

# **PHILIPPINE RACING CLUB, INC.**

## **INFORMATION STATEMENT**

Pursuant to Section 20 of the Securities Regulations Code

For Annual Stockholders' Meeting  
On June 20, 2011

Santa Ana Park  
A. P. Reyes Avenue, Carmona, Makati City

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

**SECURITIES and EXCHANGE COMMISSION  
SEC FORM 20-IS**

**Information Statement Pursuant to Section 20 of the  
Securities Regulation Code**

1. Check the appropriate box:

Preliminary Information Statement  
 Definitive Information Statement

2. Exact name of registrant as specified in its charter:

**PHILIPPINE RACING CLUB, INC.**

3. Country or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification Number: **PW00000179**

5. BIR Tax Identification Number: **000-488-051**

6. Address of Principal Office: **Sta. Ana Park, A. P. Reyes Avenue, Makati City**  
Postal Code: **1207**

7. Registrant's telephone number, including area code **(632) 890-4015**

8. Date of Meeting: June 20, 2011  
Time of Meeting: 4:00 in the afternoon  
Place of Meeting: Santa Ana Park, A. P. Reyes Avenue, Carmona, Makati City

9. Approximate date on which the Information Statement is first sent or given to security holders **May 26, 2011**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

<b><i>Title of Each Class</i></b>	<b><i>Number of Shares Outstanding</i></b>
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Common	585,687,130
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11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [ **X** ]                      No [    ]

# PHILIPPINE RACING CLUB, INC. INFORMATION STATEMENT

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## PART I.

### INFORMATION REQUIRED IN INFORMATION STATEMENT

#### A. GENERAL INFORMATION

##### **Item 1. Date, Time and Place of Meeting of Security Holders**

- |    |  |   |
|----|--|---|
| a. | Date, Time and Place:                            | June 20, 2011, 4:00 o'clock in the afternoon<br>At Santa Ana Park, A. P. Reyes Avenue, Carmona, Makati City |
| b. | Complete Mailing Address<br>of Principal Office: | Philippine Racing Club, Inc.<br>Santa Ana Park, A. P. Reyes Avenue, Makati City                             |

The approximate date on which the Definitive Information Statement shall first be sent or given to security holders would be on May 26, 2011.

##### **Item 2. Dissenters' Right of Appraisal**

Pursuant to Section 81 of the Corporation Code of the Philippines, any stockholder of the Corporation shall have the right to dissent and to demand payment of the fair value of his shares on the above item and on any matter that may be acted upon, such as in the following instances:

- a. In case any 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 term of corporate existence;
- b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and
- c. In case of merger or consolidation.

The abovementioned procedure to be followed in exercising the appraisal right shall be in accordance with Sections 81 and 86 of the Corporation Code.

No corporate action that will trigger the exercise of this right will be taken during the Annual Stockholders' Meeting.

##### **Item 3 Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

PRCI, its directors and officers, do not have any interest on the matter sought to be approved and/or ratified on the Annual Stockholders' Meeting.

PRCI has not received any written opposition on the above mentioned matter.

## B. CONTROL and COMPENSATION INFORMATION

### Item 4. Voting Securities and Principal Holders Thereof

- a. Only stockholders of record at the close of business hours on May 20, 2011 ("Record Date") shall be entitled to notice and to vote at the Annual Stockholders' Meeting per resolution of the Board of Directors dated April 26, 2011.
- b. As of this cut-off date, there are 585,687,130 subscribed common shares, which are entitled to vote at the Annual Stockholders' Meeting. One share is entitled to one vote.
- c. The Corporate By-Laws is silent on cumulative voting rights; hence, Section 24 of the Corporation Code shall govern in the election of directors. For all other matters requiring a vote in the Annual Stockholders' Meeting, each common share shall be entitled to one vote.
- d. Since the beginning of the last fiscal year, there has been no change in control of the Corporation, nor is there any arrangement that may result in such change.
- e. The Corporation is not a party, nor is there any stockholder who holds more than five per cent (5%) of a class of shares under a voting trust or other similar arrangement.

### Security Ownership of Certain Record and Beneficial Owners of more than Five Percent (5%)

The persons or groups who are known to the Corporation to be the beneficial owner of more than five per cent (5%) of any class of its common equity as of May 20, 2011 are the following:

Title of Class	Name of Record Owner & Relation with Issuer ###	Name of Beneficial Owner & Relation with Record Owner ###	Citizenship	Shares Held	Percentage
Common	Leisure Management Hongkong Ltd. Address: Ernst & Young, 15 <sup>th</sup> Floor, Hutchison House 10 Harcourt Road, Central Hong Kong	Leisure Management Hongkong Ltd.	Hongkong	193,330,800	33.01%
Common	Allied Banking Corporation Address: Allied Bank Center, Ayala Avenue, Makati City	Allied Banking Corporation	Filipino	30,331,103	5.18%
Common	Magnum Investment Ltd Address: 1301A, 13 <sup>th</sup> Floor, Bank of America Tower 12 Harcourt Road, Central Hong Kong	Magnum Investment Ltd	Hongkong	29,758,950	5.08%

**###** *The relationships of these direct beneficial owners with the Corporation are as stockholders only.*

At present, both Leisure Management Hongkong Ltd. and Magnum Investment Ltd. are represented in the Board by Directors Dato Surin Upatkoon, Lawrence Lim Swee Lin, Lim Teong Leong and Vijeyaratnam A/L V. Thamoatham Pillay. These four representatives exercise voting power over the shares owned by the two foreign stockholders.

For Allied Banking Corporation, its President, Mr. Anthony Q. Chua, has exercised the voting power over PRCI shares owned by the Bank.

**Security Ownership of Management (as of May 20, 2011)**

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Citizenship</u>	<u>Amount &amp; Nature of Beneficial Ownership ###</u>	<u>Percentage</u>
Common	Santiago Cua	Filipino	859,495	0.1467%
Common	Exequiel D. Robles	Filipino	506,961	0.0866%
Common	Solomon S Cua	Filipino	670,761	0.1145%
Common	Santiago S Cua, Jr.	Filipino	1,024,238	0.1749%
Common	Lim Teong Leong	Malaysian	1,170	0.0002%
Common	Lawrence Lim Swee Lin	Malaysian	1,170	0.0002%
Common	Renato S. De Villa	Filipino	11	0.0000%
Common	Dato' Surin Upatkoon	Thai	1,170	0.0002%
Common	Vijeyaratnam A/L V. Thamotharam Pillay	Malaysian	1,000	0.0002%
Common	Joseph N. Dy	Filipino	1,170	0.0002%
Common	Ramon P. Ereneta, Jr.	Filipino	5,850	0.0010%
Common	Simeon S Cua	Filipino	134,550	0.0230%
<b>TOTAL</b>			<b><u>3,207,546</u></b>	<b><u>0.5477%</u></b>

**###** All security ownerships of management are direct ownership. There is no known indirect beneficial ownership of individuals named herein as of record date of May 20, 2011.

Since the beginning of the last fiscal year, there have been no arrangements which may result in a change in control of the Corporation.

**Voting Trust Holders of Five Per Cent (5%) or More**

There are no persons who hold more than five per cent (5%) of a class under a voting trust or similar agreement.

**Item 5. Directors and Executive Officers of the Registrant (as of May 20, 2011)**

<u>Position</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
<i>Members of the Board:</i>			
Chairman	Santiago Cua	89	Filipino
Vice-Chairman	Exequiel Robles	56	Filipino
Vice-Chairman	Lim Teong Leong	57	Malaysian
President & CEO	Solomon S. Cua	55	Filipino
Director/Treasurer	Santiago Cua, Jr.	58	Filipino
Director/Asst. Treasurer	Lawrence Lim Swee Lin	54	Malaysian
Director	Dato Surin Upatkoon	62	Thai
Director	Vijeyaratnam A/L V. Thamotharam Pilay	58	Malaysian
Independent Director	Renato S. De Villa	75	Filipino
Independent Director	Joseph N. Dy	58	Filipino
Corporate Secretary	Jesulito A. Manalo	55	Filipino
<i>Executive Officers:</i>			
President & CEO	Solomon S. Cua	55	Filipino
EVP & COO	Ramon P. Ereneta, Jr.	60	Filipino
EVP for Property Development	Simeon S. Cua	54	Filipino
SVP for Finance	Allan V. Abesamis	43	Filipino

All directors of PRCI were elected during the Annual Stockholders' Meeting held on June 21, 2010. They hold office for one year or until their successors shall have been duly elected to the post.

**Significant Employees**

Except for the above-mentioned executives, there are no other significant employees as contemplated under the Securities Regulations Code.

**Nominee Directors**

The persons named herein are nominated as Members of the Board of Directors for the forthcoming Annual Stockholders' Meeting on June 20, 2011:

	<b>Nominee</b>	<b>Citizenship</b>
1.	Santiago Cua	Filipino
2.	Exequiel Robles	Filipino
3.	Solomon S. Cua	Filipino
4.	Santiago S. Cua, Jr.	Filipino
5.	Lawrence Lim Swee Lin	Malaysian
6.	Vijeyaratnam A/L V. Thamotharam Pillay	Malaysian
7.	Datuk Surin Upatkoon	Thai
8.	Lim Teong Leong	Malaysian
9.	Eusebio H. Tanco	Filipino
10.	Renato S. De Villa	Filipino
11.	Joseph N. Dy	Filipino

by the Nomination Committee, composed of the following:

Joseph N. Dy	Chairman
Santiago Cua and Exequiel D. Robles	Members

The rules relative to the nomination and election of independent directors are found in the Amended By-Laws of the Corporation, specifically under Article III-A and Article III-B.

Article III-A entitled "Nomination and Election of Independent Director/s" provides:

1. The Nomination Committee shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the company's information or proxy statement or such other reports required to be submitted to the Commission.
2. Nomination of independent director/s shall be conducted by the Committee prior to the stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would- be nominees.
3. It shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
4. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all information about all the nominees for independent directors, which list, shall be properly disclosed in the company's information statement or in such other reports the company is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
5. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent Director/s. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

6. Election of Independent Director/s
  - a. Subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent director/s shall be made in accordance with the standard election procedures of the company or this by-laws.
  - b. It shall be responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that an independent director/s is/are elected during the stockholders' meeting.
  - c. Specific slot/s for independent directors shall not be filled up by unqualified nominees.
  - d. In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

Article III-B entitled "Nomination and Election of Regular Directors provides:

1. In the nomination of regular directors, Sections 1 to 5 of Article III-A on the Nomination and Election of Independent Directors shall similarly apply.
2. Subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of regular director/s shall be made in accordance with the standard election procedures of the Company or the by-laws.

During the meeting of the Nomination Committee on May 6, 2010, a guideline governing the nomination of a member of the Committee was approved to ensure the integrity of the nomination. This guideline is as follows:

*"No member of the Committee shall participate in the deliberations or vote with respect to his qualifications or disqualifications, the evaluation of his performance or his capability to handle other directorships. Whenever the member's performance or qualifications are under evaluation, decisions shall be made upon the affirmative votes of the remaining members of the Committee."*

**Mr. Joseph N. Dy** is an independent director of the Company and he was recommended to the Nomination Committee for re-election as independent director by a stockholder, Mr. Ramon P. Ereneta, Jr., in accordance with the foregoing rules. Also, Mr. Ramon P. Ereneta, Jr. recommended **Mr. Renato S. De Villa** to the Nomination Committee for re-election as independent director, in accordance with the foregoing rules. Mr. Ereneta has no relations with any of the nominees.

The other nine (9) nominees for the office of director were nominated in accordance with the foregoing rules by Mr. Ramon P. Ereneta, Jr., who has no relations with any of the nominees.

#### **Brief Bio-data of Directors**

##### **SANTIAGO CUA**

Mr. Santiago Cua, a Filipino, was born on November 21, 1921. On June 21, 2010, Mr. Cua was re-elected Chairman of the Board and at the same time Chairman of the Executive Committee of PRCI. He has been elected to the Board of PRCI since 1998; his present term is a result of his election on June 21, 2010. A well-respected businessman and community leader, Mr. Cua has investments in several industries, such as manufacturing, banking & finance, real estate development, and gaming and leisure.

*Business Experience for the last Five Years:* Mr. Cua is a director in Sta. Lucia Land, Inc. (formerly Zipporah Realty Holdings, Inc.) and Unioil Resources & Holdings Co., Inc. Both companies are publicly-listed.

**EXEQUIEL D. ROBLES**

Mr. Exequiel D. Robles, a Filipino, was born on April 10, 1955. He was re-elected Vice-Chairman of the Board and Member of the Executive Committee of PRCI on June 21, 2010. He has been elected to the Board of PRCI since 1994; his present term is a result of his election on June 21, 2010. He graduated from San Sebastian College in 1976 with a degree in Bachelor of Science in Accounting.

*Business Experience for the last Five Years:* Mr. Robles is affiliated with, and occupies the following positions in these companies: Director, Zipporah Realty Holdings, Inc. (*a publicly-listed company*); Director, Unioil Resources & Holdings Co., Inc. (*a publicly-listed company*); Sta. Lucia Realty and Development Inc.; Sta. Lucia East Commercial Complex; Eagle Ridge Golf & Country Club; Rancho Palos Verde de Davao Golf & Country Club; and Club Morocco Subic. He is also a Director of the following companies, namely: Orchard Golf & Country Club; Alta Vista de Cebu Golf & Country Club; Vista Mar Beach Club; South Water Lucena Leisure Resort; and Zipporah Realty Holdings, Inc.

**SOLOMON S. CUA**

A former Undersecretary of the Department of Finance, President and Chief Executive Officer Solomon Cua graduated from the University of Melbourne in 1976 with a degree of Bachelor of Arts (*Economics and Mathematical Sciences*). He earned his Bachelor of Laws degree from the University of Queensland in 1980. He obtained his Master of Laws degree at the London School of Economics and Political Science in 1981. He is currently the Chairman of the Management Committee of PRCI. He has been elected to the Board of PRCI since 2001; his present term as a director is a result of his election on June 21, 2010.

*Business Experience for the last Five Years:* Mr. Cua is affiliated with, and occupies the following positions in these institutions: Chairman of the Board, AXA Life Insurance Company; Vice-Chairman and Director of First Metro Investment Corporation; Director of PBC Capital Investment Corporation; Director of Venasque, Inc.; Director of Arlec, Inc.; and Director of Omico Corporation.

**SANTIAGO S. CUA, Jr.**

Director Santiago S. Cua, Jr. graduated from the Ateneo de Manila University in 1974 with a degree of Bachelor of Science in Management Engineering. Director Cua is the Treasurer and a Member of the Audit Committee of PRCI. He has been elected to the Board of PRCI since 1994; his present term as a director is a result of his election on June 21, 2010.

*Business Experience for the last Five Years:* Mr. Cua is formerly the President and Chief Executive Officer of JTH Davies Holdings, Inc. (*a publicly-listed company*). He also held several executive positions with the Philippine National Bank (*another publicly-listed company*) in the past.

**LAWRENCE LIM SWEE LIN**

Mr. Lawrence Lim Swee Lin, age 54, a Malaysian, was re-elected Director of PRCI on June 21, 2010. He is the Assistant Treasurer and an Alternate Member of the Audit Committee of PRCI. He has been elected to the Board of PRCI since 2002; his present term is a result of his election on June 21, 2010. He holds a Bachelor of Arts Degree in Economics (Honours) from the University of Sheffield and a Masters Degree in Business Administration from Manchester Business School, United Kingdom.

*Business Experience for the last Five Years:* Mr. Lim has been a Director of MWE Holdings Berhad, a company listed on the main board of the Bursa Malaysia Securities Berhad, since 1989. He was appointed to the Board of Magnum 4D Berhad and its holding company, Magnum Corporation Sdn Bhd, as an Executive Director on 28 August 2000 and 4 October 2002, respectively. Currently, he is the Chief Executive Officer of Magnum Corporation Sdn Bhd and he also holds directorships in subsidiary companies in the Magnum Group.

Prior to this, Mr Lim was with a leading merchant bank in Malaysia where he was principally involved in syndications, debt securitization and project financing. In addition, he sits on the Boards of several private and public limited companies both in Malaysia and overseas.

***VIJAYARATNAM A/L V. THAMOTHARAM PILLAY***

Mr. Vijeyaratnam A/L V. Thamoatham Pillay, a Malaysian, aged 58, has been elected to the Board of PRCI since 2008; his present term is a result of his election on June 21, 2010. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants. He has considerable experience covering areas of auditing, financial planning, general management and corporate advisory in various business environments. He is currently the Managing Director of his own corporate advisory and consultancy company.

*Business Experience for the last Five Years:* Mr. Vijeyaratnam A/L V. Thamoatham Pillay was appointed to the Board of Multi-Purpose Holdings Berhad on November 16, 1999. He is the Chairman of the Nomination Committee and a member of the Audit Committee. He also sits on the Boards of Eastern & Oriental Berhad, Bandar Raya Developments Berhad, Mico Chipboard Berhad, Fututech Berhad, A. A. Anthony Securities Sdn Berhad, and several other private limited companies in Malaysia.

***DATO' SURIN UPATKOON***

Dato' Surin Upatkoon, a Thai citizen age 62, was re-elected as Director of PRCI on June 21, 2010. He has been elected to the Board of PRCI since 2002; his present term is a result of his election on June 21, 2010. He is a highly respected and successful business figure in both Malaysia and Thailand. His vast working experience has transcended into several successful business ventures. He sits on the Board of various public listed companies in Malaysia namely; Multi-Purpose Holdings Berhad and MWE Holdings Berhad.

*Business Experience for the last Five Years:* Dato' Surin Upatkoon was appointed as Managing Director of MPH on 28 August 2002. He is also a member of the Remuneration Committee of MPH and its major and controlling shareholder.

Dato' Surin was appointed to the Board of Magnum Corporation Berhad on 25 October 2005 and presently is the Chairman of Magnum Corporation Sdn Bhd (formerly known as Magnum Corporation Berhad). He is a controlling shareholder of this company.

Dato' Surin was appointed to the Board of Magnum 4D Berhad on 7 March 2003 and he is presently the Chairman of the Board. He is also a controlling shareholder of this company.

Dato' Surin also sits on the Board of Davex Holdings Berhad, Multi-Purpose Capital Holdings Berhad, Mimaland Berhad and several private limited companies in Malaysia.

***LIM TEONG LEONG***

Mr. Lim Teong Leong, age 57, a Malaysian, was re-elected as Director of PRCI and as a Member of the Audit Committee on June 21, 2010. He has been elected to the Board of PRCI since 2002; his present term is a result of his election on June 21, 2010. He is a graduate and an associate member of the Chartered Institute of Marketing, UK.

*Business Experience for the last Five Years:* Mr. Lim is currently the Executive Director of Syarikat Perniagaan Selangor Sdn Bhd, a subsidiary company of Multi-Purpose Holdings Berhad ("MPHB"). He oversees the hotel operations of the MPH Group. He was the Executive Director of Magnum Corporation Berhad from October 2000 to June 2008. Between 1993 and 2000, he was the General Manager of AA Anthony Securities Sdn Bhd, a leading stockbrokerage firm in Penang, Malaysia. He was also the Executive Director of Denso (Malaysia) Sdn Bhd from 1980 to 1993.

### **EUSEBIO H. TANCO**

Mr. Eusebio H. Tanco, a well-known Filipino businessman and entrepreneur, was born on August 12, 1949 in Manila. He is nominated for election as director of PRCI on June 20, 2011. He graduated from Ateneo de Manila University with a degree of Bachelor of Science in Economics. He obtained his Master of Science in Economics from the London School of Economics & Political Science. He was also conferred a Doctor of Humanities, honoris causa by Palawan State University. At present, he is a member of the Board of Governors of the Philippine Stock Exchange, Inc.; Chairman of the Philippines-Thailand Business Council; Chairman of Philippines-UAE Business Council; member of the Board of Trustees of Philippines, Inc.; and a member of the Philippine Chamber of Commerce and Industry.

*Business Experience for the last Five Years:* Mr. Tanco is affiliated with and he occupies important positions in many companies, some of which are as follows:

- *Financial Services:* Chairman, Philplans First, Inc.; President, Philippines First Insurance Co., Inc.; and President, Venture Securities, Inc.
- *Manufacturing:* Director, J & P Coats Manila Bay; Director, Manila Bay Spinning Mills, Inc.; and Director, United Coconut Chemicals, Inc.
- *Transportation & Logistics:* Vice Chairman & President, Asian Terminals, Inc.; and President, STMI Logistics, Inc.
- *Energy:* Chairman, Mactan Electric Company; and Director, Mindanao Energy, Inc.
- *Properties and Construction:* President, Total Consolidated Asset Management, Inc.; Chairman, Rescom Developers Inc.; and Chairman, International Hardwood & Veneer Corporation
- *ICT and ICT-Enhanced Education:* Excom Chairman, STI, Inc.; Director, iAcademy; and Chairman, Delos Santos – STI College
- *Services:* Chairman, PhilhealthCare, Inc.; Chairman, Delos Santos – STI Medical Center; and Chairman, Delos Santos – STI Megaclinic
- *Holding Company:* Chairman, JTH Holdings, Inc.

Some of the important past positions held by Mr. Tanco were as follows: Director, Bank of Commerce; Director, Security Bank & Trust Company; Chairman, Market Savings & Loans Association; and Chairman, Mariveles Apparel Corporation.

### **RENATO S. DE VILLA**

General Renato S. De Villa, a Filipino, was born on July 20, 1935 in San Juan, Batangas. He was re-elected independent director of PRCI on June 21, 2010. He has been elected to the Board of PRCI since 2005; his present term is a result of his election on June 21, 2010. He graduated from the Philippine Military Academy in 1957. He acquired a master's degree in Business Management from the Asian Institute of Management in 1972. He also took up Command and General Staff Course at the AFP Command and Staff College in 1975 and Defense Resources Management Course at the US Naval Post Graduate School in 1979. He was the Chief of Staff, Armed Forces of the Philippines from 1988 to 1991 and Secretary of National Defense from 1991 to 1997.

*Business Experience for the last Five Years:* General De Villa is the Chairman of the Filipino War Veterans Foundation (FILVETS); Vice-Chairman, Help Educate and Rear Orphans (HERO) Foundation; Adviser, Association of Generals and Flag Officers (AGFO); and Chairman, Independent Insight, Inc. (*a security consulting company*). He was also the Executive Secretary of the President of the Republic of the Philippines from January to May of 2001. He was the Presidential Adviser for Strategic Concerns in 2002.

**JOSEPH N. DY**

Mr. Joseph N. Dy, a Filipino, was born on September 15, 1952. He graduated from De la Salle University with a degree in Mechanical Engineering. He then acquired a master's degree in Entrepreneurship from the Asian Institute of Management. He also took up Construction Project Management at the Ateneo de Manila University and Import-Export Business Development at the Executive Development Academy. He was re-elected Independent Director of PRCI on June 21, 2010. He has been elected to the Board of PRCI since 2002; his present term is a result of his election on June 21, 2010.

Business Experience for the last Five Years: Mr. Dy was the Chairman of Malibay Culture and Arts Foundation, and a Director of the Philippine State College of Aeronautics and of the Filipino-Chinese Chamber of Commerce (*Pasay Chapter*). He served as President for such esteemed organizations as the Rotary Club of San Juan Metro, Xavier School '69 Foundation, Lion's Club of Greenhills, San Juan, and the Manila Rifle and Pistol Sports Club.

**JESULITO A. MANALO**

Atty. Jesulito A. Manalo, a Filipino, was born on June 3, 1955. Atty. Manalo has been the Corporate Secretary of PRCI since 1997. He graduated from the University of the Philippines in 1977 with a Bachelor of Arts Degree. He obtained his Bachelor of Laws degree from the Ateneo de Manila University in 1981.

Business Experience for the last Five Years: Atty. Manalo is affiliated with, and occupies the following positions in various institutions, viz: President of Summit Rural Bank of Lipa City; Chairman of MBV, Inc.; Director of The Parking Specialists, Inc.; Corporate Secretary of Heritage Park Management Corporation; Executive Director of Philippine Legal Forum; Managing Partner of Manalo Puno Jocson & Guerzon Law Offices; and a law lecturer at La Salle-FEU School of Law.

**Brief Bio-data of Corporate Officers**

**RAMON P. EREÑETA, Jr.**

A retired Commissioner of the Civil Service Commission, Atty. Ramon P. Ereñeta, Jr. obtained his Master of Laws degree in 1983 at the London School of Economics. He is a Professor of Law at the College of Law of the Ateneo de Manila University. He is also a former Presidential Assistant at the Office of the President of the Republic of the Philippines. Presently, he is Chairman of the Philippine Domestic Construction Board. He is married with two sons and two daughters.

Business Experience for the last Five Years: Atty. Ereñeta joined PRCI in August 1997 as its Executive Vice-President and Chief Operating Officer. He held various positions in several corporations and non-government organizations.

**SIMEON S. CUA**

Born in 1957, Mr. Simeon S. Cua obtained his Bachelor of Science in 1977 and his Bachelor of Laws in 1982 both from the Ateneo de Manila University. He is admitted to the New York State Bar. Mr. Simeon Cua joined PRCI in June 2006 as Executive Vice President for Property Development.

Business experiences for the last five years: Mr. Simeon Cua is presently the Chairman and President of Cualoping Securities Corporation. He was the Vice-Chairman and President of Western State Bank of California, United State of America. He also holds several directorships in several companies both local and overseas.

### **ALLAN V. ABESAMIS**

Mr. Allan V. Abesamis, a Filipino, was born in November 1967 in San Rafael, Bulacan. He graduated Magna cum Laude with a Bachelor of Science in Business Administration degree major in Accounting from the Philippine School of Business Administration - Manila in 1988. He placed 4th overall in the CPA examinations given in October 1988. He started his professional career with Punongbayan & Araullo (P&A) auditing firm in November 1988 and he worked with Ernst & Young - Boston, Massachusetts, USA in September 1993 for one year as senior audit supervisor. He returned to the Philippines in August 1994 and left P&A in October 1997 as a senior audit manager. He obtained his Masters in Business Administration degree from the Ateneo Graduate School of Business in 2004. He is married to Ms. Jennifer Tan and they are blessed with three sons.

Business Experience for the last Five Years: Mr. Abesamis joined PRCI in November 1997 and he currently occupies the position of Senior Vice-President for Finance. He has supervision over accounting, treasury and personnel management & administration of PRCI.

### **Family Relationships among Directors and Executive Officers**

Chairman of the Board and Executive Committee Chairman Santiago Cua is the father of President & CEO Solomon S. Cua, Director/Treasurer Santiago S. Cua, Jr. and EVP for Property Development Simeon S. Cua.

There are no other family relationships up to the 4<sup>th</sup> civil degree, either by consanguinity or affinity, among the Directors, executive officers or persons nominated other than those already disclosed in this report.

### **Certain Relationships and Related Transactions**

There has been no material transactions during the past two years, nor has there been any material transactions presently proposed, to which the Corporation was or is to be a party in which any director, executive officer of the Corporation or security holder of more than ten per cent (10%) of the voting securities, any relative or spouse of any such director or executive officer or owner of more than ten per cent (10%) of the voting securities, had or is to have a direct or indirect material interest.

Other related party transactions are described in note no. 21 to the December 31, 2010 audited financial statements. Additional important details of the related party transactions described in the audited financial statements follow:

- Transactions with Sta. Lucia Realty involve mainly the joint venture project covering the development of PRCI's real estate property in Cavite and the phase 1 development of the racetrack facilities in the same area. The joint venture project was started in 1999 with PRCI putting in the land property and Sta. Lucia Realty shouldering the development costs. PRCI received developed and saleable subdivision lots from this joint venture and the cost of these assets is reflected under Property Held for Sale in the Statement of Financial Position as of December 31, 2010 and 2009. No sale of subdivision lots has been recognized in the financial statements as of December 31, 2010 and 2009 (see note 11 to the December 31, 2010 audited financial statements for details).

On the Phase 1 development of the racetrack, Sta. Lucia Realty was selected among several entities which submitted proposals to undertake the project. The proposal of Sta. Lucia Realty for this project was superior than all the other proposals. This project was completed in 2008. The cost of this development formed part of the overall cost of the racetrack in Cavite.

Based on the list of stockholders provided by the stock transfer agent, Sta. Lucia Realty owns about 0.58% of the outstanding common stock of PRCI as of May 20, 2011.

- JTH extended loans to PRCI and the outstanding principal balance of these loans as of December 31, 2009 is P100 million. These loans bear interest pegged at market. As of December 31, 2009, JTH ceased to be a subsidiary of PRCI as a result of the sale of the whole JTH investment on December 28, 2009 (see note 1.1 to the December 31, 2010 audited financial statements for details).

### **Involvement in Certain Legal Proceedings**

There are no legal proceedings against the directors and executive officers of PRCI within the categories described in SRC Rule 12, Part IV, paragraph (A) (4).

- The Corporation is not aware of any bankruptcy proceedings filed by or against any business of which a director, executive officer, or control person of the Corporation is a party or of which any of their property is subject.
- The Corporation is not aware of any pending criminal proceedings, domestic or foreign, or of any conviction by final judgment in a criminal proceeding, domestic or foreign, involving any of its directors, executive officers, or control persons.
- The Corporation is not aware of any other judgment or decree not subsequently reversed, superseded or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of a director, executive officer, or control person in any type of business, securities, commodities or banking activities.
- The Corporation is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of its directors, executive officers, or control persons have violated a securities or commodities law.

### **Material Legal Proceedings**

As of December 31, 2010, there are pending claims and legal proceedings by third parties against PRCI arising from the normal course of business that are not recognized in its financial statements. In the opinion of management, liabilities arising from these claims and legal proceedings, if any, would not have any material adverse effect on PRCI's financial position and results of operations.

There are no legal proceedings against the directors and executive officers of PRCI within the categories described in SRC Rule 12, Part IV, paragraph (A) (4). See related details under Note 24.3 to the December 31, 2010 audited financial statements.

*Property-for-Share Swap and Related Transactions - Philippine Racing Club, Inc. et al., vs. Santiago Cua, et al. (Civil Case No. 07-610, RTC of Makati City, Branch 149); Santiago Cua, Jr., et al., vs. Miguel Ocampo Tan, et al. (G.R. No. 181455-56 and G.R. No. 182088, Supreme Court):* This supposed derivative suit was filed by minority shareholders Miguel Ocampo Tan, Jemie Tan, and board Director Brigido Dulay (representing about 5.67% of the shareholdings) against the majority Directors of the Company. Under this case, initially a partial temporary restraining order ("TRO") and subsequently an injunction were issued which prevented the Company from taking up major items in the Agenda for the Annual Stockholders' Meeting held on October 10, 2007 and thereby prevented the Company from submitting to the stockholders for approval the planned exchange of its Makati property with shares of stock of its subsidiary, JTH Davies Holdings, Inc. They also prayed for the appointment of a management committee.

Upon the issuance of the partial TRO, the majority Directors filed a petition for certiorari with the Court of Appeals ("CA") questioning the issuance of this TRO for having no legal basis and for allowing a group representing about 5.67% of the shareholdings to prevent the majority Directors from presenting to the stockholders for approval certain matters in the Agenda for the Stockholders' Meeting which it deems as for the best interest of the

Company. Thereafter, the Court of Appeals rendered a decision dismissing this proceeding for prematurity.

On separate petitions for certiorari – one for review under Rule 45 and another under Rule 65 - the majority directors then elevated the matter to the Supreme Court (“SC”) in G.R. No. 181455-56 and G.R. No. 182088. In G.R. No. 182088, the SC issued a Resolution dated April 9, 2008 wherein the prayer for a TRO was granted enjoining respondents Court of Appeals, Judge Cesar Untalan of Makati Regional Trial Court Branch 149, and shareholders Miguel Ocampo Tan, Jemie U. Tan and Atty. Brigido Dulay from enforcing and executing the decisions of the CA and the RTC until further orders from the SC. With the issuance of the TRO by the SC, PRCI could now proceed with the proposed exchange of its Makati City property for shares of stock of JTH Davies Holdings, Inc.

Subsequently at the Annual Stockholders’ Meeting on June 18, 2008, the stockholders representing 75.32% of the total outstanding stock approved the planned exchange of the Company’s property for the shares of JTH. On July 7, 2008, the Company executed a Deed of Transfer with Subscription Agreement wherein PRCI subscribed to a total of 795,817,789 shares of stock and in payment and exclusively in exchange, the Company assigned, transferred and conveyed to JTH its Makati property (TCT 218137, 356179, 224459-64) at the total subscription price of P3,817,242,000 (aggregated zonal value of the property).

