



SEC Number: PW00000179  
File Number: \_\_\_\_\_

**PHILIPPINE RACING CLUB, INC.**  
(Company's Full Name)

**Santa Ana Park, A. P. Reyes Avenue, Makati City**  
(Company's Address)

**(632) 890-4015**  
(Telephone Number)

**September 30, 2011**  
(Quarter Ending)  
(Month & Day)

\_\_\_\_\_  
Form Type

\_\_\_\_\_  
Amendment Designation (If Applicable)

\_\_\_\_\_  
Period Ended Date

\_\_\_\_\_  
(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**Quarterly Report Pursuant to Section 17 of the  
Securities Regulation Code and SRC Rule 17 (2) (b) Thereunder**

1. For the quarterly period ended: **September 30, 2011**
2. SEC Identification Number: **179**
3. BIR Tax Identification Number: **000-488-051**
4. Exact name of registrant as specified in its charter: **PHILIPPINE RACING CLUB, INC.**
5. Country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC use only)
7. Address & Postal Code: **Sta. Ana Park, A. P. Reyes Avenue, Makati City 1207**
8. Registrant's telephone number, including area code **(632) 890-4015**
9. Former name, former address, and former fiscal year,  
if changed since last report: **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8  
of the RSA

***Title of Each Class***

***Number of Shares Outstanding***

Common, P1 par value

585,687,130

11. Is this class of securities listed on the Philippine Stock Exchange?

**Yes [ X ]**

No [ ]

12. Check whether the registrant:

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

**Yes [ X ]**

No [ ]

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

**Yes [ X ]**

No [ ]

**PHILIPPINE RACING CLUB, INC.**  
**QUARTERLY REPORT**  
**FOR NINE MONTHS AND QUARTER ENDED SEPTEMBER 30, 2011**

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**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2011 AND DECEMBER 31, 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>[UNAUDITED] September 30, 2011</u>	<u>[AUDITED] December 31, 2010</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	<b>P 224,599,849</b>	P 66,754,154
Receivables - net	8	<b>38,135,524</b>	22,012,549
Prepayments and other current assets		<b><u>5,704,329</u></b>	<u>2,172,662</u>
Total Current Assets		<b><u>268,439,702</u></b>	<u>90,939,365</u>
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	10	<b>1,210,056,925</b>	1,212,398,646
Property held for sale	11	<b>537,857,786</b>	537,857,786
Deferred tax assets - net	22.1	<b>52,498,068</b>	46,119,630
Other non-current assets - net	12	<b><u>71,811,762</u></b>	<u>85,985,200</u>
Total Non-current Assets		<b><u>1,872,224,541</u></b>	<u>1,882,361,262</u>
<b>TOTAL ASSETS</b>		<b><u><u>P 2,140,664,243</u></u></b>	<u><u>P 1,973,300,627</u></u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	14	<b>P 16,854,207</b>	P 47,618,834
Trade and other payables	13	<b>163,564,104</b>	207,846,943
Other current liabilities	15	<b><u>51,979,546</u></b>	<u>50,861,583</u>
Total Current Liabilities		<b><u>232,397,857</u></b>	<u>306,327,360</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	14	<b>515,703,712</b>	229,703,712
Provision for project development	10.2	<b>137,200,000</b>	137,200,000
Retirement benefit obligation	20.2	<b>61,250,812</b>	54,950,812
Other non-current liabilities	15	<b><u>30,238,956</u></b>	<u>30,176,800</u>
Total Non-current Liabilities		<b><u>744,393,480</u></b>	<u>452,031,324</u>
Total Liabilities		<b><u>976,791,337</u></b>	<u>758,358,684</u>
<b>EQUITY</b>			
Capital stock	16.2	<b>585,687,130</b>	585,687,130
Additional paid-in capital		<b>39,947,626</b>	39,947,626
Retained earnings	16.4	<b><u>538,238,150</u></b>	<u>589,307,187</u>
Total Equity		<b><u>1,163,872,906</u></b>	<u>1,214,941,943</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u><u>P 2,140,664,243</u></u></b>	<u><u>P 1,973,300,627</u></u>

*See Notes to Financial Statements.*

## ANNEX A

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>[UNAUDITED]</u> <u>2011</u>	<u>[UNAUDITED]</u> <u>2010</u>
<b>REVENUES</b>			
Club races	6	<b>P 221,028,278</b>	P 232,556,702
Rental	24.2	<b>11,808,480</b>	12,124,048
Others	17	<b>5,646,683</b>	3,284,228
		<u><b>238,483,441</b></u>	<u>247,964,978</u>
<b>OPERATING EXPENSES</b>			
Depreciation and amortization		<b>39,442,722</b>	38,812,839
Finance costs		<b>9,168,048</b>	22,363,076
Other direct costs	18	<b>136,235,008</b>	139,392,854
Other operating expenses	19	<b>80,973,115</b>	76,314,268
		<u><b>265,818,893</b></u>	<u>276,883,037</u>
<b>LOSS BEFORE TAX BENEFITS</b>		<b>( 27,335,452 )</b>	<b>( 28,918,059 )</b>
<b>TAX BENEFITS</b>	22.1	<b>( 5,546,829 )</b>	<b>( 5,224,364 )</b>
<b>NET LOSS</b>		<b>( P 21,788,623 )</b>	<b>( P 23,693,695 )</b>
<b>Basic/Diluted Loss per Share</b>	23	<b>( P 0.0372 )</b>	<b>( P 0.0405 )</b>

