

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 1st 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 1st 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 2nd 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 1st 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 1st 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 1st 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 3rd and last quarters. It should be noted that several special races are historically scheduled to be run during the 3rd and 4th 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 2nd 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 2nd 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 2nd 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 2nd 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 2nd 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 2nd 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 2nd 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 2nd 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 1st Qtr 2011 vs 296 OTBs in 1st 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 1st Qtr 2011 vs 52.21% in 1st 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 1st 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 1st 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 1st Qtr 2011 vs P147,647 in 1st 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 1st 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>1st Qtr 2010</u>	<u>1st Qtr 2009</u>
<i>1st Quarter 2011 vs 1st 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 1st Qtr 2011 vs (P0.0152) in 1st Qtr 2010

Loss per share for 1st 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 2nd racetrack (1400 meter track) is expected to be completed by 2nd 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.

	2011	2011	2010	2010	2009	2009
	High	Low	High	Low	High	Low
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>
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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 1st 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