However, the Bureau of Internal Revenue (BIR) Chief revoked the VAT exemption noting that the racetrack is a property that is used in business. The Company, being a VAT-registered taxpayer is covered by the exception provided under Sec. 4.109-1 (j) of Revenue Regulations No. 16-2005 as last amended by Revenue Regulations No. 4-2007, which provides that “sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business. However, even if the real property is not primarily held for sale to customers or held for lease in the ordinary course trade or business but the same is used in trade or business of the seller, the sale thereof shall be subject to VAT being a transaction incidental to the taxpayer’s main business.” Consequently, the Company was assessed to pay VAT tentatively computed in the amount of P458,069,040.

On August 22, 2008, the Company and JTH rescinded the Deed of Transfer with Subscription Agreement through a Disengagement Agreement. The rescission was made primarily because of the non-fulfillment of one fundamental condition for the transfer of the property, that is, there shall be no VAT due on the exchange of property for shares of stock. Immediately, the Company furnished the BIR a copy of the Disengagement Agreement as part of the reply to the letter of the BIR revoking the VAT exemption of the exchange transaction. In the letter, the Company requested for a formal cancellation or withdrawal of the demand for the payment of the VAT in view of the rescission of the Deed of Transfer and Subscription Agreement or the non-consummation of the exchange transaction.

On September 4, 2008, the Company filed a request to the legal office of the Secretary of Finance, Hon. Margarito Teves for the review of BIR unnumbered ruling dated July 15, 2008. To date, there is no response yet received from the Department of Finance. On November 20, 2008, the Company wrote a letter to the new BIR Commissioner seeking for a reply that will confirm the cancellation of the imposed VAT on the rescinded Deed of Transfer and Subscription Agreement.

Subsequently, the BIR upheld the position of the Company in its reply dated February 26, 2009. The BIR stated that without a sale or exchange having been effected, it follows that no taxable event has taken place. The BIR further stated that “there being no actual exchange or transfer of properties of PRCI to JTH as contemplated in the rescinded Deed of Transfer with Subscription Agreement, there is now no taxable transaction subject to VAT and any demand letter issued for the payment thereof is hereby withdrawn”.

In G.R. No. 181455-56, the SC merely noted the petitioners’ Urgent Motion for the Issuance of Temporary Restraining Order (status quo ante) and/or Writ of Preliminary Injunction as it had already issued a TRO against the same respondents in G.R. 182088, and consolidated the two cases.

With regard to the inspection of Corporate books and documents in Civil Case No. 07-610, on the basis of the TRO issued by the SC, the trial court issued an Order resolving the Motion to Annul/Revoke Order of Inspection of PRCI documents filed on April 23, 2008 by the defendant directors wherein the proceedings of the case were suspended until further orders from the Supreme Court on July 18, 2008.

On November 20, 2008, the petitioners filed a Manifestation and Motion to Set Case for Oral Arguments praying for the dismissal of the cases before the trial court for having become moot and academic.

In a decision dated 04 December 2009, the Supreme Court ruled in favor of the petitioner PRCI board members. The Motion for Reconsideration was filed and was subsequently denied. The minority shareholders moved for the reinstatement of the denied motion, the granting of which was the subject of petitioners' motion for reconsideration. Pending resolution of both motions, the parties filed a Joint Motion for Termination of Proceedings. In a Resolution dated 19 January 2011, the Special Third Division of the Supreme Court closed and terminated the proceedings considering that the parties had stated that they have amicably resolved their differences and that they are withdrawing their respective motions for reconsideration.

Jose L. Santos, et al. vs. Philippine Racing Club, Inc., et al. (Civil Case No. 07-932, RTC of Makati City, Branch 149); Philippine Racing Club, Inc., et al., vs. Jose L. Santos, et al. (CA-G.R. SP No. 102863, Third Division of the Court of Appeals): This is a case of inspection of corporate books and records filed by minority shareholders Jose L. Santos, Aristeo G. Puyat, Jose Alexander Carandang, Eric Borja, Adolito Flores. The trial court issued a resolution on February 11, 2008 granting plaintiffs' prayer to inspect certain PRCI documents. This resolution was appealed to the Court of Appeals through a petition for certiorari on March 28, 2008, which was then raffled to the Third Division of the Court of Appeals. On August 5, 2008 a writ of execution was issued by the trial court. Defendant directors then filed a Motion to Quash Writ of Execution, which was denied by the trial court in an Order dated September 15, 2008. This Order is now the subject of a pending appeal.

In the appeal pending before the Court of Appeals, a Motion to Resolve Prayer for Issuance of Temporary Retraining Order and a Motion to Set Case for Hearing was filed by the petitioners on September 30, 2008. Following the submission of the parties' respective memoranda, the case is now deemed submitted for resolution

Philippine Racing Club, Inc., et. al. vs. Santiago Cua, Jr., et. al. (Civil Case No. 08-248, RTC of Makati City, Branch 149): On June 5, 2008, another set of minority stockholders, namely: Jalane Christie U. Tan, Marilou U. Pua, Aristeo G. Puyat and Ricardo Parreno, filed a second suit against the PRCI board, predicated upon the same facts, praying for the same relief as that in the first derivative suit (Civil Case No. 07-610). The defendant PRCI directors raised the defense that the plaintiffs in this case violated the rule against forum shopping considering that the plaintiffs in both cases essentially represent the same interest and prayed for the same reliefs.

On June 26, 2008, counsels for individual plaintiffs filed a Notice of Lis Pendens with the Register of Deeds of Makati City for inscription on the TCTs covering properties of the Philippine Racing Club, Inc. in light of the second suit filed. Based thereon, the Register of Deeds of Makati City made the annotation. The defendants PRCI Directors then filed a Motion to Lift Notice of Lis Pendens (dated September 24, 2008) and subsequently a Petition to Cancel Annotation of Notice of Lis Pendens (dated October 22, 2008) on the ground that such Notice was not filed in accordance with law and should consequently be cancelled. These Motion and Petition are still pending before the trial court.

The hearing on plaintiffs' prayer for injunction has been held in abeyance because of the Motion to Inhibit filed by defendant directors on September 1, 2008. In a Resolution dated December 2, 2008, the trial court denied this Motion. This denial was elevated by the

defendants Directors to the Court of Appeals by way of a petition for certiorari (CA-G.R. No. 106916, *infra*). The same Resolution also denied the Motion for Intervention and to Admit Answer-in-Intervention filed by a minority shareholder who is in favor of the resolutions passed and approved by the PRCI Board of Directors.

On January 22, 2009, defendant Santiago Cua, Sr. sought the inhibition of the Presiding Judge from further hearing the case in a separate Motion for Inhibition. Thereafter, defendant Directors filed a Motion to Suspend Proceedings on January 28, 2009, which is yet to be resolved by the trial court.

On 04 December 2009, the Supreme Court dismissed the case for violation of the rules on multiplicity of suits and forum shopping. Respondents filed a Motion for Reconsideration but pending resolution of such, the parties filed a Manifestation and Joint Motion to Terminate Proceedings informing the Supreme Court that they have amicably resolved their differences and are withdrawing their respective Motions for Reconsideration. In a Resolution dated 19 January 2011, the Special Third Division of the Supreme Court noted and granted the Manifestation and Joint Motion to Terminate Proceedings considering that the parties had manifested that they have amicably resolved their differences. Hence, they are withdrawing their respective motions for reconsideration, and as such, the case before the Supreme Court wherein the dismissal of Civil Case No. 08-458 was ordered is now deemed closed and terminated.

*Santiago Cua, Jr., et al. vs. Judge Cesar Untalan, et al., (Court of Appeals, CA-G.R. No. 108247):*

This is a Petition for Certiorari seeking the nullification of the Order dated 28 January 2009 issued by Judge Cesar O. Untalan in Civil Case No. 08-458 denying the Motion to Lift Lis Pendens and the Petition to Cancel Annotation of Notice of Lis Pendens on Properties of Counterclaimant Philippine Racing Club, Inc. filed by Santiago Cua, jr., et al. Another Petition for Certiorari was filed by Santiago Cua, Sr. with the Court of Appeals, and this was docketed as CA-G.R. No. 108227.

The Court of Appeals resolved to consolidate both petitions. Parties have submitted their respective memoranda and the case is now submitted for resolution. On 24 January 2011, petitioners filed a Motion for Resolution, and to date, the said motion is pending resolution by the Court of Appeals.

*Santiago Cua, Jr., et al., vs. Judge Cesar O. Untalan, et al. (CA-G.R. No. 106916, Court of Appeals):*

This is a petition for certiorari filed with the Court of Appeals on January 13, 2009 – seeking to nullify a resolution issued by the RTC Judge, injunctive relief, and to re-affle Civil Case No. 08-458 (*supra*) to another sala of the RTC of Makati City. The subject of this petition is Judge Untalan's denial of the Motion to Inhibit and Supplemental Motion to Inhibit filed in Civil Case No. 08-458 (*supra*) by the defendants in his resolution dated December 2, 2008.

On 27 July 2009, counsel for Santiago Cua, Sr. filed a Petition for Inhibition, docketed as CA-G.R. No. 109093. The parties have submitted their respective memoranda and the petition is now deemed submitted for resolution by the Court of Appeals.

*Philippine Racing Club, Inc. vs. Securities and Exchange Commission (Court of Appeals, CA-G.R. SP No. 84939, Special Fourth Division; Supreme Court, G.R. No. 190042, Second Division):*

In a Petition for Review filed with the Court of Appeals dated 16 July 2004, PRCI assailed the Order of the Securities and Exchange Commission ("SEC") En Banc denying the Motion for Reconsideration of its Order dated 21 October 2003 denying the appeal of petitioner and adopting the interpretation of the SEC's Corporate Finance Department ruling that petitioner is liable to a fine in the amount of Two Hundred Forty-Seven Thousand One Hundred Forty-Six Pesos (Php247,146.00) for its delay in filing the SEC Form 17-C relative to the postponement of the 2003 Annual Stockholders' Meeting. The matter was elevated to the Supreme Court through a Petition for Review on Certiorari following the denial of the Motion for Reconsideration filed by PRCI by the lower court.

On 16 December 2009, the Supreme Court denied the petition. Thus, PRCI moved for a reconsideration of the said resolution on 11 February 2010. The motion has been denied, and an entry of judgment has been made. However, the respondent SEC has not initiated the execution process at present.

**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 four (4) most highly compensated executive officers is presented below. Also included in the tabular presentation is the compensation paid to or accrued for other officers and members of the Board of Directors for the same three years.

	<b>Salary</b>	<b>Bonuses</b>	<b>Others</b>	<b>Total</b>
<i>CEO &amp; four most highly compensated officers</i>				
2010 (actual)	P12,372,000	P1,395,000	P281,000	P14,048,000
2009 (actual)	12,378,000	P1,395,000	P315,000	P14,088,000
2011 (estimated)	12,793,000	1,458,000	301,000	14,552,000

*Solomon S. Cua, President & CEO*

*Four (4) other most highly compensated officers*

1. *Santiago S. Cua, Jr., Treasurer & Director*
2. *Simeon S. Cua, EVP for Property Development*
3. *Ramon P. Ereneta, Jr., EVP & Chief Operating Officer*
4. *Allan V. Abesamis, SVP for Finance*

*All other officers unnamed as a group*

2010 (actual)	P8,401,000	P947,000	P663,000	P10,011,000
2009 (actual)	7,521,000	845,000	642,000	9,008,000
2011 (estimated)	8,643,000	985,000	702,000	10,330,000

*All other members of the Board unnamed as a group*

2010 (actual)	P2,988,000	P405,000	P450,000	P3,843,000
2009 (actual)	3,510,000	405,000	540,000	4,455,000
2011 (estimated)	2,988,000	405,000	560,000	3,953,000

Each director receives a per diem of P10,000 for every meeting attended. Also, directors and management staff receive compensation in accordance with the Company By-Laws.

The Corporation has no standard arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein disclosed and stated.

**Item 7. Independent Public Accountants**

The Audit Committee is composed of the following:

Joseph N. Dy	Chairman
Santiago S. Cua, Jr.	Member
Lim Teong Leong	Member

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Lawrence Lim Swee Lin is the alternate to Lim Teong Leong.

The accounting firm of Punongbayan & Araullo (P&A), with address at the 20<sup>th</sup> Floor, The Enterprise Building 1, Ayala Avenue, Makati City, has been the Company's external auditor for the fiscal year ended December 31, 2010. Mr. Benjamin P. Valdez is the assigned audit engagement partner. P&A has been selected as the auditor for the ensuing year ending December 31, 2011, subject to the approval by the shareholders.

The audit services of P&A for the fiscal year ended December 31, 2010 included the examination of the financial statements of the Company, assistance in the preparation of the final annual income tax return and other services related to filing of reports with the Securities and Exchange Commission and the Philippine Stock Exchange.

P&A is expected to be represented in the forthcoming Annual Stockholders' Meeting with an opportunity to make statements, if they so desire, and will be available to respond to appropriate questions. The re-appointment of P&A complies with the requirement of the SEC under SRC Rule 68(3)(b)(iv), regarding the rotation of external auditors or engagement partners.

**Item 8. Compensation Plans**

No action shall be taken during the Annual Stockholders' Meeting 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**

No action is to be taken with respect to the authorization or issuance of any securities otherwise than for exchange for outstanding securities of the Registrant.

**Item 10. Modification or Exchange of Securities**

No action is to be taken with respect to the modification of any class of securities of the Registrant, or the issuance or authorization for issuance of one class of securities of the Registrant in exchange for outstanding securities of another class.

**Item 11. Financial and Other Information**

Per Item No. 9 and Item No. 10, no such action is to be taken with respect thereto.

Please see ANNEX "A" for the audited financial statements and reports for the years ended December 31, 2010, 2009 and 2008. Also, see ANNEX "B" for the unaudited financial statements as of and for the first quarters ended March 31, 2011 and 2010.

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

There is no sale or transfer of all or substantially all of the property and assets of the Corporation within the express terms of Section 40 of the Corporation Code.

No action is to be taken with respect to this item in the Annual Stockholders' meeting.

**Item 13. Acquisition or Disposition of Property**

No action is to be taken with respect to this item in the Annual Stockholders' meeting.

**Item 14. Restatement of Accounts**

No action is to be taken with respect to the restatement of any asset, capital or surplus account of the Registrant.

**D. OTHER MATTERS**

**Item 15. Action with Respect to Reports**

The following reports shall be submitted for approval at the Annual Stockholders' Meeting of the Corporation on June 20, 2011:

1. Minutes of the Annual Stockholders' Meeting held on June 21, 2010 with the following major points: Annual Report; ratification and approval of all acts and resolutions of the Board of Directors and the Executive Committee for the year 2010, including the audited financial statements for the year ended December 31, 2009; election of members of the Board; and appointment of independent auditors;
2. Minutes of the Special Stockholders' Meeting held on April 26, 2011 with the following major points: Approval of the Master Development Agreement with Ayala Land Corporation and Alveo Land Corporation for the joint development of the 21-hectare Santa Ana Park property; amendment in the Articles of Incorporation changing the principal place of business of the Corporation; and, amendment in the Amended By-Laws making changes in the annual meetings of stockholders of the Company;
3. Confirmation/ratification of all acts and proceedings of the Board of Directors and the Executive Committee done and taken during the preceding year. The more significant items taken up by the Board were as follows:
  - Authorization for issuance of 2010 audited financial statements; and
  - Fixing of the date of 2011 Annual Stockholders' Meeting;
4. Election of the Members of the Board;
5. Appointment of the external auditors for the ensuing year.

**Item 16. Matters Not Required to be Submitted**

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

**Item 17. Amendments of Charter, By-Laws & Other Documents**

No action relating to amendments of Charter and By-laws will be undertaken during the Annual Stockholders' Meeting.

**Item 18. Other Proposed Action**

No action is to be taken with respect to any other matters during the Annual Stockholders' Meeting.

**Item 19. Voting Procedures**

- a. ***Vote Required for Approval:*** The Minutes of the Annual Stockholders' Meeting held on June 21, 2010, minutes of Special Stockholders' Meeting on April 26, 2011, approval of the Annual Report and audited financial statements as of and for the year ended December 31, 2010, and all acts and proceedings of the Board of Directors of the Corporation done and taken during the preceding years, including the appointment of external auditors, shall be approved and/or ratified by plurality of vote of the shareholders present in person or by proxy and entitled to vote thereat, a quorum being present.

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

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

Pursuant to Section 24 of the Corporation Code, nominees for the Board of Directors who receive the highest number of votes shall be deemed elected.

- b. **Method by which Votes shall be Counted:** Except in cases where voting by ballot is requested, voting and counting shall be by *viva voce*. If by ballot, each ballot shall be signed by the stockholder voting or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him. The counting shall be supervised by the Corporate Secretary, the external auditor, and the transfer agent.

## PART II.

### INFORMATION REQUIRED IN A PROXY FORM

PRCI is **NOT SOLICITING PROXIES** and the stockholders are not required to send proxies.

## PART III.

### SIGNATURE

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 hereunto duly authorized. 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 Makati on May 25, 2011.

PHILIPPINE RACING CLUB, INC.

By:



ALLAN V. ABESAMIS

Senior Vice President for Finance

# PHILIPPINE RACING CLUB, INC. MANAGEMENT REPORT

## A. FINANCIAL STATEMENTS

The audited financial statements of PRCI consisting of statements of financial position as of December 31, 2010 and 2009 and statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2010, 2009 and 2008, together with notes to financial statements, are attached to this report. (See Annex A.)

Also, attached to this report for additional information of readers are the financial statements of PRCI for the first quarter of 2011 consisting of statements of financial position as of March 31, 2011 and December 31, 2010 and statements of comprehensive income, changes in equity and cash flows for the quarters ended March 31, 2011 and 2010, together with notes to financial statements. (See Annex B.)

## B. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURES

There have been no changes or any disagreements with the independent accountants and external auditors of PRCI on Accounting and Financial Disclosure as referred to by Part III, paragraph (B) of SRC Rule 12.

## C. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

### For 1<sup>st</sup> Quarter of 2011

#### **Discussion on the Significant Changes in Financial Condition**

The discussions in the succeeding paragraphs center on the significant changes in account balances during the 1<sup>st</sup> quarter 2011 compared with same period in 2010, with brief discussions on expectations for the succeeding period.

#### Cash and Cash Equivalents

The significant increase in cash and cash equivalents is directly related to the increase in borrowings. In March 2011, PRCI received a significant amount from Ayala Group (Ayala Land, Inc. and Alveo Land Corporation) and this amount is covered by a promissory note executed by PRCI. This amount was used to retire all interest-bearing loans and borrowings of PRCI.

However, cash balance is expected to go down significantly during the 2<sup>nd</sup> quarter 2011 due to scheduled payments of other obligations.

#### Prepayments and other Current Assets

The increase in prepayments and other current assets represents mainly annual insurance premiums paid during the 1<sup>st</sup> quarter of 2011.

This is expected to increase further during the middle of the year as additional insurance premiums are scheduled to be paid during this period.

Other Non-Current Assets

The decrease in this account represents mainly the annual amortization of franchise cost (P4.32 million) and the reduction in the balance of sinking fund maintained with Maybank Philippines, Inc.

This account is expected to decrease further during the next few quarters due to continuing amortization of franchise cost and the removal of sinking fund as a direct result of the full payment of loans from Maybank in March 2011.

Trade and Other Payables

The significant increase was caused mainly by two (2) factors: the increase in racing taxes withheld because of the increase in gross sales in March 2010 (P404.96 million) compared with December 2009 (P326.52 million); and the accumulation of the share in the gross handle of a government agency (1% share in gross handle as provided for in the Company's franchise).

It is expected that the level of payables will gradually drop as the year progresses based on the projected settlement of accumulated payables during the period.

Interest-bearing Loans and Borrowings

As discussed under Cash and Cash Equivalents, the significant increase was caused mainly by the release of fund from Ayala Group in March 2011.

It is expected that the balance of this account will go down gradually due to scheduled loan servicing during the year.

**Discussion on the Results of Operations**

During the 1<sup>st</sup> three months of 2011, the Company hosted 39 race days (*compared to 39 days in 2010*). It should be noted that the Company's share in this gross handle is "only 8.5%" as fixed by the law granting the Company's franchise.

During this period in 2011, the Company managed to register P1.02 billion of sales as compared to the P1.07 billion for the same period last year. This is equivalent to about 4.96% decrease from last year's sales performance. This decrease in sales could be attributed mainly to the unexpected decrease in the number of participating quality horses in the races of the first quarter of 2011. This issue is carefully evaluated so that immediate remedial actions can be implemented during the rest of the year to reverse the sales decline.

In addition, the revenue-source mix of the Company was as follows: 97.46% for OTBs in 2011 (compared to 97.20% in 2010); 1.34% for maintrack in 2011 (compared to 1.44% in 2010); and 1.20% for telebet in 2011 (compared to 1.36% in 2010). The Company has 285 OTBs as of March 31, 2011 as compared to 296 OTBs as of March 31, 2010.

There were some significant revenue and expense accounts which showed substantial changes in 1<sup>st</sup> quarter of 2011 compared to same period in 2010. For purposes of determining the "materiality" of revenue and expense items, we selected all accounts which registered changes amounting to more than P1.0 million and 5%. We explain below the reason/s behind such changes.

### Revenues

Club Races [P1.02 billion in 2011 vs P1.07 billion in 2010 = 4.96% decrease]: This account represents share in gross handle / bets from horseracing. This is proportionately reflected in the revenue share of the Company in the gross handle. The decrease could be attributed mainly to the unexpected decrease in the number of participating quality horses in the races of the first quarter of 2011 compared with the condition in same period in 2010. This is evident in the average sales per racing day as the average was down during the current period compared with the previous period.

It is expected that as the year progresses gross sales will recover during the 3<sup>rd</sup> and last quarters. It should be noted that several special races are historically scheduled to be run during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the year.

### Expenses

Employee Benefits [P28.74 million in 2011 vs P31.18 million in 2010 = 7.82% decrease]: This account represents salaries, allowances and bonuses given to employees. The decrease can be traced mainly to the reduction of employees due to retirement / resignation during the previous year 2010.

No significant change in the account is expected for the 2<sup>nd</sup> quarter of the year.

Finance Costs [P5.57 million in 2011 vs P10.24 million in 2010 = 45.63% decrease]: This account represents interest charges on borrowings and loans from banks and a service contractor. The decrease was solely due to the significant payments of banks loans during the year 2010 until the first quarter of 2011.

The significant decrease will be sustained in the next quarters because of the full payment of all bank loans made in March 2011.

Professional Fees [P2.61 million in 2011 vs P3.69 million in 2010 = 29.20% decrease]: This account represents payments to lawyers, contracted personnel and professional for various services rendered. The decrease is caused by the reduced number of instances in which lawyers' services were required during the current period compared with that of prior period.

A modest increase is expected during the 2<sup>nd</sup> quarter of 2011 due to the professional service requirements of the transaction with Ayala Group in the joint development of the Santa Ana Park property.

There were no other major revenue or expense items registering significant fluctuations for the period under review.

### **Other Discussions on Financial Statements**

#### Improvement of Betting Operation

PRCI continues to improve the OTB network inspite of the continuing operational issues affecting the off site facilities. There are still some areas within Metro Manila that show potential to contribute big sales. Also, slowly but gradually, we are expanding outside of Metro Manila as the existing OTBs in Bulacan and Pampanga in Central Luzon and Cavite, Rizal, Laguna and Batangas and Bicol area south of Metro Manila continue to show encouraging potentials. By end of March 2011, we have 285 quality OTBs compared to 292 OTBs in same period in 2010. The strategy remains the same: open new OTBs in better locations such as restaurants and bars to bring comfort to the ever growing racing aficionados. During the 2<sup>nd</sup> quarter 2011, some provincial OTBs (in Cabanatuan City, Nueva Ecija; in Paniqui, Tarlac; in Lipa City, Batangas) are scheduled to be opened. With the

availability of technology for data and video transmission, we may expect a faster pace in putting up OTBs outside of Metro Manila in the near term particularly in the Luzon area.

#### Property Development

Except for the 2<sup>nd</sup> racetrack (1400 meter track), the new racing facility in Naic, Cavite had been completed at the start of 2009.

As to the joint venture project (*residential and commercial subdivision*) near the new racetrack, sales is expected to pick-up in the near term because of the transfer of racing operation in the area. The depressed real estate market continues to hound this project, thus, sales is delayed.

Development of the Makati City property is still in its planning stage. Development plans are continuously evaluated and reviewed to take into consideration the overall real property market condition in the country.

#### Dividend Declaration (Subsequent Event)

A cash dividend of five centavos (P0.05) per share was declared during the meeting of the Board of Directors on April 26, 2011. Stockholders of record as of May 20, 2011 are entitled to this cash dividend to be paid on June 20, 2011.

#### Continuing Impact of Economic Crisis

Although we might say that the crisis of 1997 has bottomed out, the country continued to experience economic difficulties. Most businesses, including PRCI, continued to feel the adverse effects of the crisis – tight bank credits, low demand and oversupply of real estate properties/inventories, rising costs, etc. Although the racing operations was not similarly affected (*in fact, we achieved record racing revenues for the last three years*), it was not the same for the property development activities of PRCI. The construction of the new racetrack in Cavite was delayed in its implementation (*and completion*). Sales of our joint venture subdivision lots had not yet taken off due to the depressed real property market.

### **For the Year 2010**

#### **Discussion on the Significant Changes in Financial Condition**

The discussions in the succeeding paragraphs center on the significant changes in account balances during the year 2010 compared to 2009, with brief discussions on expectations for the year 2011. For purposes of determining the “materiality” of changes in account balances, we selected all accounts which registered changes amounting to more than five percent (5%) and P4.0 million. We explain below the reason/s behind such changes.

#### Cash and Cash Equivalents

*[P66.75 million in 2010 vs P71.38 million in 2009 = (P4.62 million) or 6.48% decrease]*

The significant decrease was mainly due to the huge funding requirements in servicing the loans and other payables incurred in building the racetrack in Cavite.

With the continuing amortization of bank loans during 2011, the balance of this account is expected to be lower towards the end of 2011.

Receivables - net

[P22.01 million in 2010 vs P178.87 million in 2009 = (P156.86 million) or 87.70% decrease]  
The very significant decrease was mainly due to the collection of the receivable from the sale of the entire investment in JTH in December 2009.

This account is expected to maintain its present level at the end of 2011.

Deferred Tax Assets - net

[P46.12 million in 2010 vs P34.82 million in 2009 = P11.31 million or 32.47% increase]  
The significant increase in the account balance was mainly due to additional tax timing differences from expense provisions set-up during the year.

This account is expected to maintain its present level at the end of 2011 as no major expense provisions are expected to be required during the ensuing year.

Interest Bearing Loans and Borrowings

[P277.32 million in 2010 vs P469.21 million in 2009 = (P191.89 million) or 40.90% decrease]  
The significant decrease in the balance was due mainly to the full settlement of loans from JTH and the scheduled amortization, payment of principal loan balances from MFI and payment of accounts with GVI.

The account is expected to decrease significantly by end of 2011 due to projected significant payments of MFI loans and obligations to GVI.

Trade and Other Payables

[P207.63 million in 2010 vs P154.42 million in 2009 = P53.21 million or 34.46% increase]  
The significant increase in the account balance was mainly due to the accumulation of payables to the Philracom and major suppliers of PRCI.

This account is expected to register a significant drop in balance at the end of 2011 as we schedule settlements of payables to major creditors during the ensuing year.

Retirement Benefit Obligation

[P54.95 million in 2010 vs P46.55 million in 2009 = P8.40 million or 18.04% increase]  
The significant increase in the account balance was due to additional expense provisions made in the books during the year as required by the actuarial valuation on the retirement fund for all employees of PRCI.

This account is expected to register a drop in balance at the end of 2011 as we schedule partial funding of the retirement benefits through the Retirement Fund.

**Discussion on the Results of Operations**

In terms of gross handle, PRCI had a slight growth in 2010. The P4.08 billion gross handle was about 1.29% higher than 2009 gross handle. This is directly related to the "Club Races" revenue reflected in the Statements of Comprehensive Income because the revenue share of PRCI from the gross handle is 8.5%, inclusive of value added tax.

This slight growth in betting income, together with a 6.06% decrease in costs and expenses reduced the net loss of PRCI from P42.65 million in 2009 to P33.94 million in 2010.

The transfer of racing operation in Naic, Cavite has brought a few notable adverse effects to the operations of PRCI. These negative factors are as follows:

- Lower number of horses stabled in Naic, Cavite compared with the horses stabled at the other Club in Carmona, Cavite; this has affected the quality of races being run at Santa Ana racetrack;
- Increase in operating expenses such as security costs, track maintenance and depreciation of new structures; and
- Finance /interest costs from various loans are charged to operations and no longer treated as capitalizable.

Significant fluctuations in major items of income and costs and expenses were noted in the items below. For purposes of determining the “materiality” of revenue and expense items, we selected all accounts which registered changes amounting to more than P1.0 million and 5%. We explain below the reason/s behind such changes.

- Other revenues showed a significant decrease equivalent to P12.14 million or 73.59%; this decrease was caused mainly by the P10.96 million recorded gain on sale of investment in JTH in December 2009; another notable contributor to the decrease is the bigger interest income from bank deposits in 2009 compared to the interest come earned in 2010.
- Finance costs decreased by about P14.83 million or 33.50%; this was due mainly to the full payment of JTH loans during the early part of 2010.
- OTB remittance costs increased by P3.66 million or 22.07% from 2009 level due to the following factors: the increase in transportation costs of tellers making their regular remittances of collections; and the increase in number of OTBs given subsidies for employing their own people manning the outlets.
- Professional fees decreased by about P3.59 million or 22.08%; this was due mainly to the status of legal cases in 2009 compared with 2010; in 2009, major legal cases were initiated and these cases required the services of lawyers, thus, more fees were charged during this year compared with 2010.
- Estimated tax benefits were bigger in 2009 compared with 2010 due mainly to the bigger net loss registered in 2009.

## **Other Discussions on Financial Statements**

### Gross Handle / Betting Sales

PRCI maintained its' position as the industry leader by posting P4.08 billion sales in 2010. Although the increase in sales is not big, this is still a significant development because it reversed the big drop in sales registered in 2009 (from 2008 level).

The P4.08 billion sales resulted from this revenue mix – 97.25% from OTBs, 1.40% from maintrack and 1.35% from telephone betting. The share of OTBs in the revenue generation continues to be the biggest source of sales due to the continuing expansion of the OTB network. Efforts to expand the OTB reach and the improvement of racing and betting facilities bear fruits as sales continue to increase. (*See related discussion below.*)

### Expansion of Betting Operation

PRCI continues to improve the OTB network inspite of the continuing operational issues affecting the off-site facilities. There are still some areas within Metro Manila that show potential to contribute big sales. Also, slowly but gradually, we are expanding outside of Metro Manila as the existing OTBs in Bulacan and Pampanga in Central Luzon and Cavite, Rizal, Laguna and Batangas and Bicol area south of Metro Manila continue to show

encouraging potentials. By end of 2010, we have 288 quality OTBs compared to 292 OTBs in 2009. The strategy remains the same: open new OTBs in better locations such as restaurants and bars to bring comfort to the ever growing racing aficionados. As of end of 2010, the farthest OTB in the north is in Angeles City, Pampanga and in the south is Bicol area. With the use of satellite feed for video coverage of races, we expect a faster pace in putting up OTBs outside of Metro Manila in the near term particularly in the Luzon area.

#### Property Development

Except for the 2<sup>nd</sup> racetrack (1400 meter track), the new racing facility in Naic, Cavite has been completed at the start of 2009.

As to the joint venture project (*residential and commercial subdivision*) near the new racetrack, sales is expected to pick-up in the near term because of the transfer of racing operation in the area. The depressed real estate market continues to hound this project, thus, sales is delayed.

Development of the Makati City property is still in its planning stage. Development plans are continuously evaluated and reviewed to take into consideration the overall real property market condition in the country.

#### Dividend Declaration

No dividend was declared in 2010.

See similar discussion under same section For the Year 2008 below and the notes to the financial statements.

### **For the Year 2009**

#### **Discussion on the Significant Changes in Financial Condition**

The discussions in the succeeding paragraphs center on the significant changes in account balances during the year 2009 compared to 2008, with brief discussions on expectations for the year 2010. For purposes of determining the "materiality" of changes in account balances, we selected all accounts which registered changes amounting to more than five percent (5%) and P4.0 million. We explain below the reason/s behind such changes.

#### Cash and Cash Equivalents

The significant decrease was mainly due to the huge funding requirements of the racetrack construction in Cavite.

With the completion of major racetrack facilities in Cavite at the start of 2009 and the expected amortization of bank loans during 2010, the balance of this account is expected to be lower towards the end of 2010.