*See Notes to Financial Statements.*

# ANNEX A

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>[UNAUDITED]</u> 2011	<u>[UNAUDITED]</u> 2010
<b>REVENUES</b>			
Club races	6	<b>P 75,521,577</b>	P 76,916,852
Rental	24.2	<b>3,722,693</b>	4,376,945
Others	17	<b><u>2,570,540</u></b>	<u>963,950</u>
		<b><u>81,814,810</u></b>	<u>82,257,747</u>
<b>OPERATING EXPENSES</b>			
Depreciation and amortization		<b>12,937,510</b>	12,983,922
Finance costs		<b>1,800,000</b>	6,237,567
Other direct costs	18	<b>46,601,459</b>	46,341,152
Other operating expenses	19	<b><u>26,527,720</u></b>	<u>24,437,173</u>
		<b><u>87,866,689</u></b>	<u>89,999,814</u>
<b>LOSS BEFORE TAX BENEFITS</b>		<b>( 6,051,879 )</b>	( 7,742,067 )
<b>TAX BENEFITS</b>	22.1	<b>( <u>1,878,652</u> )</b>	( <u>853,516</u> )
<b>NET LOSS</b>		<b>( <u>P 4,173,227</u> )</b>	( <u>P 6,888,551</u> )
<b>Basic/Diluted Loss per Share</b>	23	<b>( <u>P 0.0071</u> )</b>	( <u>P 0.0118</u> )

*See Notes to Financial Statements.*

# ANNEX A

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	16.2		
Balance at beginning of period		P 585,608,270	P 585,608,270
Issued during the period		<u>-</u>	<u>-</u>
Balance at end of period		585,608,270	585,608,270
Subscribed capital stock - net		<u>78,860</u>	<u>78,860</u>
		<u>585,687,130</u>	<u>585,687,130</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of period		39,947,626	39,947,626
Transaction affecting account during the period		<u>-</u>	<u>-</u>
Balance at end of period		<u>39,947,626</u>	<u>39,947,626</u>
<b>RETAINED EARNINGS</b>			
Appropriated		<u>300,000,000</u>	<u>300,000,000</u>
Unappropriated			
Balance at beginning of period		289,307,187	323,249,064
Cash dividend declared and paid		( 29,280,414 )	-
Net loss for the period		( 21,788,623 )	( 23,693,695 )
Balance at end of period		<u>238,238,150</u>	<u>299,555,369</u>
		<u>538,238,150</u>	<u>599,555,369</u>
<b>TOTAL EQUITY</b>		<u><b>P 1,163,872,906</b></u>	<u><b>P 1,225,190,125</b></u>

*See Notes to Financial Statements.*

# ANNEX A

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 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	16.2		
Balance at beginning of period		P 585,608,270	P 585,608,270
Issued during the period		<u>-</u>	<u>-</u>
Balance at end of period		585,608,270	585,608,270
Subscribed capital stock - net		<u>78,860</u>	<u>78,860</u>
		<u>585,687,130</u>	<u>585,687,130</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of period		39,947,626	39,947,626
Transaction affecting account during the period		<u>-</u>	<u>-</u>
Balance at end of period		<u>39,947,626</u>	<u>39,947,626</u>
<b>RETAINED EARNINGS</b>			
Appropriated		<u>300,000,000</u>	<u>300,000,000</u>
Unappropriated			
Balance at beginning of period		242,411,377	306,443,920
Cash dividend declared and paid		-	-
Net loss for the period		( <u>4,173,227</u> )	( <u>6,888,551</u> )
Balance at end of period		<u>238,238,150</u>	<u>299,555,369</u>
		<u>538,238,150</u>	<u>599,555,369</u>
<b>TOTAL EQUITY</b>		<u><b>P 1,163,872,906</b></u>	<u><b>P 1,225,190,125</b></u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CASH FLOW**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	[UNAUDITED] 2011	[UNAUDITED] 2010
	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax benefits	( P 27,335,452 )	( P 28,918,059 )
Adjustments for:		
Depreciation and amortization	39,442,722	38,812,839
Interest income	( 2,563,786 )	( 558,503 )
Operating profit before working capital changes	9,543,484	9,336,277
Decrease (increase) in receivables	( 16,122,975 )	154,847,490
Increase in prepayments and other current assets	( 3,531,667 )	( 3,983,329 )
Decrease (increase) in other non-current assets	10,933,438	( 6,399,102 )
Increase (decrease) in trade and other payables	( 44,282,838 )	52,570,093
Increase in other current liabilities	1,776,992	1,182,145
Increase in retirement benefit obligation	6,300,000	6,300,000
Increase in other non-current liabilities	62,156	1,037,417
Cash generated from (used in) operations	( 35,321,410 )	214,890,991
Cash paid for income taxes	( 1,490,639 )	( 690,640 )
Net Cash Provided by (Used in) Operating Activities	( 36,812,049 )	214,200,351
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	( 33,861,001 )	( 22,490,040 )
Interest received	2,563,786	558,503
Net Cash Used in Investing Activities	( 31,297,215 )	( 21,931,537 )
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Payment of loans	( 244,764,627 )	( 179,335,869 )
Proceeds of additional loans	500,000,000	-
Payment of cash dividends	( 29,280,414 )	-
Net Cash Provided by (Used in) Financing Activities	225,954,959	( 179,335,869 )
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	157,845,695	12,932,945
<b>CASH AND CASH EQUIVALENTS AT START OF PERIOD</b>	66,754,154	71,377,033
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>P 224,599,849</u>	<u>P 84,309,978</u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**STATEMENTS OF CASH FLOW**  
**FOR THE QUARTERS ENDED SEPTEMBER 30, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	[UNAUDITED] <u>2011</u>	[UNAUDITED] <u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax benefits	( P 6,051,879 )	( P 7,742,067 )
Adjustments for:		
Depreciation and amortization	12,937,510	12,983,922
Interest income	( 1,104,929 )	( 143,195 )
Operating profit before working capital changes	5,780,702	5,098,660
Decrease in receivables	( 14,803,454 )	4,624,994
Decrease (increase) in prepayments and other current assets	( 690,178 )	( 2,165,269 )
Increase in other non-current assets	( 12,591 )	( 972,379 )
Increase in trade and other payables	( 6,980,230 )	41,065,603
Increase (decrease) in other current liabilities	1,313,206	242,159
Increase in retirement benefit obligation	2,100,000	2,100,000
Increase (decrease) in other non-current liabilities	801,977	( 10,112 )
Cash generated from (used in) operations	( 12,490,568 )	49,983,656
Cash paid for income taxes	( 206,842 )	( 17,420 )
Net Cash Provided by (Used in) Operating Activities	( 12,697,410 )	49,966,236
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment	( 7,761,602 )	( 7,412,318 )
Interest received	1,104,929	143,195
Net Cash Used in Investing Activities	( 6,656,673 )	( 7,269,123 )
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Payment of loans	( 43,969,426 )	( 26,611,390 )
Proceeds of additional loans	-	-
Payment of cash dividends	-	-
Net Cash Used in Financing Activities	( 43,969,426 )	( 26,611,390 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 63,323,509 )	16,085,723
<b>CASH AND CASH EQUIVALENTS AT START OF QUARTER</b>	<u>287,923,358</u>	<u>68,224,255</u>
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>	<u>P 224,599,849</u>	<u>P 84,309,978</u>

