SEC Number: **PW00000179**
File Number: ____________

PHILIPPINE RACING CLUB, INC. & SUBSIDIARIES

(Company's Full Name)

Saddle & Clubs Leisure Park, Brgy. Sabang, Naic, Cavite
(Company's Address)

(632) 805-2091
(Telephone Number)

March 31, 2019
(Quarter Ending)
(Month & Day)

Form 17-Q
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: **March 31, 2019**

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: **Saddle & Clubs Leisure Park, Sabang, Naic, Cavite 4110**

8. Registrant's telephone number, including area code **(632) 805-2091**

9. Former name, former address, and former fiscal year, if changed since last report: **Santa Ana Park, A.P. Reyes Avenue, Carmona, Makati City 1207**

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	546,627,296

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.
And SUBSIDIARIES
QUARTERLY REPORT
FOR THE THREE MONTHS AND QUARTER ENDED MARCH 31, 2019

TABLE of CONTENTS

PART I FINANCIAL INFORMATION

Item 1 Financial Statements *(Annex A)*

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations *(Annex B)*

Item 3 Aging Schedule of Accounts Receivable *(Annex C)*

PART II OTHER INFORMATION - *(Annex D)*

PART III SIGNATURES - *(Annex E)*

ANNEX A

PHILIPPINE RACING CLUB, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 and DECEMBER 31, 2018
(Amounts in Philippine Pesos)

	Notes	[UNAUDITED] March 31, 2019	[AUDITED] December 31, 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	P 606,275,159	P 354,403,379
Receivables - net	9	479,377,988	571,461,035
Financial assets at fair value through profit or loss	10	150,951,902	150,951,902
Contract Asset	19	211,773,954	198,045,432
Property held for sale or development	13	1,920,687,766	1,968,364,197
Prepayments and other current assets	10	31,933,570	15,244,657
Total Current Assets		3,401,000,339	3,258,470,602
NON-CURRENT ASSETS			
Real estate receivables	9	745,109,394	745,109,394
Contract Asset	19	9,050,574	9,050,574
Financial assets at fair value through other comprehensive income	14	519,561,523	519,561,523
Property and equipment - net	11	426,185,012	617,216,891
Investment property	12	1,440,985,705	1,440,985,705
Other non-current assets	14	71,332,925	69,425,942
Total Non-current Assets		3,212,225,133	3,401,350,029
TOTAL ASSETS		P 6,613,225,472	P 6,659,820,631
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and borrowings	16	P 59,375,974	P 197,259,397
Trade and other payables	15	490,054,924	466,146,108
Advances from stockholders	23	5,881,475	5,881,475
Income tax payable	24	132,309,864	73,462,650
Contract liabilities	19	69,279,155	41,488,064
Other current liabilities	17	352,035,512	405,313,200
Total Current Liabilities		1,108,936,904	1,189,550,894
NON-CURRENT LIABILITIES			
Contract liabilities	19	89,132,371	89,132,371
Loans and borrowings	16	1,075,539,593	1,071,939,593
Deferred tax liabilities-net	24	391,114,959	386,371,772
Post-employment defined benefit obligation	22	9,068,650	7,943,650
Other non-current liabilities	17	36,011,840	36,304,903
Total Non-current Liabilities		1,600,867,413	1,591,692,289
Total Liabilities		2,709,804,317	2,781,243,183
EQUITY			
Equity attributable to stockholders of parent company			
Capital stock	18	585,687,130	585,687,130
Additional paid-in capital		39,947,626	39,947,626
Revaluation reserves		197,133,980	197,133,980
Treasury shares		(677,615,387)	(677,615,387)
Retained earnings		3,765,641,366	3,740,797,659
Total equity attributable to stockholders of parent company		3,910,794,715	3,885,951,008
Non-controlling interest		(7,373,560)	(7,373,560)
Total Equity		3,903,421,155	3,878,577,448
TOTAL LIABILITIES AND EQUITY		P 6,613,225,472	P 6,659,820,631

See Notes to Consolidated Financial Statements.

