Gametime

NOLCO

Year Incurred	Beginning Balance	Incurred	Applied	Ending Balance	Available Until
2015	₱1,824,724	₱–	₱1,824,724	₱–	2018
2016	2,463,907	–	1,710,108	753,799	2019
	₱4,288,631	₱–	₱3,534,832	₱753,799	

MCIT

Year Incurred	Beginning Balance	Incurred	Expired	Ending Balance	Available Until
2017	₱273,846	₱–	₱–	₱273,846	2020
2018	–	506,766	–	506,766	2021
	₱273,846	₱506,766	₱–	₱780,612	

As of December 31, 2018, deferred tax assets on NOLCO and MCIT of Gametime were recognized since management believes that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

As of December 31, 2018, the deferred tax assets on NOLCO and MCIT of the following entities were presented as part of unrecognized deferred tax.

MFC

NOLCO

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱30,686	₱–	₱–	₱30,686	2019
2018	–	14,543	–	14,543	2021
	₱30,686	₱14,543	₱–	₱45,229	

MCIT

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱2,539	₱–	₱–	₱2,539	2019
2017	4,482	–	–	4,482	2020
2018	–	3,634	–	3,634	2021
	₱7,021	₱3,634	₱–	₱10,655	

ARWRI

NOLCO

Year Incurred	Amount	Incurred	Applied	Ending Balance	Available Until
2016	₱876,430	–	–	₱876,430	2019
2017	–	1,011,338	–	1,011,338	2020
2018	–	3,074,610	–	3,074,610	2021
	₱876,430	₱4,085,948	₱–	₱4,962,378	

e. The reconciliation of the Group's provision for (benefit from) income tax at statutory tax rate to the provision for (benefit from) income tax shown in the consolidated statements of comprehensive income is as follows:

	2018	2017	2016
Provision for (benefit from) income tax at statutory rate	(₱36,814,021)	(₱32,546,218)	(₱20,361,861)
Additions to (reductions in) income tax resulting from tax effects of:			
Nondeductible expenses	65,136,542	58,282,871	32,408,585
Nontaxable income	(16,076,002)	(12,308,177)	(7,703,598)
MCIT applied	–	–	3,952,823
Interest income subjected to final tax	(44,377)	(166,647)	(94,244)
Movements in unrecognized deferred tax assets	3,172,650	(1,949,923)	1,360,563
Expired NOLCO	–	–	25,165
Provision for income tax	₱15,374,792	₱11,311,906	₱9,587,433

25. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

	Nature	Amount 2018	Amount 2017	Receivable/(Payable) 2018	Receivable/(Payable) 2017	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office space[a]	₱13,177,504	₱11,780,277	₱–	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	–	–	(13,734,482)	(14,734,481)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances[b]	–	1,161	4,982,104	4,982,104	Noninterest-bearing	Unsecured, no impairment
Techsystems	Advances[b]	8,833	9,034	36,033	27,200	Noninterest-bearing	Unsecured, no impairment

[a]The Parent Company has a lease agreement with AMDC, an affiliate under common control, in the lease of office space and four parking lots (see Note 29).
[b]Included in the "Receivables" account (see Note 7)

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Group recorded impairment of receivables relating to amounts owed by related parties amounting to ₱11,285 as of December 31, 2018, and nil as of December 31, 2017 and 2016. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group amounted to ₱91.6 million, ₱67.4 million and ₱62.2 million in 2018, 2017 and 2016, respectively. The Group has no standard arrangement with regard to the remuneration of its directors. The BOD received a total of ₱9.8 million in 2018, 2017, and 2016. Advances and loans to officers and employees amounted to ₱24.8 million and ₱14.7 million as of December 31, 2018 and 2017, respectively (see Note 7).

26. Equity

Capital Stock

The details of the Parent Company's capital stock as of December 31, 2018 and 2017 are as follows:

	Number of Shares	Amount
Common shares - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued and outstanding (held by 962 and 970 equity holders in 2018 and 2017)	996,170,748	₱996,170,748
	996,170,748	₱996,170,748

On September 11, 2018, the BOD approved the increase of the Parent Company's authorized capital stock from ₱1.0 billion divided into one billion share with a par value of ₱1.00 per share to ₱2.0 billion divided into two billion shares with a par value of ₱1.00 per share.

Retained Earnings

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to ₱1.1 billion.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury an deemed cost adjustment totaling ₱430.7 million and ₱436.2 million as of December 31, 2018 and 2017, respectively.

The components of the deemed cost adjustment are as follows:

	2018	2017
Real estate inventories	₱49,275,320	₱57,070,919
Investment properties	566,074,010	566,074,010
Revaluation increment	615,349,330	623,144,929
Deferred income tax liability	(184,604,799)	(186,943,479)
Deemed cost adjustment	₱430,744,531	₱436,201,450

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

On April 12, 2018, the BOD of the Parent Company approved the appropriations of the following:

- declaration of cash dividends of ₱0.05 per share or ₱49.8 million;
- payment for the subscription to Stock Rights Offering of its affiliate, MIC, amounting to ₱201.8 million; and
- payment for the subscription to the increase in the authorized capital stock of its subsidiary, MCI, amounting to ₱30.6 million.

As of December 31, 2018, appropriated retained earnings amounted to ₱282.2 million.

On April 3, 2019, the BOD approved the reversal of appropriation of retained earnings amounting to ₱282.2 million.

Declaration of Dividends

The following are the details of the dividends declared in 2018 and 2017:

Type of Dividend	Date of Declaration	Date of Record	Dividends per Share
Cash	April 12, 2018	May 28, 2018	₱0.05
	June 30, 2017	July 18, 2017	0.05
Stock	December 7, 2018	To be announced	50%

As of December 31, 2018 and 2017, outstanding dividends payable amounted to ₱6.0 million and ₱4.2 million, respectively (see Note 15).

During the special stockholders' meeting held on December 7, 2018, the stockholders approved the declaration of 50% stock dividends from the Company's unrestricted retained earnings for the period ended December 31, 2017, to be taken from an increase in the Company's authorized capital stock. As of December 31, 2018, the approval of the SEC has not been obtained.

27. Basic/Diluted EPS

Basic/diluted loss per share were computed as follows:

	2018	2017	2016
Net loss attributable to equity holders of the Parent Company	(₱133,765,093)	(₱119,358,594)	(₱77,077,258)
Divided by weighted average number of outstanding common shares	996,170,748	996,170,748	996,170,748
Basic/diluted loss per share	(₱0.1343)	(₱0.1198)	(₱0.0774)

The Parent Company does not have potential dilutive common shares as of December 31, 2018, 2017 and 2016. Therefore, the basic and diluted loss per share are the same as of those dates.

28. Operating Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided. The Group's five reportable operating segments are the operation and maintenance of race tracks and holding of horse races, cockfighting operations, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

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

As of December 31, 2018, 2017 and 2016, the Group has no transactions between reportable segments. The Group measures the segment net income or loss, segment assets and segment liabilities for each reportable segment in a manner similar to the measurement of the Group's total comprehensive income.

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

Segment Revenue and Expenses

The segment results for the years ended December 31 are as follows:

	2018						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱141,697,231	₱593,872,171	₱118,744,266	₱77,720,936	₱25,984,620	₱21,252,985	₱979,272,209
Cost and expenses	(179,702,888)	(366,212,756)	(21,671,625)	(54,726,627)	(30,540,261)	(449,131,456)	(1,101,985,613)
Income (loss) before income tax	(38,005,657)	227,659,415	97,072,641	22,994,309	(4,555,641)	(427,878,471)	(122,713,404)
Provision for income tax	–	–	–	–	–	(15,374,792)	(15,374,792)
Net income (loss)	(₱38,005,657)	₱227,659,415	₱97,072,641	₱22,994,309	(₱4,555,641)	(₱443,253,263)	(₱138,088,196)

	2017						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱186,133,893	₱332,720,611	₱132,946,095	₱83,510,985	₱18,279,403	₱23,430,559	₱777,021,546
Cost and expenses	(176,748,807)	(219,540,390)	(25,345,701)	(58,686,527)	(17,294,587)	(387,892,928)	(885,508,940)
Income (loss) before income tax	9,385,086	113,180,221	107,600,394	24,824,458	984,816	(364,462,369)	(108,487,394)
Provision for income tax	–	–	–	–	–	(11,311,906)	(11,311,906)
Net income (loss)	₱9,385,086	₱113,180,221	₱107,600,394	₱24,824,458	₱984,816	(₱375,774,275)	(₱119,799,300)

	2016						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱188,544,440	₱120,386,418	₱121,705,673	₱89,991,462	₱16,179,911	₱37,836,306	₱574,644,210
Cost and expenses	(170,087,781)	(84,290,876)	(29,085,335)	(59,134,068)	(18,878,743)	(281,040,276)	(642,517,079)
Income (loss) before income tax	18,456,659	36,095,542	92,620,338	30,857,394	(2,698,832)	(243,203,970)	(67,872,869)
Benefit from income tax	–	–	–	–	–	(9,587,433)	(9,587,433)
Net income (loss)	₱18,456,659	₱36,095,542	₱92,620,338	₱30,857,394	(₱2,698,832)	(₱252,791,403)	(₱77,460,302)

Finance costs, other income - net and provision for income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis and are not provided to the chief operating decision maker at the operating segment level in 2018, 2017 and 2016. Equity in net losses of associates and joint ventures amounting to ₱133.8 million, (₱135.2 million), and (₱70.5 million) in 2018, 2017 and 2016, respectively, are included in the segment revenue of operating segment "Unallocated." Pre-operating cost of certain subsidiaries are also included in cost and expense of operating segment "Unallocated".

Segment Assets and Liabilities and Other Information

The segment assets, liabilities and capital expenditures for the years ended December 31 are as follows:

	2018						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱834,382,595	₱174,758,982	₱161,722,407	₱482,442,716	₱9,390,267	₱3,062,963,341	₱4,725,660,308
Liabilities	96,457,483	133,334,263	215,637,788	66,040,918	–	436,497,435	947,967,887
Capital expenditures	9,094,587	2,611,118	–	–	–	20,023,626	31,729,331
Depreciation	42,350,135	3,225,593	–	25,782,573	325,589	19,885,463	91,569,353

	2017						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱795,202,198	₱96,419,166	₱308,704,848	₱497,453,721	₱6,205,688	₱3,121,975,821	₱4,825,961,442
Liabilities	72,835,295	69,922,205	236,607,934	73,837,911	–	396,616,293	849,819,638
Capital expenditures	10,819,478	5,243,044	–	–	212,973	24,588,059	40,863,554
Depreciation	39,825,103	3,116,507	–	20,570,985	427,694	19,442,389	83,382,678

	2016						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Assets	₱894,309,981	₱62,655,084	₱341,055,237	₱526,905,926	₱7,632,035	₱3,000,102,309	₱4,832,660,572
Liabilities	64,299,449	60,522,035	257,274,879	75,095,428	–	233,211,126	690,402,917
Capital expenditures	6,201,624	12,650,156	–	2,011,254	–	36,713,516	57,576,550
Depreciation	39,173,091	613,941	–	24,939,658	393,740	17,163,151	82,283,581

29. Commitments and Contingencies

Commitments

The following are the significant commitments of the Group:

a. Operating Lease Commitment - the Parent Company as Lessee

On January 1, 2008, the Parent Company renewed its lease agreement with AMDC, an affiliate under common control, for the lease of office space and four parking lots. The lease is for a period of five years starting 2008 and includes an annual escalation rate of 5.0%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the Parent Company renewed its lease agreement with AMDC on February 5, 2013 with a monthly rate of ₱427,550, subject to an annual escalation rate of 5.0%, which expired on December 31, 2017. As of December 31, 2018, the lease contract is still under renewal.

On January 1, 2011, the Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2018 is ₱332,297, subject to an annual escalation rate of 5.0%.

The future minimum lease payments under this operating lease as of December 31 are as follows:

	2018	2017
Within one year	₱4,186,943	₱3,987,564
After one year but not more than five years	4,396,290	8,583,233
	₱8,583,233	₱12,570,797

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

In 2013, the Parent Company entered into a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. The agreement expired on June 30, 2016. In February 2017, the Parent Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR amounted to ₱1.2 million in 2018, 2017 and 2016 (see Note 11).

c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on June 30, 2016. In May 2018, the Parent Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

In 2018, 2017, and 2016, income from lease agreement with PAGCOR amounted to ₱12.1 million, ₱20.5 million and ₱26.5 million, respectively (see Note 11).

d. In 2018, the Parent Company entered into a lease agreement with Datem Inc. for eight (8) months to lease an area of 16,719 sqm. in Sta. Cruz, Manila for a monthly fixed rental of ₱150,000, exclusive of VAT.

   In 2018, rent income from these lease agreements amounted to ₱1.2 million.

e. In 2018, the Parent Company entered into various lease agreements for one year to lease condominium units in Alveo and Avida for a monthly fixed rental of ₱24,000 - ₱25,000 inclusive of VAT. The lease agreements are renewable for another one (1) year upon mutual agreements of both parties.

   In 2018, rent income from these lease agreements amounted to ₱1.1 million.

f. Claims and Legal Actions

   As of December 31, 2018 and 2017, there are pending claims and legal actions against or in favor of the Parent Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these consolidated financial statements. In the opinion of the Parent Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Parent Company and any liability or loss arising therefrom would be taken up when the final resolution of the claims and actions are determined.

Contingencies

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

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

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

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

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

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Parent Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of April 3, 2019, the case is still pending before the Supreme Court.

30. Fair Value Measurement

The following tables provide the fair value hierarchy of the Group's financial assets at FVOCI/AFS financial assets, deposits, loans and borrowings, and investment properties:

			2018		
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets at FVOCI**	₱34,284,796	₱34,284,796	₱34,284,796	₱–	₱–
Deposits**	3,375,580	3,375,580	–	–	3,375,580
Loans and borrowings	288,636,040	288,636,040	–	–	288,636,040
Investment properties	1,094,755,913	5,203,426,262	–	–	5,203,426,262
	₱1,421,052,329	₱5,529,722,678	₱34,284,796	₱–	₱5,495,437,882

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

			2017		
			Fair value measurement using		
	Carrying Amounts	Fair Value	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets	₱34,566,042	₱34,566,042	₱34,566,042	₱–	₱–
Deposits**	3,375,580	3,375,580	–	–	3,375,580
Loans and borrowings	234,000,000	234,000,000	–	–	234,000,000
Investment properties	1,097,375,496	4,632,167,940	–	–	4,632,167,940
	₱1,369,317,118	₱4,904,109,562	₱34,566,042	₱–	₱4,869,543,520

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

As of December 31, 2018 and 2017, the Group's financial assets at FVOCI/AFS financial assets measured at fair value under the Level 1 hierarchy totaled ₱34.3 million and ₱34.6 million, respectively. There were no financial instruments measured at fair value under the Level 2 hierarchy.

In 2018 and 2017, the carrying value of cash and cash equivalents (except cash on hand), receivables, deposits, accounts payable and other liabilities (except statutory liabilities) and due to related parties approximate their fair value due to the short-term nature of the accounts.

31. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents (except cash on hand), receivables, financial assets at FVOCI/AFS financial assets, deposits, accounts payable and other liabilities, short-term loans and borrowings and due to related parties. The main purpose of these financial instruments is to finance the Group's operations.

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

Cash flow interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no exposure to the risk of changes in market interest rate because the Group's short-term loans and borrowings carry fixed interest rates (see Note 14).

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 securities held by the Group, which are classified as financial assets at FVOCI/AFS financial assets under "Other noncurrent assets".