*See Notes to Financial Statements.*

**PHILIPPINE RACING CLUB, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 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.

On October 21, 2011, the BOD approved an amendment to the Master Development Agreement. The amendment is for the segregation of the Commercial Parcel from the joint development contemplated under the MDA and to adjust certain terms in the MDA taking into account such segregation.

### ***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 2.14).

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 2.14.

### ***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. 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). Thus, 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 carry-forward 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 2011 and 2010.

(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 P38.1 million and P22.0 million as at September 30, 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 September 30, 2011 and December 31, 2010 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 2.14. 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 September 30, 2011 and December 31, 2010.

(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 P61.25 million and P55.0 million as of September 30, 2011 and December 31, 2010, respectively, while fair value of plan assets as of December 31, 2010 and 2009 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 September 30, 2011 and December 31, 2010 amounted to \$1,408 and \$1,729, respectively. Translated into Philippine Pesos at the closing rate, the bank deposits amount to P61,952 and P75,877 as of September 30, 2011 and December 31, 2010, 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 146,557,474</b>	P 66,636,805
Receivables - net	8	<b>38,135,524</b>	22,012,549
Other non-current assets:			
Customer and other deposits	12	<b>9,636,646</b>	9,633,646
Sinking fund	12	<b><u>306,087</u></b>	<u>11,277,750</u>
		<b><u>P 194,635,731</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 P250,000 and P117,349 as of September 30, 2011 and December 31, 2010, 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
	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>Financial assets</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
		<u>P 109,678,099</u>	<u>P 109,678,099</u>	<u>P 266,896,474</u>	<u>P 266,896,474</u>
<b>Financial liabilities</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
		<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	<b>P 74,203,198</b>	P 65,942,874
Short-term placements	<u><b>150,396,651</b></u>	<u>811,280</u>
	<u><b>P 224,599,849</b></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 33,496,250</b>	P 19,756,365
Receivables from officers and employees	21.4	<b>5,636,759</b>	3,763,912
Advances to Philippine Racing Commission (Philracom)		<b>562,645</b>	562,645
Others		<u><b>3,127,064</b></u>	<u>2,616,821</u>
		<b>42,822,718</b>	26,699,743
Allowance for impairment		<u><b>(4,687,194)</b></u>	<u>(4,687,194)</u>
		<u><b>P 38,135,524</b></u>	<u>P 22,012,549</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 3<sup>rd</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	<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 (none 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.

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 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 in the 2009 audited financial statements as part of Other Revenues and Other Operating Expenses, respectively.