ANNEX A

PHILIPPINE RACING CLUB, INC. and SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
REVENUES	19		
Club races		P 30,957,576	P 41,980,803
Real estate sales		102,142,650	31,709,416
Rental		21,668,151	17,326,936
		154,768,377	91,017,155
COST OF SALES AND SERVICES	20		
Club races	20.2	37,311,881	61,360,733
Real estate sales		47,676,431	17,225,642
Rental		4,068,554	4,068,554
		89,056,866	82,654,929
GROSS PROFIT		65,711,511	8,362,226
OTHER OPERATING EXPENSES	20.3	66,620,895	51,718,601
OTHER INCOME (CHARGES)	21		
Interest income		2,100,723	266,175
Interest expense/finance cost		(7,892,560)	(11,646,163)
Others		138,871,821	3,432,385
		133,079,984	(7,947,603)
INCOME (LOSS) BEFORE TAX		132,170,600	(51,303,978)
TAX EXPENSE	24	63,590,401	3,368,773
NET INCOME (LOSS)		68,580,199	(54,672,751)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME (LOSS)		P 68,580,199	(P 54,672,751)
Attributable to:			
Parent Company's Stockholders		P 68,580,199	(P 54,672,751)
Income (Loss) per Share	25	P 0.1254	(P 0.1000)

See Notes to Consolidated Financial Statements.

ANNEX A

PHILIPPINE RACING CLUB, INC. and SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Note	2019	2018
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY			
Capital Stock	18		
Issued and outstanding		P 585,608,270	P 585,608,270
Subscribed capital stock - net		78,860	78,860
		585,687,130	585,687,130
Additional Paid-in Capital	18	39,947,626	39,947,626
Treasury Shares	18	(677,615,387)	(677,535,151)
Revaluation Reserves	18	197,133,980	99,669,217
Retained Earnings	18		
Appropriated		2,277,615,387	2,277,535,151
Unappropriated			
Balance at beginning of period		1,463,182,272	1,090,322,402
Cash dividends		(43,736,492)	(44,212,365)
Net income (loss) for the period		68,580,199	(54,672,751)
Balance at end of period		1,488,025,979	991,437,286
		3,765,641,366	3,268,972,437
Total Equity Attributable to Parent Company		3,910,794,715	3,316,741,259
NON-CONTROLLING INTEREST			
Balance at beginning of period		(7,373,560)	(6,695,309)
Share in comprehensive income (loss) for the period		-	-
Total non-controlling interest		(7,373,560)	(6,695,309)
TOTAL EQUITY		P 3,903,421,155	P 3,310,045,950

See Notes to Consolidated Financial Statements.

ANNEX A

PHILIPPINE RACING CLUB, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)		P 68,580,199	(P 54,672,751)
Adjustments for:			
Depreciation and amortization		17,617,412	34,883,859
Interest income		(2,100,723)	(266,175)
Operating income (loss) before working capital changes		84,096,888	(20,055,067)
Decrease in receivables		92,083,047	133,183,069
Increase in financial assets at FVTPL		-	(2,428,759)
Increase in contract asset		(13,728,522)	-
Decrease (increase) in prepayments and other current assets		(16,688,913)	611,853
Increase in other non-current assets		(1,906,983)	(65,821)
Increase in trade and other payables		23,908,816	12,931,515
Increase in income tax payable		58,847,214	2,806,273
Increase in contract liabilities		27,791,091	-
Increase (decrease) in other current liabilities		(53,277,688)	19,110,534
Increase in deferred tax liability		4,743,187	562,500
Increase in post employment defined benefit obligation		1,125,000	1,875,000
Increase (decrease) in other non-current liabilities		(293,063)	402,452
Net Cash Provided by Operating Activities		206,700,074	148,933,549
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal (acquisitions) of property and equipment		173,414,468	(3,431,644)
Decrease in property held for sale or development		47,676,431	17,225,642
Interest received		2,100,723	266,175
Net Cash Provided by Investing Activities		223,191,622	14,060,173
CASH FLOWS FROM FINANCING ACTIVITY			
Payment of cash dividends		(43,736,493)	(44,212,365)
Paayments of loans and borrowings		(134,283,423)	(156,034,332)
Net Cash Used in Financing Activities		(178,019,916)	(200,246,697)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		251,871,780	(37,252,975)
CASH AND CASH EQUIVALENTS AT START OF QUARTER		354,403,379	317,095,342
CASH AND CASH EQUIVALENTS AT END OF QUARTER		P 606,275,159	P 279,842,367

See Notes to Consolidated Financial Statements.

PHILIPPINE RACING CLUB, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019 and DECEMBER 31, 2018
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Philippine Racing Club, Inc. (PRCI or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 2, 1937. The registration was subsequently extended on March 14, 1986.