The following table demonstrates the sensitivity of the Group's equity to a reasonably possible change in the PSE index (PSEi), with all other variables held constant, for the years ended December 31, 2018 and 2017:

	Increase (decrease) in PSEi	Effect on equity
2018	+14%	₱5,516,740
	-14%	(5,516,740)
2017	+14%	₱4,839,246
	-14%	(4,839,246)

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

The Group's foreign currency risk relates to its foreign currency-denominated cash in banks. To manage this risk, management closely monitors the movements in exchange rates and regularly assesses future foreign exchange rate movements.

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

		2018		2017	
		Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
Cash on hand	USD	5,200	₱273,416	500	₱24,965
	SAR	67	936	–	–
	KRW	447	21	–	–
Cash in bank	USD	10,402	546,937	16,716	834,474
			₱821,310		₱859,439

As of December 31, 2018 and 2017, the applicable closing exchange rates were ₱52.58 and ₱49.93 to US$1; ₱14.05 and ₱13.31 to SAR; ₱0.04 and ₱0.05 to KRW, respectively. Net foreign exchange loss amounted to ₱96,350, ₱50,375, and ₱187,421 in 2018, 2017 and 2016, respectively (see Note 23).

The sensitivity of the Group's income before income tax to a reasonably possible change in the US Dollar exchange rate against the Peso, with all other variables held constant, has no significant effect in the financial statements for the years ended December 31, 2018 and 2017.

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

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

The table below shows the maximum gross exposure to credit risk of the Group as of December 31, 2018 and 2017.

	2018	2017
Loans and receivables:		
Cash and cash equivalents:		
Cash in banks	₱296,163,811	₱176,432,422
Cash equivalents	10,000,000	25,000,000
	306,163,811	201,432,422
Receivables:		
Real estate receivables*	109,133,058	201,620,174
Advances and loans to officers and employees	24,754,227	14,710,930
Receivable from third parties	17,494,185	9,461,807
Rent receivables	15,998,220	13,320,614
Advances to suppliers	10,632,401	8,501,055
Due from related parties	5,018,137	5,009,304
Receivable from contractors	4,025,259	3,863,082
Dividends receivable	4,739,449	3,376,407
Receivables from OTB/OCB operators	4,442,505	938,159
Others	6,552,223	7,728,049
	202,789,664	268,529,581
Other noncurrent assets:		
Deposits	3,375,580	3,375,580
Financial assets at FVOCI/AFS financial assets	34,284,796	34,566,042
	₱546,613,851	₱507,903,625

**Includes noncurrent real estate receivables.*

The tables below show the credit quality of financial assets as of December 31, 2018 and 2017.

	2018			
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	₱296,163,811	₱–	₱–	₱296,163,811
Cash equivalents	10,000,000	–	–	10,000,000
	306,163,811	–	–	306,163,811
Receivables:				
Real estate receivable	109,133,058	–	18,888,371	128,021,429
Advances and loans to officers and employees	24,754,227	–	–	24,754,227
Rent receivables	15,998,220	–	1,360,639	14,807,930
Receivable from third parties	17,494,185	–	2,934,506	22,979,620
Advances to suppliers	10,632,401	–	5,378,678	16,011,079
Due from related parties	5,018,137	–	11,285	5,018,137
Dividends receivable	4,739,449	–	–	4,739,449
Receivables from OTB/OCB operators	4,442,505	–	873,294	4,442,505
Receivable from contractors	4,025,259	–	1,778,413	5,803,672
Others	6,552,223	–	4,125,722	11,046,355
	202,789,664	–	35,350,908	237,624,403
Deposits*	3,375,580	–	–	3,375,580
Financial assets at FVOCI	34,284,796	–	–	34,284,796
	₱546,613,851	₱–	₱35,350,908	₱581,448,590

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

	2017			
	Standard Grade	Past Due but not Individually Impaired	Individually Impaired	Total
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	₱176,432,422	₱–	₱–	₱176,432,422
Cash equivalents	25,000,000	–	–	25,000,000
	201,432,422	–	–	201,432,422
Receivables:				
Real estate receivable	201,620,174	–	21,888,370	223,508,544
Advances and loans to officers and employees	14,710,930	–	–	14,710,930
Rent receivables	13,320,614	–	1,664,043	14,984,657
Receivable from third parties	9,461,807	–	1,083,881	10,545,688
Advances to supplies	8,501,055	–	5,385,178	13,886,233
Due from related parties	5,009,304	–	–	5,009,304
Receivable from contractors	3,863,082	–	1,778,413	5,641,495
Dividend receivable	3,376,407	–	–	3,376,407
Receivables from OTB/OCB operators	938,159	–	468,356	1,406,515
Others	7,728,049	–	4,125,723	11,853,772
	268,529,581	–	36,393,964	304,923,545
Deposits*	3,375,580	–	–	3,375,580
AFS financial assets	34,566,042	–	–	34,566,042
	₱507,903,625	₱–	₱36,393,964	₱544,297,589

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

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

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

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

An impairment analysis is performed at each reporting date. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are in different industries and none of which holds at least 5% of the total receivables.

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

Past due but not impaired loans and receivables amounted to nil as of December 31, 2018 and 2017.

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

The tables below summarize the maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted payments (principal and interest) and the profile of the financial assets used to manage the Group's liquidity risk.

December 31, 2018

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short-term loans and borrowings*	₱301,047,390	₱–	₱–	₱–	₱301,047,390
Accounts payable and other liabilities**	309,353,354	–	–	–	309,353,354
	₱610,400,744	₱–	₱–	₱–	₱610,400,744

** Amounts are inclusive of interest amounting to ₱12.4 million.*
*** Amounts are exclusive of nonfinancial liabilities amounting to ₱76.8 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Financial assets at AC:					
Cash in banks	₱296,163,811	₱–	₱–	₱–	₱296,163,811
Cash equivalents	10,000,000	–	–	–	10,000,000
Receivables	141,247,956	61,541,708	–	–	202,789,664
Deposits*	–	–	3,375,580	–	3,375,580
	446,895,598	61,541,708	3,375,580	–	512,329,055
Financial assets at FVOCI*	–	–	34,284,796	–	34,284,796
	₱446,895,598	₱61,541,708	₱37,660,376	₱–	₱546,613,851

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

December 31, 2017

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and borrowings:					
Short-term loans and borrowings*	₱242,190,000	₱–	₱–	₱–	₱242,190,000
Accounts payable and other liabilities**	269,255,049	–	–	–	269,255,049
	₱511,445,049	₱–	₱–	₱–	₱511,445,049

** Amounts are inclusive of interest amounting to ₱8.2 million.*
*** Amounts are exclusive of nonfinancial liabilities amounting to ₱72.8 million.*

	Within 1 year	>1 year to <3 years	3 years to <5 years	5 years and more	Total
Loans and receivables:					
Cash in banks	₱176,432,422	₱–	₱–	₱–	₱176,432,422
Cash equivalents	25,000,000	–	–	–	25,000,000
Receivables	217,376,219	51,153,362	–	–	268,529,581
Deposits*	–	–	3,375,580	–	3,375,580
	418,808,641	51,153,362	3,375,580	–	473,337,583
AFS financial assets*	–	–	34,566,042	–	34,566,042
	₱418,808,641	₱51,153,362	₱37,941,622	₱–	₱507,903,625

** Included in the "Other non-current assets" in the consolidated statements of financial position.*

Changes in liabilities arising from financing activities

	2018				
	December 31, 2017	Cash flow	Dividends declared	Interest expense	December 31, 2018
Short-term loans and borrowings (Note 14)	₱234,000,000	₱54,636,040	₱–	₱–	₱288,636,040
Interest payable	–	(10,136,613)	–	10,136,613	–
Dividends payable (Note 15)	4,180,958	(48,014,674)	49,808,067	–	5,974,351
Total liabilities from financing activities	₱238,180,958	₱(3,515,247)	₱49,808,067	₱10,136,613	₱294,610,391

	2017				
	December 31, 2016	Cash flow	Dividends declared	Interest expense	December 31, 2017
Short-term loans and borrowings (Note 14)	₱90,000,000	₱144,000,000	₱–	₱–	₱234,000,000
Interest payable	–	(6,096,804)	–	6,096,804	–
Dividends payable (Note 15)	4,341,602	(49,968,707)	49,808,063	–	4,180,958
Total liabilities from financing activities	₱94,341,602	₱87,934,489	₱49,808,063	₱6,096,804	₱238,180,958

32. Capital Management

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

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

	2018	2017
Capital stock	₱996,170,748	₱996,170,748
Additional paid-in capital	27,594,539	27,594,539
Net cumulative changes in fair values of Financial assets measured at FVOCI/AFS financial assets	4,620,965	4,950,148
Remeasurement on retirement benefits	17,413,770	27,637,707
Retained earnings	2,670,524,084	2,854,097,244
Treasury shares	(7,096)	(7,096)
Noncontrolling interest	61,375,411	65,698,514
	₱3,777,692,421	₱3,976,141,804

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

33. Other Matters

On April 2, 2018, MCI was informed of the filing of House Bill No. 7368, *"An Act Granting Manila Cockers Club, Inc., a Franchise to Construct, Operate and Maintain Cockpit Arenas in the Provinces of Cavite, Laguna or Batangas; and To Establish, Operate, Maintain Off-Cockpit Betting Stations Throughout the Philippines" (the "Franchise Bill").*

As of April 3, 2019, the bill is still pending before the House of Representatives under its Committee of Legislative Franchises.

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing (PSAs), the accompanying consolidated financial statements of Manila Jockey Club, Inc. and Subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this Form 17-A and have issued our report thereon dated April 3, 2019. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the management of the Group. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Adeline D. Lumbres

Adeline D. Lumbres
Partner
CPA Certificate No. 0107241
SEC Accreditation No. 1555-A (Group A),
April 14, 2016, valid until April 14, 2019
Tax Identification No. 224-024-746
BIR Accreditation No. 08-001998-118-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332568, January 3, 2019, Makati City

April 3, 2019

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule A. Marketable Securities
As of December 31, 2018

Financial Assets	Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotation at End of Reporting Period	Income Received and Accrued
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)					
	Treasury Bond	15,000,000	₱15,050,042	₱15,050,042	–
	Dizon Copper Silvermines, Inc.	82	596.14	596.14	–
	PLDT	1,500	1,687,500	1,687,500	–
	Manila Southwoods	1	1,100,000	1,100,000	–
	Sta. Elena Golf	1	5,000,000	5,000,000	–
	Tagaytay Highland	1	500,000	500,000	–
	Club Filipino	1	180,000	180,000	–
	Tower Club, Inc.	1	100,000	100,000	–
	PLDT (Subscriber's Plan)	1	370,047	370,047	–
	PLDT (10% Cumulative Convertible Preferred Stock)	6,975	69,750	69,750	–
	Banahaw Cable Car	1	5,000	5,000	–
	Metropolitan Theater - Membership	1	20,000	20,000	–
	PLDT (Subs. Investment Plan)	1	165,500	165,500	–
	Executive Suites Stocks - Membership	1	3,000	3,000	–
Total			₱24,251,435	₱24,251,435	–

S.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule B. **Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)**
As of December 31, 2018

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Collected	Amounts Written Off			
Various	₱14,710,930	₱10,043,297	₱–	₱–	₱24,754,227	₱–	₱24,754,227

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As of December 31, 2018

Name of Debtor	Designation of debtor	Balance at the Beginning of the Period	Additions	Deductions			Current	Not Current	Balance at End of Period
				Amounts Collected	Amounts Written Off	Others			
Biohitech Philippines, Inc.	Subsidiary	₱27,200	₱8,833	₱–	₱–	₱–	₱36,033	₱–	₱36,033
SLLP Holdings, Inc.	Subsidiary	27,200	8,833	–	–	–	36,033	–	36,033
MJC Forex Corporation	Subsidiary	–	134,720	–	–	–	134,720	–	134,720
Manilacockers Club, Inc.	Subsidiary	49,033,325	122,476,647	(141,697,472)	–	–	29,812,500	–	29,812,500
Gametime Sports and Technologies, Inc.	Subsidiary	16,649,927	22,294,733	(4,856,423)	–	–	34,088,237	–	34,088,237
Hi-Tech Harvest Limited	Subsidiary	208,795	–	–	–	–	208,795	–	208,795
New Victor Technology, Ltd.	Subsidiary	3,434,727	310,663	–	–	–	3,745,390		3,745,390
Apo Reef World Resorts, Inc.	Subsidiary	1,450,421	9,822	–	–	–	1,460,243	–	1,460,243
MJC Investment Corporation	Associate	4,982,105	–	–	–	–	4,982,105	–	4,982,105
Techsystems, Inc.	Associate	27,200	8,833	–	–	–	36,033	–	36,033
TOTAL		₱75,840,899	₱145,253,084	(₱146,553,895)	₱–	₱–	₱74,540,089	₱–	₱74,540,089

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule D. Intangible Assets – Other Assets
As of December 31, 2018

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions / (Deductions)	Ending Balance

Not Applicable

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule E. Long-term Debt
As of December 31, 2018

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet	Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet

Not Applicable

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule F. **Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies)**
As of December 31, 2018

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

Not Applicable

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule G. Guarantees of Securities of Other Issuers
As of December 31, 2018

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which this Statement is Filed	Nature of Guarantee
Not Applicable				

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule H. Capital Stock
As of December 31, 2018

Title of issue	Number of shares authorized	Number of shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Treasury
Common Stock	1,000,000,000	996,170,748	–	–	81,796,906	7,096

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule I. Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2018