#### Receivables - net

The significant increase was mainly due mainly to the sales price of the entire investment in JTH. This receivable has been collected in the first quarter of 2010.

This account is expected to have much lower balance at the end of 2010 due to the collection of receivable related to the sale of investment in JTH.

Prepayments and Other Current Assets

The significant decrease was mainly due to the application of huge input value added tax against output VAT during the year.

This account is expected to maintain similar level in 2010.

Investment in a Subsidiary

The reduction to zero balance in 2009 refers to the sale of the entire investment in JTH in December 2009.

Property and Equipment - net

The significant increase in the account balance was mainly due to the continuing huge capital outlay for the new racetrack facilities in Cavite in 2009.

Expected to be constructed in 2010 are additional horse stables and the 1400m 2<sup>nd</sup> racetrack. Should these projects push through, the balance of this account will increase.

Other Non-Current Assets - net

The significant decrease was mainly due to the reduction in the required balance of sinking fund for the servicing of loans from Maybank Philippines, Inc. (MFI). MFI has allowed withdrawals of funds from this sinking fund account as long as the balance of the fund does not fall below P5 million.

Reduction in balance by end of 2010 is expected due to the continuing amortization of franchise cost which is also a major part of this account.

Interest Bearing Loans and Borrowings

Loans from JTH, BDO and MFI and obligation to GVI from its agreement to supply equipment, rehabilitate and upgrade the tote system, all arising in 2008. The decrease in the balance was due to the amortization, payment of principal loan balances.

The account is expected to decrease significantly by end of 2010 due to projected payments of MFI loans and obligations to GVI.

**Discussion on the Results of Operations**

In terms of gross handle, PRCI had a negative growth in 2009. The P4.03 billion gross handle was about 7.39% lower than 2008 gross handle. This, together with a 12.28% increase in costs and expenses directly affected the bottomline for 2009, resulting to a net loss.

The transfer of racing operation starting in January 2009 has brought a few notable adverse effects to the result of operations for 2009. These negative factors are as follows:

- Lower betting sales in horseracing in view of the apprehension of horseowners and trainers to enter their horses in races scheduled in the new racetrack at least during the first few raceweeks;
- Increase in operating expenses such as security costs, track maintenance and depreciation of new structures in 2009; and
- Finance /interest costs from various loans are charged to operations and no longer treated as capitalizable.

Significant fluctuations in costs and expenses were noted in the items below. For purposes of determining the “materiality” of revenue and expense items, we selected all accounts which registered changes amounting to more than P1.0 million and 5%. We explain below the reason/s behind such changes.

- Finance costs increased by about P41.85 million or 1,721.89%; this was due to the change in accounting for finance costs as required when a substantial portion of cavite project was completed at end of 2008. Until 2008, the finance costs were capitalized as part of the racetrack project. Starting 2009, a significant portion of finance costs are charged to operations.
- Depreciation and amortization increased by about P28.68 million or 126.45%; this was due to the significant depreciation charges taken starting 2009 for the new racing facilities. There were no similar big charges in 2008.
- Security services increased by P10.37 million or 94.00% from 2008 level due mainly to the increase in number of security personnel as necessitated by the operation of Naic, Cavite racetrack starting January 2009.
- OTB remittance costs decreased by P3.18 million or 16.09% from 2008 level due mainly to the reduction of number of OTBs in 2009 compared to 2008.
- Repairs and maintenance increased by P3.30 million or 45.99% from 2008 level due mainly to the clearing and demolition of several structures inside Santa Ana Park Makati City property in the early part of 2009.

#### **Other Discussions on Financial Statements**

##### Gross Handle / Betting Sales

PRCI maintained its' position as the industry leader by posting P4.03 billion sales in 2009. However; this is lower than previous year's sales by about 7.39%.

The P4.03 billion sales resulted from this revenue mix – 94.50% from OTBs, 4.11% from maintrack and 1.39% from telephone betting. The share of OTBs in the revenue generation continues to be the biggest source of sales due to the continuing expansion of the OTB network. Efforts to expand the OTB reach and the improvement of racing and betting facilities bear fruits as sales continue to increase. (*See discussion under Expansion of Betting Operation for other details.*)

##### Expansion of Betting Operation

PRCI continues to improve the OTB network inspite of the continuing operational issues affecting the off site facilities. There are still some areas within Metro Manila that show potential to contribute big sales. Also, slowly but gradually, we are expanding outside of Metro Manila as the existing OTBs in Bulacan and Pampanga in Central Luzon and Cavite, Rizal, Laguna and Batangas and Bicol area south of Metro Manila continue to show encouraging potentials. By end of 2009, we have 292 quality OTBs compared to 321 OTBs in 2008. The strategy remains the same: open new OTBs in better locations such as restaurants and bars to bring comfort to the ever growing racing aficionados. As of end of 2009, the farthest OTB in the north is in San Nicolas, Ilocos Norte and in the south is Bicol area. With the successful use of satellite feed for video coverage of our races, we can expect a faster pace in putting up OTBs outside of Metro Manila in the near term particularly in the Luzon area.

Property Development

Except for the 2<sup>nd</sup> racetrack (1400 meter track), the new racing facility in Naic, Cavite has been completed at the start of 2009.

As to the joint venture project (*residential and commercial subdivision*) near the new racetrack, sales is expected to pick-up in the near term because of the transfer of racing operation in the area. The depressed real estate market continues to hound this project, thus, sales is delayed.

Development of the Makati City property is still in its planning stage. Development plans are continuously evaluated and reviewed to take into consideration the overall real property market condition in the country.

Dividend Declaration

No dividend was declared in 2009.

Investment in a Subsidiary

On December 28, 2009, the Company sold its entire investment in JTH. See Notes 1.2 and 9 to the 2010 financial statements.

Continuing Impact of Economic Crisis

See similar discussion under same section For the Year 2008 below and the notes to the financial statements.

**For the Year 2008**

**Discussion on the Significant Changes in Financial Condition**

The discussions in the succeeding paragraphs center on the significant changes in account balances during the year 2008 compared to 2007, with brief discussions on expectations for the year 2009. For purposes of determining the “materiality” of changes in account balances, we selected all accounts which registered changes amounting to more than five percent (5%) and P4.0 million. We explain below the reason/s behind such changes.

Cash and Cash Equivalents

The significant decrease was mainly due to the huge funding requirements of the racetrack construction in Cavite.

With the construction of new racetrack facilities in Cavite nearing completion and the expected settlement of all construction related obligations in 2009, the balance of this account is expected to be lower towards the end of 2009.

Receivables - net

The significant increase was mainly due mainly to advances to horseowners-lessees of the new stable facilities for the cost of finishing work in their leased stables. These advances are collectible over a period of one to two years.

This account is expected to have lower balance at the end of 2009 due to the scheduled collections of accounts during the year.

Prepayments and Other Current Assets

The significant increase was mainly due to the huge input value added tax from construction costs in 2008.

This account is expected to have lower balance at the end of 2009 due to the expected application of input VAT against output VAT during the year.

Property and Equipment - net

The significant increase in the account balance was mainly due to the huge capital outlay for the new racetrack facilities in Cavite.

With the construction of new racetrack facilities in Cavite now nearing its completion in early 2009, the balance of this account is expected to be much higher towards the end of 2009.

Other Non-Current Assets - net

The significant increase was mainly due to the setting up of sinking fund for the servicing of loans from Maybank Philippines, Inc. (MFI).

Reduction in balance by end of 2009 is expected due to the agreement by MFI to allow withdrawals of funds from this sinking fund account as long as the balance of the fund does not fall below P5 million.

Interest Bearing Loans and Borrowings

Loans from JTH, BDO and MFI and obligation to GVI from its agreement to supply equipment, rehabilitate and upgrade the tote system, all arising in 2008.

The account is expected to decrease significantly by end of 2009 due to projected payments of MFI loans and obligations to GVI.

**Discussion on the Results of Operations**

In terms of gross handle, PRCI had a negative growth in 2008. The P4.35 billion gross handle was about 3.94% lower than 2007 gross handle. This, together with a significant decrease in other revenues (P23.5 million gain on sale of JTH shares in 2007 and none in 2008) directly affected the bottomline for 2008 because costs and expenses did not register similar decrease.

The transfer of racing operation starting in January 2009 is expected to bring a few notable adverse effects to the result of operations for 2009. These negative factors are as follows:

- Lower betting sales in horseracing in view of the apprehension of horseowners and trainers to enter their horses in races scheduled in the new racetrack at least during the first few raceweeks;
- Increase in operating expenses such as security costs, track maintenance and depreciation of new structures in 2009; and
- Finance /interest costs from various loans are charged to operations and no longer treated as capitalizable.

Costs and expenses were almost flat in 2008 compared with the 2007 level. However, significant fluctuations in costs and expenses were noted in the items below. For purposes of determining the "materiality" of revenue and expense items, we selected all accounts

which registered changes amounting to more than P1.0 million and 5%. We explain below the reason/s behind such changes.

- Depreciation decreased by about P13.6 million or 42.6%; this was due to the significant depreciation charges taken in 2007 for structures inside Santa Ana Park property in Makati City. There were no similar big charges in 2008.
- Taxes and licenses increased by P4.12 million or 354% from 2007 level due mainly to the settlement of deficiency taxes and payment of documentary stamp taxes on bank loans in 2008. No similar tax items arose in 2007.
- Added prizes decreased by P1.36 million or 39.6% from 2007 level due mainly to the decision to cut on sponsorship spending in 2008 to save on cost.
- Fuel costs increased by P1.06 million or 25.05% due to the frequency of travel requirements to the racetrack project in Cavite in 2008; and,
- Tote operation and maintenance decreased by P935,000 or 4.87%; this expense account is for the operation and maintenance of the totalizator system; the decrease is expected because the amount is based on a certain percentage of betting sales generated in a period.

## **Other Discussions on Financial Statements**

### Gross Handle / Betting Sales

PRCI maintained its' position as the industry leader by posting P4.35 billion sales in 2008; a slight decrease from previous year's P4.53 billion sales.

The P4.35 billion sales resulted from this revenue mix – 89.67% from OTBs, 9.01% from maintrack and 1.33% from telephone betting. The share of OTBs in the revenue generation continues to be the biggest source of sales due to the continuing expansion of the OTB network. Efforts to expand the OTB reach and the improvement of racing and betting facilities bear fruits as sales continue to increase. (*See related discussion below.*)

### Expansion of Betting Operation

PRCI continues to expand the OTB network inspite of the continuing operational issues affecting the off site facilities. There are still some areas within Metro Manila that show potential to contribute big sales. Also, slowly but gradually, we are expanding outside of Metro Manila as the existing OTBs in Bulacan and Pampanga in Central Luzon and Cavite, Rizal, Laguna and Batangas south of Metro Manila continue to show encouraging potentials. However, we closed our OTBs in the Bicol region and in Bacolod City due to lower than expected sales. By end of 2008, we have 321 quality OTBs compared to 335 OTBs in 2007. The strategy remains the same: open new OTBs in better locations such as restaurants and bars to bring comfort to the ever growing racing aficionados. As of end of 2008, the farthest OTB in the north is in San Nicolas, Ilocos Norte. With the successful use of satellite feed for video coverage of our races, we can expect a faster pace in putting up OTBs outside of Metro Manila in the near term particularly in the Luzon area.

### Property Development

Except for the 2<sup>nd</sup> racetrack (1400 meter track), the new racing facility in Naic, Cavite is nearing completion as of December 31, 2008. In fact, the first official horseracing is held on January 6, 2009 (*see sub-sections on On-Going Projects and Immediate Plans for other details*).

As to the joint venture project (*residential and commercial subdivision*) near the new racetrack, sales is expected to pick-up in the near term because of the transfer of racing

operation in the area. The depressed real estate market continues to hound this project, thus, sales is delayed.

For the Makati City project, development is expected to move starting 2009 in view of the expected transfer of racing operations to our new site in Cavite in January 2009. Development plans are continuously evaluated and reviewed to take into consideration the overall real property market condition in the country.

#### Dividend Declaration

No dividend was declared in 2008.

#### Investment in a Subsidiary

There was no significant transaction affecting the investment in JTH in 2008. As of December 31, 2008, the remaining interest in JTH is about 68.57% of its outstanding common shares.

#### Continuing Impact of Economic Crisis

Although we might say that the crisis of 1997 has bottomed out, the country continued to experience economic difficulties. Most businesses, including PRCI, continued to feel the adverse effects of the crisis – tight bank credits, low demand and oversupply of real estate properties/inventories, rising costs, etc. Although the racing operations was not similarly affected (*in fact, we achieved record racing revenues for the last three years*), it was not the same for the property development activities of PRCI. The construction of the new racetrack in Cavite was delayed in its implementation (*and completion*). Sales of our joint venture subdivision lots had not yet taken off due to the depressed real property market.

### **Top Five (5) Key Performance Indicators**

PRCI considers several performance indicators as key to its business success. Said indicators are monitored and evaluated regularly based on plans and targets. Actual results are compared with projected results and any deviations are evaluated so that corrective actions can be instituted. The top five (5) key performance indicators are as follows:

#### **1. Number of Off Track Betting Stations (OTBs)**

The number of off-track betting stations or OTBs is a very important performance indicator considering the present operating structure of PRCI. OTBs contribute tremendously in generating sales because these outlets allow customers to place their bets on races at a place convenient and accessible to them. People do not have to go to the racetrack to enjoy the races because OTBs are established in many places. With the expansion of OTB network comes the growth in betting sales. The bigger the OTB network, the higher the sales growth.

#### 285 OTBs in 1<sup>st</sup> Qtr 2011 vs 296 OTBs in 1<sup>st</sup> Qtr 2010

The reduction in OTBs in first three months of 2011 compared to 2010 level is a continuation of management's thrust towards bringing horseracing closer to customers but on a much better manner. OTB sales performance is closely monitored and nonperforming ones are closed. New OTBs continue to be opened but under a more strict guidelines and selection process. With the projected downward trend in communication costs (long distance telephone charges and video costs), expansion in the provinces becomes more viable.

288 OTBs in Year 2010 vs 292 OTBs in Year 2009

The reduction in number of OTBs in 2010 compared to 2009 level was a direct result of the continuing streamlining of the OTB network of the Company. Sales performance of OTBs is closely monitored and low performing ones have been closed. Several new OTBs were opened but under a more strict guidelines and selection process. For the ensuing year 2011, we expect a modest increase in number of OTBs as additional betting terminals become available. With the projected downward trend in communication costs (long distance telephone charges and video costs), expansion in the provinces becomes more viable.

**2. Market Share**

Since there are only two horse racetracks operating in the country, it is very important to monitor the market share of PRCI. However, it is important to note that the number of racedays in each year is determined by Philracom. Normally, racedays in one year are divided equally between PRCI and the other racetrack operator. As an important key indicator, market share is determined in two ways: based on same number of racedays and based on calendar date. For interim periods, it is more informative to use same number of racedays in determining market share. Using calendar date is better applied for annual market share determination.

49.96% in 1<sup>st</sup> Qtr 2011 vs 52.21% in 1<sup>st</sup> Qtr 2010

For first three months of 2011, PRCI had 39 racing days. Share of PRCI in industry gross sales went down as MJCI registered a higher market share in 2011. It has been observed that the number of horses running in MJCI races is more than that of PRCI during the 1<sup>st</sup> quarter of 2011 and this could be the only reason for the reversal in market trend.

51.03% in Year 2010 vs 52.21% in Year 2009

For 2010, although PRCI maintained its bigger share in total gross handle, market share was slightly down compared to previous year's share level. The percentage drop in sales of the Company was higher than the overall industry sales decline and this was due mainly to the transfer of the racing operations to a venue in Naic, Cavite. For the year 2011, we expect to maintain a bigger share in gross handle and a more positive growth in sales performance.

To reclaim/retain the edge in market share, focus should be given to gaining quality and number of participating horses in PRCI races. Management should introduce ways to make it more attractive for horseowners and trainers to run their horses in PRCI. Some possible actions may be putting up more added prizes, setting up new stable facilities within the new Cavite racetrack complex and continue improving existing ones.

**3. Average Horse Prize (for 1<sup>st</sup> place)**

Horse prize is a direct product of the amount of sales generated as provided for in the franchise law granted to PRCI. This prize is equivalent to 8.5% of gross sales determined per raceweek. This is distributed among the first four finishers of each race based on the formula provided by the Philracom. The beneficiaries of this prize are the winning owner, trainer and jockey. Since this prize is based on the betting sales, the higher the betting sales, the bigger the horse prize. Bigger horse prize generally attracts horseowners and trainers to run their horses in the particular racetrack. Thus, it is important to maintain bigger horse prize over the competitor so that more horses run in the race schedule of PRCI.

P144,126 in 1<sup>st</sup> Qtr 2011 vs P147,647 in 1<sup>st</sup> Qtr 2010

The average horse prize for first place during the first quarter of 2011 was down compared with the average prize in same period in 2010. This was due to the decline in gross sales in 1<sup>st</sup> quarter of 2011 compared with 2010. Worse, this 2011 horse prize was lower than the average prize generated by the competitor for same period (P144,126 for PRCI versus P144,958 for MJCI).

P138,610 in Year 2010 vs P133,086 in Year 2009

The average horse prize for first place during the year 2010 was expectedly higher than the average prize in 2009. This was due to the improved sentiments of horseowners and trainers towards the racing conditions in Naic, Cavite during the year compared to the previous year when we first transferred to the new venue. It is important to note also that this 2010 average horse prize was slightly lower than the average horse prize generated by the competitor for same year (P138,610 for PRCI versus P139,090 for MJCI). This is the first time in recent years that this situation happened.

Management must find ways to further improve the betting sales (and improve HOP) although we expect that more improvement is forthcoming in 2011. PRCI must continue to maintain its edge in terms of HOP and betting sales over MJCI. Projects such as faster expansion of OTB network and those geared towards attracting more horseowners and trainers to run their horses in PRCI should be given priority in the coming months to strengthen the superior position of PRCI over MJCI.

**4. Distribution of Sales**

- **OTBs**
- **Maintrack**
- **Telebet accounts**

At present, betting sales are generated from three (3) sources: OTBs, maintrack and the telebet accounts. This sales mix provides management a quick glance on the performance of betting outlets and this also guides management in making decisions affecting the betting operations.

	<u>1<sup>st</sup> Qtr 2010</u>	<u>1<sup>st</sup> Qtr 2009</u>
<i>1<sup>st</sup> Quarter 2011 vs 1<sup>st</sup> Quarter 2010</i>		
- OTB	<u>97.46%</u>	<u>97.20%</u>
- Maintrack	<u>1.34%</u>	<u>1.44%</u>
- Telebet accounts	<u>1.20%</u>	<u>1.36%</u>

As indicated, OTBs continue to dominate the sales mix and this trend is expected to remain due to the expansion of OTB network and the opening of OTBs within and outside Metro Manila. This condition is expected to remain at this level for the next few quarters.

	<u>2010</u>	<u>2009</u>
- OTB	<u>97.25%</u>	<u>96.94%</u>
- Maintrack	<u>1.40%</u>	<u>1.67%</u>
- Telebet accounts	<u>1.35%</u>	<u>1.39%</u>

As indicated, OTBs continue to dominate the sales mix and this trend is expected to remain due to the expansion of OTB network, the opening of OTBs within and outside Metro Manila. With the transfer of racing operation in 2009, the OTBs registered a much bigger share in sales with the maintrack to show a drastic reduction. This scenario is expected because we do not expect bettors to troop to

Cavite to watch PRCI races. They will be distributed in several more conveniently located OTBs within Metro Manila.

One spot that deserves more focus is how to improve further the share in gross handle of telebet. Management has to continue finding practical ways to promote telebet because it still offers the best avenue for future growth. Telebet offers convenient and secured betting platform for bettors and for PRCI, telebet offers a totally secured and cost efficient sales outlet. A combination of tapping the potentials of technology (through celphones) and a more aggressive marketing and promotion is one sure way of turning around the previous years' dismal performance of telebet. The Company should coordinate with its depository banks to address the other operational issues (like depositing and withdrawing funds) besetting the telebet system.

## 5. Earnings (Loss) per Share

Earnings (loss) per share or EPS indicate the relative profitability of PRCI in the eyes of present and potential investors and stockholders. EPS are determined by dividing net income (loss) for the period by the weighted average number of shares subscribed and issued during the period.

*(P0.0121) in 1<sup>st</sup> Qtr 2011 vs (P0.0152) in 1<sup>st</sup> Qtr 2010*

Loss per share for 1<sup>st</sup> three months of 2011 decreased due to the lower net loss incurred during the period. This situation is expected to remain due to the expected reduced losses in the next quarters versus comparable periods in 2010.

*(P0.058) in Year 2010 vs (P0.073) in Year 2009*

Loss per share was registered for the second year in a row due mainly to the significant charges of depreciation on new racing facilities and finance / interest expense on loans. For the ensuing year 2011, we expect a much lower loss per share due to projected settlement of interest-bearing loans, increase in racing income and cost cutting measures during the year.

## Material Events and Uncertainties that would Impact Future Operations

The following statements relative to the material event/s and uncertainties known to management that would address the past and would have an impact on future operations are presented for information of all stakeholders of the Corporation:

- There were no known, trends, demands, commitments, events or uncertainties that would have a material impact on PRCI's liquidity during the reporting period.
- There were no events that would trigger direct or contingent financial obligation that is material to PRCI, including any default or acceleration of an obligation, during the period.
- There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of PRCI with unconsolidated entities or other persons created during the reporting period.
- Other than the contracts for the construction of new racetrack and related facilities in Cavite, there were no material commitments for capital expenditures during the reporting period.
- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net

sales/revenues/income from continuing operations that may materially affect the financial report of PRCI.

- Further, other than the gain on sale of investment of P10.96 million in 2009 and P23.51 million in 2007 (see note no. 16 of the 2009 audited financial statements), all material items of income and expense during the reporting period arose from normal continuing operations.
- The causes of material changes in the financial statements from period to period are discussed under Sub-section C of the Management Report Section of this Information Statement.
- Finally, there are no known seasonal factors that may materially affect the racing operation of PRCI.

#### **D. BUSINESS AND GENERAL INFORMATION**

##### ***Corporate Background – Philippine Racing Club, Inc.***

In 1937, a group of Filipino and American businessmen organized the country's largest racing club, the Santa Ana Turf Club, which is now known as Philippine Racing Club, Inc. PRCI uses modern horseracing equipment designed to provide fast and accurate computation of dividends for horse racing enthusiasts. The whole Makati City racetrack sits on a 21.6-hectare titled property owned entirely by PRCI. Until the end of 2008, PRCI's racetrack facility is located at the Santa Ana district in Makati City. The last official horseracing in the Makati City racetrack was conducted on December 21, 2008. Starting on January 6, 2009, horseracing is conducted in the new racetrack complex in Naic, Cavite.

PRCI is one of only two operating racing clubs in the country (*Manila Jockey Club, Inc., the operator of San Lazaro racetrack, is the other one*). Substantially same sets of horseowners and horses, jockeys and trainers and other racing people use both Santa Ana and San Lazaro racetracks. PRCI races are conducted normally every other Tuesdays, Wednesdays, Thursdays, Fridays, Saturdays and Sundays. The race venues are alternately shuttled between the two race clubs. Racing operations of PRCI and MJCI are under the supervision of the Philippine Racing Commission (Philracom) while the betting aspects of racing are under the supervision of the Games & Amusements Board (GAB).

PRCI's franchise for horse racing was renewed through R.A. No. 7953 on March 30, 1995 for another 25 years starting October 1997 up to year 2022. The franchise grants PRCI the right to construct, operate and maintain one racetrack in the City of Makati, or anywhere within the provinces of Rizal, Laguna and Cavite and conduct horse races therein. Under the franchise, PRCI may take or arrange bets for races conducted in or outside the Philippines. Also under the franchise, PRCI shall pay a franchise tax on its gross earnings from horse races and this tax shall be in lieu of any and all taxes, except income tax, that are imposed by the local or national government on the activities covered by the franchise.

Also under the franchise, the revenue of PRCI from betting is fixed at eight-and-a-half percent (8.5%) of total wager funds or gross receipts from the sales of betting tickets. The complete distribution of wager funds as fixed by the franchise law of PRCI is as follows:

82.00%	estimated gross dividends of holders of winning tickets
8.50%	gross revenue share (inclusive of value added tax) of PRCI
8.50%	gross prizes of horseowners, jockeys, trainers
<u>1.00%</u>	share of Philracom and GAB
<u>100.00%</u>	Total Wager Funds

About 16% of the total wager funds goes to the government in the form of taxes such as value added tax, documentary stamp tax and taxes on winnings & prizes.

### **Corporate Background – JTH Davies Holdings, Inc.**

JTH Davies Holdings, Inc. (JTH), a publicly-listed company, was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on June 28, 1946. It has authorized capital stock of P25 million divided into 50 million shares are P0.50 par value per share. On June 25, 1996, the SEC approved the extension of JTH's corporate life for another 50 years. JTH's registered office address is at no. 222 Sen. Gil Puyat Avenue, Makati City.

JTH used to focus on middle income housing, and the distribution of agri-chemical products and construction supplies before it disposed interests in its wholly owned subsidiaries, majority of which were sold in 2005. In 2004, JTH amended its primary purpose from engaging in wholesale distribution to that of a holding company.

By end of 2006, the Company owned about 98.19% of JTH. After the Company sold a portion of its investment in JTH in 2007, ownership interest in JTH was reduced to around 68.57% of JTH as of December 31, 2008.

On December 28, 2009, the Company sold its entire 68.57% interest in JTH to Capital Managers & Advisors, Inc. (CMAI). See notes 1.2 and 9 to the financial statements of the Company for additional details.

### **On-going Projects**

Management has undertaken the following projects for the Company (*at various stages of accomplishments*):

- Construction of the 2<sup>nd</sup> racetrack (1400 meter track) is expected to be completed by 2<sup>nd</sup> half of 2011;
- Construction of additional horse stables to accommodate the expected influx of racehorses in Naic, Cavite;
- Continuous establishment of additional Off-Track Betting stations (OTBs) within and outside Metro Manila (*basic requirements of OTB expansion outside Metro Manila are getting feed of video coverage of races and availability of telephone lines*), and
- Continuing improvement of account wagering system (*non traditional betting*).

The betting operation is being expanded by the addition of more OTBs within Metro Manila and selected adjacent population centers in the provinces. The farthest OTB in the north is in Laoag, Ilocos Norte and in the south is in Bicol area. We tried to introduce horseracing in select areas in Southern Luzon and the Visayas but the market in these areas are not yet ready at this time. Thus, we pulled out and closed the OTBs in these areas. OTB expansion in Luzon area is given more focus due to better awareness of people compared to those in Visayas and Mindanao. The target areas remain to be progressive cities in the provinces.

### **Immediate Plans**

The immediate plan for Cavite project is to complete the 1400 meter racetrack to complement the 1600 meter track; the construction of additional horse stables to accommodate the additional horses that want to stay in Naic, Cavite; and the construction of additional housing facility for helpers and grooms of horseowners who lease stables in our site. We may also see expansion of account wagering system to include internet based betting options.

**Investments**

Related to the significant undertakings as mentioned earlier, the major investments of PRCI as of December 31, 2010 are shown below:

Acquisition cost of totalizator betting system (at estimated net present value)	P90,000,000
Acquisition and development costs of parcels of land for sale as developed subdivision lots (shown as part of Other Non-Current Assets in the balance sheets)	537,858,000
Acquisition and development costs of parcels of land for new Cavite racetrack and development in Makati City (shown under construction in progress in the consolidated financial statements)	<u>1,135,197,000</u>
Total Actual Investment at December 31, 2010	<u>P1,763,055,000</u>
Estimated cost of additional structures for facilities in Cavite	<u>P50,000,000</u>

**Workforce**

As of December 31, 2010, the Company has about 532 regular employees distributed into the following classifications: 97 monthly officers and rank-and-file employees; and 435 regular raceday employees. There is one non-militant labor union for all regular employees. A five-year collective bargaining agreement was finalized effective July 2009 to July 2014.

**Risk Management**

Similar to most businesses in the country, the Corporation is exposed to several business risks such as those affecting cash resources (bank deposits and investments); security (for hold ups of outlets); reduction in sales volume resulting from policy changes by government (through Philracom); etc.

The Board of Directors and management are very much aware of these potential business risks. Discussions and evaluation of business risks are part of the regular activities of management. Risk management is a very important aspect of good corporate governance and as indicated in the Corporation’s Manual on Corporate Governance, the Board of Directors is the primary body with the responsibility to institute such risk management. (See related discussion under Compliance with Leading Practices on Corporate Governance.)

**Audit and Audit Related Fees**

Fees for the services rendered by the external auditors to the Company for the last two (2) fiscal years are as follows:

	Audit Fee	Tax Fee	Others	Total
2010	P530,000	0	P30,000	P560,000
2009	520,000	0	25,000	545,000

“Others” represents fees for the preparation of reports for submission to the SEC & the PSE.

The stockholders approve the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board. The Audit Committee also ensures that audit services rendered shall not impair or affect the independence of the external auditors or violate any SEC regulations.

## E. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The members of the Board of Directors and key Executive Officers of the Company as of May 20, 2011 are listed below:

<u>Position</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
<i>Members of the Board:</i>			
Chairman	Santiago Cua	89	Filipino
Vice-Chairman	Exequiel Robles	56	Filipino
Vice-Chairman	Lim Teong Leong	57	Malaysian
President & CEO	Solomon S. Cua	55	Filipino
Director/Treasurer	Santiago Cua, Jr.	58	Filipino
Director/Asst. Treasurer	Lawrence Lim Swee Lin	54	Malaysian
Director	Datuk Surin Upatkoon	62	Thai
Director	Vijeyaratnem A/L V. Thamoatham Pily	58	Malaysian
Independent Director	Renato S. De Villa	75	Filipino
Independent Director	Joseph N. Dy	58	Filipino
Corporate Secretary	Jesulito A. Manalo	55	Filipino

<u>Position</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
<i>Executive Officers:</i>			
President & CEO	Solomon S. Cua	55	Filipino
EVP & COO	Ramon P. Ereneta, Jr.	60	Filipino
EVP for Property Dev't	Simeon S. Cua	54	Filipino
SVP for Finance	Allan V. Abesamis	43	Filipino

The brief bio-data of abovementioned members of the Board and Executive Officers are presented under Control and Compensation Information section of the Information Statement.

## F. MARKET FOR REGISTRANT'S COMMON EQUITY & RELATED STOCKHOLDER MATTERS

The common shares of PRCI are traded in the Philippine Stock Exchange. The high and low quarterly sales prices for the first quarter of 2011 and years 2010 and 2009 are shown below.

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
1st Quarter	7.50	4.00	2.70	2.10	2.90	2.80
2nd Quarter	na	na	2.12	2.10	2.80	2.30
3rd Quarter	na	na	2.10	2.00	2.65	2.20
4th Quarter	na	na	4.85	2.02	2.80	2.02

Closing price as of May 20, 2011 was P5.05 per share.

### *Top 20 Shareholders as of May 20, 2011*

<u>No. of Shares</u>	<u>Percentage</u>
----------------------	-------------------

1.	PCD Nominee Corp. (F)	285,566,586	48.76%
2.	Leisure Management Hongkong Ltd.	193,330,800	33.01%
3.	Allied Banking Corporation	30,331,103	5.18%
4.	Magnum Investment Ltd	29,758,950	5.08%
5.	PCD Nominee Corp. (NF)	10,138,349	1.73%
6.	Henry Cualoping	8,131,744	1.39%
7.	Aries Prime Resources	5,000,000	0.85%
8.	Sta. Lucia Realty & Dev't., Inc.	3,408,400	0.58%
9.	Lory Cua	2,179,094	0.37%
10.	Aristeo G. Puyat	1,633,666	0.28%
11.	Jose Amado Araneta	1,234,747	0.21%
12.	Cualoping Securities Corporation	1,059,962	0.18%
13.	The Manila Banking Corp. ITF TA no. 1390	1,030,500	0.18%
14.	Santiago S. Cua, Jr.	1,024,238	0.17%
15.	Santiago Cua	859,495	0.15%
16.	Stephanie Lorraine Cualoping	709,181	0.12%
17.	Solomon S. Cua	670,761	0.11%
18.	Ameurfina Herrera	645,868	0.11%
19.	Vicente Cualoping	641,511	0.11%
20.	Exequiel D. Robles	506,961	0.09%

The number of shareholders of record as of December 31, 2010 was 824 individuals and 49 corporate entities. Common shares issued and outstanding as of December 31, 2010 were 585,687,130 shares.

As of May 20, 2011, total shares subscribed and entitled to vote at the annual stockholders' meeting on June 20, 2011 is 585,687,130. The number of shareholders of record as of May 20, 2011 was 800 individuals and 47 corporate entities.