The Parent Company is primarily engaged in the business of operating and maintaining a racetrack covered by its franchise (see Note 7), and managing betting stations located within Metro Manila and other parts of the country. The Parent Company is also engaged in acquiring and developing real properties including but not limited to leisure, recreational and memorial parks and owning, operating, managing and/or selling real estate.

The Parent Company's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Parent Company's registered office, which is also its principal place of business, is located at Saddle and Clubs Leisure Park, Brgy. Sabang, Naic, Cavite.

1.2 Subsidiaries

The Parent Company has ownership interests in the following entities:

Subsidiaries	Nature of Business	Effective % of Ownership
Philippine Newtown Ventures Corporation (PNVC)	Real estate	99.9%
Philippine Newtown Global Solutions Inc. (PNGSI)	Business process outsourcing	70.0%*
PRCI Circuit Makati, Inc. (Circuit Makati)	Real estate	100.0%
PRCI Circuit Makati F&B, Inc. (PCM F&B)	Commercial	70.0%*

* Indirect ownership interest

1.3 Consolidation

In 2012, the Parent Company subscribed to 99.9% ownership interests in PNVC. The purchase by the Parent Company of PNVC shares was accounted for using the acquisition method. PNVC was organized on October 28, 2010 primarily to engage in real estate business but has not yet started commercial operations as of December 31, 2018. The Parent Company's acquisition of PNVC resulted in the recognition of goodwill amounting to P0.1 million (see Note 14.2).

In 2012, PNVC acquired 70% ownership interest in PNGSI. PNGSI was incorporated on November 14, 2012 and established a business processing outsourcing facility in the Philippines to cater the needs of various industries worldwide. PNGSI discontinued its business process outsourcing operations on February 15, 2014 and has not yet continued its operations as of December 31, 2018.

In 2014, the Parent Company subscribed to 100% ownership interest in Circuit Makati, which was incorporated on July 7, 2014 but has not yet started its operations as of December 31, 2018. Its primary purpose is to acquire, hold, dispose or lease its real estate properties for residential or commercial purposes. Circuit Makati has 70% interest in PCM F&B, an entity incorporated in 2015 and is presently engaged in the establishment and maintenance of quick service restaurants, coffee shops, and refreshment parlors.

The Parent Company, PNVC, PNGSI, Circuit Makati and PCM F&B are hereinafter collectively referred to as the Group.

1.4 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Company's Board of Directors (BOD) on April 5, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

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

The consolidated financial statements of the Group 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 and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expense and other comprehensive income or loss in a single

consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

In 2018, the Group made reclassifications in its 2017 consolidated statement of financial position. An outstanding obligation amounting to P137.2 million relating to a project development was reclassified to Other Current Liabilities account (see Note 17), which was previously presented as Provisions for Project Development account. The Group also reclassified the Property Held for Sale or Development account, which pertains to parcels of land, and condominium and parking units held by the Company for development and eventual sale to third parties, from Noncurrent Assets to Current Assets section.

Also in 2018, the Group reclassified certain expenses related to sale of food, beverage and services amounting to P10.0 million, P10.2 million and P8.2 million in 2018, 2017 and 2016, respectively, from Other Operating Expenses to Cost of Sales and Services in the consolidated statements of comprehensive income.

A third consolidated statement of financial position is presented by the Group to reflect such reclassifications as of January 1, 2017, the beginning of the earliest comparative period.

(c) *Adoption of New Accounting Standards and Interpretations*

In 2018, the Group adopted PFRS 15, Revenue from Contracts with Customers, which resulted in changes in the Group's accounting policies on the recognition of revenue on sale of condominium and parking units (see Note 2.14).

Relative to such adoption, the FRSC also approved the issuance of the following Philippine Interpretations Committee (PIC) Question & Answer (Q&A) affecting the entities engaged in real estate activities:

- PIC Q&A No. 2018-12, PFRS 15 - *Implementation Issues Affecting the Real Estate Industry*, provides guidelines on the application of PFRS 15 for real estate transactions. Relative to this, in accordance with SEC Memorandum Circular (MC) No. 14 series of 2018, the Company has deferred the application of certain provisions of PIC Q&A No. 2018-12 particularly those with respect to the accounting for significant financing component and the exclusion of uninstalled materials and land in the calculation of percentage of completion [see Note 2.2(a)(iii)]; and,

- PIC Q&A 2018-14, PFRS 15 - *Accounting for Cancellation of Real Estate Sales*, provides guidance on the appropriate accounting treatment for cancellation of real estate sales.