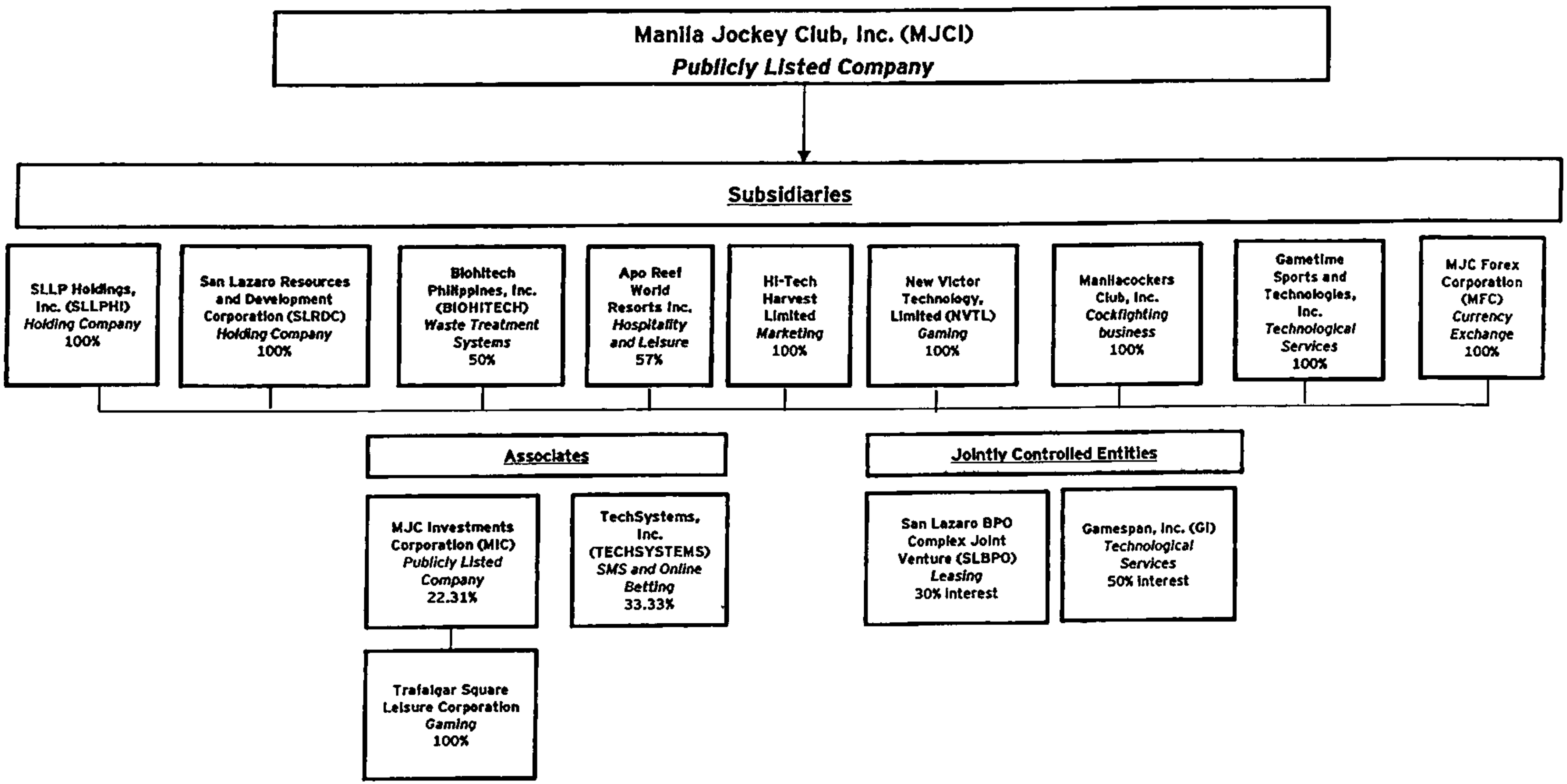
Name of Creditor	Balance at the Beginning of the Period	Additions	Deductions		Current	Not Current	Balance at End of Period
			Amounts Paid	Others			
New Victor Technology, Ltd.	₱2,570,715	₱–	₱–	₱–	₱2,570,715	₱–	₱2,570,715
MJC Forex Corp.	102,500	77,500	–	–	180,000	–	180,000
Manilacockers Club, Inc.	10,772,639	93,011,206	(81,695,988)	–	22,087,857	–	22,087,857
Gametime Sports and Technologies, Inc.	9,670,857	6,634,938	–	–	16,305,795		16,305,795
	₱23,116,711	₱99,723,644	(₱81,695,988)	₱–	₱41,144,367	₱–	₱41,144,367

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

Schedule J. Parent Company Retained Earnings Available for Dividend Declaration
As at and for the year ended December 31, 2018

Unappropriated retained earnings, beginning	₱1,534,596,512
Add (less):	
Net income actually earned/realized during the year	31,038,784
Deemed cost adjustment on real estate properties realized through sale, net of deferred income tax	(430,744,539)
Appropriations during the year	(282,233,063)
Deferred tax assets	(37,687,111)
Unrealized foreign exchange loss - net	(96,347)
Treasury shares	(7,096)
Unappropriated retained earnings available for dividend declaration, ending	₱814,867,140

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule K. Map of Subsidiaries, Joint Ventures and Associates
As of December 31, 2018



MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
Schedule M. Financial Soundness Indicators
As of December 31, 2018

	As of and for the Years Ended December 31		
	2018	2017	2016
Liquidity ratios			
Current ratio[(a)]	0.76	0.89	1.09
Interest rate coverage ratio[(b)]	2.60	3.09	7.97
Solvency ratios			
Debt to equity ratio[(c)]	0.08	0.06	0.02
Asset to equity ratio[(d)]	1.25	1.21	1.17
Profitability ratio			
EBITDA margin[(e)]	0.03	0.02	0.03

[(a)] *Current assets over current liabilities*

[(b)] *EBITDA over interest expense and financing charges on borrowings*

[(c)] *Interest-bearing debts over total equity*

[(d)] *Total assets over total equity*

[(e)] *EBITDA over gross revenues from operations*

COVER SHEET

P	W	8	0	3

S.E.C. Registration Number

M A N I L A J O C K E Y C L U B , I N C .

(Company's Full Name)

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

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

ATTY. CHINO PAOLO Z. ROXAS
Contact Person

687-9889
Company's Telephone Number

QUARTERLY REPORT

1 2	3 1	17-Q	0 6	3 0
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			**Annual Meeting**	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended March 31, 2019

2. Commission identification number PW803 3. BIR Tax Identification No. 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 Republic of the Philippines

6. Industry Classification Code: ________ (SEC Use Only)

7. Address of issuer's principal office Postal Code

   San Lazaro Leisure and Business Park, Brgy. Lantic, Carmona, Cavite 1014

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 N. A.

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	996,161,286

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:

    Philippine Stock Exchange, Inc. Common Shares

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 **Annex "A"**.

- Consolidated Statements of Financial Position as of March 31, 2019 and December 31, 2018
- Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2019 and 2018
- Consolidated Statements of Changes in Equity for the quarters ended March 31, 2019 and 2018
- Consolidated Statements of Cash Flows for the quarters ended March 31, 2019 and 2018
- Aging Schedule of Receivables as of March 31, 2019
- Notes to Consolidated Financial Statements

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

Please see attached **Annex "B"**.

PART II – OTHER INFORMATION

There is no material information which had not been previously reported under SEC Form 17-C.

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.

MANILA JOCKEY CLUB, INC.

May 15, 2019
Date

By:

NESTOR N. UBALDE
Chief Finance Officer

ANNEX "A"

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2019 AND DECEMBER 31, 2018

	UNAUDITED MARCH 2019	AUDITED DECEMBER 2018
	(In Philippine Peso)	
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	384,404,297	332,347,036
Receivables (Note 7)	177,281,843	141,247,956
Inventories (Note 8)	53,455,661	54,573,219
Other current assets (Note 9)	15,192,526	9,811,267
Total Current Assets	630,334,327	537,979,478
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	42,101,466	61,541,708
Investments in and advances to associates and joint ventures (Note 10)	2,142,569,758	2,132,053,983
Property and equipment (Notes 11 and 29)	825,428,741	831,782,460
Investment properties (Notes 10, 12, 14 and 29)	1,091,593,853	1,094,755,913
Deferred tax assets - net	1,812,371	1,812,371
Other noncurrent assets (Note 13)	65,974,534	65,734,395
Total Noncurrent Assets	4,169,480,723	4,187,680,830
	4,799,815,050	4,725,660,308
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans and borrowings (Note 14)	271,000,000	288,636,040
Accounts payable and other liabilities (Notes 15)	447,002,668	386,149,748
Income tax payable	33,676,849	14,592,986
Due to related parties (Note 25)	13,734,482	13,734,482
Total Current Liabilities	765,413,999	703,113,256
Noncurrent Liabilities		
Accrued retirement benefits (Note 20)	49,510,799	55,944,377
Deferred tax liabilities - net	188,910,254	188,910,254
Total Noncurrent Liabilities	238,421,053	244,854,631
	1,003,835,052	947,967,887
Equity		
Capital stock (Note 26)	996,170,748	996,170,748
Additional paid-in capital	27,594,539	27,594,539
Actuarial gains on accrued retirement benefits	17,413,770	17,413,770
Net cumulative changes in fair values of financial assets measured at FVOCI	4,620,965	4,620,965
Retained earnings (Note 26)	2,689,331,953	2,670,524,084
Treasury shares (Note 26)	(7,096)	(7,096)
Equity attributable to equity holders of the parent company	3,735,124,879	3,716,317,010
Non-controlling interests (Note 1)	60,855,119	61,375,411
Total Equity	3,795,979,998	3,777,692,421
	4,799,815,050	4,725,660,308
	-	-

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018

	UNAUDITED **MARCH 2019**	UNAUDITED MARCH 2018
	(In Philippine Peso)	
REVENUES		
Club races	**33,603,462**	41,634,866
Cockfighting	**324,744,554**	86,577,509
Real estate	**(520,968)**	19,228,179
Rent (Notes 11, 12 and 29)	**18,658,279**	19,565,499
Food and beverages	**6,138,988**	4,998,297
Others	**411,810**	728,443
	383,036,125	172,732,793
COST OF SALES AND SERVICES (Note 16)		
Club races	**41,113,006**	49,902,590
Cockfighting	**179,502,721**	52,203,279
Real estate	**(176,989)**	3,167,933
Rent	**12,162,651**	11,708,741
Food and beverages	**7,420,828**	6,554,766
Others	**2,057,641**	4,674,813
	242,079,858	128,212,122
GROSS INCOME	**140,956,267**	44,520,671
General and administrative expenses (Note 17)	**(85,123,324)**	(68,156,422)
Selling expense (Note 8)	**(36,600)**	(1,502,357)
Interest income (Notes 6, 7, 13 and 21)	**2,907,406**	6,902,966
Finance costs (Notes 14 and 22)	**(4,471,310)**	(2,092,974)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**(22,770,721)**	(33,292,760)
Other income - net (Note 23)	**5,933,451**	4,004,070
INCOME (LOSS) BEFORE INCOME TAX	**37,395,169**	(49,616,806)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)		
Current	**19,107,591**	2,785,759
Deferred	**-**	-
	19,107,591	2,785,759
NET INCOME (LOSS)	**18,287,578**	(52,402,565)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Net changes in fair values of financial assets measured at FVOCI	**-**	-
Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	**-**	-
TOTAL COMPREHENSIVE INCOME (LOSS)	**18,287,578**	(52,402,565)
Net income attributable to:		
Equity holders of the parent company	**18,807,869**	(52,158,960)
Noncontrolling interests	**(520,291)**	(243,605)
	18,287,578	(52,402,565)
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	**18,807,869**	(52,158,960)
Noncontrolling interests	**(520,291)**	(243,605)
	18,287,578	(52,402,565)
Basic/Diluted Earnings (Loss) Per Share (Note 27)	**0.0189**	(0.0524)

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018

	UNAUDITED **MARCH 2019**	UNAUDITED MARCH 2018
	(In Philippine Peso)	
REVENUES		
Club races	**33,603,462**	41,634,866
Cockfighting	**324,744,554**	86,577,509
Real estate	**(520,968)**	19,228,179
Rent (Notes 11, 12 and 29)	**18,658,279**	19,565,499
Food and beverages	**6,138,988**	4,998,297
Others	**411,810**	728,443
	383,036,125	172,732,793
COST OF SALES AND SERVICES (Note 16)		
Club races	**41,113,006**	49,902,590
Cockfighting	**179,502,721**	52,203,279
Real estate	**(176,989)**	3,167,933
Rent	**12,162,651**	11,708,741
Food and beverages	**7,420,828**	6,554,766
Others	**2,057,641**	4,674,813
	242,079,858	128,212,122
GROSS INCOME	**140,956,267**	44,520,671
General and administrative expenses (Note 17)	**(85,123,324)**	(68,156,422)
Selling expense (Note 8)	**(36,600)**	(1,502,357)
Interest income (Notes 6, 7, 13 and 21)	**2,907,406**	6,902,966
Finance costs (Notes 14 and 22)	**(4,471,310)**	(2,092,974)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**(22,770,721)**	(33,292,760)
Other income - net (Note 23)	**5,933,451**	4,004,070
INCOME (LOSS) BEFORE INCOME TAX	**37,395,169**	(49,616,806)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)		
Current	**19,107,591**	2,785,759
Deferred	**-**	-
	19,107,591	2,785,759
NET INCOME (LOSS)	**18,287,578**	(52,402,565)
OTHER COMPREHENSIVE INCOME (LOSS)		
Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		
Net changes in fair values of financial assets measured at FVOCI	**-**	-
Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	**-**	-
TOTAL COMPREHENSIVE INCOME (LOSS)	**18,287,578**	(52,402,565)
Net income attributable to:		
Equity holders of the parent company	**18,807,869**	(52,158,960)
Noncontrolling interests	**(520,291)**	(243,605)
	18,287,578	(52,402,565)
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	**18,807,869**	(52,158,960)
Noncontrolling interests	**(520,291)**	(243,605)
	18,287,578	(52,402,565)
Basic/Diluted Earnings (Loss) Per Share (Note 27)	**0.0189**	(0.0524)

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018

MARCH 2019 (UNAUDITED)
(In Philippine Peso)

	Capital Stock (Note 26)	Additional Paid-In Capital	Actuarial Gains on Accrued Retirement Benefits (Note 20	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 13)	Retained Earnings - Unappropriated (Note 26)	Treasury Shares (Note 26)	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2018	**996,170,748**	**27,594,539**	**17,413,770**	**4,620,965**	**2,670,524,084**	**(7,096)**	**3,716,317,010**	**61,375,411**	**3,777,692,421**
Total comprehensive income (loss) for the period					18,807,869		18,807,869	(520,292)	18,287,577
BALANCES AT MARCH 31, 2019	**996,170,748**	**27,594,539**	**17,413,770**	**4,620,965**	**2,689,331,953**	**(7,096)**	**3,735,124,879**	**60,855,119**	**3,795,979,998**

See accompanying Notes to Consolidated Financial Statements.

MARCH 2018 (UNAUDITED)
(In Philippine Peso)

	Capital Stock (Note 27)	Additional Paid-In Capital	Actuarial Gains on Accrued Retirement Benefits	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 11)	Retained Earnings - Unappropriated	Treasury Shares	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2017	996,170,748	27,594,539	27,637,707	4,950,148	2,854,097,244	(7,096)	3,910,443,290	65,698,514	3,976,141,804
Total comprehensive income (loss) for the period					(52,402,566)		(52,402,566)	(243,605)	(52,646,171)
BALANCES AT MARCH 31, 2018	996,170,748	27,594,539	27,637,707	4,950,148	2,801,694,678	(7,096)	3,858,040,724	65,454,909	3,923,495,633

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018

	UNAUDITED MARCH 2019	UNAUDITED MARCH 2018
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	**37,395,169**	(52,402,565)
Adjustments for:		
Depreciation (Notes 11, 12 and 18)	**21,374,878**	20,701,221
Equity in net losses (earnings) of associates and joint ventures (Note 10)	**22,770,721**	33,292,760
Interest income (Note 21)	**(2,907,406)**	(6,902,966)
Finance costs (Note 22)	**4,471,310**	2,092,974
Amortization of franchise fee (Note 13 and 16)	**448,500**	448,500
Dividend income	**-**	(69,688)
Operating income before working capital changes	**83,553,173**	(2,839,764)
Decrease (increase) in:		
Receivables	**(16,593,645)**	24,869,885
Inventories	**1,117,558**	3,806,119
Other current assets	**(5,381,259)**	(6,823,774)
Increase (decrease) in:		
Accounts payable and other liabilities	**67,036,014**	(19,978)
Accrued retirement benefits (Note 20)	**(6,433,578)**	(2,618,184)
Cash generated from operations	**123,298,263**	16,374,305
Income taxes paid, including creditable withholding and final taxes	**(23,728)**	(62,961)
Net cash provided (used) by operating activities	**123,274,535**	16,311,344
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**2,907,406**	6,902,966
Dividends received	**-**	6,566,630
Decrease (increase) in other noncurrent assets	**(240,139)**	(948,851)
Acquisitions of property and equipment (Note 11)	**(11,777,190)**	(3,513,095)
Acquisitions of investment property	**-**	(224,527)
Advances to an associate (Note 10)	**(40,000,000)**	-
Net cash provided (used) by investing activities	**(49,109,924)**	8,783,123
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of short-term loans and borrowings (Note 14)	**(17,636,040)**	(16,923,982)
Interest paid	**(4,471,310)**	(2,092,974)
Net cash provided (used) in financing activities	**(22,107,350)**	(19,016,956)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**52,057,261**	6,077,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**332,347,036**	225,600,519
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**384,404,297**	231,678,030