Cash Dividends: Cash dividend was declared in April 2011. There were no cash dividends declared during the years 2007 through 2010. Dividends declared in April 2011 and those prior to 2007 are described below:

On April 26, 2011, the Board of Directors declared cash dividends equivalent to P0.05 per share or about P29.28 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, May 20, 2011, payable on June 20, 2011.

On May 5, 2006, the Board of Directors declared cash dividends equivalent to P0.05 per share or about P28.4 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, June 2, 2006, payable on June 29, 2006. Of the total dividends declared, the Company paid P25.9 million in 2006. Outstanding dividends payable as of December 31, 2006 amounted to P2.50 million and are recorded as part of Trade and Other Payables account in the balance sheet.

On March 29, 2005, the Board of Directors declared cash dividends equivalent to P0.10 per share or about P57 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, April 27, 2005 payable on May 23, 2005. Of the total dividends declared, the Company paid P38.7 million in 2005. Outstanding dividends payable as of December 31, 2005 amounted to P18.3 million and are recorded as part of Trade and Other Payables account in the balance sheet.

On April 30, 2004, the Board of Directors declared cash dividends equivalent to P0.05 per share or P28.5 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, May 28, 2004 payable on June 23, 2004. Outstanding 2004 dividends remaining unpaid as of December 31, 2005 amounted to P3.4 million and are recorded as part of Trade and Other Payables account in the balance sheet.

On August 25, 2003, the Board of Directors declared cash dividends equivalent to P0.05 per share or P28.5 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, September 18, 2003, payable on October 10, 2003.

On June 10, 2002, the Board of Directors of PRCI declared a 17% stock dividend that will be given to stockholders on record as of August 5, 2002. This stock dividend was approved by stockholders on July 24, 2002.

Prior to this 2002 dividend declaration, there had been no declaration of dividends for the past three most recent years. Neither had there been any sales of unregistered securities within three (3) years. Per provision of the articles of incorporation, PRCI has no restrictions that limit the payment of dividends on common shares.

***Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction***

There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

**G. CORPORATE GOVERNANCE**

***Discussion on Compliance with Leading Practices on Corporate Governance***

- a. The evaluation system to monitor compliance with the Board of Directors is still evolving consistent with the nature of the Manual as a work in progress. However, at this time, PRCI has adopted the Commission's format for self-evaluation in determining and measuring its compliance with the Manual, its Board, the individual directors and high-ranking officers. This self-evaluation has been disclosed and submitted by PRCI to the SEC.
- b. PRCI has adopted a Manual on Corporate Governance (the Manual). It is to be noted in this regard, that PRCI is highly regulated by several government agencies. PRCI has not materially deviated from the Manual, and no persons have been found to have breached or violated the Manual. It has not, likewise, been found or charged to have violated any rule, regulation or law of the land.
- c. PRCI has adopted measures to ensure compliance with international best practices on good corporate governance such as its compliance with international accounting standards and continuous review of the Manual for possible improvements.

The evaluation system guiding the Compliance Officer in the review and monitoring of compliance on the Code of Corporate Governance has been established by PRCI. This system measures the level of compliance of the Board of Directors and top management with the Code of Corporate Governance. The Compliance Officer monitors compliance through a regular checklist system after consultation with all parties concerned.

PRCI, through its Board of Directors, top management and its Compliance Officer, continues to review and strengthen its policies and procedures with the end in view of pursuing what is best for PRCI and its stockholders. Also, the Compliance Officer, in consultation with top management, periodically evaluates the system to further improve the monitoring of compliance by officers / directors on the Code of Corporate Governance and to make necessary recommendation based on his evaluation.


**H. UNDERTAKING FOR COPY OF 2010 FINANCIAL STATEMENTS**

***A copy of the Registrant's annual report on SEC Form 17-A and the 1<sup>st</sup> quarter 2011 report on SEC Form 17-Q will be provided free of charge to each stockholder upon written request addressed to:***

**Atty. JESULITO A. MANALO**  
**Corporate Secretary**  
Philippine Racing Club, Inc.  
Santa Ana Park, A. P. Reyes Avenue  
Carmona, Makati City

**PHILIPPINE RACING CLUB, INC.**

By:

  
**ALLAN V. ABESAMIS**  
Senior Vice President for Finance

Date: \_\_\_\_\_

5/25/11

# **ANNEX A**

## **PHILIPPINE RACING CLUB, INC.**

### **AUDITED FINANCIAL STATEMENTS**

As of and for the Years ended December 31, 2010 and 2009

For the Annual Stockholders' Meeting  
On June 20, 2011

Santa Ana Park  
A. P. Reyes Avenue, Carmona, Makati City



# Philippine Racing Club, Inc.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Racing Club, Inc.** (the Company) is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2010 in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

**Punongbayan & Araullo**, the independent auditors and appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the Board of Directors and stockholders has expressed its opinion on the fairness of presentation upon completion of such examination.


  
**ALLAN V. ABESAMIS**

Senior Vice President for Finance



**SOLOMON S. CUA**

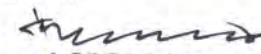
President & Chief Executive Officer



**SANTIAGO CUA**

Chairman of the Board

SUBSCRIBED AND SWORN to before me this <sup>14<sup>th</sup></sup> day of April 2011 at Makati City, affiants exhibiting to me their valid IDs: for Allan V. Abesamis, CTC no. 5968652 issued on January 24, 2011 at Makati City; for Solomon S. Cua, DL no. N17-87-022750 issued on September 13, 2008 at Quezon City; and for Santiago Cua, Phil. Passport no. ZZ185201 issued on April 26, 2006 in Manila.

  
**Atty. LOPE M. VELASCO**  
NOTARY PUBLIC  
Until Dec. 31, 2011

Appt. No. M-117, Makati City  
IBP # 899262 - Pasig City 01/04/11  
PTR # 2643149 - Makati 01/04/11

TIN 212-905-989  
S.C. Roll No. 28757  
G/F Jaka Center 2111 Chino Roces Ave.,  
Makati City

Doc. No. 307  
Page no. 73  
Book no. 247  
Series of 2011



**Punongbayan & Araullo**

Member firm within Grant Thornton International Ltd

Financial Statements and  
Independent Auditors' Report

**Philippine Racing Club, Inc.**

December 31, 2010, 2009 and 2008



## Report of Independent Auditors

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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[www.punongbayan-araullo.com](http://www.punongbayan-araullo.com)

**The Board of Directors**  
**Philippine Racing Club, Inc.**  
Santa Ana Park, A. P. Reyes Avenue  
Makati City

### Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Racing Club, Inc., which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Racing Club, Inc. as at December 31, 2010 and 2009, and its financial performance and its cash flows for each of the three years in the period then ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2010 required by the Bureau of Internal Revenue on taxes, duties and license fees disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

  
**By: Benjamin P. Valdez**  
Partner

CPA Reg. No. 0028485  
TIN 136-619-880  
PTR No. 2641799, January 3, 2011, Makati City  
Partner's SEC Accreditation No. 009-AR-2 (until Mar. 1, 2012)  
BIR AN 08-002511-11-2008 (until Nov. 24, 2011)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)  
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 28, 2011

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	<b>P 66,754,154</b>	P 71,377,033
Receivables - net	8	<b>22,012,549</b>	178,873,306
Prepayments and other current assets		<b><u>2,172,662</u></b>	<u>1,165,127</u>
Total Current Assets		<b><u>90,939,365</u></b>	<u>251,415,466</u>
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	10	<b>1,212,398,646</b>	1,221,489,582
Property held for sale	11	<b>537,857,786</b>	537,857,786
Deferred tax assets - net	22	<b>46,119,630</b>	34,819,606
Other non-current assets - net	12	<b><u>85,985,200</u></b>	<u>88,052,367</u>
Total Non-current Assets		<b><u>1,882,361,262</u></b>	<u>1,882,219,341</u>
<b>TOTAL ASSETS</b>		<b><u>P 1,973,300,627</u></b>	<u>P 2,133,634,807</u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<b>P 207,846,943</b>	154,416,779
Interest-bearing loans and borrowings	14	<b>47,618,834</b>	181,729,755
Other current liabilities	15	<b><u>50,861,583</u></b>	<u>48,085,703</u>
Total Current Liabilities		<b><u>306,327,360</u></b>	<u>384,232,237</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	14	<b>229,703,712</b>	287,480,790
Provision for project development	10	<b>137,200,000</b>	137,200,000
Retirement benefit obligation	20	<b>54,950,812</b>	46,550,812
Other non-current liabilities	15	<b><u>30,176,800</u></b>	<u>29,287,148</u>
Total Non-current Liabilities		<b><u>452,031,324</u></b>	<u>500,518,750</u>
Total Liabilities		<b><u>758,358,684</u></b>	<u>884,750,987</u>
<b>EQUITY</b>			
Capital stock	16	<b>585,687,130</b>	585,687,130
Additional paid-in capital	16	<b>39,947,626</b>	39,947,626
Retained earnings	16	<b><u>589,307,187</u></b>	<u>623,249,064</u>
Total Equity		<b><u>1,214,941,943</u></b>	<u>1,248,883,820</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 1,973,300,627</u></b>	<u>P 2,133,634,807</u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME\***  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Notes	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>REVENUES</b>				
Club races	2, 10	<b>P 309,711,523</b>	P 305,781,452	P 330,192,830
Rental	24	<b>14,774,525</b>	15,893,387	18,271,494
Others	17	<b>4,374,359</b>	16,459,227	7,791,270
		<u><b>328,860,407</b></u>	<u>338,134,066</u>	<u>356,255,594</u>
<b>OPERATING EXPENSES</b>				
Depreciation and amortization	10, 12	<b>52,150,073</b>	51,360,489	22,680,358
Finance costs	14	<b>28,701,516</b>	44,276,964	2,430,278
Other direct costs	18	<b>188,696,504</b>	187,685,322	180,608,436
Other operating expenses	19	<b>102,365,488</b>	113,318,662	114,470,316
		<u><b>371,913,581</b></u>	<u>396,641,437</u>	<u>320,189,388</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>( 43,053,174 )</b>	<b>( 58,507,371 )</b>	36,066,206
<b>TAX EXPENSE (INCOME)</b>	22	<b>( 9,111,297 )</b>	<b>( 15,861,009 )</b>	17,420,006
<b>NET PROFIT (LOSS)</b>		<b>( <u>P 33,941,877</u> )</b>	<b>( <u>P 42,646,362</u> )</b>	<u>P 18,646,200</u>
<b>Basic/Diluted Earnings (Loss) Per Share</b>	23	<b>( <u>P 0.058</u> )</b>	<b>( <u>P 0.073</u> )</b>	<u>P 0.033</u>

\* The Company has no other comprehensive income for each of the three years.

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Note	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CAPITAL STOCK</b>	16			
Issued and outstanding				
Balance at beginning of year		P 585,608,270	P 569,778,889	P 569,778,889
Issued during the year		<u>-</u>	<u>15,829,381</u>	<u>-</u>
Balance at end of year		585,608,270	585,608,270	569,778,889
Subscribed capital stock - net		<u>78,860</u>	<u>78,860</u>	<u>28,985</u>
		<u>585,687,130</u>	<u>585,687,130</u>	<u>569,807,874</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>	16			
Balance at beginning of year		39,947,626	373,718	373,718
Issuance of additional shares during the year		<u>-</u>	<u>39,573,908</u>	<u>-</u>
Balance at end of year		<u>39,947,626</u>	<u>39,947,626</u>	<u>373,718</u>
<b>RETAINED EARNINGS</b>	16			
Appropriated		<u>300,000,000</u>	<u>300,000,000</u>	<u>300,000,000</u>
Unappropriated				
Balance at beginning of year		323,249,064	365,895,426	347,249,226
Net profit (loss)		( <u>33,941,877</u> )	( <u>42,646,362</u> )	<u>18,646,200</u>
Balance at end of year		<u>289,307,187</u>	<u>323,249,064</u>	<u>365,895,426</u>
		<u>589,307,187</u>	<u>623,249,064</u>	<u>665,895,426</u>
<b>TOTAL EQUITY</b>		<u>P 1,214,941,943</u>	<u>P 1,248,883,820</u>	<u>P 1,236,126,893</u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Notes	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 43,053,174 )	( P 58,507,371 )	P 36,066,206
Adjustments for:				
Depreciation and amortization	10, 12	52,150,073	51,360,489	22,680,358
Finance costs	14	28,701,516	44,276,964	2,430,278
Interest income	17	( 878,408 )	( 1,602,182 )	( 3,900,495 )
Gain on sale of investment in a subsidiary	17	-	( 10,956,114 )	-
Impairment loss and receivables written off	8	-	398,439	470,577
Operating profit before working capital changes		<u>36,920,007</u>	<u>24,970,225</u>	<u>57,746,924</u>
Decrease (increase) in receivables		156,860,757	14,180,388	( 18,675,449 )
Decrease (increase) in prepayments and other current assets		( 1,007,535 )	16,142,288	( 10,120,334 )
Decrease (increase) in other non-current assets		( 2,252,833 )	9,041,505	( 33,821,300 )
Increase (decrease) in trade and other payables		53,430,164	( 17,295,699 )	14,250,483
Increase in other current liabilities		1,794,686	4,178,475	2,176,459
Increase in retirement benefit obligation		8,400,000	8,503,309	7,413,370
Increase in other non-current liabilities		<u>889,652</u>	<u>1,938,010</u>	<u>823,082</u>
Cash generated from operations		255,034,898	61,658,501	19,793,235
Cash paid for income taxes		( 1,207,533 )	( 2,043,220 )	( 15,179,856 )
Interest received		<u>878,408</u>	<u>1,602,182</u>	<u>3,900,495</u>
Net Cash From Operating Activities		<u>254,705,773</u>	<u>61,217,463</u>	<u>8,513,874</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net acquisitions of property and equipment	10	( 38,739,137 )	( 114,892,132 )	( 430,725,466 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of loans		( 206,716,829 )	( 45,441,900 )	( 16,563,475 )
Interest paid		( 13,872,686 )	( 32,943,533 )	-
Proceeds from additional issuance of capital stock	16	-	55,403,289	-
Proceeds from borrowings		-	-	430,000,000
Receipt of capital stock subscription payment		<u>-</u>	<u>-</u>	<u>49,875</u>
Net Cash From (Used in) Financing Activities		( 220,589,515 )	( 22,982,144 )	413,486,400
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>( 4,622,879 )</b>	<b>( 76,656,813 )</b>	<b>( 8,725,192 )</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>71,377,033</u>	<u>148,033,846</u>	<u>156,759,038</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P 66,754,154</b>	<b>P 71,377,033</b>	<b>P 148,033,846</b>

**Supplemental Information on Non-cash Investing Activities**

On December 28, 2009, the Company entered into a share purchase agreement with Capital Managers and Advisors, Inc. (CMAI) for the sale of the Company's 210,636,433 shares in JTH Davies Holdings, Inc. (JTH) representing 68.57% ownership interest. The shares were sold at P0.73 per share or for a total consideration of P153,764,596 which is shown as part of Receivables - net in the 2009 statement of financial position. Consequently, gain on the sale amounting to P10,956,114 was recognized from the sale transaction (see Notes 8, 9 and 17).

In 2008, the Company entered into an agreement with Global Versatech Inc. (GVI) to supply equipment to rehabilitate and upgrade the Company's existing totalizator system, to increase the number of terminals and to develop new betting online systems. Payment of the system and related services will be made over a seven-year period starting July 2008 until June 2015, based on a certain percentage of gross receipts from ticket sales (see Note 14).

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE MATTERS**

***1.1 Incorporation and Operations***

Philippine Racing Club, Inc. (the Company) was incorporated in the Philippines primarily to engage in the business of operating and maintaining a racetrack covered by its franchise (see Note 6), and managing betting stations located within Metro Manila and other parts of the country. Until December 2008, the Company held its race operations in Santa Ana Park in Makati City. Beginning January 6, 2009, the Company has officially transferred its racetrack and race operations in Cavite (see Note 10.2). The Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

In 2008, the Company holds 68.57% ownership interest in JTH Davies Holdings, Inc. (JTH), another company listed at the PSE. JTH was incorporated in the Philippines and used to focus on middle income housing and wholesale distribution of agri-chemical products and construction supplies before it amended its primary purpose to that of a holding company in 2004. On December 28, 2009, the Company sold its 68.57% interest in JTH to Capital Managers and Advisors, Inc. (CMAI) (see Note 9).

The Company's registered office, which is also its principal place of business, is located at Santa Ana Park, A. P. Reyes Avenue, Makati City.

***1.2 Approval of Financial Statements***

The financial statements of the Company for the year ended December 31, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Company's Board of Directors (BOD) on March 28, 2011.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

***2.1 Basis of Preparation of Financial Statements***

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement basis specified by PFRS for each type of assets, liabilities, income and expenses. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

## ***2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS***

(a) *Effective in 2010 that are Relevant to the Company*

In 2010, the Company adopted the following new interpretations, revisions, amendments and annual improvements to existing standards that are relevant to the Company and effective for financial statements for the annual period beginning on or after January 1, 2010.

Philippine Interpretation International Financial Reporting and Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of these amended standards.

- (i) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Company's adoption of this interpretation did not have a material impact on the financial statements because the Company did not distribute non-cash assets to stockholders during the year.

(ii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *2009 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Company's financial statements but which did not also have any material impact on its financial statements:

- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations* (effective from January 1, 2010). The amendment clarifies that PFRS 5 specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations and set out all the disclosures required in respect of those assets or operations.
- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Company as cash flow from investing activities.
- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

(b) *Effective in 2010 but not Relevant to the Company*

The following revisions, amendments, interpretations and annual improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Company's financial statements:

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Group Cash-settled Share Based Payment Transactions
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendment to IFRIC 9 and PAS 39
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	:	Distribution of Non-cash Assets to Owners
IFRIC 18	:	Transfers of Assets from Customers

2009 Annual Improvements		
PFRS 8 (Amendment)	:	Operating Segments
PAS 18 (Amendment)	:	Revenue
PAS 36 (Amendment)	:	Impairment of Assets
PAS 38 (Amendment)	:	Intangible Assets and Measurement
PAS 40 (Amendment)	:	Investment Property
PAS 41 (Amendment)	:	Agriculture
PFRS 5 (Amendment)	:	Non-current Assets Held-for-sale and Discontinued Operations

(c) *Effective Subsequent to 2010*

There are new PFRS and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property*, it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made. The amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Philippine Interpretation SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in Philippine Interpretation SIC-21, which is accordingly withdrawn. As of December 31, 2010, management is still evaluating the effect of this amendment to the Company's financial statements.
- (ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Company opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party. The Company is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because it does not usually make substantial advance contributions to its retirement fund.

- (iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

- (v) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
- Phase 1: Classification and Measurement
  - Phase 2: Impairment Methodology
  - Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Company expects it can comprehensively assess the impact of the revised standard.

- (vi) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

### **2.3 Financial Assets**

Financial assets, which are recognized when the Company becomes a party to the contractual terms of the financial instruments, include cash and other financial instruments. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

At present, the Company's financial assets pertain mainly to loans and receivables. Financial assets are initially recognized at fair value plus any attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables, and Customer and Other Deposits and Sinking fund (presented as part of Other Non-current Assets account) in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

## ***2.4 Property and Equipment***

Land is stated at cost. Buildings and improvements and land improvements, machinery and equipment, office equipment, furniture and fixtures, and transportation equipment are carried at acquisition cost or construction cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

Machinery and equipment	5-10 years
Transportation equipment	4-5 years
Buildings and improvements and land improvements	3-30 years
Office equipment, furniture and fixtures	5-10 years

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.16). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

## ***2.5 Interest in a Joint Venture***

The Company accounts for its joint venture transactions under jointly controlled assets wherein the Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities incurred jointly with the other venturers in relation to the joint venture, and any income earned and expenses incurred in respect of its interest in the joint venture.

The Company's share of the jointly controlled assets is classified as Property Held for Sale while the Company's share of any liabilities incurred is presented as Provision for Project Development.

Property held for sale includes properties that the Company intends to sell within one year from the date of the classification as held for sale. These are measured at the lower of their carrying amounts, immediately prior to their classifications as held for sale, and their fair value less costs to sell.

## ***2.6 Franchise Cost***

Franchise cost (included as part of Other Non-current Assets account) is accounted for under the cost model. The costs incurred for the renewal of the Company's franchise for another 25 years starting October 28, 1997 have been capitalized and are amortized over the period covered by the new franchise. The carrying amount of the franchise cost is subject to impairment testing as described in Note 2.13.

## ***2.7 Financial Liabilities***

Financial liabilities include Trade and Other Payables, Interest-bearing Loans and Borrowings and Other Current and Non-current liabilities.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the statement of comprehensive income.

Interest-bearing loans and borrowings are raised for support for the construction of certain property and equipment. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables and other current liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BOD.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

## ***2.8 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.9 Related Party Transactions***

Related party transactions are transfer of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### ***2.10 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Retained earnings include all current and prior period results as disclosed in profit or loss in the statement of comprehensive income.

### ***2.11 Revenue and Cost Recognition***

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for services provided, excluding value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Revenue from club races* – Revenue is recognized as earned based on a percentage of gross receipts from ticket sales in accordance with the Company’s franchise.
- (b) *Rental income from stables and other facilities* – Revenues are recognized when realized, earned and collected.
- (c) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16), on an accrual basis.

## **2.12 Leases**

The Company accounts for its leases as follows:

### *(a) Company as Lessee*

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### *(b) Company as Lessor*

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company’s net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company’s net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the 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.

### ***2.13 Foreign Currency Transactions***

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

### ***2.14 Impairment of Non-financial Assets***

The Company's property and equipment, property held for sale and franchise cost (presented as part of Other Non-current Assets account in the statement of financial position) are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## **2.15 Employee Benefits**

### *(a) Post-employment Benefits*

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Company's post-employment defined benefit pension plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity (such as the Social Security System). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

### *(b) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. They are accrued and paid by the Company at year-end.

### ***2.16 Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

### ***2.17 Income Taxes***

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

### ***2.18 Earnings Per Share***

Earnings per common share are determined by dividing net income by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared in the current year. Diluted earnings per share are not computed since the Company has no potential dilutive common shares.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

#### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

##### *(a) Operating and Finance Leases*

The Company has entered into various lease agreements as either lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

##### *(b) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on provisions and contingencies are discussed in Note 2.8 and relevant disclosures are presented in Notes 10.2 and 24.

#### ***3.2 Key Sources of Estimation Uncertainty***

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

##### *(a) Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 10. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in the estimated useful lives of property and equipment in 2010 and 2009.

(b) *Allowance for Impairment of Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of Receivables amount to P22.0 million and P178.9 million as at December 31, 2010 and 2009, respectively (see Note 8). Impairment losses on receivables, as also shown in Note 8, amounted to P0.4 million in 2009 (nil in 2010).

(c) *Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2010 and 2009 is disclosed in Note 22.

(d) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No allowance for impairment was recognized on the Company's property and equipment, property held for lease and franchise cost as of December 31, 2010 and 2009.

(e) *Retirement Benefits*

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20.2 and include, among others, discount rates, expected return on plan assets and expected rate of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation amounted to P55.0 million and P46.6 million as of December 31, 2010 and 2009, respectively, while fair value of plan assets as of those dates amounted to P41.6 million and P38.5 million, respectively (see Note 20.2).

#### 4. **RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks which result from its operating, financing and investing activities. The Company's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below.

##### ***4.1 Foreign Currency Risk***

Most of Company's transactions are carried out in Philippine pesos. Exposures to currency exchange rates arise from the Company's overseas purchases and certain short-term placements, which are primarily denominated in United States (US) dollars.

Foreign currency denominated bank deposits as of December 31, 2010 and 2009 amount to \$1,729 and \$7,726, respectively. Translated into Philippine Pesos at the closing rate, the bank deposits amount to P75,877 and P358,128 as of December 31, 2010 and 2009, respectively.

The sensitivity analysis of the Company's net results for the year arising from the changes in the Philippine peso/US dollar exchange rate by +/-21.14% and +/-20.95% in 2010 and 2009, respectively. These percentages have been determined based on the 90-day average market volatility in exchange rates, using standard deviation, in the previous 12 months using a 99% confidence level. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period, with effect estimated from the beginning of year.

Had the Philippine peso strengthened against the US dollar by 21.14% and 20.95% at the end of 2010 and 2009, respectively, with all other variables held constant, the Company's loss before tax for the year ended December 31, 2010 and 2009 would have been higher by P0.02 million and P0.1 million, respectively. On the other hand, had the Philippine peso been weaker by the same percentages, with all other variables held constant, loss before tax would have been lower by the same amounts.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

#### 4.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	7	<b>P 66,636,805</b>	P 69,497,979
Receivables - net	8	<b>22,012,549</b>	178,873,306
Other non-current assets:			
Customer and other deposits	12	<b>9,633,646</b>	10,371,084
Sinking fund	12	<b>11,277,750</b>	6,275,051
		<b><u>P 109,560,750</u></b>	<b><u>P 265,017,420</u></b>

The Company's cash and cash equivalents, receivables and other financial assets are actively monitored to avoid significant and unwarranted exposure to credit risk.

In addition, for a significant proportion of betting station operators, security deposit payments are received to mitigate credit risk. The Company has adopted a no-business policy with operators lacking an appropriate credit history where credit records are available.

None of the financial assets is secured by collateral or other credit enhancements except for the Company's cash and cash equivalents which are insured by the Philippine Deposit Insurance Corporation at P500,000 per depositor per banking institution. As part of Company policy, bank deposits and short-term placements are only maintained with reputable financial institutions. For determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P117,349 and P1,879,054 as of December 31, 2010 and 2009, respectively.

Financial assets past due but not impaired is shown below.

	<u>2010</u>	<u>2009</u>
Not more than three months	<b>P 18,222,548</b>	P 9,555,028
More than three months but not more than seven months	-	115,408
More than seven months	<b>7,208,058</b>	18,020,573
	<b><u>P 25,430,606</u></b>	<b><u>P 27,691,009</u></b>

In respect of receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### 4.3 Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on all financial instruments. At December 31, 2010 and 2009, the Company is exposed to changes in market interest rates on its short-term placements and interest-bearing loans and borrowings, which are subject to variable interest rates (see Notes 7 and 14).

The following table illustrates the sensitivity of the net result for the year and equity assuming interest rates were to change at a reasonably possible range of +/-6.00 basis points (bp) on short-term placements and +/-6.00 bp on interest-bearing loans and borrowings at December 31, 2010 and +/-4.70 bp on short-term placements and +/-47.93 bp on interest-bearing loans and borrowings at December 31, 2009, with all other variables held constant.

#### Short-term placements (in '000s)

<u>Effects on</u>	<u>2010</u>		<u>2009</u>	
	<u>+6.00 bp</u>	<u>-6.00 bp</u>	<u>+4.70 bp</u>	<u>-4.70 bp</u>
Net loss for the year	P 9	(P 9)	P 99	(P 99)
Equity at end of year	9	( 9)	99	( 99)

#### Interest-bearing loans and borrowings (in '000s)

<u>Effects on</u>	<u>2010</u>		<u>2009</u>	
	<u>+47.93 bp</u>	<u>-47.93 bp</u>	<u>+ 47.93 bp</u>	<u>-47.93 bp</u>
Net loss for the year	(P 25,846)	P 25,846	(P 35,882)	P 35,882
Equity at end of year	( 25,846)	25,846	( 35,882)	35,882

The changes in interest rates used in this analysis are based on the volatility of the Company's actual interest rates on its short-term placements and interest-bearing loans and borrowings during the past 12 months.

### 4.4 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2010 and 2009, the Company's financial liabilities have contractual maturities which are presented below.

	2010			
	Current		Non-current	
	Within	6 to 12	1 to 5	Beyond
	6 Months	Months	Years	5 Years
Trade and other payables	P 207,629,147	P -	P -	P -
Other current liabilities	-	49,909,853	-	-
Interest-bearing loans and borrowings	-	67,041,871	-	272,520,130
Other non-current liabilities	-	-	-	30,176,800
	<b><u>P 207,629,147</u></b>	<b><u>P 116,951,724</u></b>	<b><u>P -</u></b>	<b><u>P 302,696,930</u></b>

	2009			
	Current		Non-current	
	Within	6 to 12	1 to 5	Beyond
	6 Months	Months	Years	5 Years
Trade and other payables	P 154,416,779	P -	P -	P -
Other current liabilities	-	47,791,320	-	-
Interest-bearing loans and borrowings	-	226,983,840	-	296,659,499
Other non-current liabilities	-	-	-	29,287,148
	<b><u>P 154,416,779</u></b>	<b><u>P 274,775,160</u></b>	<b><u>P -</u></b>	<b><u>P 325,946,647</u></b>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

## 5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the statements of financial position are shown below.

	Notes	2010		2009	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b><i>Financial assets</i></b>					
Cash and cash equivalents	7	P 66,754,154	P 66,754,154	P 71,377,033	P 71,377,033
Receivables – net	8	22,012,549	22,012,549	178,873,306	178,873,306
Other non-current assets	12	20,911,396	20,911,396	16,646,135	16,646,135
		<b><u>P 109,678,099</u></b>	<b><u>P 109,678,099</u></b>	<b><u>P 266,896,474</u></b>	<b><u>P 266,896,474</u></b>
<b><i>Financial liabilities</i></b>					
Current::					
Interest-bearing					
loans and borrowings	14	P 47,618,834	P 47,618,834	P 181,729,755	P 181,729,755
Trade and other payables	13	207,846,943	207,846,943	154,416,779	154,416,779
Other current liabilities	15	49,909,853	49,909,853	47,791,320	47,791,320
Non-current::					
Interest-bearing					
loans and borrowings	14	229,703,712	229,703,712	287,480,790	287,480,790
Other non-current liabilities	15	30,176,800	30,176,800	29,287,148	29,287,148
		<b><u>P 565,256,142</u></b>	<b><u>P 565,256,142</u></b>	<b><u>P 700,705,792</u></b>	<b><u>P 700,705,792</u></b>

See Notes 2.3 and 2.7 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

## 6. FRANCHISE

The Company is a holder of a franchise granted through Republic Act (RA) No. 6632 to operate and maintain a racetrack and conduct horse races therein for a period of 25 years up to October 27, 1997. Under this franchise, the Company is required to pay, among others, a franchise tax equivalent to 25% of its gross earnings from horse races. This tax is in lieu of any and all taxes of any kind, except income tax, that are imposed by the local or national government on the activities covered by the franchise.

On March 30, 1995, RA No. 7953 was enacted extending the Company's franchise for another 25 years up to October 2022, substantially under the same terms and conditions as the old franchise. The related cost of the franchise, net of the yearly amortizations, is shown as franchise cost under Other Non-current Assets account in the statements of financial position (see Note 12).

Under RA No. 7716, better known as the Expanded Value-added Tax Law, the Company is required to pay 10% VAT on its gross receipts. In view of this, the Company obtained a tax ruling wherein it was clarified that the Company is subject to the 10% VAT on its gross receipts instead of the 25% franchise tax on its operations. Accordingly, the Company has been paying since then the 10% VAT in lieu of any and all taxes of any kind, except income tax, that were imposed by the local or national government. On February 1, 2006, the VAT rate was increased to 12% under RA No. 9337.

## 7. CASH AND CASH EQUIVALENTS

The details of this account follow:

	<u>2010</u>	<u>2009</u>
Cash on hand and in banks	<b>P 65,942,874</b>	P 60,561,649
Short-term placements	<u>811,280</u>	<u>10,815,384</u>
	<b><u>P 66,754,154</u></b>	<b><u>P 71,377,033</u></b>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 days and effective interest rates per annum ranging from 1.8% to 2.3% in 2010 and 1.8% to 2.0% in 2009.

## 8. RECEIVABLES

This account includes the following:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Receivables from customers		<b>P 19,756,365</b>	P 21,326,332
Receivables from officers and employees	21.4	<b>3,763,912</b>	4,853,430
Advances to Philippine Racing Commission (Philracom)		<b>562,645</b>	562,645
Receivable from CMAI	9	-	153,764,596
Others		<u><b>2,616,821</b></u>	<u>3,053,497</u>
		<b>26,699,743</b>	183,560,500
Allowance for impairment		<u><b>(4,687,194)</b></u>	<u>(4,687,194)</u>
		<u><b>P 22,012,549</b></u>	<u>P 178,873,306</u>

All of the Company's receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 2010 and 2009 is shown below.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 4,687,194</b>	P 4,288,755
Impairment loss during the year	<u>-</u>	<u>398,439</u>
Balance at end of year	<u><b>P 4,687,194</b></u>	<u>P 4,687,194</u>

The Company has directly written off receivables amounting to P1.8 million in 2009 (nil in 2010).