Further, the Group adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief as allowed by the standard. This allowed the Group not to restate its prior periods' consolidated financial statements.

- PFRS 15

The adoption of PFRS 15 resulted in changes in the Group's revenue recognition policy particularly for sale of condominium and parking units. Previously, the Group recognizes revenue under full accrual method, wherein revenue is fully recognized once collection from a customer reaches the threshold. Under PFRS 15, the Group recognizes revenue based on percentage of completion, which is referred to the stage of development of the properties (see Note 2.14). Such change in policy resulted in adjustments to revenues recognized from open contracts as of January 1, 2018.

The Group used the modified retrospective method in adopting the transition requirements of PFRS 15 and new PIC Q&As. Under this method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application without restating its comparative period. The Group's transition to PFRS 15 has resulted to a decrease in its Retained Earnings as of January 1, 2018 amounting to P156.7 million, net of deferred tax asset amounting to P30.4 million.

It has made the following adjustments to other related accounts:

- reclassified portion of contract receivables amounting to P206.5 million and P233.2 million as of December 31, 2018 and January 1, 2018, respectively, relating to rights to payment which are conditioned upon the completion of units sold to Contract Assets account;

- reclassified portion of Advances from customers under Other Current Liabilities amounting to P130.6 million and P182.7 million as of December 31, 2018 and January 1, 2018, respectively, relating to payments received from customers in excess of the amount the Group is entitled based on the progress of development to Contract Liabilities account;

- restated the balances of Property Held for Sale or Development, Cost of Sales (Real Estate Sales) and beginning Retained Earnings amounting to P40.0 million and P209.4 million, as of December 31, 2018 and January 1, 2018, respectively, to reflect the appropriate revenue recognition policy;

- capitalized commissions amounting to P20.4 million and P15.0 million as of December 31, 2018 and January 1, 2018, respectively, directly related to contract acquisitions, previously charged under Other Operating Expenses account in the statement of comprehensive income, as part of Prepayment and Other Current Assets and Other Noncurrent Assets in the consolidated statement of financial position;

- presented the amortization of capitalized commission as part of Marketing fees under Other Operating Expenses account in the consolidated statement of comprehensive income; and,

- restated Deferred Tax Liabilities - net amounting to P30.4 million to account for the temporary differences on the related adjustments made.

The effect of the adoption of PFRS 15 and various PIC Q&As as of December 31, 2017 is shown below.

	Consolidated Statement of Financial Position		
	December 31, 2017	Adjustment/ Reclassification	January 1, 2018
Changes in Assets and Liabilities			
Current Assets			
Receivables - net	P 344,804,643	(P 233,217,724)	P 111,586,919
Contract assets	-	7,888,310	7,888,310
Property held for sale or development	2,127,560,071	209,412,012	2,336,972,083
Prepayments and other current assets	12,410,755	1,198,620	13,609,375
Non-current Asset			
Contract assets	-	41,843,482	41,843,482
Other noncurrent assets	47,861,326	13,784,125	61,645,451
Current Liabilities			
Contract liabilities	-	(71,663,803)	(71,663,803)
Other current liabilities	(324,020,992)	(45,367,294)	(369,388,286)
Non-current Liability			
Contract liabilities	-	(110,996,347)	(110,996,347)
Deferred tax liabilities - net	(131,771,714)	30,384,549	(101,387,165)
Net change in equity		(P 156,734,070)	
Changes in Equity			
Retained earnings	P 3,367,857,553	(P 156,734,070)	P 3,211,123,483

The following tables summarize the impact of adopting PFRS 15 in the Group's consolidated financial statements as of and for the year ended December 31, 2018.

	Consolidated Statement of Financial Position		
	As Reported	Effects of Adoption	Without Effects of PFRS 15
Changes in Assets and Liabilities			
Current Assets			
Receivables - net	P 571,461,035	P 206,496,590	P 364,964,445
Contract assets	198,045,432	(198,045,432)	-
Properties held for sale or development	1,968,364,197	39,931,709	2,008,295,906
Prepayments and other current assets	15,244,657	(434,528)	14,810,129
Non-current Asset			
Contract assets	9,050,574	(9,050,574)	-
Other noncurrent assets	69,425,942	(4,958,880)	64,467,062
Current Liabilities			
Contract liabilities	(41,488,064)	41,488,064	-
Other current liabilities	(405,313,200)	(163,380,117)	(386,033,167)