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018

	UNAUDITED MARCH 2019	UNAUDITED MARCH 2018
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	**37,395,169**	(52,402,565)
Adjustments for:	**-**	
Depreciation (Notes 11, 12 and 18)	**21,374,878**	20,701,221
Equity in net losses (earnings) of associates and joint ventures (Note 10)	**22,770,721**	33,292,760
Interest income (Note 21)	**(2,907,406)**	(6,902,966)
Finance costs (Note 22)	**4,471,310**	2,092,974
Amortization of franchise fee (Note 13 and 16)	**448,500**	448,500
Dividend income	**-**	(69,688)
Operating income before working capital changes	**83,553,173**	(2,839,764)
Decrease (increase) in:		
Receivables	**(16,593,645)**	24,869,885
Inventories	**1,117,558**	3,806,119
Other current assets	**(5,381,259)**	(6,823,774)
Increase (decrease) in:	**-**	
Accounts payable and other liabilities	**67,036,014**	(19,978)
Accrued retirement benefits (Note 20)	**(6,433,578)**	(2,618,184)
Cash generated from operations	**123,298,263**	16,374,305
Income taxes paid, including creditable withholding and final taxes	**(23,728)**	(62,961)
Net cash provided (used) by operating activities	**123,274,535**	16,311,344
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**2,907,406**	6,902,966
Dividends received	**-**	6,566,630
Decrease (increase) in other noncurrent assets	**(240,139)**	(948,851)
Acquisitions of property and equipment (Note 11)	**(11,777,190)**	(3,513,095)
Acquisitions of investment property	**-**	(224,527)
Advances to an associate (Note 10)	**(40,000,000)**	-
Net cash provided (used) by investing activities	**(49,109,924)**	8,783,123
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of short-term loans and borrowings (Note 14)	**(17,636,040)**	(16,923,982)
Interest paid	**(4,471,310)**	(2,092,974)
Net cash provided (used) in financing activities	**(22,107,350)**	(19,016,956)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**52,057,261**	6,077,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**332,347,036**	225,600,519
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**384,404,297**	231,678,030

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
AGING SCHEDULE OF RECEIVABLES
AS OF MARCH 31, 2019

UNAUDITED
(In Philippine Peso)

A. AGING OF ACCOUNTS RECEIVABLE-NET

	TYPE OF RECEIVABLES	TOTAL	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120 DAYS
1	Real estate receivables - currrent potion	**77,962,178**	284,153	-	-	-	77,678,025
2	Rent receivables	**14,898,012**	3,720,230	855,965	882,377	153,014	9,286,426
3	Receivables from off-track/off-cockpit betting (OTB/OCB) operators	**19,184,558**	4,220,603	3,453,220	4,796,140	1,534,765	5,179,831
4	Receivables from food and beverage operations	**3,861,319**	435,222	385,001	481,196	460,846	2,099,053
5	Advances and loans to officers and employees	**22,039,449**	4,628,284	2,644,734	3,967,101	1,101,972	9,697,358
6	Advances to suppliers	**15,200,568**	4,588,996	380,086	3,268,000	957,356	6,006,130
7	Receivable from third parties	**19,850,266**	99,600	7,750,666	-	-	12,000,000
8	Receivable from contractors	**5,641,494**	-	-	-	-	5,641,494
9	Due from related parties	**5,027,070**	50	100	8,333	-	5,018,587
10	Dividends receivable	**6,713,503**	2,120,968	2,317,856	2,274,678	-	-
11	Others	**22,254,334**	4,673,410	2,770,665	3,017,688	5,897,399	5,895,173
	TOTAL	**212,632,751**	24,771,517	20,558,293	18,695,513	10,105,352	138,502,077
	Less ECL/allowance for doubtful accounts	**35,350,908**					
	RECEIVABLES - NET	**177,281,843**					

B. ACCOUNTS DESCRIPTION

	TYPE OF RECEIVABLES	DESCRIPTION	COLLECTION PERIOD
1	Real estate receivables - currrent potion	Sales on real estate operations	Monthly
2	Rent receivables	Receivables on leasing transactions from stables, building and other facilities	Semi-monthly/Monthly
3	Receivables from off-track/off-cockpit betting (OTB/OCB) operators	Receivables from racing and cockfighting operations	Monthly
4	Receivables from food and beverage operations	Receivable from sale of food and beverages	Daily/Monthly
5	Advances and loans to officers and employees	Advances granted to and loans availed by officers and employees	Daily/Monthly
6	Advances to suppliers	Advance payments to suppliers for goods and services yet to be received	Daily/Monthly
7	Receivable from third parties	Due from third parties	Monthly
8	Receivable from contractors	Claims for deposits paid to contractors	Annually
9	Due from related parties	Receivable from related parties	Monthly
10	Dividends receivable	Share on the net earnings of a joint venture partner	Quarterly
11	Others	Various deposits and advances	Daily/Semi-monthly/Monthly

C. OPERATING CYCLE

Calendar Year

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 13). The Parent Company is also engaged in the development and sale of condominium units and residential properties, and lease of an office building through joint venture (JV) arrangements with certain developers.

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

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

Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership	
				MAR 2019	DEC 2018
Subsidiaries					
Gametime Sports and Technologies, Inc. (Gametime)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	**100.00**	100.00
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	**100.00**	100.00
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	**100.00**	100.00
San Lazaro Resources and Development Corporation (SLRDC) [(a)]	Philippines	Real estate	Philippine Peso	**100.00**	100.00
SLLP Holdings, Inc. (SLLPHI) [(a)]	Philippines	Holdings	Philippine Peso	**100.00**	100.00
Hi-Tech Harvest Limited [(a)]	Hong Kong	Marketing	Philippine Peso	**100.00**	100.00
Apo Reef World Resorts, Inc. (ARWRI) [(a)]	Philippines	Beach Resorts Complex	Philippine Peso	**56.87**	56.87
Biohitech Philippines, Inc. (Biohitech) [(a)]	Philippines	Waste management	Philippine Peso	**50.00**	50.00
Joint Ventures					
Gamespan, Inc. (Gamespan) [(a)]	Philippines	Gaming	Philippine Peso	**50.00**	50.00
San Lazaro BPO Complex (SLBPO)	Philippines	Real estate	Philippine Peso	**30.00**	30.00

(Forward)

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership MAR 2019	DEC2018
Associates					
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Gaming	Philippine Peso	**22.31**	22.31
Techsystems, Inc. (Techsystems) [(a)]	Philippines	Information Technology	Philippine Peso	**33.33**	33.33

[(a)] *Not yet started commercial operation as of March 31, 2019.*

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

The identifiable assets and liabilities of ARWRI at the date of acquisition were:

	Amount	
Assets		
Cash	₱15,543,130	
Investment properties (see Note 13)	104,440,943	
Subscription receivable	60,000,000	
Other noncurrent assets	225,000	
		180,209,073
Liabilities		
Accounts payable	(5,173,775)	
Other noncurrent liabilities	(17,043,387)	
	(22,217,162)	
Total net assets acquired	157,991,911	
Non-controlling interest - 43.13%	(68,141,911)	
Purchase consideration	₱89,850,000	

In the 2016 consolidated statements of cash flow, the net cash outflow on the acquisition amounting to ₱14.3 million was derived as follows:

Cash paid at acquisition date	₱29,850,000
Less cash and cash equivalents acquired	15,543,130
Net cash outflow at acquisition date	₱14,306,870

As of March 31, 2019, and December 31, 2018, the Parent Company has an outstanding subscription payable to ARWRI amounting to ₱33.0 million and ₱37.5 million, respectively, which are eliminated in the consolidated financial statements against the subscription receivable above.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) in 2018 and available for sale (AFS) financial assets in 2017, which are carried at fair value. The consolidated financial statements are presented in Philippine Peso (₱ or Peso), the Parent Company's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

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

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended standards as at January 1, 2018:

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The adoption of these amendments did not have any impact on the consolidated financial statements.

- *PFRS 9, Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

  The Group applied PFRS 9 using the modified retrospective approach. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2016 and 2017 does not reflect the requirements of PFRS 9.
  - The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.

- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening retained earnings or other component of equity, as applicable.

- As comparative information is not restated, the Group is not required to provide a third consolidated statement of financial position at the beginning of the earliest comparative period presented.

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except receivables and those measured at FVTPL are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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 new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

  1. Identify the contracts with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue as the entity satisfies a performance obligation.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018. Therefore, the comparative information were not restated and were reported under PAS 11, PAS 18 and related Interpretations.

The Group has concluded that it is acting as an agent in its club racing and cockfighting operations because the Group does not have exposure to the significant risks and rewards associated with the sale of goods or rendering of services. The amount the group earns is predetermined, being either fixed fee per transaction or a stated percentage of the amount billed to the customer. The Group acts as a principal in all other arrangements (i.e., real estate sales and rental services) because the Group is the primary obligor who is responsible for providing goods and services to the customers and the Group bears the credit risk.

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

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

  These amendments are not applicable to the Group since none of the entities within the Group are considered as venture capital organization or other qualifying entities.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The adoption of these amendments did not result in any impact on the consolidated financial statements.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  The adoption of this interpretation did not result in any impact on the consolidated financial statements.

Standards Issed but not yet Effective

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

Effective beginning on or after January 1, 2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income (OCI), provided that the contractual cash flows are SPPI on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

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

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

  Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The Group will adopt the amendments as it becomes applicable effective January 1, 2019.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying.

  PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting this standard.

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

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

  The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

    Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

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

Deferred effectivity

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

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

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

These amendments may apply to future transactions of the Group.

4. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at March 31, 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to the transactions between members of the Group are eliminated in full consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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

Non-controlling Interests. Non-controlling interests represent the portion of profit or loss and net assets in Biohitech and ARWRI in 2018 and 2017 that are not held by the Group and are presented separately in the consolidated statements of comprehensive income and consolidated statements of financial position separate from equity attributable to equity holders of the parent.

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

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

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

Initial Measurement

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "General and administrative expenses" account in the consolidated statements of comprehensive income.

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the statements of profit or loss in accordance with PAS 39. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in consolidated profit or loss.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

Subsequent Measurement

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

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

<u>Acquisition of Assets</u>

When assets are acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not adjudged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identified assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

<u>Current versus Noncurrent Classification</u>

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities. Fair Value Measurement

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

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

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

The principal or the most advantageous market must be accessible 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 consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Cash and Cash Equivalents

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

Financial Instruments – Classification and Measurement *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*

Classification of financial assets. Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at AC
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

<u>Financial assets at amortized cost</u>

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Group's financial assets at AC includes cash in banks, receivables, and deposits.

Financial assets at fair value through other comprehensive income (FVOCI)

Debt instruments. A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in consolidated profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in consolidated profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

As of December 31, 2018, the Group elected to classify irrevocably all debt instruments as financial assets at FVOCI.

Equity instruments. The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to consolidated profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in consolidated profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

As of December 31, 2018, the Group elected to classify irrevocably all equity instruments as financial asset at FVOCI.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are measured as at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statements of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statements of comprehensive income.

Additionally, even if the asset meets the AC or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group does not have financial assets at FVTPL.

Classification of financial liabilities

Financial liabilities are measured at AC, except for the following:

- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition

or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of financial instruments *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets *(applicable starting January 1, 2018 upon the adoption of PFRS 9)*

PFRS 9 introduces a single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at AC and FVOCI;
- contract assets;
- trade receivables;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL. For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired. Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowance

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers certain debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Determining the stage for impairment. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality imroves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy

The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets and Financial Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement, nd has neither transferred nor retained substantially all the risks and rewards of ownership of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability or part of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cashflows of the original debt instrument, the financial liability is not derecognized.

"Day 1" Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

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

Real Estate Inventories
Real estate inventories include completed projects of the Group, and are stated at the lower of cost and net realizable value. Cost of real estate inventories pertains to the cost of land. Real estate inventories include properties held for development, completed condominium units for sale and memorial lots for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investment in its associate and joint venture are accounted using the equity method.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint venture and its carrying value, and then recognizes the loss as "Equity in net earnings (losses) of associates and joint ventures" in the consolidated statements of comprehensive income.

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

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

- Expenses, including its share of expenses incurred jointly, recorded as part of "Selling Expenses"

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

Property and Equipment

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

Investment Properties

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

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

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

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

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

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

Franchise Fee

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

Impairment of Nonfinancial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

Capital Stock and Additional Paid-in Capital

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

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

Retained Earnings

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

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

Dividend Distribution

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

Earnings per Share (EPS)

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

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

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

Revenue Recognition (applicable starting January 1, 2018 upon the adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding incentives, output tax, and other sales taxes or duties.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as an agent in its club racing and cockfighting operations and as principal in all other arrangements (i.e., real estate sales and rental services).

Commission income from club races

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

Commission income from cockfighting

Revenue is recognized at a point in time based on a percentage of gross receipts from ticket sales of cockfighting operations.

Revenue from food and beverages

Revenue from food and beverage is recognized at point in time when the control of the goods is transferred to the customer, generally when the goods are delivered.

Real estate sales

The Parent Company derives its real estate revenue from sale of condominium units and memorial lots. Revenue from sales of real estate projects from the joint venture are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Parent Company's performance does not create an asset with an alternative use and the Parent Company has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Parent Company uses the output method. The Parent Company recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the third-party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

The real estate projects were already completed as of December 31, 2018.

Cost recognition
The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

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

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

Dividend ncome
Revenue is recognized when the Parent Company's right to receive the payment is established, which is generally when the shareholders approves the dividend.

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

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

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

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

Retirement Benefits Cost
The Parent Company has noncontributory funded defined benefit plans, administered by trustees, covering substantially all of its regular employees.

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

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in consolidated 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 consolidated 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 an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as an operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as revenue in the period in which they are earned.

Taxes

Current tax

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

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

Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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

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

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

Foreign Currency Denominated Transactions and Translations
Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

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

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

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

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on the Group's operating segments is presented in Note 28 to the consolidated financial statements.

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Determination if control exists in an investee company

Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is presumed to exist when the investors contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has control by virtue of its power to cast the majority votes at meetings of the BOD in all of its subsidiaries (see Note 1).

Determination if joint control exists in a joint venture

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

Determination if significant influence exist in an associate

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

Determination of joint venture or joint operation

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

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

Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3. Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

On August 25, 2016, the Parent Company acquired 56.87 percent of the total capital stock of Apo Reef World Resorts, Inc. for ₱89.9 million. The acquisition did not qualify as an acquisition of a business in accordance with PFRS 3 since the Parent Company acquired only inputs in the form of parcels of land situated in Mamburao, Mindoro and was not able to acquire any processes. There were no indicators of substantive processes and/or services acquired or provided as of acquisition date (see Notes 1 and 12).

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

a. *Operating lease commitments - the Group as a lessor*
   The Group has entered into lease agreements on certain items of its property and equipment and investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties. i.e. ownership of the assets remains with the Group at the end of the lease terms. Accordingly, the lease agreements are accounted for as operating leases (see Notes 12 and 29).

b. *Operating lease commitments - the Parent Company as lessee*
   The Parent Company has entered into a lease agreement for the lease of office and parking lots where it has determined that the risks and rewards related to the leased assets are retained by the lessor. i.e. ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease (see Note 29).