### ***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 3<sup>rd</sup> 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>September 30, 2011</b>							
Cost	P 136,100,928	P 32,843,139	P 847,237,913	P 7,286,056	P 174,167,936	P 121,764,187	P 1,319,400,159
Accumulated depreciation and amortization	( 77,332,358)	( 25,628,337)	( 862,579)	( 5,519,960)	-	-	( 109,343,234)
<b>Net carrying amount</b>	<b><u>P 58,768,570</u></b>	<b><u>P 7,214,801</u></b>	<b><u>P 846,375,335</u></b>	<b><u>P 1,766,097</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 121,764,187</u></b>	<b><u>P 1,210,056,925</u></b>
<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>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 3<sup>rd</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	925,254	3,923,214	64,571	514,073	-	28,433,890	33,861,002
Reclassification	-	-	-	-	-	-	-
Disposals/write-offs	-	-	-	-	-	-	-
Depreciation and amortization charges for the year	( 13,158,008)	( 1,867,609)	( 20,615,347)	( 561,758)	-	-	( 36,202,722)
Balance at September 30, 2011, net of accumulated depreciation and amortization	<b><u>P 58,768,570</u></b>	<b><u>P 7,214,801</u></b>	<b><u>P 846,375,335</u></b>	<b><u>P 1,766,097</u></b>	<b><u>P 174,167,936</u></b>	<b><u>P 121,764,187</u></b>	<b><u>P 1,210,056,925</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	3,138,878	6,343,504	268,980	-	25,382,234	35,758,080
Reclassifications	-	-	-	-	-	3,375,482	3,375,482
Disposals/write-offs	( 300,094)	-	-	( 94,331)	-	-	( 394,425)
Depreciation and amortization charges for the year	( 17,302,477)	( 1,966,328)	( 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 866,926,111</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>

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 was used as collateral under real estate mortgage to secure the Company's loan with Banco de Oro (BDO) and is annotated for P108.0 million (see Note 14.4). With the full payment of BDO loan in March 2011, this real estate mortgage was subsequently cancelled.

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 14.5). The effective interest rate used is 0.89% in 2011 and 2010.

The amount of depreciation is allocated as follows (*both periods unaudited*):

	<u>2011</u>	<u>2010</u>
Direct costs	<b>P 31,427,929</b>	P 31,049,942
Other operating expenses	<u>4,774,793</u>	<u>4,522,897</u>
	<b><u>P 36,202,722</u></b>	<b><u>P 35,572,839</u></b>

## ***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, 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 3<sup>rd</sup> quarter 2011 and year 2010.

With respect to Phase 2, 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 September 30, 2011 and December 31, 2010, the remaining balance in Construction-in-Progress consists of the following: P45.3 million aggregate cost of the 1400 meter racetrack for both periods; and P76.5 million and P48.0 million, respectively, for cost of 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):

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Franchise cost - net	6	<b>P 47,880,000</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>3,812,717</u></b>	<u>3,774,492</u>
		<b><u>P 71,811,762</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 Meralco for the installation of various poles and transformers in Cavite amounting to P6,871,904 as of September 30, 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 September 30, 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 14.2). With the payment of loans in March 2011, this requirement was effectively cancelled.

## 13. TRADE AND OTHER PAYABLES

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 18,893,017</b>	P 71,151,457
Accrued taxes		<b>39,433,715</b>	45,619,667
Accrued expenses	21.3	<b>18,622,762</b>	35,889,173
Due to Philracom		<b>24,876,580</b>	20,810,513
National Stud Farm		<b>22,129,650</b>	20,331,972
Dividends	16.4	<b>13,329,985</b>	2,359,144
Miscellaneous		<b><u>26,278,395</u></b>	<u>11,685,017</u>
		<b><u>P 163,564,104</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 June 30, 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		<b>P 500,000,000</b>	P -
Global Versatech, Inc. (GVI)		<b>32,557,919</b>	82,322,545
Maybank Philippines, Inc. (MPI)		-	95,000,000
Banco De Oro (BDO)		-	100,000,000
JTH Davies Holdings, Inc. (JTH)		<u>-</u>	<u>-</u>
		<b><u>P 532,557,919</u></b>	<b><u>P 277,322,545</u></b>

The maturity profile of the interest-bearing loans and borrowings as of September 30, 2011 and December 31, 2010 follows:

	<u>2011</u>	<u>2010</u>
Within one year	<b>P 16,854,207</b>	P 47,618,834
After one year but not more than five years	<b><u>515,703,712</u></b>	<u>229,703,711</u>
	<b><u>P 532,557,919</u></b>	<b><u>P 277,322,545</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.

### **14.3 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.

#### ***14.4 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.

#### ***14.5 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 P5.4 million and P7.9 million for the first nine months of 2011 and for the year 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 41,528,220</b>	P 39,730,541
Payable to JTH	9, 12	<b>10,179,312</b>	10,179,312
Income tax payable		<u>272,014</u>	<u>951,730</u>
		<b>51,979,546</b>	50,861,583
Non-current:			
Other non-current liabilities		<u>30,238,956</u>	<u>30,176,800</u>
Total		<u><b>P 82,218,502</b></u>	<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 September 30, 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>P 976,791,337</b>	P 758,358,684
Total equity	<b><u>1,163,872,906</u></b>	<u>1,214,941,943</u>
Debt-to-equity ratio	<b><u>0.84 : 1</u></b>	<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 September 30, 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	<b><u>78,860</u></b>	<u>78,860</u>	<u>78,860</u>
	<b><u>585,687,130</u></b>	<u>585,687,130</u>	<u>585,687,130</u>
	<u>Amount</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>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	<b>585,608,270</b>	585,608,270	585,608,270
Subscribed and unissued	<b>78,860</b>	78,860	78,860
Less subscription receivable	<u>-</u>	<u>-</u>	<u>-</u>
	<b><u>78,860</u></b>	<u>78,860</u>	<u>78,860</u>
	<b><u>P 585,687,130</u></b>	<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 September 30, 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***

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 were entitled to this cash dividend, payable on June 20, 2011.