Non-current Liability			
Contract liabilities	(89,132,371)	89,132,371	-
Deferred tax liabilities - net	(386,371,772)	(353,761)	(386,725,533)
Net change in equity		P 825,442	
Changes in Equity			
Retained earnings	P 3,740,797,659	P 825,442	P 3,741,623,101

	Consolidated Statement of Comprehensive Income		
	As Reported (PFRS 15)	Effects of Adoption	Without Effects of PFRS 15
Revenues			
Real estate sales	P 1,816,216,207	(P 52,639,131)	P 1,763,577,076
Cost of sales and services			
Real estate sales	(419,525,753)	39,931,709	(379,594,044)
Other operating expenses	(338,705,627)	13,886,625	(324,819,002)
Tax expense	(369,916,951)	(353,761)	(369,563,190)
Net increase in comprehensive income		P 825,442	

The adoption of PFRS 15 did not affect the Group's other revenue sources, such as sale of parcels of land, club races, and other incidental activities as to measurement and timing of revenue recognition (see Note 2.14).

In making its disclosures, the Group used a practical expedient not to present the amount of transaction price allocated to unsatisfied performance obligations as of January 1, 2018. This is not expected to have a significant impact on the Group's consolidated financial statements. The Group did not use any other practical expedients in applying PFRS 15.

- PFRS 9

1) Classification and measurement

The Group holds certain equity investments and a proprietary golf club share amounting to P418.5 million, which were previously classified as Available-for-sale (AFS) financial assets under PAS 39, *Financial Instruments: Recognition and Measurement*, and are held for long-term strategic investments that are not expected to be traded in the short- to medium-term. As such, the Group irrevocably designate these financial assets at Fair Value through Other Comprehensive Income (FVOCI). This change in classification due to adoption of the new standard did not result in any change in measurement of these financial assets.

In addition, the related net unrealized fair value gains from these equity instruments are now presented as an item that will not be reclassified subsequently to profit or loss in 2018 (previously an item that will be reclassified subsequently to profit or loss in 2017 and 2016) in the Other Comprehensive Income section of the consolidated statements of

comprehensive income.

With respect to the other listed equity securities, the Group continues to classify them as Financial Assets at Fair Value through Profit or Loss (FVTPL), as these assets are held by the Group for short-term profit taking.

Other financial assets classified as loans and receivables under PAS 39 are still and will continue to be measured by the Group at amortized cost under PFRS 9 as the objective of the Group in holding these assets is to collect the contractual cash flows, wherein said cash flows pertain solely to payments of principal and interest.

2) Credit losses on financial assets

The application of the expected credit loss (ECL) model based on the stages of impairment assessment for financial assets at amortized cost did not result to any significant change in the Group's provision for impairment losses on financial assets (see Notes 4.2, 9 and 23).

(d) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Group

The Group adopted for the first time the following PFRS, amendments and annual improvement to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

Discussed below are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PAS 40 (Amendments), *Investment Property – Transfers of Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments has no impact on the Group's consolidated financial statements since there was no change in use of the Group's investment property.

(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39 and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, FVTPL, and FVOCI;

- an ECL model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The impact of the Group's adoption of PFRS 9 is fully disclosed in Note 2.1(c). In addition, the related new accounting policies are disclosed in Notes 2.4 and 2.11, while the relevant disclosures on credit risks are presented in Note 4.2.

(iii) PFRS 15, *Revenue from Contract with Customers*, together with the Clarifications to PFRS 15 (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The impact of the Group's adoption of PFRS 15 is fully disclosed in Note 2.1(c). The resulting change in the Group's accounting policies with respect to revenue recognition is disclosed in Note 2.14, while the related management judgment and estimates in applying the new standard is disclosed in Notes 3.1(a) and (b), and 3.2(a). In addition, the disaggregation of revenues required under PFRS 15 is disclosed in Note 19.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment has no impact on the Group's consolidated financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*, is relevant to the Company but is not expected to have a material impact on the Company's financial statement as these amendments merely clarifies existing requirements. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

(b) *Effective in 2018 that are not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective from January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability.

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application.

Management is currently assessing the financial impact of this new standard on the Group's consolidated financial statements.

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vi) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), Business Combinations, and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries and noncontrolling interests (NCI) as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it has power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any NCI in the acquiree, either at

fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill (see Note 1.3). If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in consolidated profit or loss.