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

Transfer of inventories to investment property
The Parent Company treats condominium units held as inventory transferred to investment property on the commencement of an operating lease with a third party. The inventory will be transferred to investment property when, and only when, there is a change in use evidenced by commencement of an operating lease to another party.

During 2018, the Parent Company reclassified the condominium units previously recognized as inventory to investment property amounting to ₱5.5 million as disclosed in Notes 8 and 12.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Provision for ECL of financial assets (applicable starting January 1, 2018 upon the adoption of PFRS 9)
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for its receivables from real estate.

The provision matrix is initially based on the Group's historical observed default rates. The Group shall calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of actual default in the future.

Provision for ECL of financial assets not held at FVPL (applicable starting January 1, 2018 upon the adoption of PFRS 9)

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category, a reputable credit rating agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from a reputable credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 properties in 2019 and 2018. As of March 31, 2019 and December 31, 2018 the carrying amount of depreciable property and equipment are disclosed in Note 11 to the consolidated financial statements. The carrying amount of depreciable investment property as of March 31, 2019 and December 31, 2018 are disclosed in Note 12 to the consolidated financial statements.

Provisions
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed to the Group.

No provisions were recognized as of March 31, 2019 and December 31, 2018.

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

Estimation of retirement benefits cost and obligations
The determination of the obligation and cost for retirement benefits cost is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 20 and include among others, discount rates, expected rate of return on plan assets and expected rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore generally affect the recognized expense and recorded obligation in such future period. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement and other retirement obligations.

As of March 31, 2019, and December 31, 2018, the carrying value of accrued retirement benefits are disclosed in Note 20 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	MAR 2018	DEC 2018
Cash on hand	₱18,741,116	₱26,183,225
Cash in banks	355,663,181	296,163,811
Cash equivalents	10,000,000	10,000,000
	₱384,404,297	₱332,347,036

Cash in banks generally earns interest at the respective bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months and earn interest at the respective short-term deposit rates. Interest income earned amounted to ₱0.12 million and ₱0.08 million for the periods ended March 31, 2019 and 2018, respectively (see Note 21).

7. Receivables

This account consists of:

	MAR 2019	DEC 2018
Trade		
Real estate receivables - current portion	₱77,962,178	₱66,479,721
Rent receivables (Notes 11, 12 and 29)	14,898,012	17,358,859
Receivables from off-track/off-cockpit betting (OTB/OCB) operators	19,184,558	4,442,505
Receivables from food and beverage operations	3,861,318	4,423,786
Non-trade		
Advances and loans to officers and employees (Note 25)	22,039,449	24,754,227
Receivable from third parties	15,200,568	20,428,691
Advances to suppliers	19,850,266	16,011,079
Receivable from contractors	5,641,494	5,803,672
Due from related parties (Note 25)	5,027,070	5,018,137
Dividends receivable (Note 10)	6,713,503	4,739,449
Others	22,254,334	7,138,738
	212,632,751	176,598,864
Less ECL/allowance for doubtful accounts	35,350,908	35,350,908
	₱177,281,843	₱141,247,956

Real Estate Receivables

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

	MAR 2019	DEC 2018
Current	₱77,962,177	₱66,479,721
Noncurrent	42,101,466	61,541,708
	₱120,063,644	₱128,021,429

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 ₱2.6 million and ₱6.4 million for the periods ended March 31, 2019 and 2018, respectively (see Note 21).

Advances and Loans to Officers and Employees
The Parent Company grants salary loans and advances to its officers. The loans bear an average interest rate of 9% per annum. Interest income earned on advances and loans to officers and employees amounted to ₱0.2 million for the periods ended March 31, 2019 and 2019 (see Note 21).

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

Receivable from Third Parties
Receivable from third parties bear an interest of 12% per annum and are generally settled within 30-90 day term.

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

ECL/Allowance for Doubtful Accounts
Movements in the allowance for doubtful accounts are summarized below:

	MAR 2019		
	Trade	**Nontrade**	**Total**
Balance at beginning of year	**₱24,020,769**	**₱12,373,195**	**₱36,393,964**
Provision during the year (Note 17)	**12,544,700**	**1,861,909**	**14,406,609**
Amounts written off during the year	**(15,443,165)**	–	**(15,443,165)**
Recovery of doubtful accounts	–	**(6,500)**	**(6,500)**
Balance at end of period	**₱21,122,304**	**₱14,228,604**	**₱35,350,908**

	DEC 2018		
	Trade	Nontrade	Total
Balance at beginning of year	₱24,020,769	₱12,373,195	₱36,393,964
Provision during the year (Note 17)	12,544,700	1,861,909	14,406,609
Amounts written off during the year	(15,443,165)	–	(15,443,165)
Recovery of doubtful accounts	–	(6,500)	(6,500)
Balance at end of year	₱21,122,304	₱14,228,604	₱35,350,908

8. Inventories

This account consists of:

	MAR 2019	DEC 2018
Real estate:		
Land held for development - at cost	**₱38,189,898**	₱38,189,898
Memorial lots for sale - at net realizable value	**6,489,904**	6,489,908
Condominium units for sale - at cost	**3,880,628**	3,880,628
Residential units for sale - at cost	**2,960,551**	2,783,562
	51,520,981	51,343,992
Gamefowls - at cost	**1,156,283**	2,448,000
Food and beverages - at cost	**778,397**	781,227
	₱53,455,661	₱54,573,219

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company. In 2018 and 2017, revenue from real estate pertains to sale of completed condominium units and memorial lots.

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

	MAR 2019		DEC 2018
Balance at beginning of year	**₱51,343,992**		₱51,343,992
Cost of real estate sold (Note 16)		**176,989**	(11,162,675)
Reclassification (Note 12)		–	(5,540,316)
Balance at end of period	**₱51,520,981**		₱51,343,992

In 2019 and 2018, no impairment loss was recognized.

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

Condominium units for sale
On February 26, 2005, the Parent Company entered into Joint Development Agreements (JDAs) with Avida and 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 locat and ed 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 March 31, 2019 and December 31, 2018. The construction of Tower 3 of Alveo is 100.00%complete as of March 31, 2019 and December 31, 2018.

Residential units for sale
On February 24, 2004, the Parent Company entered into an agreement with 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, 2018, the project is 100% complete.

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. The amount of marketing cost for the period ended March 31, 2019 and 2018 ₱12.1 million and ₱9.7 million, respectively (see Note 16).

Gamefowls
The movements in the gamefowl inventory account are as follows:

	MAR 2019	DEC 2018
Balance at beginning of year	**₱2,448,00**	₱2,651,000
Purchases	**21,367,910**	39,976,555
Cost of gamefowls used (Note 16)	**(22,659,627)**	(40,179,555)
Balance at end of period	**₱1,156,283**	₱2,448,000

There were no write-down of inventories in 2019 and 2018.

9. Other Current Assets

This account consists of:

	MAR 2019	DEC 2018
Prepaid expenses	**₱9,506,253**	₱5,195,100
Input VAT	**4,380,461**	2,865,044
Deferred Input VAT	**-**	698,818
Deposit	**224,206**	174,206
Prepaid income tax	**1,061,611**	79,347
Others	**19,995**	798,752
	₱15,192,526	₱9,811,267

Prepaid expenses include prepayments made for insurance and licenses.

Others include fuel and oil and rental deposit.

10. Investments in and Advances to Associates and Joint Ventures

This account consists of:

	MAR 2019	DEC 2018
Cost	**₱2,312,510,445**	₱2,312,510,445
Equity in net losses of associates and joint ventures		
Beginning balance	**(417,690,108)**	(260,468,835)
Equity in net losses during the period	**(22,770,721)**	(133,821,849)
Share on dividends declared	**(6,713,504)**	(23,399,424)
	(447,174,333)	(417,690,108)
		1,894,820,337
Advances to an associate	**277,233,646**	237,233,646
	₱2,142,569,758	₱2,132,053,983

	MAR 2019	DEC 2018
Investment in associates		
MIC	**₱1,813,929,626**	₱1,844,622,146
Techsystems	**–**	–
	1,813,929,626	1,844,622,146
Investment in joint ventures		
Gamespan	**9,792,161**	9,792,161
SLBPO	**41,614,325**	40,406,030
	51,406,486	50,198,191
		1,894,820,337
Advances to an associate	**277,233,646**	237,233,646
	₱2,142,569,758	₱2,132,053,983

Investment in and Advances to Associates

MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of March 31, 2019 and December 31, 2018. MIC started its commercial operations on January 6, 2016. The movements and details of the accounts are as follows:

	MAR 2019	DEC 2018
Investment in associate	**₱2,081,855,792**	₱2,011,056,348
Equity in net losses of the associate	**(30,692,520)**	(166,434,202)
	1,813,929,626	1,844,622,146
Advances to an associate	**277,233,646**	237,233,646
	₱2,091,163,272	₱2,081,855,792

Advances to MIC pertains to deposit for future stock subscriptions.

The summarized financial information of MIC is as follows:

	MAR 2019	DEC 2018
Current assets	**₱453,343,274**	₱758,436,370
Noncurrent assets	**5,807,952,859**	5,942,138,475
Current liabilities	**1,247,169,465**	1,415,410,010
Noncurrent liabilities	**4,108,960,452**	4,242,646,586
Equity	**905,166,216**	1,042,518,249
Income	**174,444,215**	623,563,695
Expenses	**312,026,819**	1,369,623,942
Net loss	**(137,582,604)**	746,060,247

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

On September 17, 2018, the BOD approved the offer price for the rights shall be ₱1.00 per rights share, if paid in full upon submission of the application to subscribe and ₱2.00 per right share, if paid on installment basis.

Significant Contracts between MIC and PAGCOR

The following are the significant contracts between MIC, an associate, and PAGCOR:

a) Permit to Operate granted to MIC
On March 18, 2010, MIC was granted a Permit to Operate (PTO) by PAGCOR for the establishment, maintenance and operation of PAGCOR San Lazaro. The PTO shall be for a period of fifteen (15) years commencing on January 6, 2016, the date of actual operation of PAGCOR San Lazaro. MIC's management assessed that MIC is the operator of PAGCOR San Lazaro, in accordance with the provision of the PTO.

The agreement provides that while MIC is in the process of forming its own management team and is cognizant of PAGCOR's expertise, experience and competence in gaming operations, MIC requested PAGCOR to manage PAGCOR San Lazaro by giving PAGCOR an exclusive and direct control to supervise and manage PAGCOR San Lazaro's casino operations.

For the duration of the agreement, MIC shall receive forty percent (40%) of PAGCOR San Lazaro's monthly gross revenues after deducting the players' winnings/prizes, the taxes that may be imposed on these winnings/prizes, franchise tax, and applicable subsidies and rebates.

Furthermore, upon revocation, termination or expiration of the PTO, MIC undertakes to ship out of the Philippine territory, the gaming equipment and gaming paraphernalia in pursuance of Presidential Decree 519 and Letter of Instruction 1176 within 60 calendar days from the date of receipt or possession of the gaming equipment and gaming paraphernalia.

For income tax purposes, MIC's revenue share in gaming operations is exempt from income tax in accordance with Section 13 of P.D. 1869, as amended, otherwise known as the "PAGCOR Charter". Under P.D. 1869, earnings derived from the operation of casinos shall be imposed a 5% franchise tax, in lieu of all kinds of taxes, levies, fees or assessments of any kind, nature or description, levied, established or collected by any municipal, provincial, or national government authority.

b) Traditional Bingo Operation

On January 19, 2015, MIC was granted by PAGCOR the right to operate a traditional bingo operation at Winford Hotel and Casino. The terms of the bingo operation shall be coterminous with the term of the PTO. Under the agreement, MIC shall remit monthly to PAGCOR 15% of the total gross receipt from sale of bingo tickets and cards, including electronically stored bingo cards played through an electronic device, instant game tickets and bingo game variant cards.

The agreement provides, among others, that all capital and operating expenditure (including the prizes) related to the bingo operation shall be for the sole account of MIC.

c) Junket Agreement granted to Trafalgar Square and Leisure Corp. (a wholly owned subsidiary of MIC) (TSLC)

On May 16, 2016, TSLC was granted by PAGCOR the authority to bring in pre-registered foreign players to play in designated junket gaming areas in Winford Hotel and Casino with an initial four junket gaming tables. Operation of gaming tables in excess of the initial four junket gaming tables shall be subject to PAGCOR's approval. The agreement is effective for a period of three years, commencing on day 1 of the gaming operation at the junket area but not later than six months from the date of the agreement.

In consideration of the grant by PAGCOR, TSLC shall pay PAGCOR higher of (a) a monthly Minimum Guarantee Fee of US$10 thousand per table or (b) ten percent (10%) of the monthly gross winnings generated from the junket gaming operations. In addition to the monthly fee, TSLC shall remit five percent (5%) of the Monthly Gross Winnings of the Junket Gaming Operations to PAGCOR as Franchise Tax.

TSLC shall also deposit to PAGCOR the following:

a) an amount equivalent to six (6) months of the Minimum Guarantee Fee of the Table Gaming Mix in the Junket Gaming Operation prior to the actual operation of the junket tables.
b) an Administrative Charge Deposit in the amount equivalent to six months manpower cost of PAGCOR's Monitoring Team for the Junket Gaming Operation prior to the actual operation, which shall be made to cover TSLC's share in the cost of salaries and benefits of PAGCOR personnel assigned at the junket area in case the junket operations are suspended for reasons other than force majeure or fortuitous event.
c) a cash bond in the amount of ₱1.0 million upon execution of the Junket Agreement in favor of PAGCOR to ensure and secure TSLC's compliance with the terms and conditions of the agreement and PAGCOR's pre-operating requirements.

All interest income accruing out of the above deposits shall pertain to PAGCOR.

Should TSLC cease operations, for reasons such as violation of terms or conditions as stated in the agreement with PAGCOR, one year or more after the commencement of the agreement but before the end of its term, only TSLC's cash bond and administrative charge deposit shall be forfeited in favor of PAGCOR. The gaming deposit shall be returned to TSLC after deducting any unpaid fees owed by the TSLC to PAGCOR.

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership of the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. As of March 31, 2019, and December 31, 2018, investment in Techsystems is fully provided with allowance. Techsystems has not yet started commercial operations as of March 31, 2019.

The summarized financial information of Techsystems is as follows:

	MAR 2019	DEC 2018
Total liabilities	**₱5,184,317**	₱5,184,317
Capital deficiency	**(5,184,317)**	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation. As of December 31, 2018, Gamespan has not yet started its commercial operations.

Reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follow:

	MAR 2019	DEC 2018
Current assets	**₱20,184,979**	₱20,184,979
Noncurrent assets	**29,167**	29,167
Current liabilities	**(629,824)**	(629,824)
Equity	**19,584,322**	19,584,322
Percentage of ownership	**50%**	50%
	₱9,792,161	₱9,792,161

Equity investment in joint venture in Gamespan amounted to ₱9.8 million in 2018 and 2017. Equity in net earnings amounted to nil in 2018 and 2017.

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

The movement of the equity in joint venture of the San Lazaro JV as of March 31, 2019 and December 31, 2018 is as follows:

	MAR 2019	DEC 2018
Balance at beginning of year	**₱40,406,030**	₱40,406,030
Equity in net earnings for the period	**7,921,799**	32,612,353
Share on dividends declared	**(6,713,504)**	(23,399,424)
Balance at end of period	**₱41,614,325**	₱40,406,030

Dividends receivable from the JV amounted to ₱4.7 million and ₱3.4 million for the periods ended March 31, 2019 and 2018, respectively.