Receivables from customers do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2). However, the Company does not identify specific concentrations of credit risks with regard to its receivables as the amount recognized represent a large number of receivables from various customers.

Receivables from officers and employees are interest-bearing and payable through salary deduction within six months from the grant date. The effective interest rate on loans to employees is 8% in 2010 and 2009.

Due to their short duration, the net carrying amount of receivables is considered a reasonable approximation of its fair value.

## 9. INVESTMENT IN A SUBSIDIARY

### *9.1 Disposal of Investments in JTH*

On December 28, 2009, the Company entered into a Share Purchase Agreement with CMAI to sell the Company's investment in 210,636,433 shares of JTH representing 68.57% ownership interest at a purchase price of P0.73 per share or for a total consideration of P153.8 million. It was stipulated that the purchase price shall be paid by CMAI to the Company on the closing date, January 29, 2010. Outstanding receivable is presented as part of Receivables in the 2009 statement of financial position (see Note 8).

CMAI offered to purchase the shares subject to the conditions that the Company shall purchase the tax credits and repay the loan to JTH amounting to P27.5 million and P100.0 million, respectively. Out of the total tax credits, P10.2 million pertains to the tax credit obtained by JTH from the City of Makati for the local transfer tax that was erroneously paid by JTH on July 25, 2008. The tax credit was granted to the Company on November 24, 2009 (see Note 12). On the other hand, the remaining P17.3 million worth of tax credits is still in the process of being obtained by JTH from the Land Registration Authority in connection with real property taxes as of the date of the agreement.

Gain from the sale of shares amounting to P11.0 million and the related stock transaction tax amounting to P0.8 million are presented as part of Other Revenues and Other Operating Expenses, respectively (see Notes 17 and 19).

### *9.2 Proposed Exchange of JTH Shares with the Company's Makati Property*

On May 11, 2007, the BOD approved the exchange of 212,069 square meters of the Company's Makati property with 795,817,789 shares of JTH. The transaction will result to the increase of the Company's ownership in JTH to 91.25%. The Makati property has a Bureau of Internal Revenue (BIR) zonal value of P18,000 per square meter.

On June 12, 2007, the Company obtained a favorable ruling from the BIR confirming that under Sec. 40 (c)(2) of the National Internal Revenue Code, the transfer of the Company's Makati property to JTH in exchange for JTH shares is not subject to: income tax, capital gains tax, expanded withholding tax, VAT, donor's tax and documentary stamp tax.

Related to this, certain minority stockholders holding about 5.67% of the capital stock filed a civil case in the Regional Trial Court of Makati City, Branch 149 against the majority directors of the Company. The Court issued a temporary restraining order (TRO), which prevented the Company from submitting to the stockholders for approval the planned exchange transaction during its Annual Stockholders' Meeting held on October 10, 2007. The majority directors filed a petition for certiorari with the Court of Appeals questioning the issuance of the TRO for having no legal basis and for allowing the stockholders who represent only 5.67% ownership to prevent the majority directors from presenting to the stockholders for approval certain matters in the agenda for the stockholders' meeting, which the majority directors deem is for the best interest of the Company. However, the Court of Appeals rendered a decision dismissing the proceeding for prematurity.

On April 9, 2008, the Third Division of Supreme Court resolved to require respondents to comment (not to file a motion to dismiss) within 10 days from notice. Acting on the prayer for the issuance of a TRO and/or writ of preliminary injunction dated March 24, 2008, the Court likewise resolved to issue a temporary restraining order enjoining respondents from enforcing or executing the assailed Court of Appeal's decision and resolution, and the assailed trial court's resolutions particularly that which mandated the continued enforcement of the writ of permanent injunction issued by the trial court, until further orders from the Supreme Court.

Subsequently at the Annual Stockholders' Meeting on June 18, 2008, the stockholders representing 75.32% of the total outstanding stock approved the planned exchange of the Company's property for the shares of JTH.

On July 3, 2008, a reconfirmatory ruling from BIR was obtained stating that indeed, the transfer of the Company's Makati property to JTH in exchange for JTH shares is not subject to taxes.

On July 7, 2008, the Company executed a Deed of Transfer with Subscription Agreement wherein the Company subscribed to a total of 795,817,789 shares of stock and in payment and exclusively in exchange, the Company assigned, transferred and conveyed to JTH its Makati property (TCT 218137, 356179, 224459-64) at the total subscription price of P3,817,242,000 (aggregated zonal value of the property). However, the BIR Chief revoked the VAT exemption noting that the racetrack is a property that is used in business. The BIR letter, which was received by the Company on August 15, 2008, stated that the Company, being a VAT-registered taxpayer is covered by the exception provided under Sec. 4.109-1 (j) of Revenue Regulations (RR) No. 16-2005 as last amended by RR No. 4-2007, which provides that "Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business. However, even if the real property is not primarily held for sale to customers or held for lease in the ordinary course trade or business but the same is used in trade or business of the seller, the sale thereof shall be subject to VAT being a transaction incidental to the taxpayer's main business". Consequently, the Company was assessed to pay VAT tentatively computed in the amount of P458,069,040 (see Note 24.3.2).

On August 22, 2008, the Company and JTH rescinded the Deed of Transfer with Subscription Agreement through a Disengagement Agreement. The rescission was made primarily because of the non-fulfillment of one fundamental condition for the transfer of the property, that is, there shall be no VAT due on the exchange of property for shares of stock.

Immediately, the Company furnished the BIR a copy of the Disengagement Agreement as part of the reply to the letter of the BIR revoking the VAT exemption of the exchange transaction. In the letter, the Company requested for a formal cancellation or withdrawal of the demand for the payment of the VAT in view of the rescission of the Deed of Transfer and Subscription Agreement or the non-consummation of the exchange transaction.

On September 4, 2008, the Company filed a request to the legal office of the Secretary of Finance, Hon. Margarito Teves, for the review of BIR unnumbered ruling dated July 15, 2008. To date, there is no response yet received from the Department of Finance.

Subsequently, the BIR upheld the position of the Company in its reply dated February 26, 2009. The BIR stated that without a sale or exchange having been effected, it follows that no taxable event has taken place. The BIR further stated that “there being no actual exchange or transfer of properties of the Company to JTH as contemplated in the rescinded Deed of Transfer with Subscription Agreement, there is now no taxable transaction subject to VAT and any demand letter issued for the payment thereof is hereby withdrawn” (see Note 24.3.2).

## 10. PROPERTY AND EQUIPMENT

### 10.1 Property and Equipment

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2010 and 2009 are shown below.

	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Buildings and Improvements and Land Improvements</u>	<u>Office Equipment, Furniture and Fixtures</u>	<u>Land</u>	<u>Construction- In- Progress</u>	<u>Total</u>
<b>December 31, 2010</b>							
Cost	P 135,175,674	P 28,919,924	P 867,698,967	P 6,771,984	P 174,167,936	P 93,330,297	P 1,306,064,782
Accumulated depreciation and amortization	( 64,174,351)	( 23,760,728)	( 772,856)	( 4,958,201)	-	-	( 93,666,136)
<b>Net carrying amount</b>	<b><u>P 71,001,323</u></b>	<b><u>P 5,159,196</u></b>	<b><u>P 866,926,111</u></b>	<b><u>P 1,813,783</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 93,330,297</u></b>	<b><u>P 1,212,398,646</u></b>
<b>December 31, 2009</b>							
Cost	P 135,299,838	P 30,061,709	P 889,021,408	P 7,312,705	P 174,167,936	P 64,572,581	P 1,300,436,177
Accumulated depreciation and amortization	( 47,320,428)	( 26,075,063)	( 672,361)	( 4,878,743)	-	-	( 78,946,595)
<b>Net carrying amount</b>	<b><u>P 87,979,410</u></b>	<b><u>P 3,986,646</u></b>	<b><u>P 888,349,047</u></b>	<b><u>P 2,433,962</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 64,572,581</u></b>	<b><u>P 1,221,489,582</u></b>
<b>January 1, 2009</b>							
Cost	P 133,031,071	P 29,281,048	P 9,936,371	P 5,264,187	P 342,037	P1,035,315,348	P 1,213,170,062
Accumulated depreciation and amortization	( 30,959,727)	( 23,278,114)	( 1,307,801)	( 3,986,481)	-	-	( 59,532,123)
<b>Net carrying amount</b>	<b><u>P 102,071,344</u></b>	<b><u>P 6,002,934</u></b>	<b><u>P 8,628,570</u></b>	<b><u>P 1,277,706</u></b>	<b><u>P 342,037</u></b>	<b><u>P1,035,315,348</u></b>	<b><u>P 1,153,637,939</u></b>

The reconciliations of the carrying amounts at the beginning and end of 2010 and 2009 of property and equipment are shown below.

	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Buildings and Improvements and Land Improvements</u>	<u>Office Equipment, Furniture and Fixtures</u>	<u>Land</u>	<u>Construction- In-Progress</u>	<u>Total</u>
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 87,979,410	P 3,986,646	P 888,349,047	P 2,433,962	P 174,167,936	P 64,572,581	P 1,221,489,582
Additions	624,484	3,138,878	6,343,504	268,980	-	25,382,234	35,758,080
Reclassification	-	-	-	-	-	3,375,482	3,375,482
Disposals/write-offs	( 300,094)	-	-	( 94,331)	-	-	( 394,425)
Depreciation and amortization charges for the year	( <u>17,302,477</u> )	( <u>1,966,328</u> )	( <u>27,766,440</u> )	( <u>794,828</u> )	-	-	( <u>47,830,073</u> )
Balance at December 31, 2010, net of accumulated depreciation and amortization	<b><u>P 71,001,323</u></b>	<b><u>P 5,159,196</u></b>	<b><u>P 866,926,111</u></b>	<b><u>P 1,813,783</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 93,330,297</u></b>	<b><u>P 1,212,398,646</u></b>
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 102,071,344	P 6,002,934	P 8,628,570	P 1,277,706	P 342,037	P1,035,315,348	P 1,153,637,939
Additions	2,065,118	1,030,661	277,573	2,048,518	-	109,470,262	114,892,132
Reclassifications	203,649	-	906,183,481	-	173,825,899	( 1,080,213,029)	-
Depreciation and amortization charges for the year	( <u>16,360,701</u> )	( <u>3,046,949</u> )	( <u>26,740,577</u> )	( <u>892,262</u> )	-	-	( <u>47,040,489</u> )
Balance at December 31, 2009, net of accumulated depreciation and amortization	<b><u>P 87,979,410</u></b>	<b><u>P 3,986,646</u></b>	<b><u>P 888,349,047</u></b>	<b><u>P 2,433,962</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 64,572,581</u></b>	<b><u>P 1,221,489,582</u></b>

Land represents the cost of the parcels of land located in Makati City where the Company's old racetrack used to be located and the 65.5 hectares of land developed as the site of the Company's racetracks and related facilities in Cavite.

Certain portion of the land under transfer certificate of title (TCT) No. 224463, Lot 5 is used as collateral under real estate mortgage to secure the Company's loan with Banco de Oro Unibank, Inc. (BDO) and is annotated for P108.0 million (see Note 14.3).

In July 2008, the Company acquired a new totalizator system from Global Versatech, Inc. (GVI) through a chattel mortgage and is presented as part of machinery and equipment under the Property and Equipment account. The system was recorded at its estimated present value of P90.0 million (see Note 14.4). The effective interest rate used is 0.89% in 2010 and 0.90% in 2009.

The amount of depreciation is allocated as follows:

	<u>2010</u>	<u>2009</u>
Direct costs	<b>P 41,893,428</b>	P 40,028,843
Other operating expenses	<b><u>5,936,645</u></b>	<u>7,011,646</u>
	<b><u>P 47,830,073</u></b>	<u>P 47,040,489</u>

## ***10.2 Construction in Progress***

In 2008, substantial portion of construction in progress account pertains to two racetracks (1600 meter track and 1400 meter track) and office facilities in progress in Cavite. The development of a portion of the Company's Cavite property into the Company's racetracks and related facilities is divided into two phases: (i) Phase 1 involves the construction of the practice track for racehorses and the development of adjacent horse stable lots for sale and for lease to horseowners; and (ii) Phase 2 covers the conversion of the practice track into a racetrack and the construction of a grandstand, offices, stables and other basic racing facilities.

As part of the Phase 1 development, the Company appointed Sta. Lucia Realty and Development Corporation (Sta. Lucia) to undertake the project (see Note 21.2). The Company has recognized a liability equivalent to the construction and development costs related to the project which was advanced by Sta. Lucia. In accordance with the construction agreement, 80% of the proceeds from the sale of the residential and commercial lots from the joint venture agreement would be used to settle such liability (see Note 11).

The Phase 1 of the racetrack development project has been completed in 2008. The cost of the land being developed and the development costs are presented under Construction-in-progress. The Company recognized a liability presented as Provision for Project Development in the statements of financial position. The balance of provision for project development costs amounted to P137,200,000 at the end of 2010 and 2009.

With respect to Phase 2 development, the Company appointed several contractors including Sta. Lucia to undertake the various sections of the project. The costs incurred in undertaking the project were capitalized under Construction-in-progress, including capitalized borrowing costs of P3.2 million and P6.2 million in 2010 and 2009, respectively (see Note 14). The capitalized borrowing costs represent 13% of the actual borrowing costs incurred on loans obtained to fund the construction project in 2010 and 2009. As of the beginning of 2009, major components of Phase 2 development had been completed. The Company started using the 1600 meter track and other related facilities on January 6, 2009. Total costs transferred to the building and improvements and land improvements, and land amounted to P906.2 million and P173.8 million, respectively, in 2009.

As of December 31, 2010, the remaining balance in Construction-in-progress consists of P45.3 million aggregate cost of the 1400 meter racetrack and P48.0 million cost of the construction project in the Makati property of the Company.

## 11. PROPERTY HELD FOR SALE

The Company has tracts of land, approximately 214.9 hectares, located in Cavite. Of the total land area, approximately 65.5 hectares was developed as the site of the Company's racetrack and related facilities and the remaining approximately 149.4 hectares is being developed as commercial and residential areas (see Note 10).

In 1999, the Company entered into a joint venture agreement (the "Agreement") with Sta. Lucia, a related party, for the development of a significant portion of this real estate property (see Note 21.1). Based on the Agreement, the Company contributed the land and Sta. Lucia, as the developer, shouldered the development costs. The Company has received about 20 hectares of developed residential lots and about 9.75 hectares of developed commercial lots from this joint venture agreement.

Documentation of ownership titles for the Cavite Property is presently being completed. For the combined 29.75 hectares of developed subdivisions lots, TCTs covering around 16 hectares are already obtained by the Company. Titling of the remaining portion of developed subdivisions lots, including the 65.5 hectare racetrack complex is still in progress.

## 12. OTHER NON-CURRENT ASSETS

This account consists mainly of the following:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Franchise cost - net	6	<b>P 51,120,000</b>	P 55,440,000
Sinking fund - restricted	14.1	<b>11,277,750</b>	6,275,051
Tax credit	9, 15	<b>10,179,312</b>	10,179,312
Customer and other deposits		<b>9,633,646</b>	10,371,084
Miscellaneous		<b><u>3,774,492</u></b>	<u>5,786,920</u>
		<b><u>P 85,985,200</u></b>	<u>P 88,052,367</u>

Annual amortizations of franchise cost amounted to P4,320,000 in 2010, 2009 and 2008, and are presented as part of Depreciation and Amortization in the statements of comprehensive income.

Included in the customer and other deposits account are the advances of the Company to Manila Electric Railroad and Light Company for the installation of various poles and transformers in Cavite amounting to P6,871,904 and P6,648,690 as of December 31, 2010 and 2009, respectively.

The tax credit pertains to tax credit obtained by JTH from the City of Makati which was subsequently purchased by the Company as one of the conditions set forth on the share purchase agreement executed between the Company and CMAI (see Note 9). The purchase price of P10.2 million was outstanding as of December 31, 2010 (see Note 15).

The sinking fund is used as a collateral on the Company's loans with Maybank Philippines Inc. (MPI) and shall in no time fall short of P5,000,000 (see Note 14.1).

### 13. TRADE AND OTHER PAYABLES

The details of this account are presented below:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Accounts payable		<b>P 71,151,457</b>	P 32,332,967
Accrued taxes		<b>45,619,667</b>	48,636,925
Accrued expenses	21.3	<b>35,889,173</b>	25,599,146
Due to Philracom		<b>20,810,513</b>	18,785,506
National Stud Farm		<b>20,331,972</b>	17,979,842
Dividends	16.4	<b>2,359,144</b>	2,359,460
Miscellaneous		<b><u>11,685,017</u></b>	<u>8,722,933</u>
		<b><u>P 207,846,943</u></b>	<b><u>P 154,416,779</u></b>

The Due to Philracom account refers to the liability to Philracom as stated under the Company's franchise. This liability is substantially equivalent to 1% of ticket sales.

Accrued expenses include unpaid interest of the Company's interest-bearing loans and borrowings, accrual of management bonus and various operating expenses incurred during the year which are still unpaid as of the end of the reporting period.

The carrying amounts of trade and other payables, which are expected to be settled within the next 12 months from the end of the reporting period, is a reasonable approximation of fair value.

#### 14. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings in 2010 and 2009 consist of borrowings from:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Maybank Philippines, Inc. (MPI)	12	<b>P 95,000,000</b>	P 185,000,000
Banco De Oro (BDO)	10	<b>100,000,000</b>	100,000,000
Global Versatech, Inc. (GVI)	10	<b>82,322,546</b>	84,210,545
JTH Davies Holdings, Inc. (JTH)	21.4	<u>-</u>	<u>100,000,000</u>
		<b><u>P 277,322,546</u></b>	<b><u>P 469,210,545</u></b>

The maturity profile of the interest-bearing loans and borrowings as of December 31, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Within one year	<b>P 47,618,834</b>	P 181,729,755
After one year but not more than five years	<b><u>229,703,712</u></b>	<u>287,480,790</u>
	<b><u>P 277,322,546</u></b>	<b><u>P 469,210,545</u></b>

##### ***14.1 MPI Loan***

In April 2008, the Company received a loan grant from MPI amounting to P150,000,000 payable up to April 2011 at an annual interest rate ranging from 9.31% to 9.41%, subject to quarterly repricing. Loans were availed to partially finance the construction of the new racetrack in Cavite. The principal amount of the loan will be paid through quarterly amortizations as follows:

Year 1	P	6,000,000
Year 2		12,000,000
Year 3		19,500,000

In November 2008, the Company received additional loan from MPI amounting to P80,000,000 to finance additional works on the new racetrack facilities and to purchase various equipment. The loan is subject to an annual interest rate of 11.25%, subject to quarterly repricing.

The principal amount of the five-year-loan is subject to quarterly amortization payment as follows:

Year 1	P	2,250,000
Year 2		3,750,000
Year 3		4,750,000
Year 4		5,000,000
Year 5		5,250,000 for 3 quarters and 1,250,000 upon maturity

Both loans from MPI totalling P95,000,000 and P185,000,000 as of December 31, 2010 and 2009, respectively, are collateralized by a hold-out agreement on sinking fund (see Note 12).

Capitalized borrowing costs on the MPI loans amounted to P1.9 million and P3.7 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P12.4 million in 2010 and P18.9 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### ***14.2 Payable to JTH***

The related party liability represents the P100,000,000 clean loan obtained by the Company in January 2008 subject to lump sum payment after 18 months from initial drawdown. Proceeds from the loan were used to finance the construction of the new racetrack in Cavite.

Loan payable to JTH bears annual interest at rates ranging from 8.0% to 8.65% and 8.25% to 9.06% in 2009 and 2008, respectively, subject to quarterly repricing. The loan payable to JTH was fully paid in March 2010.

Capitalized borrowing costs amounted to P0.3 million and P2.0 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P1.8 million in 2010 and P7.0 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### ***14.3 BDO Loan***

On October 29, 2008, the Company received a P100,000,000 seven-year-loan from BDO with an annual interest rate of 10.53%, subject to quarterly repricing. The loan was availed to partially fund the redevelopment of the existing 21-hectare racetrack in Sta. Ana, Makati City into a commercial and residential complex. The principal amount of the loan is expected to be settled in full after seven years.

Loan payable to BDO amounting to P100,000,000 as of December 31, 2010 and 2009 is collateralized by a portion of Makati City property under TCT No. 224463 (see Note 10.1). BDO requires the Company to maintain a minimum debt service coverage ratio of 1:1 and maximum debt-to-equity ratio of 1.5:1 throughout the duration of the term loan. The Company's debt service coverage ratio is 0.25:1 in 2010 and 1:0.82 in 2009. On the other hand, debt-to-equity ratio is 0.62:1 and 0.71:1 in 2010 and 2009, respectively.

Capitalized borrowing costs from BDO loan amounted to P1.0 million and P0.5 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P6.6 million in 2010 and P7.1 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### 14.4 Payable to GVI

In July 2008, the Company entered into an agreement with GVI for the latter to supply equipment to rehabilitate and upgrade the Company's existing system, to increase the number of terminals and to develop new betting online systems (see Note 10.1). Under the agreement, GVI also agreed to provide continuing operations maintenance and support services to the Company's totalizator system. Payment of the tote system and related services will be made over a seven-year period starting July 2008 until June 2015, based on a certain percentage of gross receipts from ticket sales. The related deed of sale did not stipulate any interest on the loan. Hence, the Company initially recorded the liability at its estimated present value of P90 million using the discount rate of 10% (which is the rate of a similar instrument at the time the agreement was executed).

The Company has recognized an effective interest expense of P7.9 million and P11.3 million as of December 31, 2010 and 2009, respectively, and is presented as part of Finance Costs in the statements of comprehensive income.

### 15. OTHER LIABILITIES

The details of this account are presented below.

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Current:			
Payable to a charitable institution		<b>P 39,730,541</b>	P 37,612,008
Payable to JTH	9, 12	<b>10,179,312</b>	10,179,312
Income tax payable		<b><u>951,730</u></b>	<u>294,383</u>
		<b>50,861,583</b>	48,085,703
Non-current:			
Other non-current liabilities		<b><u>30,176,800</u></b>	<u>29,287,148</u>
Total		<b><u>P 81,038,383</u></b>	<u>P 77,372,851</u>

Other non-current liabilities pertain to security deposits paid by the owners of the sites where off-track betting stations are located. The amount of deposits ranges from P50,000 to P150,000 per site. Management expects that these deposits will not be refunded to the site owners in the short-term for as long as the owners continue to operate the Company's off-track betting stations.

### 16. EQUITY

#### 16.1 Capital Management Objective, Policies and Procedures

The Company's capital management objective is to ensure the Company's ability to continue as a going concern.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As of December 31, 2010 and 2009, the Company's debt-to-equity ratio follows:

	<u>2010</u>	<u>2009</u>
Total liabilities	<b>P 758,358,684</b>	P 884,750,987
Total equity	<u><b>1,214,941,943</b></u>	<u>1,248,883,820</u>
Debt-to-equity ratio	<u><b>0.62 : 1</b></u>	<u>0.71 : 1</u>

### ***16.2 Capital Stock***

Capital stock consists of common shares with P1 par value per share with details as follows:

	<u>Number of Shares</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Authorized – 1,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	<b>585,608,270</b>	569,778,889	569,778,889
Issued during the year	<u>-</u>	<u>15,829,381</u>	<u>-</u>
Balance at end of year	<b>585,608,270</b>	585,608,270	569,778,889
Subscribed and unissued	<u><b>78,860</b></u>	<u>78,860</u>	<u>78,860</u>
	<u><b>585,687,130</b></u>	<u>585,687,130</u>	<u>569,857,749</u>
	<u>Amount</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Authorized – 1,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	<b>P 585,608,270</b>	P 569,778,889	P 569,778,889
Issued during the year	<u>-</u>	<u>15,829,381</u>	<u>-</u>
Balance at end of year	<b>585,608,270</b>	585,608,270	569,778,889
Subscribed and unissued	<u><b>78,860</b></u>	<u>78,860</u>	<u>78,860</u>
Less subscription receivable	<u>-</u>	<u>-</u>	<u>(49,875)</u>
	<u><b>78,860</b></u>	<u>78,860</u>	<u>28,985</u>
	<u><b>P 585,687,130</b></u>	<u>P 585,687,130</u>	<u>P 569,807,874</u>

### ***16.3 Stock Rights Offer***

On January 31, 2008, the BOD approved the offering of stock rights to existing shareholders. This offering shall entitle the stockholders to subscribe to one share for every thirty-six shares held on record date at an exercise price of P3.50 per share.

The stock rights issue is intended to address the problem of excess of foreign equity limit in the capital stock. As such, any exercise of the rights offer by foreign stockholders shall be subject to the 40% limitation in the foreign equity participation.

On May 2, 2008, the Company filed an application with the PSE for the listing and trading of the common shares. A Registration Statement was filed with the Securities and Exchange Commission (SEC) on July 4, 2008, in accordance with the Securities Regulation Code for the registration of the 15,829,381 common shares.

On February 23, 2009, the Company received the Order of Registration and Certificate of Permit to Sell Securities from SEC.

On February 27, 2009, the Company issued a memorandum on the amendment in the offer terms of the 1:36 Stock Rights Offering of the Company. The new offer period is from February 23 to March 20, 2009 and the new listing date is March 30, 2009.

On January 26, 2009, a memo on the revised procedures and implementing guidelines has also been issued. The memo officially identified January 9, 2009 as the record date.

During 2009, capital stock issued through the exercise of the stock rights totaled to 15,829,381 shares. Additional paid-in capital as a result of the issuance of shares amounted to P39.6 million.

As of December 31, 2010 and 2009, the Company has 803 stockholders owning 100 or more shares each of the Company's capital stock.

### ***16.4 Retained Earnings***

Total unpaid dividends as of December 31, 2010 and 2009, shown as part of Trade and Other Payables account in the statements of financial position, amounted to P2.4 million (see Note 13).

**17. OTHER REVENUES**

Other revenues consist of the following:

	Note	<u>2010</u>	<u>2009</u>	<u>2008</u>
Site rentals		<b>P 1,817,823</b>	P 1,005,966	P 789,563
Interest income		<b>878,408</b>	1,602,182	3,900,495
Inscription fees		<b>814,689</b>	943,438	783,081
Declaration fees		<b>486,473</b>	652,678	774,732
Gain on sale of investment in a subsidiary	9	-	10,956,114	-
Parking fees		-	16,170	737,221
Miscellaneous		<b>376,966</b>	<u>1,282,679</u>	<u>806,178</u>
		<b><u>P 4,374,359</u></b>	<u>P 16,459,227</u>	<u>P 7,791,270</u>

**18. OTHER DIRECT COSTS**

The following are the breakdown of the other direct costs:

	Note	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employee benefits	20	<b>P 61,350,970</b>	P 63,818,503	P 72,792,340
Site rentals		<b>34,151,854</b>	33,792,383	35,964,503
Transportation and travel		<b>17,382,186</b>	15,973,494	12,223,109
Tote operation and maintenance		<b>17,139,800</b>	16,922,305	18,268,195
Outside services		<b>14,524,125</b>	14,316,348	4,605,323
Communication		<b>13,886,723</b>	14,386,517	12,498,256
Utilities		<b>9,567,143</b>	8,744,785	6,108,423
Off-track betting (OTB) expense		<b>7,914,117</b>	4,820,051	7,515,405
Repairs and maintenance		<b>6,369,098</b>	7,846,469	5,374,558
Insurance		<b>4,105,333</b>	3,769,693	2,216,456
Added prizes		<b>1,220,000</b>	1,801,808	2,071,505
Miscellaneous		<b>1,085,155</b>	<u>1,492,966</u>	<u>970,363</u>
		<b><u>P 188,696,504</u></b>	<u>P 187,685,322</u>	<u>P 180,608,436</u>

## 19. OPERATING EXPENSES BY NATURE

The following are the breakdown of other operating expenses:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employee benefits	20	<b>P 55,284,821</b>	P 56,800,681	P 51,927,002
Professional fees		<b>12,651,750</b>	16,237,197	14,978,476
Outside services		<b>5,475,658</b>	7,080,203	6,423,288
Utilities		<b>5,488,585</b>	4,708,519	5,873,487
Transportation and travel		<b>3,835,431</b>	4,061,426	7,000,700
Repairs and maintenance		<b>2,123,033</b>	2,615,490	1,791,519
Communication		<b>2,074,065</b>	2,291,618	3,963,721
Representation		<b>1,728,468</b>	1,678,573	2,185,039
Insurance		<b>1,368,444</b>	1,256,564	2,131,208
Taxes and licenses	9	<b>933,935</b>	3,317,614	5,287,366
Miscellaneous		<b>11,401,299</b>	13,270,777	12,908,510
		<b><u>P 102,365,488</u></b>	<u>P 113,318,662</u>	<u>P 114,470,316</u>

## 20. EMPLOYEE BENEFITS

### *20.1 Employee Benefits Expense*

Expenses recognized for employee benefits are presented below.

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries and wages		<b>P 100,566,481</b>	P 104,016,123	P 105,284,667
Retirement benefits	20.2	<b>8,400,000</b>	8,503,309	7,413,370
Social security costs		<b>6,290,438</b>	6,544,942	6,661,322
Bonuses	21.3	-	-	3,606,621
Compensated absences and other benefits		<b>1,378,872</b>	1,554,810	1,753,362
		<b><u>P 116,635,791</u></b>	<u>P 120,619,184</u>	<u>P 124,719,342</u>

The employee benefits expense is allocated as follows:

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Other direct costs	18	<b>P 61,350,970</b>	P 63,818,503	P 72,792,340
Other operating expenses	19	<b>55,284,821</b>	56,800,681	51,927,002
		<b><u>P 116,635,791</u></b>	<u>P 120,619,184</u>	<u>P 124,719,342</u>

## 20.2 Employee Retirement Benefit Obligation

The Company maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular employees. Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>2010</u>	<u>2009</u>
Present value of the obligation	<b>P 81,464,495</b>	P 74,442,572
Fair value of plan assets	<b>( 42,994,420)</b>	<b>( 38,483,887)</b>
Deficiency of plan assets	<b>38,470,075</b>	35,958,685
Unrecognized actuarial gain	<b><u>16,480,737</u></b>	<b><u>10,592,127</u></b>
Retirement benefit obligation	<b><u>P 54,950,812</u></b>	<b><u>P 46,550,812</u></b>

The movements in the present value of the retirement benefit obligation recognized in the books follow:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 74,442,572</b>	P 84,525,285
Current service cost	<b>5,376,278</b>	5,066,633
Interest cost	<b>6,178,734</b>	6,212,609
Benefits paid	<b>( 4,533,089)</b>	<b>( 14,422,887)</b>
Actuarial loss	<b><u>-</u></b>	<b><u>( 6,939,068)</u></b>
Balance at end of year	<b><u>P 81,464,495</u></b>	<b><u>P 74,442,572</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 38,483,887</b>	P 41,910,607
Expected return on plan assets	<b>3,078,711</b>	2,775,933
Benefits paid	<b>( 4,533,089)</b>	<b>( 14,422,887)</b>
Actuarial gain	<b><u>5,964,911</u></b>	<b><u>8,220,234</u></b>
Balance at end of year	<b><u>P 42,994,420</u></b>	<b><u>P 38,483,887</u></b>

As of December 31, 2010 and 2009, the plan assets consist of the following:

	<u>2010</u>	<u>2009</u>
Equity securities	<b>P 26,503,609</b>	P 8,218,430
Loans and discounts	<b>5,891,664</b>	7,960,206
Cash in banks	<b>10,207,147</b>	6,578,782
Government debt securities	<b><u>392,000</u></b>	<b><u>5,726,469</u></b>
Balance at end of year	<b><u>P 42,994,420</u></b>	<b><u>P 38,483,887</u></b>

Actual returns on plan assets were P3.3 million in 2009.

The amounts of retirement benefits recognized in the statements of comprehensive income follow:

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Current service costs	<b>P 5,376,278</b>	P	5,066,633	P	5,478,538
Interest costs	<b>6,178,734</b>		6,212,609		5,412,143
Expected return on plan assets	<b>( 3,078,711)</b>	(	2,775,933)	(	3,477,311)
Net actuarial losses recognized during the year	<b>( 76,301)</b>		-		-
Retirement benefits	<b><u>P 8,400,000</u></b>	P	<u>8,503,309</u>	P	<u>7,413,370</u>

The amount of retirement benefits is allocated as follows:

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Other direct costs	<b>P 4,200,000</b>	P	4,621,985	P	3,968,022
Other operating expenses	<b><u>4,200,000</u></b>		<u>3,881,324</u>		<u>3,445,348</u>
Retirement benefits	<b><u>P 8,400,000</u></b>	P	<u>8,503,309</u>	P	<u>7,413,370</u>

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of the plan assets and deficit in the plan (in thousand Philippine pesos).