(b) Transactions with NCI

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

NCI amounted to a deficit of P7.4 million and P6.7 million in the consolidated statements of financial position as of December 31, 2018 and 2017, respectively.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is nonderivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, Financial Instruments: Presentation. All other nonderivative financial instruments are treated as debt instruments.

(a) Classification and Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 (2018)

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding page.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Receivables and Deposits and other receivables (under Other Noncurrent Assets).

For purposes of cash flows reporting and presentation, cash includes cash on hand and demand deposits which are subject to insignificant risk of changes in value.

If applicable, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of comprehensive income as part of Finance income under Other Income (Charges) account.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL. The Group has designated its proprietary club shares as at FVOCI on initial application

of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

If applicable, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income as part of Finance income under Other Income (Charges) account.

Any dividends earned on holding equity instruments are recognized in profit or loss, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include certain equity securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Finance Income in the consolidated statements of profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Finance Income in the consolidated statements of profit or loss.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the

business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Classification and Measurement of Financial Assets in Accordance with PAS 39 (2017)

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and AFS 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.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the categories of financial assets that are relevant to the Group follows:

(a) AFS Financial Assets

This category includes nonderivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in noncurrent assets in the statement of financial position unless management intends to dispose of the investment within 12 months from the end of the reporting period. The Company's AFS financial assets include listed equity securities and a club share.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in

other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(b) Loans and Receivables

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Receivables and Deposits and other receivables (under Other Noncurrent Assets) in the consolidated statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is any objective evidence that the Group 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 future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

(c) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the

purpose of being sold or repurchased in the near term.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance costs and Finance income under the Other Income (Charges) account in the consolidated statement of comprehensive income.

Noncompounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(c) Impairment of Financial Assets in Accordance with PFRS 9

From January 1, 2018, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, contract assets with significant financing component, and rental receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due (see Note 4.2).

The key elements used in the calculation of ECL are as follows:

- Probability of Default – It is an estimate of likelihood of default over a given time horizon.
- Loss Given Default – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Parent Company would expect to receive, including the realization of any collateral.
- Exposure at Default – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) Impairment of Financial Assets in Accordance with PAS 39

As of December 31, 2017, the Group assessed impairment of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less

any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(e) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Prepayments and Other Assets

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Included within the Group's other assets are inventories relating to sale of food and beverage services. These inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The purchase cost includes all costs directly attributable to acquisitions, such as the purchase price, import duties, if any, and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as noncurrent assets.

2.6 Property and Equipment

Land is measured at cost less any impairment in value. All other property and equipment are stated at 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 while expenditures for repairs and maintenance are charged to expense as incurred.

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

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

Construction in progress represents properties under construction and is stated at cost less any impairment in value. This includes costs of construction, applicable borrowing costs (see Note 2.23), if any, and other direct costs. 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 2.17).

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

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, if any, 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 consolidated profit or loss in the year the item is derecognized.

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

2.7 Property Held for Sale or Development

Property held for sale or development is composed of parcels of land, condominium and parking units, which are measured at cost less any impairment in value. The cost comprises its purchase price and all cost directly attributable to the acquisitions and development of the property. The carrying amount of property held for sale is subject to impairment testing as described in Note 2.17. Property held for sale or development is derecognized upon disposal or when no future economic benefits are expected to arise from this asset.

2.8 Interest in a Joint Arrangement

The Parent Company accounts for its joint arrangement as a joint operation wherein the Parent Company accounts for its share of any assets held jointly, any liabilities it has incurred, its share of any liabilities incurred jointly with the other venturers in relation to the joint

arrangement, and any income earned and expenses incurred in respect of its interest in the joint operations.

The Parent Company's share of the assets held jointly is classified as part of Property Held for Sale or Development while the Parent Company's share of any liabilities incurred is presented as part of Other Current Liabilities account in the consolidated statement of financial position.

2.9 Franchise Cost

Franchise cost is accounted for under the cost model. The cost capitalized is equivalent to the costs incurred for the renewal of the Parent Company's franchise for another 25 years starting October 28, 1997. Capitalized cost is amortized on a straight-line basis over the period covered by the new franchise. The carrying amount of the franchise cost is subject to impairment testing as described in Note 2.17. In case of derecognition prior to end of franchise term, the carrying amount as of such derecognition is recognized in profit or loss.