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

	MAR 2019	DEC 2018
Current assets	**₱ 317,938,927**	₱300,750,720
Noncurrent assets	**17,526,094**	16,452,036
Current liabilities	**127,901,010**	113,460,146
Noncurrent liabilities	**53,745,895**	53,952,149
Equity	**153,818,116**	149,790,461
Dividends	**22,378,342**	77,998,078
Income	**44,140,380**	183,319,154
Expenses	**17,734,383**	74,611,310
Net income	**26,405,997**	108,707,844

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

	MAR 2019	DEC 2018
MIC	**(₱)**	(₱166,434,202)
SLBPO	**7,921,799**	32,612,353
Gamespan	–	–
	(₱)	(₱133,821,849)

As of March 31, 2019, and December 31, 2018, the Group has no share in any contingent liabilities or capital commitments.

11. Property and Equipment

Movements in this account are as follows:

MAR 2019

	January 1	**Additions**	**Disposals**	**Reclassifications and adjustments**	**March 31**
Cost					
Land	₱304,869,383	₱–	₱–	₱–	₱304,869,383
Land improvements	349,904,869	–	–	–	349,904,869
Building and improvements	672,282,229	–	–	–	672,282,229
Machinery and equipment	581,148,687	3,765,188	–	–	584,913,875
Transportation equipment	45,034,816	7,813,396	–	–	52,848,212
Furniture and fixtures	33,198,923	200,575	–	–	33,399,498
	1,986,438,907	11,779,160	–	–	1,998,218,067
Accumulated depreciation					
Land improvements	212,920,601	3,803,132	–	–	216,723,733
Building and improvements	399,801,330	6,761,950	–	–	406,563,280
Machinery and equipment	511,291,037	5,916,295	–	–	517,207,332
Transportation equipment	33,336,500	1,134,299	–	–	34,470,799
Furniture and fixtures	27,352,759	519,172	–	–	27,871,931
	1,184,702,227	18,134,848	–	–	1,202,837,075
Net book value	801,736,680	(6,355,688)	–	–	795,380,992
Construction in progress	30,045,780	1,969	–	–	30,047,749
	₱831,782,460	(₱ 6,353,719)	(₱–)	₱–	₱ 825,428,741

DEC 2018

	January 1	Additions	Disposals	Reclassifications and adjustments	December 31
Cost					
Land	₱304,869,383	₱–	₱–	₱–	C

Land improvements	347,422,587	12,946	–	2,469,336	349,904,869
Building and improvements	672,002,701	–	–	279,528	672,282,229
Machinery and equipment	558,027,885	23,180,110	(59,308)	–	581,148,687
Transportation equipment	42,243,675	2,891,964	(100,823)	–	45,034,816
Furniture and fixtures	31,390,116	1,808,807	–	–	33,198,923
	1,955,956,347	27,893,827	(160,131)	2,748,864	1,986,438,907
Accumulated depreciation					
Land improvements	196,229,945	16,690,656	–	–	212,920,601
Building and improvements	366,433,337	33,367,993	–	–	399,801,330
Machinery and equipment	488,474,113	22,855,652	(38,728)	–	511,291,037
Transportation equipment	29,627,711	3,790,520	(81,731)	–	33,336,500
Furniture and fixtures	25,205,852	2,146,907	–	–	27,352,759
	1,105,970,958	78,851,728	(120,459)	–	1,184,702,227
Net book value	849,985,389	(50,957,901)	(39,672)	2,748,864	801,736,680
Construction in progress	30,621,527	3,835,507	(1,662,390)	(2,748,864)	30,045,780
	₱880,606,916	(₱47,122,394)	(₱1,702,062)	₱–	₱831,782,460

Depreciation Charges

The amount of depreciation is allocated as follows:

	MAR 2019	MAR 2018
Cost of club races (Notes 16 and 18)	**₱10,308,412**	₱10,058,921
Cost of rental services (Notes 16 and 18)	**4,987,156**	4,848,606
General and administrative expenses (Notes 17 and 18)	**1,990,801**	1,802,413
Cost of cockfighting (Notes 16 and 18)	**857,839**	777,802
Cost of food and beverages (Notes 16 and 18)	**68,610**	106,823
	₱21,319,474	₱20,417,079

Construction in Progress

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

Capitalized Borrowing Costs

No interest on loans was capitalized in 2019 and 2018. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of March 31, 2019 and December 31, 2018 amounted to ₱29.8 million.

Land

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, valued at ₱523.6 million payable in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2019 and 2018. The outstanding balance of ₱89.9 million as of March 31, 2019 and December 31, 2018 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position.

In 2018, the Parent Company acquired new short-term loans amounting to ₱124.0 million. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of March 31, 2019 and December 31, 2018.

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 ₱22.7 million and ₱23.1 million as of March 31, 2019 and December 31, 2018, respectively. Rent income from stable rentals for the periods ended March 31, 2019 and 2018 amounted to ₱10.7 million and ₱11.8 million, respectively.

The Parent Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.1 million for the period ended March 31, 2019 and 2018.

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. In February 2017, the Parent Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR amounted to ₱0.3 million for the periods ended March 31, 2019 and 2018.

Lease of Equipment with PAGCOR
In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on 2017. In May 2018, the Parent Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

Income from the lease agreement with PAGCOR amounted to ₱3.2 million and ₱3.3 million for the periods ended March 31, 2019 and 2018, respectively.

Impairment

The Parent Company recognized no impairment loss on the property and equipment used in its racing activities in 2019 and 2018.

12. Investment Properties

This account consists of:

	MAR 2019	DEC 2018
Land:		
Sta. Cruz property held for capital appreciation	**₱359,631,580**	₱359,631,580
Sta. Cruz property held for lease	**238,168,692**	238,168,692
Carmona property	**109,750,785**	109,750,785
Mamburao property (Note 1)	**128,430,457**	128,430,457
Undivided interest in a parcel of land in Batangas	**56,723,976**	56,723,976
	892,705,490	892,705,490
Building:		
Developed office units (Note 10)	**169,388,983**	172,050,657
Retail development area (Note 10)	**29,499,380**	29,999,766
	198,888,363	202,050,423
	₱1,091,593,853	₱1,094,755,913

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

	MAR 2019		
	Land	**Building**	**Total**
Cost			
Balance at beginning of year	**₱892,705,490**	**₱316,205,945**	**₱1,208,911,435**
Additions	**–**	**–**	**–**
Balance at end of period	**892,705,490**	**316,205,945**	**1,208,911,435**
Accumulated Depreciation			
Balance at beginning of year	**–**	**114,155,522**	**114,155,522**
Depreciation (Notes 16 and 18)	**–**	**3,162,060**	**3,162,060**
Balance at end of period	**–**	**117,317,582**	**117,317,582**
Net Book Value	**₱892,705,490**	**₱198,888,363**	**₱1,091,593,853**

	DEC 2018		
	Land	Building	Total
Cost			
Balance at beginning of year	₱888,147,764	₱310,665,629	₱1,198,813,393
Additions	4,557,726	–	4,557,726
Condominium units held for lease (Note 8)	–	5,540,316	5,540,316
Balance at end of year	892,705,490	316,205,945	1,208,911,435
Accumulated Depreciation			
Balance at beginning of year	–	101,437,897	101,437,897
Depreciation (Notes 16 and 18)	–	12,717,625	12,717,625
Balance at end of year	–	114,155,522	114,155,522
Net Book Value	₱892,705,490	₱202,050,423	₱1,094,755,913

Depreciation amounting to ₱0.5 million for the periods ended March 31, 2019 and 2018 are included as part of "Cost of rental services".

Philippine Economic Zone Authority (PEZA) zones

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.

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 - 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.

As of March 31, 2019, and December 31, 2018, the Parent Company's contribution to the JDA amounting to ₱310.7 million is presented as the cost of "Building" under "Investment properties" in the consolidated statements of financial position.

For the periods ended March 31, 2019 and 2018, rental income amounted to ₱3.6 million and ₱4.0 million, respectively.

Undepreciated capitalized interest relating to the Building Complex as of March 31, 2019 and December 31, 2018 amounted to ₱5.3 million.

Fair Market Values

Management has assessed that there are no material changes in fair value of the Parent Company's investment properties aggregating to ₱5.2 billion as of December 31, 2018 based from the most recent revaluations performed by independent appraisers

Management also assessed that there are no material changes in fair value on the Mamburao property which approximates its carrying value of ₱128.4 million as of December 31, 2018 base from the most recent revaluations performed by independent appraisers.

Investment property was classified as Level 3 in as to the qualification of fair value hierarchy.

13. Other Noncurrent Assets

This account consists of:

	MAR 2019	DEC 2018
Financial assets at FVOCI /AFS financial assets		
Debt securities	**₱25,083,403**	₱25,083,403
Quoted equity securities	**9,201,393**	9,201,393
Deferred input VAT	**13,986,093**	13,538,829
Deposits	**10,706,878**	10,465,503
Franchise fee (Note 1)	**6,760,339**	7,208,839
Others	**236,428**	236,428
	₱65,974,534	₱65,734,395

Financial Assets at FVOCI /AFS Financial Assets

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

	MAR 2019	DEC 2018
Balance at beginning of year	₱34,284,796	₱35,199,339
Additions during the period	–	25,000,000
Disposal during the period	–	(27,265,460)
Unrealized mark-to-market losses during the period	–	1,350,917
Balance at end of period	₱34,284,796	₱34,284,796

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

	MAR 2019	DEC 2018
Balance at beginning of year	₱6,035,605	₱4,950,148
Impairment loss reclassified to profit or loss (Note 23)	–	–
Disposal during the period	–	(265,460)
Unrealized market-to-market gains (losses) during the period	–	1,350,917
Balance at end of period	₱6,035,605	₱6,035,605

Dividend income from these investments in nil for the period ended March 31, 2019 and ₱0.07 million for the period ended March 31, 2018.

Franchise Fee

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

	MAR 2019	DEC 2018
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	37,641,161	35,847,161
Amortization for the period (Note 16)	448,500	1,794,000
Balance at end of period	38,089,661	37,641,161
	₱6,760,339	₱7,208,839

Franchise fee has remaining amortization period of four (4) years as of December 31, 2018.

14. Short-term Loans and Borrowings

As of March 31, 2019, and December 31, 2018, outstanding balance of short-term loans and borrowings amounted to ₱271.0 million and ₱288.6 million, respectively. These loans bear average interest of 4.3% in 2019 and 2018. The promissory notes covering these loans have terms of one year or less and are renewed upon maturity.

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

	MAR 2019	DEC 2018
Balance at beginning of year	₱288,636,040	₱234,000,000
Additions	-	124,000,000
Payments	(17,636,040)	(69,363,960)
Balance at end of period	₱271,000,000	₱288,636,040

In 2018, the Parent Company acquired new short-term loans amounting to ₱124.0 million. Certain loans are secured by real estate mortgages on the land in Carmona property with carrying value of ₱216.0 million as of December 31, 2018.

MCI also acquired short-term loan amounting to ₱10.0 million in 2016. This loan was obtained for working capital requirements and bear average interest of 3.6%. The promissory note covering said loan has a term of three (3) months. This has been fully paid in 2017.

Interest expense on short-term loans amounted to ₱4.5 million and ₱2.1 million for the periods ended March 31, 2019 and 2018, respectively (see Note 22).

15. Accounts Payable and Other Liabilities

This account consists of:

	MAR 2019	DEC 2018
Accounts payable	**₱110,875,487**	₱92,012,605
Due to RALI (Note 11)	**89,900,000**	89,900,000
Percentage tax payable	**58,454,020**	45,923,182
Unclaimed winnings	**38,423,090**	21,206,678
Documentary stamps payable	**36,350,067**	25,262,379
Cash bond on OTB/OCB operators	**36,266,763**	34,130,421
Accrued expenses	**20,616,895**	22,636,407
Rental deposits	**10,933,108**	11,245,137
Dividends payable (Note 26)	**5,974,351**	5,974,351
Taxes on winnings	**4,755,298**	6,360,050
Withholding taxes payable	**3,605,772**	4,474,568
VAT payable	**2,488,915**	1,646,342
Due to winning horse owners	**2,030,668**	1,415,052
Retention payable	**1,978,343**	1,978,343
Due to contractors	**1,683,538**	1,683,538
Due to OTB operators	**1,024,750**	1,179,942
Others	**21,641,603**	19,120,753
	₱447,002,668	₱386,149,748

Accounts payable and other liabilities are noninterest-bearing and are normally settled within the next financial year.

Cash bond on OTB/OCB operators serves as security deposits received by the Group from OTB/OCB operators at the inception of the operation. These are refunded to OTB/OCB operators upon termination of the OTB/OCB operations. Due to OTB/OCB operators are unpaid commissions to the operators that are settled within the next operating cycle.

In 2018, the Parent Company recognized gain on reversal of due to contractors amounting to ₱5.4 million.

16. Cost of Sales and Services

Cost of club races consists of:

	MAR 2019	MAR 2018
Personnel costs (Notes 19 and 20)	**₱14,228,390**	₱13,580,701
Depreciation (Notes 11 and 18)	**10,308,412**	10,058,921

Utilities	**4,605,578**	4,256,321
Commission	**2,657,325**	4,239,459
Taxes and licenses	**410,210**	6,331,991
Prizes and winnings	**300,000**	2,533,289
Contracted services	**1,294,784**	1,181,128
Rent (Note 29)	**1,152,170**	1,449,004
Transportation and travel	**650,260**	910,892
Repairs and maintenance	**1,719,924**	1,266,458
Meetings and conferences	**429,537**	898,990
Security services	**688,364**	470,852
Supplies	**769,856**	468,506
Gas, fuel and oil	**199,543**	323,220
Amortization of franchise fee (Note 13)	**448,500**	448,500
Software license	**194,662**	293,063
Others	**1,055,491**	1,191,296
	₱41,113,006	₱ 49,902,590

Cost of real estate sold amounted to (₱0.2) million and ₱3.2 million for the periods ended March 31, 2019 and 2018, respectively.