Total unpaid dividends as of September 30, 2011 and December 31, 2010, shown as part of Trade and Other Payables account in the statements of financial position, amounted to P13.3 million and P2.4 million, respectively (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 2,563,786</b>	P 558,503
Other property rentals	<b>1,117,411</b>	1,312,644
Inscription and declaration fees	<b>431,920</b>	1,102,233
Miscellaneous	<u><b>1,533,566</b></u>	<u>310,848</u>
Total	<u><b>P 5,646,683</b></u>	<u>P 3,284,228</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 43,497,847</b>	P 46,897,437
Site rentals	<b>24,323,015</b>	25,626,648
Tote operation and maintenance	<b>12,231,965</b>	12,869,962
Transportation and travel	<b>13,129,427</b>	13,005,253
Communication	<b>10,513,775</b>	10,320,386
Outside services	<b>10,719,422</b>	10,878,561
Utilities	<b>6,769,584</b>	7,062,828
Repairs and maintenance	<b>5,626,259</b>	3,796,245
OTB expense	<b>4,296,886</b>	5,014,988
Insurance	<b>3,511,764</b>	2,868,068
Added prizes	<b>1,160,000</b>	120,000
Miscellaneous	<b>455,064</b>	932,478
Total	<b><u>P 136,235,008</u></b>	<b><u>P 139,392,854</u></b>

**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 42,456,617</b>	P 42,903,814
Professional fees	<b>9,577,889</b>	9,639,967
Outside services	<b>3,880,454</b>	4,067,031
Utilities	<b>4,224,745</b>	4,282,647
Transportation and travel	<b>3,144,232</b>	2,707,123
Taxes and licenses	<b>1,213,450</b>	1,386,104
Repairs and maintenance	<b>1,875,420</b>	1,265,415
Communication	<b>1,739,929</b>	1,532,475
Representation	<b>1,888,985</b>	1,494,259
Insurance	<b>1,170,588</b>	956,023
Miscellaneous	<b>9,800,806</b>	6,079,410
Total	<b><u>P 80,973,115</u></b>	<b><u>P 76,314,268</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 74,456,569</b>	P 77,677,932
Retirement benefits	<b>6,300,000</b>	6,300,000
Social security costs	<b>4,227,800</b>	4,695,086
Compensated absences And other benefits	<b><u>970,095</u></b>	<u>1,128,233</u>
Total	<b><u>P 85,954,464</u></b>	<u>P 89,801,251</u>

The employee benefits expense is allocated as follows:

	<u>2011</u>	<u>2010</u>
Other direct costs	<b>P 43,497,847</b>	P 46,897,437
Other operating expenses	<b><u>42,456,617</u></b>	<u>42,903,814</u>
Total	<b><u>P 85,954,464</u></b>	<u>P 89,801,251</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>(<u>42,994,420</u>)</b>	( <u>38,483,887</u> )
Deficiency of plan assets	<b>38,470,075</b>	35,958,685
Unrecognized actuarial gain	<b><u>16,480,737</u></b>	<u>10,592,127</u>
Retirement benefit obligation	<b><u>P 54,950,812</u></b>	<u>P 46,550,812</u>

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>	( 14,422,887)
Actuarial loss	<u>-</u>	<u>( 6,939,068)</u>
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>	( 14,422,887)
Actuarial gain	<u>5,964,911</u>	<u>8,220,234</u>
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	<u>392,000</u>	<u>5,726,469</u>
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><u>( 76,301)</u></b>	<u>-</u>	<u>-</u>
Retirement benefits	<b><u>P 8,400,000</u></b>	<b><u>P 8,503,309</u></b>	<b><u>P 7,413,370</u></b>

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	<u>4,200,000</u>	<u>3,881,324</u>	<u>3,445,348</u>
Retirement benefits	<b><u>P 8,400,000</u></b>	<u>P 8,503,309</u>	<u>P 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	<u>42,994</u>	<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>	<u>P 35,959</u>	<u>P 42,615</u>	<u>P 30,168</u>	<u>P 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	<u>8,400,000</u>	<u>8,503,309</u>
Balance at end of year	<b><u>P 54,950,812</u></b>	<u>P 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 (none in 2011, 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 P0.08 million and P3.6 million as of September 30, 2011 and December 31, 2010, respectively (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 14.3). 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 3<sup>rd</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 4,823,544)</b>	(P 4,696,818)
Final tax at 20%	<u>640,946</u>	<u>139,626</u>
	<b>( 4,182,598)</b>	( 4,557,192)
Deferred tax expense:		
Deferred tax relating to origination and reversal of temporary differences	<b>( 1,364,231)</b>	( 667,172)
Tax benefits reported in the Statements of comprehensive income	<b><u>(P 5,546,829)</u></b>	<b><u>(P 5,224,364)</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 8,200,636)</b>	(P 8,675,418)
Adjustment for income subjected to lower income tax rates	<b>( 769,136)</b>	( 167,551)
Tax effects of non-deductible expenses	<u>3,422,943</u>	<u>3,618,605</u>
Tax benefit reported in the Statements of comprehensive income	<b><u>(P 5,546,829)</u></b>	<b><u>(P 5,224,364)</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)	P 22,262,416	P 15,052,441	P -
Accrued retirement benefits	16,485,244	13,965,244	11,414,251
MCIT	4,043,038	2,029,932	-
Unamortized past service cost	1,932,294	2,379,102	2,825,910
Allowance for doubtful accounts	1,406,158	1,406,158	1,286,626
Accrued management bonus	-	-	1,081,986
	<u>46,129,150</u>	<u>34,832,877</u>	<u>16,608,773</u>
Deferred tax liability:			
Unrealized foreign exchange gain	( 9,520)	( 13,271)	-
Net deferred tax assets	<u>P 46,119,630</u>	<u>P 34,819,606</u>	<u>P 16,608,773</u>