	<u>2010</u>		<u>2009</u>		<u>2008</u>		<u>2007</u>		<u>2006</u>
Present value of the obligation	<b>P 81,464</b>	P	74,443	P	84,525	P	73,634	P	69,905
Fair value of the plan assets	<b><u>42,994</u></b>		<u>38,484</u>		<u>41,910</u>		<u>43,466</u>		<u>43,022</u>
Deficit in the plan	<b><u>P 38,470</u></b>	P	<u>35,959</u>	P	<u>42,615</u>	P	<u>30,168</u>	P	<u>26,883</u>

The movements in the retirement benefit obligation recognized in the books are as follows:

	<u>2010</u>		<u>2009</u>
Balance at beginning of year	<b>P 46,550,812</b>	P	38,047,503
Expenses recognized	<b><u>8,400,000</u></b>		<u>8,503,309</u>
Balance at end of year	<b><u>P 54,950,812</u></b>	P	<u>46,550,812</u>

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2010</u>	<u>2009</u>
Discount rates	<b>8.30%</b>	8.30%
Expected rate of return on plan assets	<b>8.00%</b>	8.00%
Expected rate of salary increases	<b>5.50%</b>	5.50%

The overall expected long-term rate of return on assets is 8.00% both in 2010 and 2009. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

## **21. RELATED PARTY TRANSACTIONS**

The Company's related parties include its joint venture partner, key management personnel and employees. The following are the Company's transactions with related parties:

### ***21.1 Joint Venture***

The Company has a joint venture agreement with Sta. Lucia, a related party. The joint venture agreement covers the development of the Company's real estate property in Cavite (see Note 11).

### ***21.2 Construction***

The Company also has construction agreements with Sta. Lucia. The agreements cover the Phase 1 development and portions of the Phase 2 development of the new racetrack facilities in Cavite (see Note 10.2).

### ***21.3 Management Bonus***

As stipulated under its By-laws, the Company regularly grants management bonus equivalent to 10% of the annual income before tax to all members of the Board of Directors and Executive Committee and the management staff. Management bonus, which is included as part of salaries and employee benefits under Other Operating Expenses in the statements of comprehensive income, amounted to P3.6 million in 2008 (nil in 2010 and 2009) (see Note 20.1). Unpaid management bonus, which is included as part of accrued expenses under the Trade and Other Payables account amounted to P3.6 million as of December 31, 2010, 2009 and 2008 (see Note 13).

### 21.4 Loans

In January 2008, JTH granted P100.0 million loan to the Company payable after 18 months from the initial drawdown (see Note 14.2). The loan payable to JTH was fully paid in March 2010.

Interest-bearing loans to executive officers and other employees are presented as part of receivables from officers and employees under the Receivables account in the statements of financial position (see Note 8).

### 21.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Short-term benefits	<b>P 15,016,000</b>	P 15,587,000	P 17,886,000
Retirement benefits	<u>837,000</u>	<u>847,000</u>	<u>739,000</u>
	<b><u>P 15,853,000</u></b>	<b><u>P 16,434,000</u></b>	<b><u>P 18,625,000</u></b>

## 22. TAXES

### 22.1 Current and Deferred Taxes

The components of tax expense (income) as reported in profit or loss for the years ended December 31 follow:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current tax expense:			
Minimum corporate income tax (MCIT) at 2%	<b>P 2,013,106</b>	P 2,029,932	P -
Final tax at 20%	<b>175,621</b>	319,892	780,099
Regular corporate income tax (RCIT) at 30% in 2010 and 2009 and 35% in 2008	<u>-</u>	<u>-</u>	<u>14,186,065</u>
	<b><u>2,188,727</u></b>	<b><u>2,349,824</u></b>	<b><u>14,966,164</u></b>
Deferred tax expense (income) relating to:			
Origination and reversal of temporary differences	<b>( 11,300,024)</b>	( 18,210,833)	( 269,389)
Reduction in tax rate	<u>-</u>	<u>-</u>	<u>2,723,231</u>
	<b><u>( 11,300,024)</u></b>	<b><u>( 18,210,833)</u></b>	<b><u>2,453,842</u></b>
Tax expense (income) reported in profit or loss	<b><u>(P 9,111,297)</u></b>	<b><u>(P 15,861,009)</u></b>	<b><u>P 17,420,006</u></b>

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax expense reported in profit or loss follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax on pretax profit (loss) at 30% in 2010 and 2009 and 35% in 2008	<b>(P 12,915,952)</b>	(P 17,552,211)	P 12,623,172
Adjustment for income subjected to lower tax rates	<b>( 87,902)</b>	( 160,762)	( 585,074)
Tax effects of:			
Non-deductible expenses	<b>3,909,252</b>	5,153,543	2,741,901
Non-taxable income	<b>( 16,695)</b>	( 3,301,579)	( 19,478)
Increase in deductible temporary differences due to reduction in deferred tax rate	<u>-</u>	<u>-</u>	<u>2,659,485</u>
Tax expense (income) reported in profit or loss	<b><u>(P 9,111,297)</u></b>	<b><u>(P 15,861,009)</u></b>	<b><u>P 17,420,006</u></b>

The net deferred tax assets as of December 31 relate to the following:

	<u>Statements of Financial Position</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Deferred tax assets:			
Net operating loss carry-over (NOLCO)	<b>P 22,262,416</b>	P 15,052,441	P -
Accrued retirement benefits	<b>16,485,244</b>	13,965,244	11,414,251
MCIT	<b>4,043,038</b>	2,029,932	-
Unamortized past service cost	<b>1,932,294</b>	2,379,102	2,825,910
Allowance for doubtful accounts	<b>1,406,158</b>	1,406,158	1,286,626
Accrued management bonus	<u>-</u>	<u>-</u>	<u>1,081,986</u>
	<b>46,129,150</b>	34,832,877	16,608,773
Deferred tax liability:			
Unrealized foreign exchange gain	<b>( 9,520)</b>	( 13,271)	-
Net deferred tax assets	<b><u>P 46,119,630</u></b>	<b><u>P 34,819,606</u></b>	<b><u>P 16,608,773</u></b>

	<u>Statements of Comprehensive Income</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
NOLCO	<b>(P 7,209,975)</b>	(P 15,052,441)	P -
Accrued retirement benefits	<b>( 2,520,000)</b>	( 2,550,993)	( 692,305)
MCIT	<b>( 2,013,106)</b>	( 2,029,932)	-
Unamortized past service cost	<b>446,808</b>	446,808	992,261
Unrealized foreign exchange gain	<b>( 3,751)</b>	13,271	-
Accrued management bonus	<b>-</b>	1,081,986	1,995,505
Allowance for doubtful accounts	<u>-</u>	<u>( 119,532)</u>	<u>158,381</u>
Deferred Tax Expense (Income)	<b><u>(P 11,300,024)</u></b>	<b><u>(P 18,210,833)</u></b>	<b><u>P 2,453,842</u></b>

The Company is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or the RCIT, whichever is higher. The Company incurred MCIT amounting to P2,018,381 in 2010 and P2,029,932 in 2009. On the other hand, no MCIT was reported in 2008 as the RCIT was higher than the MCIT in that year.

The breakdown of NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred, is shown below:

<u>Inception Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>		<u>Remaining Balance</u>	<u>Expiry Year</u>
2010	P	7,209,975	-	P	7,209,975	2013
2009		<u>15,052,441</u>	<u>-</u>		<u>15,052,441</u>	2012
	P	<u>22,262,416</u>	<u>P -</u>	P	<u>22,262,416</u>	

The components of the Company's MCIT and the years until which these are deductible from RCIT are shown below.

<u>Inception Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>		<u>Remaining Balance</u>	<u>Expiry Year</u>
2010	P	2,013,106	-	P	2,013,106	2013
2009		<u>2,029,932</u>	<u>-</u>		<u>2,029,932</u>	2012
	P	<u>4,043,038</u>	<u>P -</u>	P	<u>4,043,038</u>	

### ***22.2 Optional Standard Deduction***

Effective July 2008, RA No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. This is applicable when the Company computes for RCIT for its unregistered activities. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. The Company opted to claim itemized deductions in 2010 and 2009.

### ***22.3 Change in Applicable Tax Rate***

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

**23. EARNINGS (LOSS) PER SHARE**

Earnings per share are computed as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net profit (loss)	(P 33,941,877)	(P 42,646,362)	P 18,646,200
Divided by the weighted average number of outstanding common shares	<u>585,687,130</u>	<u>585,687,130</u>	<u>569,857,749</u>
Basic/diluted earnings (loss) per share	<u>(P 0.058)</u>	<u>(P 0.073)</u>	<u>P 0.033</u>

In 2009, the Company issued additional 15,829,381 new shares of stock from its stock rights offer (see Note 16).

There are no dilutive or potential dilutive common shares in each of the three years.

**24. COMMITMENTS AND CONTINGENCIES**

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

***24.1 Operating Lease Commitments – Company as Lessee***

The Company is a lessee under leases covering off-track betting (OTB) stations. The lease agreements are for a period of one year, and are renewable annually. The periodic lease payment is equal to either one percent (1.00%) or three-fourths of one percent (0.75%) of the gross sales of the OTB stations, less the applicable withholding tax.

***24.2 Operating Lease Commitments – Company as Lessor***

The Company entered into operating lease agreements as lessor. These cover stables leased out to horse owners. The leases are normally for a period of one year, and are renewable annually. A fixed rate per stable is charged by the Company monthly.

### ***24.3 Assessments by Tax Authorities***

#### ***24.3.1 Documentary Stamp Tax (DST)***

The Company received three notices from the Large Taxpayers Audit and Investigation Division I of the BIR regarding alleged deficiency tax computation on the Company's DST for the years 2005, 2006 and 2007. The notices with the corresponding period covered were received as follows:

<u>Date Received</u>	<u>Coverage</u>
December 27, 2007	January to December 2006
January 2, 2008	January to June 2007
January 21, 2008	January to December 2005

On January 4, 2008 and January 29, 2008, in separate letters to the BIR, the Company responded by stating that this issue has already been resolved based on the resolution issued by the Department of Justice (DOJ) on November 11, 2006, which provides that the DST collected by the Company is correct as provided in Section 8 of RA No. 7953, which was neither amended or repealed by Section 190 of RA No. 8424 as claimed by the BIR. On July 16, 2007, the Supreme Court declared the case terminated and made the decision of the DOJ, which was in favor of the Company, final and executory.

On November 7, 2008, the BIR issued an Assessment Notice covering alleged deficiency DST for 2005 amounting to P267,976,052. The Company filed with the BIR a protest letter against this assessment on November 21, 2008 raising several important issues against this BIR assessment. Important factors supporting the position of the Company are as follows: (a) A special law (RA No. 7953) cannot be repealed by implication by a subsequent general law (RA No. 8424); (b) The DST issue had already been resolved in favor of the Company by the DOJ under P.D. 242 and concurred by the Supreme Court; and (c) The Games and Amusements Board (GAB) and the BIR have agreed on the prospective application of the increased DST rate on race horse tickets from the date of the agreement in June 2007.

On March 16, 2009, the BIR issued an Assessment Notice covering alleged deficiency DST for 2006 amounting to P223,425,987. On March 26, 2009, the Company filed with the BIR its reply on this assessment raising several important issues against this BIR assessment similar to the assessment in 2005 pertaining to DST.

On July 13, 2009, the BIR issued Authority to Cancel Assessment (ACA) no. 202-00012764 effectively canceling the Assessment no. DST-06-000181 covering the assessed deficiency DST for 2006.

On August 28, 2009, the BIR issued ACA no. 2002-00012781 effectively canceling the Assessment no. DST-05-000176 covering assessed deficiency DST for 2005.

### ***24.3.2 Value Added Tax***

On August 15, 2008, the Company received a letter from the office of the BIR Chief assessing the former to pay VAT amounting to P458,069,040 as a result of the planned exchange of asset for JTH's shares (see Note 9). On August 22, 2008, the Company responded stating that the Company and JTH rescinded the Deed of Transfer with Subscription Agreement through a Disengagement Agreement on the same date. The rescission of the said contract was made primarily because of the non-fulfillment of one fundamental condition for the transfer of the property, that is, there shall be no VAT due on the exchange of property for shares of stock. With the non-consummation of the transaction, there could be no more basis for the imposition of VAT.

On November 20, 2008, the Company wrote a letter to the new BIR Commissioner seeking for a reply that will confirm the cancellation of the imposed VAT on the rescinded Deed of Transfer with Subscription Agreement.

Subsequently, the BIR upheld the position of the Company in its reply dated February 26, 2009. The BIR stated that without a sale or exchange having been effected, it follows that no taxable event has taken place. The BIR ruled that rescission of a contract does not give rise to a taxable event for two reasons: (a) the result of rescission is that it is as if there was no sale, transfer or exchange, and hence, no income is realized; and (b) the return of the object of the rescinded contract is not for monetary consideration and is merely an acknowledgement or confirmation of the title and ownership of the original owner of the property. The BIR further stated that "there being no actual exchange or transfer of properties of PRCI to JTH as contemplated in the rescinded Deed of Transfer with Subscription Agreement, there is now no taxable transaction subject to VAT and any demand letter issued for the payment thereof is hereby withdrawn."

### ***24.3.3 Prior Year's Assessments***

The Company received two letters of authority (LOA) on June 22, 2006 and April 2008. Both letters of authority notified the Company on the examination of its books of accounts and other accounting records for all internal revenue taxes covering taxable years 2005 and 2006, respectively. On June 16, 2008 and February 6, 2009, the Company paid P1.6 million and P1.0 million additional tax assessments for 2005 and 2006, respectively.

In July 2008 and May 2009, the Company received separate LOAs for the examination of its book of accounts and other accounting records covering taxable years 2007 and 2008, respectively.

On January 28, 2010, the Company received LOA No. 2009-00016195 issued by the National Investigation Division. This LOA covers the examination of books of accounts and other accounting records for all internal revenue taxes for taxable year 2008 and unverified prior years. With this new LOA, the previous LOAs covering years 2007 and 2008 were deemed withdrawn and cancelled.

#### ***24.3.4 DST For 1998-2002***

On July 8, 2005, the Company received assessment notices and demand letters for alleged deficiency DST for taxable years 1998 to 2002. The total deficiency DST, including interest and surcharges amounted to P776.8 million.

On July 15, 2005, the Company filed with the BIR a very extensive protest letter raising several important issues against these assessments. These important issues were as follows: (1) The right of BIR to assess for 1998 to 2001 had already prescribed; (2) The assessments are null and void; (3) RA No. 7953 (PRCI franchise), as amended, is a special law that was not repealed or amended by RA No. 8424 (Tax Code of 1997), a general law; (4) Horseracing is a business regulated by the GAB which approves the rates of taxes imposed by PRCI on its customers; and (5) The 25% surcharge has no legal basis.

On March 18, 2009, the BIR denied the administrative protest filed by the Company against alleged deficiency DST for years 1998 to 2002. The decision of the BIR was received more than three and a half years after the Company filed its protest.

On March 30, 2009, the Company filed an urgent request with the BIR to recall and withdraw its decision in view of important supervening events not considered in the decision. Two important points which happened after the protest letter was filed in July 2005 but were not mentioned, discussed nor considered in the BIR decision, were immediately raised in this letter request:

1. The DST issue had already been resolved by the DOJ under P.D. 242 and concurred in by the Supreme Court; and
2. The GAB and the BIR have agreed on the prospective application of the increased DST rate on race horse tickets from the date of the agreement in 2007.

Other important points originally raised in the July 2005 protest were also reiterated in the letter request with the BIR. These points were as follows:

- The assessments are null and void because the tax audit was not covered by any valid letter of authority;
- A special law (RA No. 7953) cannot be repealed by implication by a subsequent general law (RA No. 8424); and
- The right of the BIR to assess taxes for 1998 to 2001 had already prescribed because the assessment notices were received by the Company only on July 8, 2005.

Subsequently in a letter dated April 1, 2009, the BIR granted the appeal filed by the Company and quoting the pertinent portion of the letter signed by the BIR Commissioner: "In the interest of justice and in the light of the foregoing allegations of compelling factual and legal bases, your request for reconsideration is hereby granted and the Administrative Decision dated March 6, 2009 is hereby declared held in abeyance in the meantime and until a full and exhaustive review of the new matters raised in your Motion for Reconsideration is undertaken by the concerned offices of this Bureau".

On July 30, 2009, the BIR issued the following ACA:

2002-00012772	DST-98-000124	Deficiency DST for 1998
2002-00012773	DST-99-000120	Deficiency DST for 1999
2002-00012774	DST-00-000121	Deficiency DST for 2000
2002-00012775	DST-01-000122	Deficiency DST for 2001
2002-00012776	DST-02-000123	Deficiency DST for 2002

These ACAs effectively cancelled the assessments for alleged deficiency DST for 1998 to 2002.

#### **24.4 Others**

In addition to the foregoing and to those mentioned in Note 25, there are other contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the accompanying financial statements. As of the reporting dates, management is of the opinion that losses, if any, from these events and conditions will not have a material effect on the Company's financial statements.

## **25. EVENTS AFTER THE REPORTING PERIOD**

On February 24, 2011, the BOD authorized and approved the execution and delivery of the Master Development Agreement with Ayala Land, Inc. (ALI) and Alveo Land Corporation (ALC) for the joint development of the Santa Ana Park property of the Company into a mixed use real estate development under the terms of such Master Development Agreement.

Under the agreement, the Company will contribute parcels of land with an aggregate area of 212,069 square meters covered by transfer certificates of title nos. 224459, 224460, 224461, 224462, 224463, 224464, 356179 and 218137, all of the Register of Deeds of Makati City (the Property). ALI and ALC shall contribute project development to construct and develop the project. This shall include the costs to construct the project; master planning of the Properties; the design and construction of the internal road network, open space, infrastructure and facilities of the project; the planning, design and specifications of each residential or mixed-use condominium; and planning, design and specifications of each saleable unit in the project. In return, the Company will receive approximately 18% of saleable units.

Other salient features of the agreement are as follows:

- The removal of all unnecessary structures and settlers inside the Property;
- The delivery of clean land titles, without any liens or encumbrances annotated therein;
- Joint application for the re-zoning of the Property from the present "recreational" to mixed-use classification;
- Completion of master planning by ALI and ALC;
- All titles to the Property remain with the Company. Depending on the development of specific projects, title for the covered property will then be released.
- From the final master plan, all parties will know how the property will be developed into commercial, retail, residential and entertainment.

This transaction shall be presented for confirmation or ratification by the stockholders in the Special Stockholders' meeting on April 26, 2011.

**26. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010**

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 15-2010, which requires certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. This supplemental information, which is not a required disclosure under PFRS, is presented as follows:

***26.1 Output Value-Added Tax***

During 2010, the Company reported and declared total output VAT amounting to P39,351,161 from racing commissions during the year. The tax bases are based on the Company's gross receipts for the year, hence, may not be the same as the amounts reported in the 2010 statement of comprehensive income.

***26.2 Input Value-Added Tax***

The movement in Input VAT as of December 31, 2010 is summarized below.

Balance at beginning of year	P	-
Capital goods not subject to amortization		<u>217,797</u>
Balance at end of year	<b>P</b>	<b><u>217,797</u></b>

***26.3 Excise Tax***

The Company did not have any transactions in 2010 which are subject to excise tax.

***26.4 Documentary Stamp Tax***

For the year 2010, documentary stamp tax paid on horse racing tickets amounted to P408,090,484.

***26.5 Taxes and Licenses***

The details of Taxes and Licenses account, presented as part of Other Operating Expenses in the 2010 statement of comprehensive income, are broken down as follows:

Municipal license and permits	P	542,860
Residence tax		15,625
Registration fee		500
Miscellaneous		<u>374,950</u>
	<b>P</b>	<b><u>933,935</u></b>

**26.6 Withholding Taxes**

The details of total withholding taxes for the year ended December 31, 2010 are shown below.

Tax on winning tickets	P 176,770,065
Tax on winnings on horse prizes	34,749,691
Compensation and benefits	9,672,705
Expanded	4,853,292
Final	<u>357,500</u>
	<b><u>P 226,403,253</u></b>

**26.7 Deficiency Tax Assessments and Tax Cases**

In 2010, the Company was assessed for deficiency taxes on income taxes and expanded withholding taxes amounting to P162,895 and P316,794 for taxable years 2007, respectively. The total tax assessments of P479,689 were fully settled in 2010 and are presented as part of Other Operating Expenses account under Miscellaneous expenses (see Note 19). The Company is also involved in other tax-related cases which are still currently outstanding (see Note 24.3).

# **ANNEX B**

## **PHILIPPINE RACING CLUB, INC.**

### **UNAUDITED FINANCIAL STATEMENTS**

As of and for the Quarters ended March 31, 2011 and 2010

For the Annual Stockholders' Meeting  
On June 20, 2011

Santa Ana Park  
A. P. Reyes Avenue, Carmona, Makati City

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2011 AND DECEMBER 31, 2010**  
*(Amounts in Philippine Pesos)*

	Notes	[UNAUDITED] March 31, 2011	[AUDITED] December 31, 2010
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	P 339,922,781	P 66,754,154
Receivables - net	8	24,565,612	22,012,549
Prepayments and other current assets		6,810,117	2,172,662
Total Current Assets		371,298,510	90,939,365
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	10	1,214,297,014	1,212,398,646
Property held for sale	11	537,857,786	537,857,786
Deferred tax assets - net	20	47,964,065	46,119,630
Other non-current assets - net	12	73,946,300	85,985,200
Total Non-current Assets		1,874,065,165	1,882,361,262
<b>TOTAL ASSETS</b>		<b>P 2,245,363,675</b>	<b>P 1,973,300,627</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	14	P 28,623,822	P 47,618,834
Trade and other payables	13	178,924,682	207,846,943
Other current liabilities	15	51,823,163	50,861,583
Total Current Liabilities		259,371,667	306,327,360
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	14	553,703,712	229,703,712
Provision for project development	11	137,200,000	137,200,000
Retirement benefit obligation	20.2	57,050,812	54,950,812
Other non-current liabilities	15	30,184,383	30,176,800
Total Non-current Liabilities		778,138,907	452,031,324
Total Liabilities		1,037,510,574	758,358,684
<b>EQUITY</b>			
Capital stock	16	585,687,130	585,687,130
Additional paid-in capital		39,947,626	39,947,626
Retained earnings		582,218,345	589,307,187
Total Equity		1,207,853,101	1,214,941,943
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 2,245,363,675</b>	<b>P 1,973,300,627</b>

*See Notes to Financial Statements.*

## ANNEX B

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>[UNAUDITED]</u> 2011	<u>[UNAUDITED]</u> 2010
<b>REVENUES</b>			
Club races	6	P 77,334,180	P 81,370,347
Rental	24.2	4,276,153	3,343,304
Others	17	<u>1,090,085</u>	<u>1,491,634</u>
		<u>82,700,418</u>	<u>86,205,285</u>
<b>OPERATING EXPENSES</b>			
Depreciation and amortization		13,249,700	12,917,627
Finance costs		5,568,048	10,240,844
Other direct costs	18	45,763,672	49,427,428
Other operating expenses	19	<u>26,715,036</u>	<u>25,177,520</u>
		<u>91,296,456</u>	<u>97,763,419</u>
<b>LOSS BEFORE TAX BENEFITS</b>		<b>( 8,596,038 )</b>	<b>( 11,558,134 )</b>
<b>TAX BENEFITS</b>	22	<b>( <u>1,507,197</u> )</b>	<b>( <u>2,648,144</u> )</b>
<b>NET LOSS</b>		<b>( <u>P 7,088,841</u> )</b>	<b>( <u>P 8,909,990</u> )</b>
<b>Basic/Diluted Loss per Share</b>	23	<b>( <u>P 0.0121</u> )</b>	<b>( <u>P 0.0152</u> )</b>

*See Notes to Financial Statements.*

## ANNEX B

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE QUARTERS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Note</u>	<u>[UNAUDITED]</u> <u>2011</u>	<u>[UNAUDITED]</u> <u>2010</u>
<b>CAPITAL STOCK</b>			
Issued and outstanding			
Balance at beginning of period		<b>P 585,608,270</b>	P 585,608,270
Issued during the period		<u>-</u>	<u>-</u>
Balance at end of period	16.2	<b>585,608,270</b>	585,608,270
Subscribed capital stock - net		<u>78,860</u>	<u>78,860</u>
		<u><b>585,687,130</b></u>	<u>585,687,130</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of period		<b>39,947,626</b>	39,947,626
Issuance of additional shares during the period		<u>-</u>	<u>-</u>
Balance at end of period		<u><b>39,947,626</b></u>	<u>39,947,626</u>
<b>RETAINED EARNINGS</b>			
Appropriated		<u><b>300,000,000</b></u>	<u>300,000,000</u>
Unappropriated			
Balance at beginning of period		<b>289,307,187</b>	323,249,064
Net loss for the period		<u>( <b>7,088,841</b> )</u>	<u>( <b>8,909,990</b> )</u>
Balance at end of period		<u><b>282,218,346</b></u>	<u>314,339,074</u>
		<u><b>582,218,346</b></u>	<u>614,339,074</u>
<b>TOTAL EQUITY</b>		<u><b>P 1,207,853,102</b></u>	<u>P 1,239,973,830</u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CASH FLOW**  
**FOR THE QUARTERS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>[UNAUDITED]</u> <u>2011</u>	<u>[UNAUDITED]</u> <u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax benefits		( P 8,596,038 )	( P 11,558,134 )
Adjustments for:			
Depreciation and amortization		13,249,700	12,917,627
Interest income		( 432,078 )	( 148,397 )
Operating profit (loss) before working capital changes		<u>4,221,584</u>	<u>1,211,096</u>
Decrease (increase) in receivables		( 2,553,063 )	149,226,613
Increase in prepayments and other current assets		( 4,637,455 )	( 3,529,269 )
Decrease (increase) in other non-current assets		10,958,900	( 5,265,333 )
Increase (decrease) in trade and other payables		( 28,922,261 )	28,098,332
Increase in other current liabilities		961,580	418,607
Increase in other non-current liabilities		7,583	336,625
Increase in retirement benefit obligation		<u>2,100,000</u>	<u>2,100,000</u>
Net Cash Provided by (Used in) Operating Activities		<u>( 17,863,132 )</u>	<u>172,596,671</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment		( 14,405,307 )	( 2,851,067 )
Interest received		<u>432,078</u>	<u>148,397</u>
Net Cash Used in Investing Activities		<u>( 13,973,229 )</u>	<u>( 2,702,670 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Payment of loans		( 194,995,012 )	( 135,120,603 )
Proceeds of borrowings		<u>500,000,000</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities		<u>305,004,988</u>	<u>( 135,120,603 )</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>273,168,627</b>	<b>34,773,398</b>
<b>CASH AND CASH EQUIVALENTS AT START OF QUARTER</b>		<u><b>66,754,154</b></u>	<u><b>71,377,033</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>		<u><b>P 339,922,781</b></u>	<u><b>P 106,150,431</b></u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2011 AND 2010 DECEMBER 31, 2010**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE MATTERS**

***1.1 Incorporation and Operations***

Philippine Racing Club, Inc. (the Company) was incorporated in the Philippines primarily to engage in the business of operating and maintaining a racetrack covered by its franchise (see Note 6), and managing betting stations located within Metro Manila and other parts of the country. Until December 2008, the Company held its race operations in Santa Ana Park in Makati City. Beginning January 6, 2009, the Company has officially transferred its racetrack and race operations in Cavite (see Note 10.2). The Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

In 2008, the Company holds 68.57% ownership interest in JTH Davies Holdings, Inc. (JTH), another company listed at the PSE. JTH was incorporated in the Philippines and used to focus on middle income housing and wholesale distribution of agri-chemical products and construction supplies before it amended its primary purpose to that of a holding company in 2004. On December 28, 2009, the Company sold its 68.57% interest in JTH to Capital Managers and Advisors, Inc. (CMAI) (see Note 9).

The Company's registered office, which is also its principal place of business, is located at Santa Ana Park, A. P. Reyes Avenue, Makati City.

***1.2 Development of Santa Ana Park Property***

On February 24, 2011, the BOD authorized and approved the execution and delivery of the Master Development Agreement with Ayala Land, Inc. (ALI) and Alveo Land Corporation (ALC) for the joint development of the Santa Ana Park property of the Company into a mixed use real estate development under the terms of such Master Development Agreement.

Under the agreement, the Company will contribute parcels of land with an aggregate area of 212,069 square meters covered by transfer certificates of title nos. 224459, 224460, 224461, 224462, 224463, 224464, 356179 and 218137, all of the Register of Deeds of Makati City (the Property). ALI and ALC shall contribute project development to construct and develop the project. This shall include the costs to construct the project; master planning of the Properties; the design and construction of the internal road network, open space, infrastructure and facilities of the project; the planning, design and specifications of each residential or mixed-use condominium; and planning, design and specifications of each saleable unit in the project. In return, the Company will receive approximately 18% of saleable units.

Other salient features of the agreement are as follows:

- The removal of all unnecessary structures and settlers inside the Property;
- The delivery of clean land titles, without any liens or encumbrances annotated therein;
- Joint application for the re-zoning of the Property from the present “recreational” to mixed-use classification;
- Completion of master planning by ALI and ALC;
- All titles to the Property remain with the Company. Depending on the development of specific projects, title for the covered property will then be released.
- From the final master plan, all parties will know how the property will be developed into commercial, retail, residential and entertainment.

This transaction was confirmed and ratified by the stockholders in the Special Stockholders’ meeting on April 26, 2011.

### ***1.3 Approval of Audited Financial Statements***

The audited financial statements of the Company for the year ended December 31, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Board of Directors (BOD) on March 28, 2011.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### ***2.1 Basis of Preparation of Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement basis specified by PFRS for each type of assets, liabilities, income and expenses. The measurement bases are more fully described in the accounting policies that follow.

#### ***(b) Presentation of Financial Statements***

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive

income. Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

**2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS**

(a) *Effective in 2010 that are Relevant to the Company*

In 2010, the Company adopted the following new interpretations, revisions, amendments and annual improvements to existing standards that are relevant to the Company and effective for financial statements for the annual period beginning on or after January 1, 2010.

Philippine Interpretation International Financial Reporting and Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of these amended standards.

- (i) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Company's adoption of this interpretation did not have a material impact on the financial statements because the Company did not distribute non-cash assets to stockholders during the year.
- (ii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *2009 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant

to the Company's financial statements but which did not also have any material impact on its financial statements:

- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations* (effective from January 1, 2010). The amendment clarifies that PFRS 5 specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations and set out all the disclosures required in respect of those assets or operations.
- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Company as cash flow from investing activities.
- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

(b) *Effective in 2010 but not Relevant to the Company*

The following revisions, amendments, interpretations and annual improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Company's financial statements:

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Group Cash-settled Share Based Payment Transactions
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretations IFRIC 9	:	Embedded Derivatives – Amendment to IFRIC 9 and PAS 39
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	:	Distribution of Non-cash Assets to Owners
IFRIC 18	:	Transfers of Assets from Customers

2009 Annual Improvements	
PFRS 8 (Amendment)	: Operating Segments
PAS 18 (Amendment)	: Revenue
PAS 36 (Amendment)	: Impairment of Assets
PAS 38 (Amendment)	: Intangible Assets and Measurement
PAS 40 (Amendment)	: Investment Property
PAS 41 (Amendment)	: Agriculture
PFRS 5 (Amendment)	: Non-current Assets Held-for-sale and Discontinued Operations

(c) *Effective Subsequent to 2010*

There are new PFRS and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property*, it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made. The amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Philippine Interpretation SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in Philippine Interpretation SIC-21, which is accordingly withdrawn. As of December 31, 2010, management is still evaluating the effect of this amendment to the Company's financial statements.
- (ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Company opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party. The Company is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for

defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because it does not usually make substantial advance contributions to its retirement fund.

(iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.

(v) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

- Phase 1: Classification and Measurement
- Phase 2: Impairment Methodology
- Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published

at which time the Company expects it can comprehensively assess the impact of the revised standard.

- (vi) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

### **2.3 Financial Assets**

Financial assets, which are recognized when the Company becomes a party to the contractual terms of the financial instruments, include cash and other financial instruments. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

At present, the Company's financial assets pertain mainly to loans and receivables. Financial assets are initially recognized at fair value plus any attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables, and Customer and Other Deposits and Sinking fund (presented as part of Other Non-current Assets account) in the statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

## ***2.4 Property and Equipment***

Land is stated at cost. Buildings and improvements and land improvements, machinery and equipment, office equipment, furniture and fixtures, and transportation equipment are carried at acquisition cost or construction cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

Machinery and equipment	5-10 years
Transportation equipment	4-5 years
Buildings and improvements and land improvements	3-30 years
Office equipment, furniture and fixtures	5-10 years

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.16). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

## ***2.5 Interest in a Joint Venture***

The Company accounts for its joint venture transactions under jointly controlled assets wherein the Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities incurred jointly with the other venturers in relation to the joint venture, and any income earned and expenses incurred in respect of its interest in the joint venture.