Cost of cockfighting consists of:

	MAR 2019	MAR 2018
Percentage tax	**₱58,454,020**	₱15,573,665
Breeders' subsidy	**33,944,395**	9,869,337
Commission	**30,521,493**	8,075,038
Gamefowls (Note 8)	**22,659,626**	3,073,000
Tellers allowances	**6,863,032**	1,822,239
Service costs	**5,491,239**	2,103,223
Rent	**5,464,482**	228,328
Professional fees	**2,472,110**	1,443,560
Communication	**2,460,204**	2,502,756
Supplies	**1,882,594**	1,088,587
Transportation and travel	**1,608,273**	974,513
Security services	**1,074,472**	329,304
Depreciation (Notes 11 and 18)	**857,839**	777,802
Taxes and licenses	**828,992**	761,253
Repairs and maintenance	**815,525**	222,129
Meetings and conferences	**523,264**	702,178
Personnel costs (Notes 19 and 20)	**445,154**	-
Fuel and oil	**239,063**	154,586
Others	**2,896,944**	1,367,717
	₱179,502,721	₱51,069,215

Cost of rental services consists of:

	MAR 2019	MAR 2018
Depreciation (Notes 11, 12 and 18)	**₱5,487,541**	₱5,348,991
Utilities	**2,813,840**	2,890,933
Personnel costs (Notes 19 and 20)	**980,412**	1,042,524
Contracted services	**882,620**	784,026
Security services	**541,287**	346,169
Software license	**440,671**	-
Repairs and maintenance	**405,680**	444,034
Franchise tax – gaming	**157,608**	162,528

Rent (Note 29)	**86,704**	242,528
Meetings and conferences	**48,831**	273,451
Others	**317,458**	173,557
	₱12,162,651	₱11,708,743

Cost of food and beverages consists of:

	MAR 2019	MAR 2018
Purchased stocks	**₱4,255,598**	₱3,216,433
Utilities	**1,341,389**	1,244,691
Personnel cost (Notes 19 and 20)	**728,778**	644,110
Contracted services	**711,996**	924,012
Meetings and conferences	**174,140**	140,204
Depreciation (Notes 11 and 18)	**68,610**	106,823
Supplies	**46,277**	45,500
Repairs and maintenance	**14,299**	69,145
Others	**79,742**	163,848
	₱7,420,828	₱6,554,766

17. General and Administrative Expenses

This account consists of:

	MAR 2019	MAR 2018
Personnel costs (Notes 19 and 20)	**₱25,262,419**	₱19,648,626
Taxes and licenses	**19,061,475**	9,288,007
Professional fees	**9,183,973**	1,636,422
Contracted services	**4,681,669**	4,801,355
Depreciation (Notes 11 and 18)	**4,597,072**	4,408,684
Rent (Note 29)	**3,059,040**	2,809,665
Utilities	**2,822,048**	2,837,330
Service fee	**2,676,255**	1,250,650
Repairs and maintenance	**2,567,779**	2,580,418
Directors' fee	**2,254,018**	252,000
Security services	**2,138,494**	1,909,942
Meetings and conferences	**1,344,491**	3,414,180
Gas, fuel and oil	**712,030**	730,269
Supplies	**562,000**	623,675
Transportation and travel	**530,642**	592,228
Advertising	**445,089**	938,892
Insurance	**303,530**	602,864
Membership dues	**256,443**	263,415
Semi-expendable equipment	**246,487**	154,468
Seminars and trainings	**126,515**	55,008
Tenants' reimbursements	**-**	6,850,725
Others	**2,291,855**	2,293,784
	₱85,123,324	₱67,942,607

18. Depreciation

This account consists of:

	MAR 2019	MAR 2018
Cost of club races (Notes 11 and 16)	**₱10,308,412**	₱10,058,921
Cost of rental services (Notes 11, 12 and 16)	**5,487,541**	5,348,991
General and administrative expense (Notes 11 and 17)	**4,652,476**	4,408,684
Cost of cockfighting (Notes 11 and 16)	**857,839**	777,802
Cost of food and beverages (Notes 11 and 16)	**68,610**	106,823
	₱21,374,878	₱20,701,221

19. Personnel Costs

This account consists of:

	MAR 2019	MAR 2018
Salaries and wages	**₱33,209,760**	₱28,295,739
Retirement benefits costs (Note 20)	**3,300,000**	2,100,000
Other employee benefits	**4,566,916**	3,085,606
	₱41,076,677	₱33,481,345

20. Retirement Benefits Costs

The Group has four tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation report as of December 31, 2018.

Movements in the accrued retirement benefits are as follows:

	MAR 2019	DEC 2018
Balance at beginning of year	**₱55,944,377**	₱39,858,117
Net retirement benefits costs for the period	**3,300,000**	9,861,125
Contributions for the period	**(9,733,578)**	(8,284,606)
Defined benefit income recognized in OCI	-	14,605,624
Benefits paid from book reserves	-	(95,883)
Balance at end of period	**₱49,510,799**	₱55,944,377

21. Interest Income

Interest income related to:

	MAR 2019	MAR 2018
Real estate receivables (Note 7)	**₱2,591,367**	₱6,384,144
Advances and loans to officers and employees (Note 7)	**195,330**	170,591
Cash and cash equivalents (Note 6)	**120,708**	348,232
	₱2,907,406	₱6,902,966

22. Finance Costs

Interest expense related to:

	MAR 2019	MAR 2018
Short-term loans (Note 14)	**₱4,458,130**	₱2,071,517
Bank charges and others	**13,180**	21,457
	₱4,471,310	₱2,092,974

23. Other Income - net

	MAR 2019	MAR 2018
Income from advertising campaign	**₱2,160,276**	₱ 760,848
Parking fees	**1,643,571**	916,964
Tenants' reimbursements	-	1,822,916
Income from subscriptions	**496,185**	-
Entrance fee	**85,982**	114,286
Dividend income from financial asset at FVOCI/AFS financial assets (Note 13)	-	69,688
Income due to cancellations	-	123,899
Foreign exchange loss - net	**16,030**	-
Income from third parties	**329,787**	-
Others – net	**1,201,619**	962,434
	₱5,933,451	₱ 4,921,034

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.

24. Income Taxes

a. The provision for current tax consists of the following:

	MAR 2019	MAR 2018
RCIT	**₱ 19,083,862**	₱-
MCIT	-	700,997
Final tax on interest income	**23,729**	62,960

	₱ 19,107,591	₱ 763,957

Biohitech and SLLPHI have no provision for income tax in 2019 and 2018.

25. Related Party Transactions

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:

Amount	Nature	MAR 2019	DEC 2018	Receivable/(Payable) MAR 2019	Receivable/(Payable) DEC 2018	Terms	Conditions
Affiliates:							
Arco Management Development Corporation (AMDC)	Lease of office space[a]	**₱3,643,569**	₱13,177,504	**₱2,765,600**	₱–	Noninterest-bearing	Unsecured, unguaranteed
Advances from shareholders	Advances	–	–	**(13,734,482)**	(13,734,482)	Noninterest-bearing	Unsecured, unguaranteed
Associates:							
MIC	Advances[b]	–	–	**4,982,104**	4,982,104	Noninterest-bearing	Unsecured, no impairment
Techsystems	Advances[b]	**8,833**	8,833	44,967	36,033	Noninterest-bearing	Unsecured, no impairment

[a]The Parent Company has a lease agreement with AMDC, an affiliate under common control, in the lease of office space and four parking lots (see Note 29).
[b]Included in the "Receivables" account (see Note 7)

26. Equity

Capital Stock

The details of the Parent Company's capital stock as of March 31, 2019 and December 31, 2018 are as follows:

	Number of Shares	Amount
Common shares - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued and outstanding (held by 962 equity holders in 2018)	996,170,748	₱996,170,748
	996,170,748	₱996,170,748

On September 11, 2018, the BOD approved the increase of the Parent Company's authorized capital stock from ₱1.0 billion divided into one billion share with a par value of ₱1.00 per share to ₱2.0 billion divided into two billion shares with a par value of ₱1.00 per share.

Retained Earnings

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 amounted to ₱1.1 billion.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares The deemed cost adjustment will be realized through sales for both real estate inventories and land under investment properties. The amount of the deemed cost adjustment and undistributed earnings included in the balance of the unappropriated retained earnings are restricted and not available for dividend declaration.

On April 12, 2018, the BOD of the Parent Company approved the appropriations of the following:

- declaration of cash dividends of ₱0.05 per share or ₱49.8 million;
- payment for the subscription to Stock Rights Offering of its affiliate, MIC, amounting to ₱201.8 million; and
- payment for the subscription to the increase in the authorized capital stock of its subsidiary, MCI, amounting to ₱30.6 million.

As of December 31, 2018, appropriated retained earnings amounted to ₱282.2 million.

As of April 3, 2019, the BOD approved the reversal of appropriation of retained earnings amounting to 282.2 million.

Declaration of Dividends
The following are the details of the dividends declared in 2018 and 2017:

Type of Dividend	Date of Declaration	Date of Record	Dividends per Share
Cash	April 12, 2018	May 28, 2018	₱0.05
	June 30, 2017	July 18, 2017	0.05
Stock	December 7, 2018	May 17, 2019	50%

As of March 31, 2019, and December 31, 2018, outstanding dividends payable amounted to ₱6.0 million and ₱6.0 million, respectively.

During the special stockholders' meeting held on December 7, 2018, the stockholders approved the declaration of 50% stock dividends from the Company's unrestricted retained earnings for the period ended December 31, 2017, to be taken from an increase in the Company's authorized capital stock. SEC approved the increase in capital stock on April 17, 2019.

27. Basic/Diluted EPS

Basic/diluted loss per share were computed as follows:

	MAR 2019	DEC 2018
Net loss attributable to equity holders of the Parent Company	**₱18,807,869**	(₱133,765,093)
Divided by weighted average number of outstanding common shares	**996,170,748**	996,170,748
Basic/diluted loss per share	**₱0.0189**	(₱0.1343)

The Parent Company does not have potential dilutive common shares as of March 31, 2019 and December 31, 2018. Therefore, the basic and diluted loss per share are the same as of those dates.

28. Operating Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided. The Group's five reportable operating segments are the operation and maintenance of race tracks and holding of horse races, cockfighting operations, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income or loss and is measured consistently with the total comprehensive income in the consolidated financial statements.

As of March 31, 2019, and December 31, 2018, 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 March 31, 2019 and December 31, 2018 are as follows:

	MAR 2019						
	Club Races	**Cockfighting**	**Real Estate**	**Rent**	**Food and Beverage**	**Unallocated**	**Total**
Segment revenue	**33,603,462**	**₱324,744,554**	**₱2,070,399**	**₱18,658,279**	**₱ 6,138,988**	**₱16,109,421)**	**₱399,106,261**
Cost and expenses	**(41,113,006)**	**(179,502,721)**	**140,389**	**(12,162,651)**	**(7,420,828)**	**(91,652,275)**	**(331,711,092)**
Income (loss) before income tax	**(7,509,544)**	**145,241,833**	**2,210,788**	**6,495,628**	**(1,281,840)**	**(107,761,696)**	**37,395,169**
Provision for income tax		**(16,761,302)**	**–**	**–**	**–**	**((2,346,289))**	**(19,107,591)**
Net income (loss)	**(₱ 7,509,544))**	**₱128,480,531**	**₱ 2,210,788**	**₱ 6,495,628**	**(₱1,281,840)**	**(₱110,107,986)**	**(₱18,287,578)**

	DEC 2018						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱141,697,231	₱593,872,171	₱118,744,266	₱77,720,936	₱25,984,620	₱21,252,785	₱979,272,009
Cost and expenses	(179,702,888)	(366,212,756)	(21,671,625)	(54,726,627)	(30,540,261)	(449,131,456)	(1,101,985,613)
Income (loss) before income tax	(38,005,657)	227,659,415	97,072,641	22,994,309	(4,555,641)	(427,878,671)	(122,713,604)
Provision for income tax	–	–	–	–	–	(16,322,791)	(16,322,791)
Net income (loss)	(₱38,005,657)	₱227,659,415	₱97,072,641	₱22,994,309	(₱4,555,641)	(₱444,201,462)	(139,036,395)

Finance costs, other income - net and income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis and are not provided to the chief operating decision maker at the operating segment level. Equity in net earnings (losses) of associate and joint ventures are included in the segment revenue of operating segment "Unallocated." Pre-operating cost of certain subsidiaries are also included in cost and expense of operating segment "Unallocated".

29. Commitments and Contingencies

Commitments

The following are the significant commitments of the Group:

a. Operating Lease Commitment - the Parent Company as Lessee

On January 1, 2008, the Parent Company renewed its lease agreement with AMDC, an affiliate under common control, for the lease of office space and four parking lots. The lease is for a period of five years starting 2008 and includes an annual escalation rate of 5.0%. The monthly rate of the lease for the year 2012 amounted to ₱385,923. The lease contract expired in December 2012 and the Parent Company renewed its lease agreement with AMDC on February 5, 2013 with a monthly rate of ₱427,550, subject to an annual escalation rate of 5.0%, which expired on December 31, 2017. As of December 31, 2018, the lease contract is still under renewal.

On January 1, 2011, the Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2018 is ₱332,297, subject to an annual escalation rate of 5.0%.

b. Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

In 2013, the Parent Company entered into a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 square meters (sqm.) for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. The agreement expired on June 30, 2016. In February 2017, the Parent Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR for the periods ended March 31, 2019 and 2018 amounted to ₱0.3 million.

c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on June 30, 2016. In May 2018, the Parent Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

Income from lease agreement with PAGCOR amounted to ₱3.2 million and ₱3.3 million for the periods ended March 31, 2019 and 2018, respectively (see Note 11).

d. In 2018, the Parent Company entered into a lease agreement with Datem Inc. for eight (8) months to lease an area of 16,719 sqm. in Sta. Cruz, Manila for a monthly fixed rental of ₱150,000, exclusive of VAT.

For the period ended March 31, 2019, income from this lease amounted to ₱0.45 million.

e. In 2018, the Parent Company entered into various lease agreements for one year to lease condominium units in Alveo and Avida for a monthly fixed rental of ₱24,000 - ₱25,000 inclusive of VAT. The lease agreements are renewable for another one (1) year upon mutual agreements of both parties.

For the period ended March 31, 2019, income from this lease transaction amounted to ₱0.2 million.

f. Claims and Legal Actions

As of March 31, 2019, and December 31, 2018, there are pending claims and legal actions against or in favor of the Parent Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these consolidated financial statements. In the opinion of the Parent Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Parent Company and any liability or loss arising therefrom would be taken up when the final resolution of the claims and actions are determined.

Contingencies

Unclaimed Dividends on Winnings
Under PR58D of the *Rules and Regulations on Horse Racing* promulgated by the Philippine Racing Commission (PHILRACOM), the latter claims control over the disposition of unclaimed dividends.

The Parent Company disputed the legality of PR58D in its letters to PHILRACOM dated June 14, 2012 and July 13, 2012. The Parent Company maintained that there is no law authorizing PHILRACOM to determine the proper use or disposition of the unclaimed dividends and PHILRACOM exceed its rule-making authority in issuing PR58D. The Parent Company likewise contended that unclaimed dividends are private funds as these funds are not included in the amounts that are supposed to be remitted to or held by the Parent Company for the government under its charter.

Furthermore, a *Notice* appears in the dorsal portion of the Parent Company's betting tickets which state that winning tickets must be claimed within thirty days from date of purchase, otherwise, the prize shall be forfeited in favor of the Parent Company. This provision is a valid agreement between the Parent Company and the bettor under the principle of autonomy of contracts.

As part of its audit of the PHILRACOM, the Commission on Audit (COA) issued an *Independent Auditor's Report* dated March 27, 2013 wherein COA opined that unclaimed dividends of winning bettors should be forfeited in favor of the government and should form part of the National Treasury. However, in the same report, COA acknowledged the absence of any legislative mandate as regards the disposition of unclaimed dividends. Thus, COA required the PHILRACOM to request for a Declaratory Relief from the Department of Justice to resolve the issue on the nature of unclaimed dividends.

To resolve the foregoing issue, the Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Parent Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of March 31, 2019, the status is still pending before the Supreme Court.

30. Financial Risk Management Objectives and Policies

The Group's financial instruments comprise cash and cash equivalents (except cash on hand), receivables, financial assets at FVOCI/AFS financial assets, deposits, accounts payable and other liabilities, interest-bearing loans and borrowings and due to related parties. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the use of these financial instruments include cash flow interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk. The Group's BOD reviews and approves the policies for managing these risks and these are summarized below.

Cash flow interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument wil fluctuate because of changes in market interest rates. The Group has no exposure to the risk of changes in market interest rate because the Group's interest-bearing loans and borrowings carry fixed interest rates (see Note 15).

Equity price risk

Equity price risk is the risk that the fair values of quoted equity securities will fluctuate because of changes in the level of indices and the value of individual stocks. The Group is exposed to equity price risk because of quoted equity investments held by the Group, which are classified in the consolidated statements of financial position as financial assets at FVOCI.

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.

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.