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 P538,909 for the first nine months of 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>
2011	P 4,823,544	-	P 4,823,544	2014
2010	7,209,975	-	7,209,975	2013
2009	<u>15,052,441</u>	<u>-</u>	<u>15,052,441</u>	2012
	<u>P 22,262,416</u>	<u>P -</u>	<u>P 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>
2011	P 538,909	-	P 538,909	2014
2010	2,013,106	-	2,013,106	2013
2009	<u>2,029,932</u>	<u>-</u>	<u>2,029,932</u>	2012
	<u>P 4,043,038</u>	<u>P -</u>	<u>P 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 2011, 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 21,788,623</b>	P 23,693,695
Divided by the weighted Average number of outstanding Common shares	<u>585,687,130</u>	<u>585,687,130</u>
Basic/diluted loss per share	<b><u>P 0.0372</u></b>	<b><u>P 0.0405</u></b>

In 2009, the Company issued additional 15,829,381 new shares of stock from its stock rights offer (see Note 16.3).

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 higher 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 BIR's right 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. 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:

### ***25.1 Output Value-Added Tax***

The Company reported and declared total output VAT from racing commissions amounting to P28,415,639 during the first nine months 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.

### ***25.2 Input Value-Added Tax***

The movement in Input VAT as of September 30, 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>858,327</b>	-
From capital goods subject to amortization	<b>649,597</b>	217,797
From goods not subject to amortization	<u><b>326,043</b></u>	<u>-</u>
Total	<u><b>P 2,051,764</b></u>	<u>P 217,797</u>

### ***25.3 Excise Tax***

The Company did not have any transactions in 2011 and 2010 which are subject to excise tax.

### ***25.4 Documentary Stamp Tax***

Documentary stamp tax paid on horse racing tickets amounted to P291,231,260 for the first nine months of 2011 and P408,090,484 for the year 2010.

### ***25.5 Taxes and Licenses***

The details of Taxes and Licenses account for the first nine months of 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 434,814
Residence tax	13,583
Registration fee	500
Miscellaneous	<u>764,553</u>
Total	<u><b>P 1,213,450</b></u>

### ***25.6 Withholding Taxes***

The details of total withholding taxes for the first nine months of 2011 and the year ended December 31, 2010 are shown below (*2011 figures unaudited, 2010 figures audited*).

	<u>2011</u>	<u>2010</u>
Tax on winning tickets	<b>P 126,468,920</b>	P 176,770,065
Tax on winnings on horse prizes	<b>24,863,667</b>	34,749,691
Compensation and benefits	<b>7,937,425</b>	9,672,705
Expanded	<b>3,543,483</b>	4,853,292
Final	<b><u>2,542,226</u></b>	<u>357,500</u>
Total	<b><u>P 165,355,721</u></b>	<b><u>P 226,403,253</u></b>

### ***25.7 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).

### MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

#### RESULTS OF OPERATIONS

##### Discussion on the Results of Operations

During the 1<sup>st</sup> nine months of 2011, the Company hosted 114 race days (*compared to 117 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 P2.91 billion of sales as compared to the P3.06 billion for the same period last year. This is equivalent to about 4.96% decrease from last year's sales performance. A major contributor to this is the lower number of racing days for the period in 2011 compared with that of 2010 (difference of three racing days). In addition, during the period in 2011, it has been observed that lower number of horses have participated in the races. At the start of the year, this situation in horses running in races is unexpected because of last year's positive turnaround from 2009's dismal sales performance. It is important to note that the more horses running in races almost always means better sales.

In addition, the revenue-source mix of the Company was as follows: 97.38% for OTBs in 2011 (compared to 96.93% in 2010); 1.48% for maintrack in 2011 (compared to 1.68% in 2010); and 1.14% for telebet in 2011 (compared to 1.39% in 2010). The Company has 281 OTBs as of September 30, 2011 as compared to 284 OTBs as of September 30, 2010.

There were some significant revenue and expense accounts which showed substantial changes in 1<sup>st</sup> nine months 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 Commissions [P221.03 million in 2011 vs P232.56 million in 2010 = 4.96% decrease]: This account represents the revenue share in the gross handle (betting sales) generated from races. As discussed above, the sales decrease could be attributed to the lower number of racing days for 1<sup>st</sup> nine months of 2011 compared with that of 2010 (three-day difference) and the lower number of horses participating in the races during the current period.

At the present condition and sentiments in the industry, significant recovery in sales may not be expected for the rest of the year. However, we expect the number of horses running in our races to increase during the last quarter of 2011.

##### Expenses

Finance Costs [P9.17 million in 2011 vs P21.53 million in 2010 = 57.41% decrease]: This account represents the expense portion of interest charges from loans and borrowings. The decrease was caused mainly by the repayment in full of the BDO and Maybank loans in March 2011. Also, it should be noted that 2010 included interest charges for about two months on the P100 million JTH loans. The loans from JTH were fully paid in March 2010.