The Company's share of the jointly controlled assets is classified as Property Held for Sale while the Company's share of any liabilities incurred is presented as Provision for Project Development.

Property held for sale includes properties that the Company intends to sell within one year from the date of the classification as held for sale. These are measured at the lower of their carrying amounts, immediately prior to their classifications as held for sale, and their fair value less costs to sell.

## ***2.6 Franchise Cost***

Franchise cost (included as part of Other Non-current Assets account) is accounted for under the cost model. The costs incurred for the renewal of the Company's franchise for another 25 years starting October 28, 1997 have been capitalized and are amortized over the period covered by the new franchise. The carrying amount of the franchise cost is subject to impairment testing as described in Note 2.13.

## ***2.7 Financial Liabilities***

Financial liabilities include Trade and Other Payables, Interest-bearing Loans and Borrowings and Other Current and Non-current liabilities.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the statement of comprehensive income.

Interest-bearing loans and borrowings are raised for support for the construction of certain property and equipment. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables and other current liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BOD.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

## ***2.8 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## ***2.9 Related Party Transactions***

Related party transactions are transfer of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## **2.10 Equity**

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Retained earnings include all current and prior period results as disclosed in profit or loss in the statement of comprehensive income.

## **2.11 Revenue and Cost Recognition**

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for services provided, excluding value-added tax (VAT).

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Revenue from club races* – Revenue is recognized as earned based on a percentage of gross receipts from ticket sales in accordance with the Company's franchise.
- (b) *Rental income from stables and other facilities* – Revenues are recognized when realized, earned and collected.
- (c) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16), on an accrual basis.

## **2.12 Leases**

The Company accounts for its leases as follows:

- (a) *Company as Lessee*

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are

recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*(b) Company as Lessor*

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the 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.

***2.13 Foreign Currency Transactions***

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of income or loss from operations.

***2.14 Impairment of Non-financial Assets***

The Company's property and equipment, property held for sale and franchise cost (presented as part of Other Non-current Assets account in the statement of financial position) are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some

assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## ***2.15 Employee Benefits***

### *(a) Post-employment Benefits*

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Company's post-employment defined benefit pension plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity (such as the Social Security System). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. They are accrued and paid by the Company at year-end.

**2.16 *Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

**2.17 *Income Taxes***

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

### ***2.18 Earnings Per Share***

Earnings per common share are determined by dividing net income by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared in the current year. Diluted earnings per share are not computed since the Company has no potential dilutive common shares.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

#### ***(a) Operating and Finance Leases***

The Company has entered into various lease agreements as either lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

#### ***(b) Provisions and Contingencies***

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on provisions and contingencies are discussed in Note 2.8 and relevant disclosures are shown in Notes 10.2 and 24.

### ***3.2 Key Sources of Estimation Uncertainty***

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

(a) *Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 10. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in the estimated useful lives of property and equipment in 2010 and 2009.

(b) *Allowance for Impairment of Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of Receivables amount to P24.6 million and P22.0 million as at March 31, 2011 and December 31, 2010, respectively (see Note 8). There were no impairment losses on receivables in 2011 and 2010.

(c) *Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2010 and 2009 is disclosed in Note 22.

(d) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No allowance for impairment was recognized on the Company's property and equipment, property held for lease and franchise cost as of December 31, 2010 and 2009.

(e) *Retirement Benefits*

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20.2 and include, among others, discount rates, expected return on plan assets and expected rate of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation amounted to P55.0 million and P46.6 million as of December 31, 2010 and 2009, respectively, while fair value of plan assets as of those dates amounted to P41.6 million and P38.5 million, respectively (see Note 20.2).

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks which result from its operating, financing and investing activities. The Company's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below.

##### ***4.1 Foreign Currency Risk***

Most of Company's transactions are carried out in Philippine pesos. Exposures to currency exchange rates arise from the Company's overseas purchases and certain short-term placements, which are primarily denominated in United States (US) dollars.

Foreign currency denominated bank deposits as of December 31, 2010 and 2009 amount to \$1,729 and \$7,726, respectively. Translated into Philippine Pesos at the closing rate, the bank deposits amount to P75,877 and P358,128 as of December 31, 2010 and 2009, respectively.

The sensitivity analysis of the Company's net results for the year arising from the changes in the Philippine peso/US dollar exchange rate by +/-21.14% and +/-20.95% in 2010 and 2009, respectively. These percentages have been determined based on the 90-day average market volatility in exchange rates, using standard deviation, in the previous 12 months using a 99% confidence level. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period, with

effect estimated from the beginning of year.

Had the Philippine peso strengthened against the US dollar by 21.14% and 20.95% at the end of 2010 and 2009, respectively, with all other variables held constant, the Company's loss before tax for the year ended December 31, 2010 and 2009 would have been higher by P0.02 million and P0.1 million, respectively. On the other hand, had the Philippine peso been weaker by the same percentages, with all other variables held constant, loss before tax would have been lower by the same amounts.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

#### 4.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below (2011 figures unaudited, 2010 figures audited):

	Notes	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	7	<b>P 332,556,568</b>	P 66,636,805
Receivables - net	8	<b>24,565,612</b>	22,012,549
Other non-current assets:			
Customer and other deposits	12	<b>9,633,646</b>	9,633,646
Sinking fund	12	<b><u>306,087</u></b>	<u>11,277,750</u>
		<b><u>P 367,061,913</u></b>	<u>P 109,560,750</u>

The Company's cash and cash equivalents, receivables and other financial assets are actively monitored to avoid significant and unwarranted exposure to credit risk.

In addition, for a significant proportion of betting station operators, security deposit payments are received to mitigate credit risk. The Company has adopted a no-business policy with operators lacking an appropriate credit history where credit records are available.

None of the financial assets is secured by collateral or other credit enhancements except for the Company's cash and cash equivalents which are insured by the Philippine Deposit Insurance Corporation at P500,000 per depositor per banking institution. As part of Company policy, bank deposits and short-term placements are only maintained with reputable financial institutions. For determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P117,349 and P1,879,054 as of December 31, 2010 and 2009, respectively.

Financial assets past due but not impaired is shown below (*both figures audited*).

	<u>2010</u>	<u>2009</u>
Not more than three months	<b>P 18,222,548</b>	P 9,555,028
More than three months but not more than seven months	-	115,408
More than seven months	<u><b>7,208,058</b></u>	<u>18,020,573</u>
	<u><b>P 25,430,606</b></u>	<u>P 27,691,009</u>

In respect of receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

### 4.3 Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on all financial instruments. At December 31, 2010 and 2009, the Company is exposed to changes in market interest rates on its short-term placements and interest-bearing loans and borrowings, which are subject to variable interest rates (see Notes 7 and 14).

The following table illustrates the sensitivity of the net result for the year and equity assuming interest rates were to change at a reasonably possible range of +/-6.00 basis points (bp) on short-term placements and +/-6.00 bp on interest-bearing loans and borrowings at December 31, 2010 and +/-4.70 bp on short-term placements and +/-47.93 bp on interest-bearing loans and borrowings at December 31, 2009, with all other variables held constant.

#### Short-term placements (in '000s)

<u>Effects on</u>	<u>2010</u>		<u>2009</u>	
	<u>+6.00 bp</u>	<u>-6.00 bp</u>	<u>+4.70 bp</u>	<u>-4.70 bp</u>
Net loss for the year	P 9	(P 9)	P 99	(P 99)
Equity at end of year	9	( 9)	99	( 99)

#### Interest-bearing loans and borrowings (in '000s)

<u>Effects on</u>	<u>2010</u>		<u>2009</u>	
	<u>+47.93 bp</u>	<u>-47.93 bp</u>	<u>+ 47.93 bp</u>	<u>-47.93 bp</u>
Net loss for the year	(P 25,846)	P 25,846	(P 35,882)	P 35,882
Equity at end of year	( 25,846)	25,846	( 35,882)	35,882

The changes in interest rates used in this analysis are based on the volatility of the Company's actual interest rates on its short-term placements and interest-bearing loans and borrowings during the past 12 months.

### 4.4 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day

and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2010 and 2009, the Company's financial liabilities have contractual maturities which are presented below.

	2010			
	Current		Non-current	
	Within	6 to 12	1 to 5	Beyond
	<u>6 Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>
Trade and other payables	P 207,629,147	P -	P -	P -
Other current liabilities	-	49,909,853	-	-
Interest-bearing loans and borrowings	-	67,041,871	-	272,520,130
Other non-current liabilities	-	-	-	30,176,800
	<u><b>P 207,629,147</b></u>	<u><b>P 116,951,724</b></u>	<u><b>P -</b></u>	<u><b>P 302,696,930</b></u>
	2009			
	Current		Non-current	
	Within	6 to 12	1 to 5	Beyond
	<u>6 Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>
Trade and other payables	P 154,416,779	P -	P -	P -
Other current liabilities	-	47,791,320	-	-
Interest-bearing loans and borrowings	-	226,983,840	-	296,659,499
Other non-current liabilities	-	-	-	29,287,148
	<u><b>P 154,416,779</b></u>	<u><b>P 274,775,160</b></u>	<u><b>P -</b></u>	<u><b>P 325,946,647</b></u>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting dates.

## 5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the statements of financial position are shown below.

	Notes	2010		2009	
		<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<b>Financial assets</b>					
Cash and cash equivalents	7	<b>P 66,754,154</b>	<b>P 66,754,154</b>	P 71,377,033	P 71,377,033
Receivables – net	8	<b>22,012,549</b>	<b>22,012,549</b>	178,873,306	178,873,306
Other non-current assets	12	<b>20,911,396</b>	<b>20,911,396</b>	16,646,135	16,646,135
		<u><b>P 109,678,099</b></u>	<u><b>P 109,678,099</b></u>	<u><b>P 266,896,474</b></u>	<u><b>P 266,896,474</b></u>

**Financial liabilities**

Current:					
Interest-bearing					
loans and borrowings	14	P 47,618,834	P 47,618,834	P 181,729,755	P 181,729,755
Trade and other payables	13	207,846,943	207,846,943	154,416,779	154,416,779
Other current liabilities	15	49,909,853	49,909,853	47,791,320	47,791,320
Non-current:					
Interest-bearing					
loans and borrowings	14	229,703,712	229,703,712	287,480,790	287,480,790
Other non-current liabilities	15	<u>30,176,800</u>	<u>30,176,800</u>	<u>29,287,148</u>	<u>29,287,148</u>
		<u>P 565,256,142</u>	<u>P 565,256,142</u>	<u>P 700,705,792</u>	<u>P 700,705,792</u>

See Notes 2.3 and 2.7 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

## 6. FRANCHISE

The Company is a holder of a franchise granted through Republic Act (RA) No. 6632 to operate and maintain a racetrack and conduct horse races therein for a period of 25 years up to October 27, 1997. Under this franchise, the Company is required to pay, among others, a franchise tax equivalent to 25% of its gross earnings from horse races. This tax is in lieu of any and all taxes of any kind, except income tax, that are imposed by the local or national government on the activities covered by the franchise.

On March 30, 1995, RA No. 7953 was enacted extending the Company's franchise for another 25 years up to October 2022, substantially under the same terms and conditions as the old franchise. The related cost of the franchise, net of the yearly amortizations, is shown as franchise cost under Other Non-current Assets account in the statements of financial position (see Note 12).

Under RA No. 7716, better known as the Expanded Value-added Tax Law, the Company is required to pay 10% VAT on its gross receipts. In view of this, the Company obtained a tax ruling wherein it was clarified that the Company is subject to the 10% VAT on its gross receipts instead of the 25% franchise tax on its operations. Accordingly, the Company has been paying since then the 10% VAT in lieu of any and all taxes of any kind, except income tax, that were imposed by the local or national government. On February 1, 2006, the VAT rate was increased to 12% under RA No. 9337.

## 7. CASH AND CASH EQUIVALENTS

The details of this account follow (2011 figures unaudited, 2010 figures audited):

	<u>2011</u>	<u>2010</u>
Cash on hand and in banks	P 91,371,916	P 65,942,874
Short-term placements	<u>248,550,865</u>	<u>811,280</u>
	<u>P 339,922,781</u>	<u>P 66,754,154</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have an average maturity of 30 days and effective interest rates per annum ranging from 1.5% to 2.5% in 2011 and 1.8% to 2.3% in 2010.

## 8. RECEIVABLES

This account includes the following (2011 figures unaudited, 2010 figures audited):

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Receivables from customers		<b>P 19,526,719</b>	P 19,756,365
Receivables from officers and employees	21.4	<b>6,081,701</b>	3,763,912
Advances to Philippine Racing Commission (Philracom)		<b>562,645</b>	562,645
Others		<b><u>3,081,741</u></b>	<u>2,616,821</u>
		<b>29,252,806</b>	26,699,743
Allowance for impairment		<b>(<u>4,687,194</u>)</b>	<b>(<u>4,687,194</u>)</b>
		<b><u>P 24,565,612</u></b>	<b><u>P 22,012,549</u></b>

All of the Company's receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 1<sup>st</sup> quarter 2011 and year 2010 is shown below.

	<u>2011</u>	<u>2010</u>
Balance at beginning of period	<b>P 4,687,194</b>	P 4,687,194
Impairment loss during the period	<u>-</u>	<u>-</u>
Balance at end of period	<b><u>P 4,687,194</u></b>	<b><u>P 4,687,194</u></b>

The Company has directly written off receivables amounting to P1.8 million in 2009 (nil in 2011 and 2010).

Receivables from customers do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2). However, the Company does not identify specific concentrations of credit risks with regard to its receivables as the amount recognized represent a large number of receivables from various customers.

Receivables from officers and employees are interest-bearing and payable through salary deduction within six months from the grant date. The effective interest rate on loans to employees is 8% in 2011 and 2010.

Due to their short duration, the net carrying amount of receivables is considered a reasonable approximation of its fair value.

## 9. INVESTMENT IN A SUBSIDIARY

### *9.1 Disposal of Investments in JTH*

On December 28, 2009, the Company entered into a Share Purchase Agreement with CMAI to sell the Company's investment in 210,636,433 shares of JTH representing 68.57% ownership interest at a purchase price of P0.73 per share or for a total consideration of P153.8 million. It was stipulated that the purchase price shall be paid by CMAI to the Company on the closing date, January 29, 2010. Outstanding receivable is presented as part of Receivables in the 2009 statement of financial position (see Note 8).

CMAI offered to purchase the shares subject to the conditions that the Company shall purchase the tax credits and repay the loan to JTH amounting to P27.5 million and P100.0 million, respectively. Out of the total tax credits, P10.2 million pertains to the tax credit obtained by JTH from the City of Makati for the local transfer tax that was erroneously paid by JTH on July 25, 2008. The tax credit was granted to the Company on November 24, 2009 (see Note 12). On the other hand, the remaining P17.3 million worth of tax credits is still in the process of being obtained by JTH from the Land Registration Authority in connection with real property taxes as of the date of the agreement.

Gain from the sale of shares amounting to P11.0 million and the related stock transaction tax amounting to P0.8 million are presented as part of Other Revenues and Other Operating Expenses, respectively (see Notes 17 and 19).

### *9.2 Proposed Exchange of JTH Shares with the Company's Makati Property*

On May 11, 2007, the BOD approved the exchange of 212,069 square meters of the Company's Makati property with 795,817,789 shares of JTH. The transaction will result to the increase of the Company's ownership in JTH to 91.25%. The Makati property has a Bureau of Internal Revenue (BIR) zonal value of P18,000 per square meter.

On June 12, 2007, the Company obtained a favorable ruling from the BIR confirming that under Sec. 40 (c)(2) of the National Internal Revenue Code, the transfer of the Company's Makati property to JTH in exchange for JTH shares is not subject to: income tax, capital gains tax, expanded withholding tax, VAT, donor's tax and documentary stamp tax.

Related to this, certain minority stockholders holding about 5.67% of the capital stock filed a civil case in the Regional Trial Court of Makati City, Branch 149 against the majority directors of the Company. The Court issued a temporary restraining order (TRO), which prevented the Company from submitting to the stockholders for approval the planned exchange transaction during its Annual Stockholders' Meeting held on October 10, 2007. The majority directors filed a petition for certiorari with the Court of Appeals questioning the issuance of the TRO for having no legal basis and for allowing the stockholders who represent only 5.67% ownership to prevent the majority directors from presenting to the stockholders for approval certain matters in the agenda for the stockholders' meeting, which the majority directors deem is for the best interest of the Company. However, the Court of Appeals rendered a decision dismissing the proceeding for prematurity.

On April 9, 2008, the Third Division of Supreme Court resolved to require respondents to comment (not to file a motion to dismiss) within 10 days from notice. Acting on the prayer for the issuance of a TRO and/or writ of preliminary injunction dated March 24, 2008, the Court likewise resolved to issue a temporary restraining order enjoining respondents from enforcing or executing the assailed Court of Appeal's decision and resolution, and the assailed trial court's resolutions particularly that which mandated the continued enforcement of the writ of permanent injunction issued by the trial court, until further orders from the Supreme Court.

Subsequently at the Annual Stockholders' Meeting on June 18, 2008, the stockholders representing 75.32% of the total outstanding stock approved the planned exchange of the Company's property for the shares of JTH.

On July 3, 2008, a reconfirmatory ruling from BIR was obtained stating that indeed, the transfer of the Company's Makati property to JTH in exchange for JTH shares is not subject to taxes.

On July 7, 2008, the Company executed a Deed of Transfer with Subscription Agreement wherein the Company subscribed to a total of 795,817,789 shares of stock and in payment and exclusively in exchange, the Company assigned, transferred and conveyed to JTH its Makati property (TCT 218137, 356179, 224459-64) at the total subscription price of P3,817,242,000 (aggregated zonal value of the property). However, the BIR Chief revoked the VAT exemption noting that the racetrack is a property that is used in business. The BIR letter, which was received by the Company on August 15, 2008, stated that the Company, being a VAT-registered taxpayer is covered by the exception provided under Sec. 4.109-1 (j) of Revenue Regulations (RR) No. 16-2005 as last amended by RR No. 4-2007, which provides that "Sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business. However, even if the real property is not primarily held for sale to customers or held for lease in the ordinary course trade or business but the same is used in trade or business of the seller, the sale thereof shall be subject to VAT being a transaction incidental to the taxpayer's main business". Consequently, the Company was assessed to pay VAT tentatively computed in the amount of P458,069,040 (see Note 24.3.2).

On August 22, 2008, the Company and JTH rescinded the Deed of Transfer with Subscription Agreement through a Disengagement Agreement. The rescission was made primarily because of the non-fulfillment of one fundamental condition for the transfer of the property, that is, there shall be no VAT due on the exchange of property for shares of stock.

Immediately, the Company furnished the BIR a copy of the Disengagement Agreement as part of the reply to the letter of the BIR revoking the VAT exemption of the exchange transaction. In the letter, the Company requested for a formal cancellation or withdrawal of the demand for the payment of the VAT in view of the rescission of the Deed of Transfer and Subscription Agreement or the non-consummation of the exchange transaction.

On September 4, 2008, the Company filed a request to the legal office of the Secretary of Finance, Hon. Margarito Teves, for the review of BIR unnumbered ruling dated July 15, 2008. To date, there is no response yet received from the Department of Finance.

Subsequently, the BIR upheld the position of the Company in its reply dated February 26, 2009. The BIR stated that without a sale or exchange having been effected, it follows that no taxable event has taken place. The BIR further stated that “there being no actual exchange or transfer of properties of the Company to JTH as contemplated in the rescinded Deed of Transfer with Subscription Agreement, there is now no taxable transaction subject to VAT and any demand letter issued for the payment thereof is hereby withdrawn” (see Note 24.3.2).

## 10. PROPERTY AND EQUIPMENT

### 10.1 Property and Equipment

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of first quarter 2011 and year 2010 are shown below.

	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Buildings and Improvements and Land Improvements</u>	<u>Office Equipment, Furniture and Fixtures</u>	<u>Land</u>	<u>Construction- In- Progress</u>	<u>Total</u>
<b>March 31, 2011</b>							
Cost	P 135,824,544	P 31,282,424	P 860,843,261	P 7,021,069	P 174,167,936	P 104,073,339	P 1,313,212,574
Accumulated depreciation and amortization	( 68,623,530)	( 24,323,789)	( 812,331)	( 5,155,909)	-	-	( 98,915,560)
<b>Net carrying amount</b>	<b><u>P 67,201,014</u></b>	<b><u>P 6,958,635</u></b>	<b><u>P 860,030,930</u></b>	<b><u>P 1,865,160</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 104,073,339</u></b>	<b><u>P 1,214,297,014</u></b>
<b>December 31, 2010</b>							
Cost	P 135,175,674	P 28,919,924	P 867,698,966	P 6,771,984	P 174,167,936	P 93,330,297	P 1,306,064,781
Accumulated depreciation and amortization	( 64,174,351)	( 23,760,728)	( 772,856)	( 4,958,201)	-	-	( 93,666,136)
<b>Net carrying amount</b>	<b><u>P 71,001,323</u></b>	<b><u>P 5,159,196</u></b>	<b><u>P 866,926,110</u></b>	<b><u>P 1,813,782</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 64,572,581</u></b>	<b><u>P 1,212,398,645</u></b>
<b>January 1, 2010</b>							
Cost	P 135,299,838	P 30,061,709	P 889,021,408	P 7,312,705	P 174,167,936	P 64,572,581	P 1,300,436,177
Accumulated depreciation and amortization	( 47,320,428)	( 26,075,063)	( 672,361)	( 4,878,743)	-	-	( 78,946,595)
<b>Net carrying amount</b>	<b><u>P 87,979,410</u></b>	<b><u>P 3,986,646</u></b>	<b><u>P 888,349,047</u></b>	<b><u>P 2,433,962</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 64,572,581</u></b>	<b><u>P 1,221,489,582</u></b>

The reconciliations of the carrying amounts at the beginning and end of 1<sup>st</sup> quarter 2011 and year 2010 of property and equipment are shown below.

	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Buildings and Improvements and Land Improvements</u>	<u>Office Equipment, Furniture and Fixtures</u>	<u>Land</u>	<u>Construction- In-Progress</u>	<u>Total</u>
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 71,001,323	P 5,159,196	P 866,926,110	P 1,813,782	P 174,167,936	P 93,330,297	P 1,212,398,646
Additions	648,870	2,362,500	64,571	249,085	-	10,743,042	14,068,069
Reclassification	-	-	-	-	-	-	-
Disposals/write-offs	-	-	-	-	-	-	-
Depreciation and amortization charges for the year	( 4,449,180)	( 563,061)	( 6,959,752)	( 197,707)	-	-	( 12,169,700)
Balance at March 31, 2011, net of accumulated depreciation and amortization	<b><u>P 67,201,014</u></b>	<b><u>P 6,958,635</u></b>	<b><u>P 860,030,930</u></b>	<b><u>P 1,865,160</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 104,073,339</u></b>	<b><u>P 1,214,297,014</u></b>
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 87,979,410	P 3,986,646	P 888,349,047	P 2,433,962	P 174,167,936	P 64,572,581	P 1,221,489,582
Additions	624,484	3,138,879	6,343,503	268,980	-	25,382,234	35,758,080
Reclassifications	( 300,094)	-	-	( 94,331)	-	3,375,482	2,981,057
Depreciation and amortization charges for the year	( 17,302,477)	( 1,966,329)	( 27,766,440)	( 794,828)	-	-	( 47,830,073)
Balance at December 31, 2010, net of accumulated depreciation and amortization	<b><u>P 71,001,323</u></b>	<b><u>P 5,159,196</u></b>	<b><u>P 866,926,110</u></b>	<b><u>P 1,813,783</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 93,330,297</u></b>	<b><u>P 1,212,398,646</u></b>

Land represents the cost of the parcels of land located in Makati City where the Company's old racetrack used to be located and the 65.5 hectares of land developed as the site of the Company's racetracks and related facilities in Cavite.

Certain portion of the land under transfer certificate of title (TCT) No. 224463, Lot 5 is used as collateral under real estate mortgage to secure the Company's loan with Banco de Oro Unibank, Inc. (BDO) and is annotated for P108.0 million (see Note 14.3).

In July 2008, the Company acquired a new totalizator system from Global Versatech, Inc. (GVI) through a chattel mortgage and is presented as part of machinery and equipment under the Property and Equipment account. The system was recorded at its estimated present value of P90.0 million (see Note 14.4). The effective interest rate used is 0.89% in 2010 and 0.90% in 2009.

The amount of depreciation is allocated as follows (*both periods unaudited*):

	<u>2011</u>	<u>2010</u>
Direct costs	<b>P 10,609,946</b>	P 10,360,717
Other operating expenses	<b><u>1,559,754</u></b>	<u>1,476,910</u>
	<b><u>P 12,169,700</u></b>	<u>P 11,837,627</u>

## ***10.2 Construction in Progress***

In 2008, substantial portion of construction in progress account pertains to two racetracks (1600 meter track and 1400 meter track) and office facilities in progress in Cavite. The development of a portion of the Company's Cavite property into the Company's racetracks and related facilities is divided into two phases: (i) Phase 1 involves the construction of the practice track for racehorses and the development of adjacent horse stable lots for sale and for lease to horseowners; and (ii) Phase 2 covers the conversion of the practice track into a racetrack and the construction of a grandstand, offices, stables and other basic racing facilities.

As part of the Phase 1 development, the Company appointed Sta. Lucia Realty and Development Corporation (Sta. Lucia) to undertake the project (see Note 21.2). The Company has recognized a liability equivalent to the construction and development costs related to the project which was advanced by Sta. Lucia. In accordance with the construction agreement, 80% of the proceeds from the sale of the residential and commercial lots from the joint venture agreement would be used to settle such liability (see Note 11).

The Phase 1 of the racetrack development project has been completed in 2008. The cost of the land being developed and the development costs are presented under Construction-in-progress. The Company recognized a liability presented as Provision for Project Development in the statements of financial position. The balance of provision for project development costs amounted to P137,200,000 at the end of first quarter 2011 and year 2010.

With respect to Phase 2 development, the Company appointed several contractors including Sta. Lucia to undertake the various sections of the project. The costs incurred in undertaking the project were capitalized under Construction-in-progress, including capitalized borrowing costs of P3.2 million and P6.2 million in 2010 and 2009, respectively (see Note 14). The capitalized borrowing costs represent 13% of the actual borrowing costs incurred on loans obtained to fund the construction project in 2010 and 2009. As of the beginning of 2009, major components of Phase 2 development had been completed. The Company started using the 1600 meter track and other related facilities on January 6, 2009. Total costs transferred to the building and improvements and land improvements, and land amounted to P906.2 million and P173.8 million, respectively, in 2009.

As of December 31, 2010, the remaining balance in Construction-in-progress consists of P45.3 million aggregate cost of the 1400 meter racetrack and P48.0 million cost of the construction project in the Makati property of the Company.

## 11. PROPERTY HELD FOR SALE

The Company has tracts of land, approximately 214.9 hectares, located in Cavite. Of the total land area, approximately 65.5 hectares was developed as the site of the Company's racetrack and related facilities and the remaining approximately 149.4 hectares is being developed as commercial and residential areas (see Note 10).

In 1999, the Company entered into a joint venture agreement (the "Agreement") with Sta. Lucia, a related party, for the development of a significant portion of this real estate property (see Note 21.1). Based on the Agreement, the Company contributed the land and Sta. Lucia, as the developer, shouldered the development costs. The Company has received about 20 hectares of developed residential lots and about 9.75 hectares of developed commercial lots from this Agreement.

Documentation of ownership titles for the Cavite Property is presently being completed. For the combined 29.75 hectares of developed subdivisions lots, TCTs covering around 16 hectares are already obtained by the Company. Titling of the remaining portion of developed subdivisions lots, including the 65.5 hectare racetrack complex is still in progress.

## 12. OTHER NON-CURRENT ASSETS

This account consists mainly of the following (2011 figures unaudited, 2010 figures audited):

	Notes	2011	2010
Franchise cost - net	6	<b>P 50,040,000</b>	P 51,120,000
Sinking fund - restricted	14.1	<b>306,087</b>	11,277,750
Tax credit	9, 15	<b>10,179,312</b>	10,179,312
Customer and other deposits		<b>9,633,646</b>	9,633,646
Miscellaneous		<b><u>3,787,255</u></b>	<u>3,774,492</u>
		<b><u>P 73,946,300</u></b>	<u>P 85,985,200</u>

Quarterly amortizations of franchise cost amounted to P1,080,000 in 2011 and 2010, and are presented as part of Depreciation and Amortization in the statements of comprehensive income.

Included in the customer and other deposits account are the advances of the Company to Manila Electric Railroad and Light Company for the installation of various poles and transformers in Cavite amounting to P6,871,904 as of March 31, 2011 and December 31, 2010.

The tax credit pertains to tax credit obtained by JTH from the City of Makati which was subsequently purchased by the Company as one of the conditions set forth on the share purchase agreement executed between the Company and CMAI (see Note 9). The purchase price of P10.2 million was outstanding as of March 31, 2011 and December 31, 2010 (see Note 15).

The sinking fund is used as a collateral on the Company's loans with Maybank Philippines Inc. (MPI) and shall in no time fall short of P5,000,000 (see Note 14.1).

### 13. TRADE AND OTHER PAYABLES

The details of this account are presented below (*2011 figures unaudited, 2010 figures audited*):

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Accounts payable		<b>P 22,258,883</b>	P 71,151,457
Accrued taxes		<b>52,985,945</b>	45,619,667
Accrued expenses	21.3	<b>25,589,483</b>	35,889,173
Due to Philracom		<b>31,000,038</b>	20,810,513
National Stud Farm		<b>20,956,313</b>	20,331,972
Dividends	16.4	<b>2,358,977</b>	2,359,144
Miscellaneous		<b><u>23,775,043</u></b>	<u>11,685,017</u>
		<b><u>P 178,924,682</u></b>	<u>P 207,846,943</u>

The Due to Philracom account refers to the liability to Philracom as stated under the Company's franchise. This liability is substantially equivalent to 1% of ticket sales.

Accrued expenses include unpaid interest of the Company's interest-bearing loans and borrowings, accrual of management bonus and various operating expenses incurred during the year which are still unpaid as of the end of the reporting period.

The carrying amounts of trade and other payables, which are expected to be settled within the next 12 months from the end of the reporting period, is a reasonable approximation of fair value.

#### 14. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings as of March 31, 2011 and December 31, 2010 consist of borrowings from (2011 figures unaudited, 2010 figures audited):

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Ayala Group	12	<b>P 500,000,000</b>	P -
Maybank Philippines, Inc. (MPI)	12	-	185,000,000
Banco De Oro (BDO)	10	-	100,000,000
Global Versatech, Inc. (GVI)	10	<b>82,327,534</b>	84,210,545
JTH Davies Holdings, Inc. (JTH)	21.4	-	100,000,000
		<b><u>P 582,327,534</u></b>	<b><u>P 469,210,545</u></b>

The maturity profile of the interest-bearing loans and borrowings as of March 31, 2011 and December 31, 2010 follows:

	<u>2011</u>	<u>2010</u>
Within one year	<b>P 28,623,822</b>	P 181,729,755
After one year but not more than five years	<b><u>553,703,712</u></b>	<u>287,480,790</u>
	<b><u>P 582,327,534</u></b>	<b><u>P 469,210,545</u></b>

##### *14.1 Payable to Ayala Group*

Related to the agreement between the Company and the Ayala Group (Ayala Land, Inc. And Alveo Land Corporation) to jointly develop the 21-hectare Santa Ana Park property of the Company, the Ayala Group agreed to grant an interest-free P500 million loan to the Company. The amount, which is covered by a promissory note executed by the Company, would be used to retire all existing interest-bearing loans and borrowings. Initially, the Company received P20 million from this loan amount and the balance of P480 million was received in March 2011.

Shortly after receiving the bulk of the loan, the Company paid in full all loans from MPI and BDO.

##### *14.2 MPI Loan*

In April 2008, the Company received a loan grant from MPI amounting to P150,000,000 payable up to April 2011 at an annual interest rate ranging from 9.31% to 9.41%, subject to quarterly repricing. Loans were availed to partially finance the construction of the new racetrack in Cavite. The principal amount of the loan will be paid through quarterly amortizations as follows:

Year 1	P 6,000,000
Year 2	12,000,000
Year 3	19,500,000

In November 2008, the Company received additional loan from MPI amounting to P80,000,000 to finance additional works on the new racetrack facilities and to purchase various equipment. The loan is subject to an annual interest rate of 11.25%, subject to quarterly repricing.