2.10 Investment Property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. Fair value is determined based on either the market approach using recent and comparable transaction prices or the discounted cash flow approach derived from management estimates of expected future net cash inflows from future rental payments over the term of the related existing lease contracts. The future cash flows were discounted at a certain discount rate, comparable to the current interest rate of an instrument with closely similar term as that of the lease contract and that is quoted in an active market.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gain (loss) on investment property under the Other Income (Charges) account in the consolidated statement of comprehensive income.

Transfers from other accounts are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment property are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

When an item of asset included as part of Properties Held for Sale or Development or Other Non-current Assets is transferred and become an investment property, the Company accounts for such property in accordance with the policy stated under such respective accounts up to the date of change in use (see Notes 2.5 and 2.7).

For a transfer from investment property to owner-occupied property, the cost of the property for subsequent accounting is its carrying value at the date of change in use.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

2.11 Financial Liabilities

Financial liabilities, which include loans and borrowings, trade and other payables (except tax-related liabilities), advances from stockholders and other current and noncurrent liabilities (except accrued marketing fees and advances from customers), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in consolidated profit or loss in the consolidated statement of comprehensive income.

Loans and borrowings are raised for support of long-term funding of operations. Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, advances from stockholders, and other current and noncurrent liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as noncurrent liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in consolidated profit or loss.

2.12 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.13 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 obligation 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. The increase in the provision due to passage of time is recognized as interest expense. 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 consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group 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.

2.14 Revenue and Expense Recognition

Revenue arises mainly from club races, real estate activities, sale of food, beverage and services, and other incidental activities related to the main operations of the Group.

For revenue contracts covered by PFRS 15, and as an accounting policy to determine whether to recognize revenue, the Group follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,

(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied over time when it meets one of the following criteria:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

Otherwise, a performance obligation is satisfied at a point in time.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to the performance obligation is recognized as revenue as the performance obligation is satisfied. The Company uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue as the Company's contracts with customers have original expected duration of one year or less.

The Group often enters into transactions involving sale of parcels of land, condominium and parking units, club racing, sale of food, beverage and services, and other incidental activities. The significant judgments used in determining the timing, and transaction price and the amounts allocated to the performance obligations are disclosed in Note 3.1(a) and (b).

In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Revenue from real estate sales* – With respect to sale of condominium and parking units (ongoing projects), revenue is recognized over time proportionate to the progress of the development of the said properties. Under this method, revenue is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. This method faithfully depicts the transfer of goods or services because in a sale of real property, not all of the benefits are consumed by the customer until the complete satisfaction of the performance obligation. For completed properties, revenue is recognized at a point in time when control to the property is transferred to the customer. Revenue, whether completed or ongoing projects, is recognized when at least 25% of the total contract price has already been collected.

As for the sale of parcels of land, revenue is recognized at a point in time under the full accrual method. Under this method, the Group recognizes the revenue and cost from sale of undeveloped land in full when 20% or more of the contract price is received.

Revenue recognized from real estate sales, based on the foregoing discussions, is presented as Real Estate Sales account under the Revenues section in the consolidated statement of comprehensive income.

If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, any collections before the recognition of the sale are considered as unearned revenue and are recorded as part of Advances from customers under Other Current Liabilities account in the consolidated statement of financial position.

For tax reporting purposes, the Group uses the installment method (which is based on the percentage of collection) in computing its taxable income for the year if the total collections in the year of sale do not exceed 25% of the total contract price (see Note 24).

(b) *Revenue from club races* – Revenue is recognized as earned based on the percentage of gross receipts from ticket sales in accordance with the Parent Company's franchise.

(c) *Revenue from sale of food, beverage and services* – Revenues are recognized at point in time upon delivery to and receipt of consumer goods by the customer.

Incremental costs of obtaining a contract to sell real property to customers are recognized as an asset and is subsequently amortized over the duration of the contract on the same basis as revenue from such contract is recognized. Other costs and expenses are recognized in profit or loss upon utilization of services or receipt of goods or at the date they are incurred. The Company capitalizes certain commissions related to its sale of condominium and parking units, and presents such as part of Prepayments and Other Current Assets and Other Noncurrent Assets in the consolidated statement of financial position (see Note 2.5). The amortization of these commissions is presented as Marketing fees under Other Operating Expenses in the consolidated statement of comprehensive income.

Contract assets pertain to rights to consideration in exchange for services that the Company has transferred to a customer that is conditioned on something other than passage of time. Under its contracts with customers, the Group will receive an unconditional right to payment for the total consideration upon the completion of the development of the office and parking units sold. Any rights to consideration recognized by the Group as it develops the property are presented as Contract Assets account in the consolidated statement of financial position. Contract assets are subsequently tested for impairment in the same manner as the Group assesses impairment of its financial assets (see Note 4.2).