With the payment of all remaining bank loans in March 2011, only the GVI account is left that will generate interest expense. Thus, it is expected that the decrease will continue in the next few quarters.

Site Rentals [P24.32 million in 2011 vs P25.63 million in 2010 = 5.09% decrease]: This account represents the rental charges paid for the site where the OTB is operating. Since all rental charges are based on sales generated from the particular site, the change in this account mirrors the change in gross handle. Gross handle for 2011 decreased compared with that of 2010, thus, the decrease in site rental charges.

This decrease is expected to be retained during the 4<sup>th</sup> quarter 2011 because gross handle for the last quarter of the year is not expected to make a significant recovery.

Repairs and Maintenance [P5.63 million in 2011 vs P3.80 million in 2010 = 48.21% increase]: The account substantially includes costs of repairs of facilities and equipment in both the Cavite racetrack area and Santa Ana Park, Makati City. The significant increase for 2011 was due mainly to some repairs made in the racetrack and the grandstand during the year.

The amount of Repairs and Maintenance for 2011 is expected to further increase during the last quarter of the year due to the continuing repairs of the racetrack.

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

## **CHANGES IN FINANCIAL CONDITION**

### **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> nine months of 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 balance represents solely the remaining balance of the proceeds of a loan granted by the Ayala Group in connection with the joint venture development of the Santa Ana Park property in Makati City (see notes 1.2 and 14.1 to financial statements).

The cash balance is expected to decrease during the last quarter of 2011 due to payments of other big liabilities during the next few months.

#### ***Receivables - net***

The receivable balance represents mainly collectibles from horseowners-tenants occupying the stable facilities in Naic, Cavite and advances to supplier.

The balance is expected to decrease in the next quarters due to expected collections during the next few months.

#### ***Deferred Tax Assets - net***

The increase in deferred tax assets represents mainly expected future tax benefits from expense provisions reflected in the income statements for the 1<sup>st</sup> nine months of 2011.

This is expected to increase further during the last quarter of the year as additional expense provisions are scheduled to be reflected in the financial statements during this period.

#### ***Other non-current Assets - net***

The decrease in this account represents mainly the reduction in sinking fund with Maybank and the amortization of franchise cost during the 1<sup>st</sup> nine months of 2011.

This account is expected to decrease further during the last quarter of the year as additional amortization of franchise cost is scheduled every month.

#### ***Interest-bearing Loans and Borrowings***

The significant increase was caused solely by the loan granted by the Ayala Group in March 2011 in connection with the joint venture development of the Santa Ana Park property in Makati City (see notes 1.2 and 14.1 to financial statements). A new P500 million loan was obtained and portion of the loan proceeds was used to pay all existing bank loans (from BDO and Maybank Philippines).

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

#### ***Trade and Other Payables***

The significant decrease was caused mainly by the payment of big liabilities during the 1<sup>st</sup> nine months of 2011. The proceeds from the loan from Ayala Group in March 2011 enables the Company to repay many big liabilities such as the shares of government agencies in certain revenues from horseracing (for the 1% share in gross handle and share in breakages as provided for in the Company's franchise) and some payables to service providers and suppliers.

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.

#### ***Retirement Benefit Obligation***

The increase in this account was due to the additional provisions taken up in the books as recommended in the latest actuarial valuation of the retirement fund requirements of the Company.

It is expected that the balance of this account will decrease during the 4<sup>th</sup> quarter of the year due to expected additional contribution to the Retirement Fund during the period.

### **OTHER DISCUSSIONS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATION**

#### ***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 Pangasinan, Bulacan and Pampanga areas north of Metro Manila and Cavite, Rizal, Laguna and Batangas and Bicol areas south of Metro Manila continue to show encouraging potentials. By end of 3<sup>rd</sup> quarter 2011, we have 281 active OTBs compared with 284 OTBs as of end of 3<sup>rd</sup> quarter 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. As of end of September 2011, the farthest OTB in the north is in Dagupan and Urdaneta, Pangasinan and in the south is Legazpi City, Albay (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 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 will start very soon with the signing of joint development project with the Ayala Group in March 2011. See note 1.2 to the September 30, 2011 financial statements for details.

### **Dividend Declaration**

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 were entitled to this cash dividend, payable on June 20, 2011.

### **Continuing Impact of Economic Crisis**

Although we might say that the infamous 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**

The top five (5) key performance indicators of PRCI for the periods January to September of 2011 and 2010 are as follows:

	<u>Jan to Sep 2011</u>	<u>Jan to Sep 2010</u>
1. <b>Number of OTBs</b> ( <i>end of period</i> )	<u>281</u>	<u>284</u>

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.

The decrease in active OTBs in 1<sup>st</sup> nine months of 2011 compared to same period in 2010 level is a continuation of management's thrust towards bringing quality horseracing to customers on a much better manner. OTB sales performance is closely monitored and nonperforming or underperforming 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.

	<u>Jan to Sep 2011</u>	<u>Jan to Sep 2010</u>
<b>2. Market Share</b>	<b><u>50.42%</u></b>	<b><u>51.14%</u></b>

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.