31. Capital Management

The Group considers the total equity as its capital. The Group maintains a capital base to cover risks inherent in the business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

The following table summarizes the total capital considered by the Group:

	MAR 2019	DEC 2018
Capital stock	**₱996,170,748**	₱996,170,748
Additional paid-in capital	**27,594,539**	27,594,539
Net cumulative changes in fair values of AFS financial assets	**4,630,973**	4,630,973
Remeasurement on retirement benefits	**17,413,770**	17,413,770
Retained earnings	**2,689,331,953**	2,669,576,085
Treasury shares	**(7,096)**	(7,096)
Noncontrolling interest	**60,855,119**	61,375,411
	₱3,795,979,998	₱3,776,754,430

No changes were made in the objectives, policies and processes from the previous years.

32. Other Matters

On April 2, 2018, MCI was informed of the filing of House Bill No. 7368, *"An Act Granting Manila Cockers Club, Inc., a Franchise to Construct, Operate and Maintain Cockpit Arenas in the Provinces of Cavite, Laguna or Batangas; and To Establish, Operate, Maintain Off-Cockpit Betting Stations Throughout the Philippines" (the "Franchise Bill").*

As of May 15, 2019, the bill is still pending before the House of Representatives under its Committee of Legislative Franchises.

ANNEX "B"

MANAGEMENT DISCUSSION & ANALYSIS OF PLAN OF OPERATIONS

Discussion on Operating Results for the Periods Ended March 31, 2019 and 2018

Revenues

Income from club races decreased by ₱8.0 million from ₱41.6 million for the period ended March 31, 2018 to ₱33.6 million for the same period in 2019. There were twenty-six (26) racing days from January to March 2019 compared to twenty-seven (27) for the same period in 2018.

Income from cockfighting operations for the period March 31, 2019 amounted to ₱324.7 million and ₱86.6 million for the same period in 2018 or an increase of ₱238.1 million. The cockfighting operation has become fully operational and revenue is increasing as a result of increase in the number of cockfights or derbies as well as cockfighting days. Fights/derbies were up from 1,495 in first quarter of 2018 to 3,743 for the same period in 2019. The were also 68 cockfighting days in 2019 compared to only 47 days in 2018.

The Group recognizes income from real estate sale which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Revenue from real estate is recognized under the percentage of completion (POC) method. The company recognized negative revenue for the period ended March 31, 2019 amounting to ₱0.5 million. For the same period in 2018, the Parent Company recognized a revenue amounting to ₱19.2 million. There were six (6) new sales in 2018 while only one (1) in 2019. The two (2) real estate units that were cancelled in 2019 also contributed to the negative revenue. No cancellations were recorded in 2018.

Revenue from sale of food and beverages increased by ₱1.1 million from ₱5.0 million for the period ended March 31, 2018 to ₱6.1 million covering the same period in 2019. Sales from food and beverages increased in 2019 as it has a direct effect on the greater number of cockfighting days compared to 2018.

Other revenues decreased by ₱0.3 million from ₱0.7 million for the period ended March 31, 2018 to ₱0.4 million for the same period in 2019. The decrease came primarily from the money changing operations of the Group's subsidiary, MJC Forex Corp.

Other Income

For the period ended December 31, 2019 and 2018, equity in net losses of associates and joint venture amounted to ₱22.8 million and ₱33.3 million, respectively. The losses recognized in the current period is due to the equity share in the net losses of MIC amounting to ₱30.7 million. These are tapered by the equity share in net earnings of SLBPO amounting to ₱7.9 million for the same period in 2019.

Interest income relates to real estate receivables, cash and cash equivalents and advances and loans to officers and employees. Interest income for the period ended March 31, 2019 amounted to ₱2.9 million compared to ₱6.9 million for the same period in 2018 or a decrease of ₱4.0 million. The decrease came primarily from the interest income from accretion of real estate receivables due to the cancellation of previously sold real estate units.

Other income – net increased by ₱1.9 million from ₱4.0 million for the period ended March 31, 2018 to ₱5.9 million for the same period in 2019. Income from advertising campaigns as well as parking fees increased in 2019. Income from subscriptions was also recognized in 2019 while there was nil in 2018.

Expenses

Cost of Sale and Services

Cost of racing services decreased by ₱8.8 million from ₱49.9 million for the period ended March 31, 2018 to ₱41.1 million for the same period in 2019. Taxes and licenses decreased by ₱5.9 million. No documentary stamp tax (DST) is recognized in 2019 as expense as it is properly recorded and remitted during the period compared to 2018 that the DST was not deducted from the total racing sales before dividends were paid to winning bettors. Commission paid to OTB operators also decreased as racing sales in 2019 declined. Commission given to OTB operators depends on the racing sales generated by the OTB station.

Direct costs from cockfighting increased by ₱127.3 million from ₱52.2 million for the period ended March 31, 2018 compared to ₱179.5 million for the same period in 2019. Percentage taxes, commission, breeders' subsidy, rent, cost of gamefowls and tellers' allowances are the expenses with significant increases in 2019. These expenses increased as there were more derbies/fights and greater number of cockfighting days in 2019 compared to 2018.

Cost of real estate pertains to the cost of real estate property recognized under the percentage of completion method, if the criteria of full accrual method are not satisfied. For the periods ended March 31,2019 and 2018, cost of real estate amounted to (₱0.2) million and ₱3.2 million, respectively. The decrease of ₱3.3 million is due to lesser number of real estate units sold in 2019 doubled by the reversal to inventory account of the cost of previously sold real estate units.

Rental cost of services increased by ₱0.5 million from ₱11.7 million for the period ended March 31, 2018 to ₱12.2 million for the same period in 2019. Software license from gaming operations is recognized as expense in 2019. Security services increased in 2019 by ₱0.2 million.

Cost of food and beverage amounted to ₱7.4 million and ₱6.6 million for the periods ended March 31, 2019 and 2018, respectively. The increase amounting to ₱0.9 million came primarily from purchased stocks, utilities and personnel costs.

The cost of sales for "Others" amounted to ₱2.1 million and ₱4.7 million for the periods ended March 31, 2019 and 2018, respectively. It decreased by ₱2.6 million in 2019. The variance relates mainly to the decrease in dollar purchases during the period.

General Operating Expenses

General and administrative expenses constitute costs of administering the business. For the period ended March 31, 2019, general and administrative expenses amounted to ₱85.1 million compared to ₱68.2 million for the same period in 2018. It increased by ₱19.9 million. Significant increases in general and administrative expenses include taxes and licenses for local business taxes; professional fees like legal and audit fees and personnel costs.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted from ₱1.5 million for the period ended March 31, 2018 to ₱0.04 million for the same period in 2019. There was only one real estate unit sold for the first quarter of 2019 compared to six units for the same period in 2018.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱4.5 million and ₱2.1 million for the periods ended March 31, 2019 and 2018, respectively, or an increase of ₱2.4 million which is due to the increase in outstanding principal balances of bank loans as of the end of year 2018.

CHANGES IN FINANCIAL CONDITION

Discussion on some Significant Changes in Financial Condition as of March 31, 2019 and December 31, 2018

Total assets increased due to the following:

1. For the period ended March 31, 2019, cash and cash equivalents amounted to ₱384.4 million from ₱332.3 million as of December 31, 2018. The increase can be attributed to collections brought about by the increase in revenue generated from cockfighting operations due to the increasing number of fights/derbies and cockfighting days.

2. Receivables, including real estate receivables-net of current portion increased by ₱36.0 million from ₱141.3 million as of December 31, 2018 to ₱177.3 million as of March 31, 2019. Receivable from off-track betting operators, current portion of real estate receivables and dividend receivable from a joint venture partner increased during the period.

3. Inventories decreased by ₱1.1 million in the current period from ₱54.6 million as of December 31, 2018 to ₱53.5 million as of March 31, 2019. The decrease came from the inventory on gamefowls.

4. Other current assets increased by ₱5.4 million from ₱9.8 million as of December 31, 2018 to ₱15.2 million as of March 31, 2019. The increase came from prepaid expenses like insurance and software licenses; input VAT on purchases and prepaid income taxes on creditable withholding taxes.

5. Investments in and advances to associates and joint ventures amounted to ₱2,142.6 million and ₱2,132.1 million as of March 31, 2019 and December 31, 2018, respectively. This account was decreased by the equity share in the net losses of MIC for the current period amounting to ₱30.7 million. It is also decreased by the dividends declared by SLBPO for the Parent Company amounting to ₱6.7 million. These decreases were tapered by the equity share of the Parent Company from the net earnings of SLBPO amounting to ₱7.9 million and the additional advances made by the Parent Company to MIC during the current period totaling to ₱40.0 million. The ne t effect of the decreases and increases amounted to ₱10.5 million.

6. Property and equipment decreased from ₱831.8 million as of December 31, 2018 to ₱825.4 million as of March 31, 2019. The decrease in property and equipment amounting to ₱6.4 million in the current period is the net effect of the depreciation charges recognized and the acquisitions of property and equipment during the period.

7. Investment properties decreased by ₱3.2 million from ₱1,094.8 million as of December 31, 2018 to ₱1,091.6 million as of March 31, 2019. The decrease is due to the depreciation charges recognized during the period for the Vertex One building.

8. Other noncurrent assets increased by ₱0.2 million from ₱65.7 million as of December 31, 2018 to ₱65.9 million as of March 31, 2019. The variance is the net effect of the increase in deferred input VAT and deposits and the decrease in franchise fee.

Total Current Liabilities increased due to the following:

9. Short-term loans and borrowings decreased by ₱17.6 million in the current period from ₱288.6 million as of December 31, 2018 to ₱271.0 million as of March 31, 2019. The decrease refers to the repayments made during the period.

10. Accounts payable and other liabilities increased by increased by ₱60.6 million from ₱386.1 million as of December 31, 2018 to ₱447.0 million as of March 31, 2019.Documentary stamps payable increased by ₱11.1 million due to higher sales generated in March 2019 as it has 10 racing days compared to December 2018 which had 7 racing days. Documentary stamp tax is computed based on gross receipts. There were also increases in unclaimed winnings by ₱17.2 million, cash bond from OTB/OCB operators by ₱2.1 million and percentage tax payable by ₱12.5 million.

11. Income tax payable increased by ₱19.1 million from ₱14.6 million as of December 31, 2018 to ₱33.7 million as of March 31, 2019. The increase refers mainly to the income tax expense recognized by the Group covering the first quarter of 2019.

12. Due to related parties amounted to ₱13.7 million as of March 31, 2019 and December 31, 2018.

Total Noncurrent Liabilities decreased due to the following:

13. Accrued retirement benefits as of December 31, 2018 amounted to ₱55.9 million and ₱49.5 million as of March 31, 2019. The decrease amounting to ₱6.4 million is the net effect of the contributions made to the retirement fund during the current period amounting to ₱9.7 million and the retirement expense recognized amounting to ₱3.3 million.

Total Equity increased due to the following:

14. Retained earnings increased by ₱18.8 million from ₱2,670.5 as of December 31, 2018 to ₱ 2,689.3 million as of March 31, 2019. The increase ₱18.8 million increase pertains to the net earnings of the Group covering the first quarter of 2019.

15. Non-controlling interest decreased by ₱0.5 million in the current period which represents primarily the 56.87% share of minority interest in the net losses of ARWRI for the period ended March 31, 2019.

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.

TOP FIVE (5) KEY PERFORMANCE INDICATORS:

The Group looks closely at the following to determine its over-all performance:

	MAR 2019	DEC 2018
Current Ratio	**0.82**	0.77
Asset to Liability Ratio	**4.78**	4.79

	MAR 2019	MAR 2018
Sales to Revenue Ratio	**0.09**	0.24
Sales to Expenses Ratio	**0.10**	0.21
Earnings Per Share	**₱0.0189**	(₱0.0524)

Current ratio or working capital ratio is a measure of a company's liquidity or its ability to meet maturing obligations. It is computed by dividing current assets over current liabilities. Total current assets as of March 31, 2019 and December 31, 2018 amounted to ₱630.3 million and ₱538.0 million, respectively. As of March 31, 2019, and December 31, 2018, total current liabilities amounted to ₱765.4 million and ₱703.1 million, respectively. The Group's current ratio of 0.82 shows that it has ₱0.82 current assets to support ₱1.00 current liabilities.

The asset to liability ratio or solvency ratio exhibits the relationship of total assets with total liabilities. It is computed by dividing total assets over total liabilities. As of March 31, 2019, and December 31, 2018, total assets amounted to ₱4,799.8 million and ₱4,725.7 million, respectively while total liabilities as of March 31, 2019 amounted to ₱1003.8 million and ₱948.0 million as of December 31, 2018. The Group's asset to liability ratio of 4.78 shows that for every ₱1.00 liability, it has a ₱4.78 asset to support it.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the periods ended March 31, 2019 and 2018 amounted to ₱33.6 million and ₱41.6 million, respectively. Total operating revenue for the period ended March 31, 2019 amounted to ₱383.0 million and ₱172.7 million for the same period in 2018.

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 periods ended March 31, 2019 and 2018 amounted to ₱33.6 million and ₱41.6 million, respectively, while total expenses amounted to ₱ 331.7 million for the period ended March 31, 2019 and ₱200.0 million for the same period in 2018.

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 income attributable to equity holders of the parent company for the period ended March 31, 2019 amounted to ₱ 18.8 million while there was a net loss attributable to the equity holders of the parent company for the period ended March 31, 2018 amounting to ₱52.2 million. The weighted average number of outstanding common shares as of March 31, 2019 and 2018 totaled to 996.2 million.

Analysis of plan of operations

For the year 2018, we forecasted a robust consolidated financial outlook for MJCI despite not too encouraging forecast in horseracing. Significant contributions from two promising subsidiaries were anticipated to help the financials of the parent company aside from the other business projects being looked into by the parent company. These wholly owned subsidiaries were the Manilacockers Club, Inc. ("MCI") and Gametime Sports and Technologies, Inc. ("Gametime").

We again repeat the same forecast but with more substantial contributions from MCI because of the inspiring financial results in 2018, an unprecedented feat for a new company barely operating three years ago since its full operation in 2015. The year 2018 and onward for MCI will be a game changer for the parent company since its trajectory forecast position is geared towards maximizing full revenue potentials of MCI.

On the other hand, Gametime is being reengineered to ensure that its electronic betting will get the same interest and enthusiasm of the thousands of gaming bettors not only in the Philippines but even those outside of the country. Significant revenues were collected by Gametime in 2018, enough to give the parent company its modest share in revenues. The Pay Per View (PPV) cockfighting for international enthusiasts is a potential revenue in waiting. Management is still fine tuning some technology and administrative aspects before this product is launched to international clients.

Apo Reef World Resorts, Inc. located in Mamburao, Occidental Mindoro continues to consolidate land titles and acquisitions of adjacent lots. Its fair value thus far had already increased despite land development has yet to start. Management is optimistic that this will be another Boracay with a different class of beach enthusiasts.

New high rise mixed commercial and residential condominium buildings on the remaining idle lots in Tayuman, Sta Cruz will soon rise. 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. MCI is renting from MJC 136 stable units converted into cock houses.

The football field in the San Lazaro Leisure and Business Park in Carmona (SLLBP), Cavite is now open for football sports activities. Football tournaments were already held in SLLBP. We expect people trooping to SLLBP witnessing and enjoying a favorite sport which will be beneficial to our food and beverage operations in Carmona.

There is no particular event that will trigger a direct or contingent financial obligation that would be material to the Group, including events of default and acceleration of an obligation.

The Group 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 Group.

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 Group with unsolicited entities or other persons created during the fiscal year.