The principal amount of the five-year-loan is subject to quarterly amortization payment as follows:

Year 1	P	2,250,000
Year 2		3,750,000
Year 3		4,750,000
Year 4		5,000,000
Year 5		5,250,000 for 3 quarters and 1,250,000 upon maturity

Both loans from MPI totalling P95,000,000 and P185,000,000 as of December 31, 2010 and 2009, respectively, are collateralized by a hold-out agreement on sinking fund (see Note 12). In March 2011, these loans were paid in full.

Capitalized borrowing costs on the MPI loans amounted to P1.9 million and P3.7 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P12.4 million in 2010 and P18.9 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### ***14.2 Payable to JTH***

The related party liability represents the P100,000,000 clean loan obtained by the Company in January 2008 subject to lump sum payment after 18 months from initial drawdown. Proceeds from the loan were used to finance the construction of the new racetrack in Cavite.

Loan payable to JTH bears annual interest at rates ranging from 8.0% to 8.65% and 8.25% to 9.06% in 2009 and 2008, respectively, subject to quarterly repricing. The loan payable to JTH was fully paid in March 2010.

Capitalized borrowing costs amounted to P0.3 million and P2.0 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P1.8 million in 2010 and P7.0 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### ***14.3 BDO Loan***

On October 29, 2008, the Company received a P100,000,000 seven-year-loan from BDO with an annual interest rate of 10.53%, subject to quarterly repricing. The loan was availed to partially fund the redevelopment of the existing 21-hectare racetrack in Sta. Ana, Makati City into a commercial and residential complex. The principal amount of the loan is expected to be settled in full after seven years.

Loan payable to BDO amounting to P100,000,000 as of December 31, 2010 and 2009 is collateralized by a portion of Makati City property under TCT No. 224463 (see Note 10.1). BDO requires the Company to maintain a minimum debt service coverage ratio of 1:1 and maximum debt-to-equity ratio of 1.5:1 throughout the

duration of the term loan. The Company's debt service coverage ratio is 0.25:1 in 2010 and 1:0.82 in 2009. On the other hand, debt-to-equity ratio is 0.62:1 and 0.71:1 in 2010 and 2009, respectively. In March 2011, this loan was paid in full.

Capitalized borrowing costs from BDO loan amounted to P1.0 million and P0.5 million in 2010 and 2009, respectively (see Note 10.2). Borrowing costs recognized as expense amounted to P6.6 million in 2010 and P7.1 million in 2009 and is presented as part of Finance Costs in the statements of comprehensive income.

#### 14.4 Payable to GVI

In July 2008, the Company entered into an agreement with GVI for the latter to supply equipment to rehabilitate and upgrade the Company's existing system, to increase the number of terminals and to develop new betting online systems (see Note 10.1). Under the agreement, GVI also agreed to provide continuing operations maintenance and support services to the Company's totalizator system. Payment of the tote system and related services will be made over a seven-year period starting July 2008 until June 2015, based on a certain percentage of gross receipts from ticket sales. The related deed of sale did not stipulate any interest on the loan. Hence, the Company initially recorded the liability at its estimated present value of P90 million using the discount rate of 10% (which is the rate of a similar instrument at the time the agreement was executed).

The Company has recognized an effective interest expense of P1.8 million and P7.9 million as of March 31, 2011 and December 31, 2010, respectively, and is presented as part of Finance Costs in the statements of comprehensive income.

## 15. OTHER LIABILITIES

Details of this account are shown below (2011 figures unaudited, 2010 figures audited).

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Current:			
Payable to a charitable institution		<b>P 40,354,883</b>	P 39,730,541
Payable to JTH	9, 12	<b>10,179,312</b>	10,179,312
Income tax payable		<b><u>1,288,968</u></b>	<u>951,730</u>
		<b>51,823,163</b>	50,861,583
Non-current:			
Other non-current liabilities		<b><u>30,184,383</u></b>	<u>30,176,800</u>
Total		<b><u>P 82,007,546</u></b>	<u>P 81,038,383</u>

Other non-current liabilities pertain to security deposits paid by the owners of the sites where off-track betting stations are located. The amount of deposits ranges from P50,000 to P150,000 per site. Management expects that these deposits will not be refunded to the site owners in the short-term for as long as the owners continue to operate the Company's off-track betting stations.

## 16. EQUITY

### *16.1 Capital Management Objective, Policies and Procedures*

The Company's capital management objective is to ensure the Company's ability to continue as a going concern.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As of March 31, 2011 and December 31, 2010, the Company's debt-to-equity ratio follows (*2011 figures unaudited, 2010 figures audited*):

	<u>2011</u>	<u>2010</u>
Total liabilities	<b>P1,037,510,574</b>	P 758,358,684
Total equity	<u><b>1,207,853,101</b></u>	<u>1,214,941,943</u>
Debt-to-equity ratio	<u><b>0.86 : 1</b></u>	<u>0.62 : 1</u>

### *16.2 Capital Stock*

Capital stock consists of common shares with P1 par value per share with details as of March 31, 2011 and December 31, 2010 and 2009 as follows:

	<u>Number of Shares</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Authorized – 1,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	<b>585,608,270</b>	585,608,270	569,778,889
Issued during the year	<u>-</u>	<u>-</u>	<u>15,829,381</u>
Balance at end of year	<b>585,608,270</b>	585,608,270	585,608,270
Subscribed and unissued	<u><b>78,860</b></u>	<u>78,860</u>	<u>78,860</u>
	<u><b>585,687,130</b></u>	<u>585,687,130</u>	<u>585,687,130</u>

	<b>Amount</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Authorized – 1,000,000,000 shares			
Issued and outstanding			
Balance at beginning of year	<b>P 585,608,270</b>	P 569,778,889	P 569,778,889
Issued during the year	<u>-</u>	<u>-</u>	<u>15,829,381</u>
Balance at end of year	<u><b>585,608,270</b></u>	<u>585,608,270</u>	<u>585,608,270</u>
Subscribed and unissued	<b>78,860</b>	78,860	78,860
Less subscription receivable	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>78,860</b></u>	<u>78,860</u>	<u>78,860</u>
	<u><b>P 585,687,130</b></u>	<u>P 585,687,130</u>	<u>P 585,687,130</u>

### ***16.3 Stock Rights Offer***

On January 31, 2008, the BOD approved the offering of stock rights to existing shareholders. This offering shall entitle the stockholders to subscribe to one share for every thirty-six shares held on record date at an exercise price of P3.50 per share.

The stock rights issue is intended to address the problem of excess of foreign equity limit in the capital stock. As such, any exercise of the rights offer by foreign stockholders shall be subject to the 40% limitation in the foreign equity participation.

On May 2, 2008, the Company filed an application with the PSE for the listing and trading of the common shares. A Registration Statement was filed with the Securities and Exchange Commission (SEC) on July 4, 2008, in accordance with the Securities Regulation Code for the registration of the 15,829,381 common shares.

On February 23, 2009, the Company received the Order of Registration and Certificate of Permit to Sell Securities from SEC.

On February 27, 2009, the Company issued a memorandum on the amendment in the offer terms of the 1:36 Stock Rights Offering of the Company. The new offer period is from February 23 to March 20, 2009 and the new listing date is March 30, 2009.

On January 26, 2009, a memo on the revised procedures and implementing guidelines has also been issued. The memo officially identified January 9, 2009 as the record date.

During 2009, capital stock issued through the exercise of the stock rights totaled to 15,829,381 shares. Additional paid-in capital as a result of the issuance of shares amounted to P39.6 million.

As of March 31, 2011 and December 31, 2010, the Company has 803 stockholders owning 100 or more shares each of the Company's capital stock.

#### 16.4 Retained Earnings

Total unpaid dividends as of March 31, 2011 and December 31, 2010, shown as part of Trade and Other Payables account in the statements of financial position, amounted to P2.4 million (see Note 13).

#### 17. OTHER REVENUES

Other revenues consist of the following (*all figures unaudited*):

	<u>2011</u>	<u>2010</u>
Interest income	<b>P 432,319</b>	P 148,397
Other property rentals	<b>513,550</b>	256,035
Inscription and declaration fees	<b>141,295</b>	486,161
Miscellaneous	<b><u>2,921</u></b>	<u>601,041</u>
Total	<b><u>P 1,090,085</u></b>	<u>P 1,491,634</u>

#### 18. OTHER DIRECT COSTS

The following are the breakdown of the other direct costs (*all figures unaudited*):

	<u>2011</u>	<u>2010</u>
Employee benefits	<b>P 14,835,232</b>	P 16,641,065
Site rentals	<b>8,560,436</b>	8,956,859
Tote operation and maintenance	<b>4,279,764</b>	4,503,131
Transportation and travel	<b>4,169,019</b>	4,084,668
Communication	<b>3,521,707</b>	3,597,708
Outside services	<b>3,560,632</b>	3,572,287
Utilities	<b>2,165,779</b>	2,221,427
Repairs and maintenance	<b>1,854,244</b>	1,276,088
OTB expense	<b>1,381,552</b>	1,481,945
Insurance	<b>1,157,526</b>	952,605
Added prizes	<b>170,000</b>	-
Miscellaneous	<b><u>107,780</u></b>	<u>2,139,645</u>
Total	<b><u>P 45,763,672</u></b>	<u>P 49,427,428</u>

**19. OPERATING EXPENSES BY NATURE**

The following are the breakdown of other operating expenses (*all figures unaudited*):

	<u>2011</u>	<u>2010</u>
Employee benefits	<b>P 14,253,772</b>	P 15,052,945
Professional fees	<b>2,611,762</b>	3,689,021
Outside services	<b>1,401,358</b>	1,291,224
Utilities	<b>1,275,259</b>	1,513,901
Transportation and travel	<b>1,019,820</b>	829,187
Taxes and licenses	<b>522,259</b>	468,344
Repairs and maintenance	<b>618,081</b>	425,363
Communication	<b>588,786</b>	560,623
Representation	<b>577,218</b>	594,130
Insurance	<b>385,842</b>	317,534
Miscellaneous	<b><u>3,460,879</u></b>	<u>435,248</u>
Total	<b><u>P 26,715,036</u></b>	<b><u>P 25,177,520</u></b>

**20. EMPLOYEE BENEFITS**

***20.1 Employee Benefits Expense***

Expenses recognized for employee benefits are presented below (*all figures unaudited*).

	<u>2011</u>	<u>2010</u>
Salaries and wages	<b>P 25,076,854</b>	P 27,337,070
Retirement benefits	<b>2,100,000</b>	2,100,000
Social security costs	<b>1,564,448</b>	1,741,295
Compensated absences		
And other benefits	<b><u>347,702</u></b>	<u>442,159</u>
Total	<b><u>P 29,089,004</u></b>	<b><u>P 31,620,524</u></b>

The employee benefits expense is allocated as follows:

	<u>2011</u>	<u>2010</u>
Other direct costs	<b>P 14,835,232</b>	P 16,635,593
Other operating expenses	<b><u>14,253,772</u></b>	<u>14,984,931</u>
Total	<b><u>P 29,089,004</u></b>	<b><u>P 31,620,524</u></b>

***20.2 Employee Retirement Benefit Obligation***

The Company maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular employees. Actuarial valuations are made regularly to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>2010</u>	<u>2009</u>
Present value of the obligation	<b>P 81,464,495</b>	P 74,442,572
Fair value of plan assets	<b>(42,994,420)</b>	<b>(38,483,887)</b>
Deficiency of plan assets	<b>38,470,075</b>	35,958,685
Unrecognized actuarial gain	<b>16,480,737</b>	<b>10,592,127</b>
Retirement benefit obligation	<b><u>P 54,950,812</u></b>	<b><u>P 46,550,812</u></b>

The movements in the present value of the retirement benefit obligation recognized in the books follow:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 74,442,572</b>	P 84,525,285
Current service cost	<b>5,376,278</b>	5,066,633
Interest cost	<b>6,178,734</b>	6,212,609
Benefits paid	<b>(4,533,089)</b>	<b>(14,422,887)</b>
Actuarial loss	<b>-</b>	<b>(6,939,068)</b>
Balance at end of year	<b><u>P 81,464,495</u></b>	<b><u>P 74,442,572</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 38,483,887</b>	P 41,910,607
Expected return on plan assets	<b>3,078,711</b>	2,775,933
Benefits paid	<b>(4,533,089)</b>	<b>(14,422,887)</b>
Actuarial gain	<b>5,964,911</b>	<b>8,220,234</b>
Balance at end of year	<b><u>P 42,994,420</u></b>	<b><u>P 38,483,887</u></b>

As of December 31, 2010 and 2009, the plan assets consist of the following:

	<u>2010</u>	<u>2009</u>
Equity securities	<b>P 26,503,609</b>	P 8,218,430
Loans and discounts	<b>5,891,664</b>	7,960,206
Cash in banks	<b>10,207,147</b>	6,578,782
Government debt securities	<b>392,000</b>	<b>5,726,469</b>
Balance at end of year	<b><u>P 42,994,420</u></b>	<b><u>P 38,483,887</u></b>

Actual returns on plan assets were P3.3 million in 2009.

The amounts of retirement benefits recognized in the statements of comprehensive income follow:

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Current service costs	<b>P 5,376,278</b>	P	5,066,633	P	5,478,538
Interest costs	<b>6,178,734</b>		6,212,609		5,412,143
Expected return on plan assets	<b>( 3,078,711)</b>	(	2,775,933)	(	3,477,311)
Net actuarial losses recognized during the year	<b>( 76,301)</b>		-		-
Retirement benefits	<b><u>P 8,400,000</u></b>	P	<u>8,503,309</u>	P	<u>7,413,370</u>

The amount of retirement benefits is allocated as follows:

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Other direct costs	<b>P 4,200,000</b>	P	4,621,985	P	3,968,022
Other operating expenses	<b><u>4,200,000</u></b>		<u>3,881,324</u>		<u>3,445,348</u>
Retirement benefits	<b><u>P 8,400,000</u></b>	P	<u>8,503,309</u>	P	<u>7,413,370</u>

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of the plan assets and deficit in the plan (in thousand Philippine pesos).

	<u>2010</u>		<u>2009</u>		<u>2008</u>		<u>2007</u>		<u>2006</u>
Present value of the obligation	<b>P 81,464</b>	P	74,443	P	84,525	P	73,634	P	69,905
Fair value of the plan assets	<b><u>42,994</u></b>		<u>38,484</u>		<u>41,910</u>		<u>43,466</u>		<u>43,022</u>
Deficit in the plan	<b><u>P 38,470</u></b>	P	<u>35,959</u>	P	<u>42,615</u>	P	<u>30,168</u>	P	<u>26,883</u>

The movements in the retirement benefit obligation recognized in the books are as follows:

	<u>2010</u>		<u>2009</u>
Balance at beginning of year	<b>P 46,550,812</b>	P	38,047,503
Expenses recognized	<b><u>8,400,000</u></b>		<u>8,503,309</u>
Balance at end of year	<b><u>P 54,950,812</u></b>	P	<u>46,550,812</u>

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2010</u>	<u>2009</u>
Discount rates	<b>8.30%</b>	8.30%
Expected rate of return on plan assets	<b>8.00%</b>	8.00%
Expected rate of salary increases	<b>5.50%</b>	5.50%

The overall expected long-term rate of return on assets is 8.00% both in 2010 and 2009. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

## **21. RELATED PARTY TRANSACTIONS**

The Company's related parties include its joint venture partner, key management personnel and employees. The following are the Company's transactions with related parties:

### ***21.1 Joint Venture***

The Company has a joint venture agreement with Sta. Lucia, a related party. The joint venture agreement covers the development of the Company's real estate property in Cavite (see Note 11).

### ***21.2 Construction***

The Company also has construction agreements with Sta. Lucia. The agreements cover the Phase 1 development and portions of the Phase 2 development of the new racetrack facilities in Cavite (see Note 10.2).

### ***21.3 Management Bonus***

As stipulated under its By-laws, the Company regularly grants management bonus equivalent to 10% of the annual income before tax to all members of the Board of Directors and Executive Committee and the management staff. Management bonus, which is included as part of salaries and employee benefits under Other Operating Expenses in the statements of comprehensive income, amounted to P3.6 million in 2008 (nil in 2010 and 2009) (see Note 20.1). Unpaid management bonus, which is included as part of accrued expenses under the Trade and Other Payables account amounted to P3.6 million as of December 31, 2010, 2009 and 2008 (see Note 13).

### ***21.4 Loans***

In January 2008, JTH granted P100.0 million loan to the Company payable after 18 months from the initial drawdown (see Note 14.2). The loan payable to JTH was fully paid in March 2010.

Interest-bearing loans to executive officers and other employees are presented as part of receivables from officers and employees under the Receivables account in the statements of financial position (see Note 8).

### 21.5 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

	<u>2010</u>	<u>2009</u>
Short-term benefits	<b>P 15,016,000</b>	P 15,587,000
Retirement benefits	<u>837,000</u>	<u>847,000</u>
Total	<b><u>P 15,853,000</u></b>	<b><u>P 16,434,000</u></b>

## 22. TAXES

### 22.1 Current and Deferred Taxes

The components of tax expense (income) for the 1<sup>st</sup> quarters of 2011 and 2010 follow (*all figures are unaudited*):

	<u>2011</u>	<u>2010</u>
Current tax benefit:		
Regular corporate income tax [RCIT] at 30%	<b>(P 2,578,811)</b>	(P 3,467,440)
Final tax at 20%	<u>108,019</u>	<u>37,099</u>
	<b>( 2,470,792)</b>	( 3,430,341)
Deferred tax expense:		
Deferred tax relating to origination and reversal of temporary differences	<u>963,595</u>	<u>782,197</u>
Tax benefit reported in the Statements of comprehensive income	<b><u>(P 1,507,197)</u></b>	<b><u>(P 2,648,144)</u></b>

The reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense reported in the statements of comprehensive income is as follows (*all figures are unaudited*):

	<u>2011</u>	<u>2010</u>
Tax benefit on pretax loss	<b>(P 2,578,811)</b>	(P 3,467,440)
Adjustment for income subjected to lower income tax rates	<b>( 162,029)</b>	( 44,704)
Tax effects of non-deductible expenses	<u>1,233,643</u>	<u>864,000</u>
Tax benefit reported in the Statements of comprehensive income	<b><u>(P 1,507,197)</u></b>	<b><u>(P 2,648,144)</u></b>

The net deferred tax assets as of December 31 relate to the following:

	<b>Statements of Financial Position</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Deferred tax assets:			
Net operating loss carry-over (NOLCO)	<b>P 22,262,416</b>	P 15,052,441	P -
Accrued retirement benefits	<b>16,485,244</b>	13,965,244	11,414,251
MCIT	<b>4,043,038</b>	2,029,932	-
Unamortized past service cost	<b>1,932,294</b>	2,379,102	2,825,910
Allowance for doubtful accounts	<b>1,406,158</b>	1,406,158	1,286,626
Accrued management bonus	<u>-</u>	<u>-</u>	<u>1,081,986</u>
	<b>46,129,150</b>	34,832,877	16,608,773
Deferred tax liability:			
Unrealized foreign exchange gain	<u>( 9,520 )</u>	<u>( 13,271 )</u>	<u>-</u>
Net deferred tax assets	<b><u>P 46,119,630</u></b>	<b><u>P 34,819,606</u></b>	<b><u>P 16,608,773</u></b>

The Company is subject to MCIT which is computed at 2% of gross income, as defined under the tax regulations, or the RCIT, whichever is higher. The Company incurred MCIT amounting to P337,238 for the first quarter 2011 and P2,018,381 in year 2010.

The breakdown of NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred, is shown below:

<u>Inception Year</u>	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Expiry Year</u>
2010	P 7,209,975	-	P 7,209,975	2013
2009	<u>15,052,441</u>	<u>-</u>	<u>15,052,441</u>	2012
	<b><u>P 22,262,416</u></b>	<b><u>P -</u></b>	<b><u>P 22,262,416</u></b>	

The components of the Company's MCIT and the years until which these are deductible from RCIT are shown below.

<u>Inception Year</u>	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Expiry Year</u>
2010	P 2,013,106	-	P 2,013,106	2013
2009	<u>2,029,932</u>	<u>-</u>	<u>2,029,932</u>	2012
	<b><u>P 4,043,038</u></b>	<b><u>P -</u></b>	<b><u>P 4,043,038</u></b>	

## ***22.2 Optional Standard Deduction***

Effective July 2008, RA No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. This is applicable when the Company computes for RCIT for its unregistered activities. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. The Company opted to claim itemized

deductions in 2010 and 2009.

### ***22.3 Change in Applicable Tax Rate***

Effective January 1, 2009, in accordance with RA No. 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

## **23. EARNINGS (LOSS) PER SHARE**

Earnings per share are computed as follows (*all figures unaudited*):

	<u>2011</u>	<u>2010</u>
Total net loss	<b>P 7,088,841</b>	P 8,909,990
Divided by the weighted Average number of outstanding Common shares	<u><b>585,687,130</b></u>	<u>585,687,130</u>
Basic/diluted loss per share	<b><u>P 0.0121</u></b>	<b><u>P 0.0152</u></b>

In 2009, the Company issued additional 15,829,381 new shares of stock from its stock rights offer (see Note 16).

There are no dilutive or potential dilutive common shares in each of the three years.

## **24. COMMITMENTS AND CONTINGENCIES**

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

### ***24.1 Operating Lease Commitments – Company as Lessee***

The Company is a lessee under leases covering off-track betting (OTB) stations. The lease agreements are for a period of one year, and are renewable annually. The periodic lease payment is equal to either one percent (1.00%) or three-fourths of one percent (0.75%) of the gross sales of the OTB stations, less the applicable withholding tax.

### ***24.2 Operating Lease Commitments – Company as Lessor***

The Company entered into operating lease agreements as lessor. These cover stables leased out to horse owners. The leases are normally for a period of one year, and are renewable annually. A fixed rate per stable is charged by the Company monthly.

### **24.3 Assessments by Tax Authorities**

#### **24.3.1 Documentary Stamp Tax (DST)**

The Company received three notices from the Large Taxpayers Audit and Investigation Division I of the BIR regarding alleged deficiency tax computation on the Company's DST for the years 2005, 2006 and 2007. The notices with the corresponding period covered were received as follows:

<u>Date Received</u>	<u>Coverage</u>
December 27, 2007	January to December 2006
January 2, 2008	January to June 2007
January 21, 2008	January to December 2005

On January 4, 2008 and January 29, 2008, in separate letters to the BIR, the Company responded by stating that this issue has already been resolved based on the resolution issued by the Department of Justice (DOJ) on November 11, 2006, which provides that the DST collected by the Company is correct as provided in Section 8 of RA No. 7953, which was neither amended or repealed by Section 190 of RA No. 8424 as claimed by the BIR. On July 16, 2007, the Supreme Court declared the case terminated and made the decision of the DOJ, which was in favor of the Company, final and executory.

On November 7, 2008, the BIR issued an Assessment Notice covering alleged deficiency DST for 2005 amounting to P267,976,052. The Company filed with the BIR a protest letter against this assessment on November 21, 2008 raising several important issues against this BIR assessment. Important factors supporting the position of the Company are as follows: (a) A special law (RA No. 7953) cannot be repealed by implication by a subsequent general law (RA No. 8424); (b) The DST issue had already been resolved in favor of the Company by the DOJ under P.D. 242 and concurred by the Supreme Court; and (c) The Games and Amusements Board (GAB) and the BIR have agreed on the prospective application of the increased DST rate on race horse tickets from the date of the agreement in June 2007.

On March 16, 2009, the BIR issued an Assessment Notice covering alleged deficiency DST for 2006 amounting to P223,425,987. On March 26, 2009, the Company filed with the BIR its reply on this assessment raising several important issues against this BIR assessment similar to the assessment in 2005 pertaining to DST.

On July 13, 2009, the BIR issued Authority to Cancel Assessment (ACA) no. 202-00012764 effectively canceling the Assessment no. DST-06-000181 covering the assessed deficiency DST for 2006.

On August 28, 2009, the BIR issued ACA no. 2002-00012781 effectively canceling the Assessment no. DST-05-000176 covering assessed deficiency DST for 2005.

### *24.3.2 Value Added Tax*

On August 15, 2008, the Company received a letter from the office of the BIR Chief assessing the former to pay VAT amounting to P458,069,040 as a result of the planned exchange of asset for JTH's shares (see Note 9). On August 22, 2008, the Company responded stating that the Company and JTH rescinded the Deed of Transfer with Subscription Agreement through a Disengagement Agreement on the same date. The rescission of the said contract was made primarily because of the non-fulfillment of one fundamental condition for the transfer of the property, that is, there shall be no VAT due on the exchange of property for shares of stock. With the non-consummation of the transaction, there could be no more basis for the imposition of VAT.

On November 20, 2008, the Company wrote a letter to the new BIR Commissioner seeking for a reply that will confirm the cancellation of the imposed VAT on the rescinded Deed of Transfer with Subscription Agreement.

Subsequently, the BIR upheld the position of the Company in its reply dated February 26, 2009. The BIR stated that without a sale or exchange having been effected, it follows that no taxable event has taken place. The BIR ruled that rescission of a contract does not give rise to a taxable event for two reasons: (a) the result of rescission is that it is as if there was no sale, transfer or exchange, and hence, no income is realized; and (b) the return of the object of the rescinded contract is not for monetary consideration and is merely an acknowledgement or confirmation of the title and ownership of the original owner of the property. The BIR further stated that "there being no actual exchange or transfer of properties of PRCI to JTH as contemplated in the rescinded Deed of Transfer with Subscription Agreement, there is now no taxable transaction subject to VAT and any demand letter issued for the payment thereof is hereby withdrawn."

### *24.3.3 Prior Year's Assessments*

The Company received two letters of authority (LOA) on June 22, 2006 and April 2008. Both letters of authority notified the Company on the examination of its books of accounts and other accounting records for all internal revenue taxes covering taxable years 2005 and 2006, respectively. On June 16, 2008 and February 6, 2009, the Company paid P1.6 million and P1.0 million additional tax assessments for 2005 and 2006, respectively.

In July 2008 and May 2009, the Company received separate LOAs for the examination of its book of accounts and other accounting records covering taxable years 2007 and 2008, respectively.

On January 28, 2010, the Company received LOA No. 2009-00016195 issued by the National Investigation Division. This LOA covers the examination of books of accounts and other accounting records for all internal revenue taxes for taxable year 2008 and unverified prior years. With this new LOA, the previous LOAs covering years 2007 and 2008 were deemed withdrawn and cancelled.

#### 24.3.4 DST For 1998-2002

On July 8, 2005, the Company received assessment notices and demand letters for alleged deficiency DST for taxable years 1998 to 2002. The total deficiency DST, including interest and surcharges amounted to P776.8 million.

On July 15, 2005, the Company filed with the BIR a very extensive protest letter raising several important issues against these assessments. These important issues were as follows: (1) The right of BIR to assess for 1998 to 2001 had already prescribed; (2) The assessments are null and void; (3) RA No. 7953 (PRCI franchise), as amended, is a special law that was not repealed or amended by RA No. 8424 (Tax Code of 1997), a general law; (4) Horseracing is a business regulated by the GAB which approves the rates of taxes imposed by PRCI on its customers; and (5) The 25% surcharge has no legal basis.

On March 18, 2009, the BIR denied the administrative protest filed by the Company against alleged deficiency DST for years 1998 to 2002. The decision of the BIR was received more than three and a half years after the Company filed its protest.

On March 30, 2009, the Company filed an urgent request with the BIR to recall and withdraw its decision in view of important supervening events not considered in the decision. Two important points which happened after the protest letter was filed in July 2005 but were not mentioned, discussed nor considered in the BIR decision, were immediately raised in this letter request:

1. The DST issue had already been resolved by the DOJ under P.D. 242 and concurred in by the Supreme Court; and
2. The GAB and the BIR have agreed on the prospective application of the increased DST rate on race horse tickets from the date of the agreement in 2007.

Other important points originally raised in the July 2005 protest were also reiterated in the letter request with the BIR. These points were as follows:

- The assessments are null and void because the tax audit was not covered by any valid letter of authority;
- A special law (RA No. 7953) cannot be repealed by implication by a subsequent general law (RA No. 8424); and
- The right of the BIR to assess taxes for 1998 to 2001 had already prescribed because the assessment notices were received by the Company only on July 8, 2005.

Subsequently in a letter dated April 1, 2009, the BIR granted the appeal filed by the Company and quoting the pertinent portion of the letter signed by the BIR Commissioner: "In the interest of justice and in the light of the foregoing allegations of compelling factual and legal bases, your request for reconsideration is hereby granted and the Administrative Decision dated March 6, 2009 is hereby declared held in abeyance in the meantime and until a full and exhaustive review of

the new matters raised in your Motion for Reconsideration is undertaken by the concerned offices of this Bureau”.

On July 30, 2009, the BIR issued the following ACA:

2002-00012772	DST-98-000124	Deficiency DST for 1998
2002-00012773	DST-99-000120	Deficiency DST for 1999
2002-00012774	DST-00-000121	Deficiency DST for 2000
2002-00012775	DST-01-000122	Deficiency DST for 2001
2002-00012776	DST-02-000123	Deficiency DST for 2002

These ACAs effectively cancelled the assessments for alleged deficiency DST for 1998 to 2002.

#### ***24.4 Others***

In addition to the foregoing and to those mentioned in Note 25, there are other contingent liabilities that arise in the normal course of the Company’s operations which are not reflected in the accompanying financial statements. As of the reporting dates, management is of the opinion that losses, if any, from these events and conditions will not have a material effect on the Company’s financial statements.

#### **25. EVENT AFTER THE REPORTING PERIOD**

A cash dividend of five centavos (P0.05) per share was declared during the meeting of the Board of Directors on April 26, 2011. Stockholders of record as of May 20, 2011 are entitled to this cash dividend to be paid on June 20, 2011.

#### **26. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010**

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 15-2010, which requires certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. This supplemental information, which is not a required disclosure under PFRS, is presented as follows:

##### ***26.1 Output Value-Added Tax***

The Company reported and declared total output VAT from racing commissions amounting to P10,048,743 during the first quarter of 2011 and P39,351,161 during the year 2010. The tax bases are based on the Company’s gross receipts for the period, hence, may not be the same as the amounts reported in the statement of comprehensive income for the periods concerned.

### 26.2 Input Value-Added Tax

The movement in Input VAT as of March 31, 2011 and December 31, 2010 is summarized below (2011 figures unaudited, 2010 figures audited).

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 217,797</b>	P -
From services	<b>831,727</b>	-
From capital goods subject to amortization	<b>558,535</b>	217,797
From goods not subject to amortization	<u><b>384,930</b></u>	<u>-</u>
Total	<u><b>P 1,992,989</b></u>	<u>P 217,797</u>

### 26.3 Excise Tax

The Company did not have any transactions in 2010 which are subject to excise tax.

### 26.4 Documentary Stamp Tax

Documentary stamp tax paid on horse racing tickets amounted to P101,899,155 for the first quarter of 2011 and P408,090,484 for the year 2010.

### 26.5 Taxes and Licenses

The details of Taxes and Licenses account for the quarter ended March 31, 2011, presented as part of Other Operating Expenses in the 2011 statement of comprehensive income, are broken down as follows (all figures unaudited):

Municipal license and permits	P 207,661
Residence tax	13,583
Registration fee	500
Miscellaneous	<u>300,514</u>
Total	<u>P 522,258</u>

### 26.6 Withholding Taxes

The details of total withholding taxes for the quarter ended March 31, 2011 and year ended December 31, 2011 are shown below (2011 figures unaudited, 2010 figures audited).

	<u>2011</u>	<u>2010</u>
Tax on winning tickets	<b>P 43,757,494</b>	P 176,770,065
Tax on winnings on horse prizes	<b>8,678,428</b>	34,749,691
Compensation and benefits	<b>3,041,559</b>	9,672,705
Expanded	<b>1,258,725</b>	4,853,292
Final	<u><b>284,676</b></u>	<u>357,500</u>
Total	<u><b>P 57,020,882</b></u>	<u>P 226,403,253</u>

*26.7 Deficiency Tax Assessments and Tax Cases*

In 2010, the Company was assessed for deficiency taxes on income taxes and expanded withholding taxes amounting to P162,895 and P316,794, respectively for taxable year 2007. The total tax assessments of P479,689 were fully settled in 2010 and are presented as part of Other Operating Expenses account under Miscellaneous expenses (see Note 19). The Company is also involved in other tax-related cases which are still currently outstanding (see Note 24.3).