For the first nine months of 2011, PRCI had 114 racing days. PRCI maintained a slightly higher market share for this period. This is achieved inspite of MJCI having an edge in the number of horses running in the races during this period in 2011.

To reclaim the edge in 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.

	<u>Jan to Sep 2011</u>	<u>Jan to Sep 2010</u>
<b>3. Average Horse Prize (for 1<sup>st</sup> place)</b>	<b><u>P139,603</u></b>	<b><u>P138,497</u></b>

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.

The average horse prize for first place during the first nine months of 2011 was slightly higher than the average prize in same period in 2010. This was due to improved sales performance in 2011 on average per race basis compared with 2010. More importantly, this 2011 horse prize is slightly higher than the average prize generated by the competitor for same period (P139,603 for PRCI versus P139,393 for MJCI).

Management must find ways to further improve the betting sales (and improve HOP) although we expect that more improvement is forthcoming in the last quarter of the year. 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.

	<u>Jan to Sep 2011</u>	<u>Jan to Sep 2010</u>
<b>4. Distribution of Sales</b>		
- OTB	<u>97.38%</u>	<u>96.93%</u>
- Maintrack	<u>1.48%</u>	<u>1.68%</u>
- Telebet accounts	<u>1.14%</u>	<u>1.39%</u>

At present, betting sales are generated from three (3) sources: OTBs, maintrack and the telephone betting (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.

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. The satellite broadcast of horseracing allows PRCI to expand to places outside Metro Manila. The present thrust is to identify and tap horseracing markets especially in the provinces near Metro Manila. This condition is expected to remain at this level for the next few quarters.

Management has to continue finding practical ways to tap and enhance account betting which includes the existing telephone betting, betting by texting (SMS) and internet betting. At present, management should look at promoting telebet because it still offers the best avenue for future growth. 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.

	<u>Jan to Sep 2011</u>	<u>Jan to Sep 2010</u>
<b>5. Loss per Share</b>	<u>(P0.0372)</u>	<u>(P0.0405)</u>

Earnings (loss) per share or EPS indicate the relative profitability (loss) 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.

Loss per share for 1<sup>st</sup> nine months of 2011 decreased compared with same period in 2010 due to the lower net loss incurred during the current period. Finance costs during the period in 2011 were much lower compared with that of 2010. However, revenue from club races registered a big decrease, thus, reducing significantly the "savings" in finance costs. This loss situation is expected to be reversed during the last quarter of 2011 due to the expected major revenue inflows during the period.

## ANNEX C

### PHILIPPINE RACING CLUB INC. AGING OF RECEIVABLES AS OF SEPTEMBER 30, 2011

#### A. AGING OF ACCOUNTS RECEIVABLE

TYPE OF RECEIVABLES	TOTAL	CURRENT	1 MONTH	2-3 MONTHS	4-6 MONTHS	7 MONTHS & OVER
1) Executive Car Plan / Loan	Php3,489,629	3,489,629	-	-	-	-
2) Advances to Employees	2,271,869	2,239,817	-	-	-	32,052
3) SSS Maternity, Sickness Benefits	105,995	105,995	-	-	-	-
4) Leased Properties	1,664,400	-	-	-	-	1,664,400
5) Other Receivables	35,290,825	29,796,349	-	-	-	5,494,476
<b>TOTAL</b>	<b>42,822,718</b>	<b>35,631,790</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,190,928</b>
Allowance for Doubtful Accounts	<u>(4,687,194)</u>					
<b>NET RECEIVABLES</b>	<b><u>Php38,135,524</u></b>					

#### B. DESCRIPTION of ACCOUNTS

TYPE OF RECEIVABLES	NATURE / DESCRIPTION	COLLECTION PERIOD
1) Executive Car Plan / Loan	Parts of benefits given to managers and senior officers	Monthly
2) Advances to Employees	Loan facilities given to all employees	Monthly
3) SSS Maternity, Sickness Benefits etc.	Social benefits of all employees as provided by the Labor Code	Monthly
4) Leased Properties	Leased areas, e.g., stables, aircon boxes & concessions	Monthly
5) Other Receivables	Various receivables	Monthly

#### C. NORMAL OPERATING CYCLE:

Calendar Year

## OTHER INFORMATION

### **Material Events and Uncertainties that would Impact Future Operations**

We present 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:

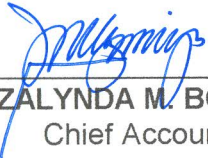
- No known, trends, demands, commitments, events or uncertainties that would have a material impact on PRCI's liquidity existed during the reporting period.
- There were no events that would trigger direct or contingent financial obligation that is material to PRCI, including any default or acceleration 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.
- There were no material commitments for capital expenditures during the reporting period.
- 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 are known that may materially affect the financial report of PRCI.
- Further, all material items of income and expense during the reporting period arose from normal continuing operations. In addition, there are no known seasonal factors that may materially affect the racing operation of PRCI.

## SIGNATURES

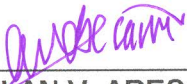
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Issuer: PHILIPPINE RACING CLUB, INC.

PRINCIPAL FINANCIAL / ACCOUNTING OFFICER / CONTROLLER:

  
\_\_\_\_\_  
RIZALYNDA M. BONIFACIO  
Chief Accountant

11/08/2011  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
ALLAN V. ABESAMIS  
Senior Vice President for Finance

11/29/11  
\_\_\_\_\_  
Date