Any consideration received by the Group in excess of the amount for which the Group is entitled is presented as Contract Liabilities account in the consolidated statement of financial position. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

In 2017 and prior periods, 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.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.15 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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 (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases wherein the Group 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 Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

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

The Group 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.

Rental income from investment property is recognized on a straight-line basis over the lease term and by reference to the provisions of the contract of lease. When lease consideration is contingent, rent income is recognized based on the contractual terms of the lease contract including any rent-free period therein as mutually agreed by the contracting parties.

Rental income from stables and other facilities is recognized when realized and becomes collectible.

2.16 Foreign Currency Transactions and Translation

The accounting records of the Group 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 profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI (previously as AFS financial assets) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.17 Impairment of Nonfinancial Assets

The Group's property and equipment, property held for sale or development, franchise cost and other nonfinancial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

The Parent Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment 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 Parent 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, as well as qualifying insurance policies. The Parent Company's defined benefit

post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government 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 post-employment liability. The interest rates are based from the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), in 2018; and by Philippine Dealing and Exchange Corp. (PDEx) in 2017. BVAL and PDEx provide evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs or Finance income account under the Other Income (Charges) in the consolidated statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group 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.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(d) Bonus Plans

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration on the profit attributable to the Group's management after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

2.19 Income Taxes

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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. 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.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss, except to the extent that it relates to items recognized in consolidated other comprehensive income or directly in consolidated equity. In this case, the tax is also recognized in consolidated other comprehensive income or directly in consolidated equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.20 Earnings Per Share

Basic earnings per share is determined by dividing the net profit for the year 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 is equal to the basic earnings per share since the Parent Company has no potential dilutive common shares.

2.21 Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 6, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

2.22 Related Party Transactions and Relationships

Related party transactions, as disclosed in Note 23, are transfers of resources, services or obligations between the Group 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. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Parent Company's funded retirement plan.

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

2.23 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 directly 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 and borrowing costs 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.

2.24 Equity

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

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

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of financial assets at FVOCI (AFS financial assets in 2017) and remeasurements of post-employment defined benefit plan.

Appropriated retained earnings pertain to reserve fund required for the Group's treasury shares and for the future acquisition of properties.

Unappropriated retained earnings include all current and prior period results of operations as reported in the statement of profit or loss reduced by the amount of dividends declared.

NCI represent the portion of the profit or loss and net assets of subsidiaries attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent Company. Management did not present additional disclosures for NCI as the amount of the noncontrolling interests as of the end of the reporting periods are not material to the consolidated financial statements.

2.25 Events After the End of the Reporting Period

Any post-period-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-period-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated 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 Group'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 consolidated financial statements:

(a) Evaluation of the Timing of Satisfaction of Performance Obligations

The Group exercises critical judgment in determining whether each performance obligation to deliver office and parking units promised in its contracts with customers is satisfied over time or at a point in time. In making this judgment, the Group considers the following:

- any asset created or enhanced as the Group performs;
- the ability of the customer to control such asset as it is being created or enhanced;
- the timing of receipt and consumption of benefits by the customer; and,
- the Group's enforceable right for payment for performance completed to date.

The Group determined that the Parent Company's performance obligation to deliver condominium and parking units (ongoing projects) is satisfied over time since it does not have an alternative use of the specific property sold as it is precluded by its contract from redirecting the use of the property for a different purpose. With respect to sale of completed condominium and parking units, and parcels of land, the Group satisfies the performance obligation at a point in time when the property is transferred to the customer (i.e., upon acknowledgment of the customer). Further, the Group has rights over payment for development completed to date as the Group can choose to complete the development and enforce its rights to full payment under its contracts even if the customer defaults on amortization payments.

The performance obligation related to club races is also deemed satisfied over time when all the races for a particular racing day are hosted.

For sale of food, beverage and services, management determines that revenue is recognized at a point in time when the control of the goods has passed to the customer, i.e. generally when the customer acknowledged delivery of goods. The service component is deemed as an insignificant cause on the timing of satisfaction of performance obligation since it is only passage of time until the customer receives and consumes all the benefits after delivery of the food and beverage items.

(b) Percentage Benchmark Used in Recognition of Revenue from Real Estate Sales

The Group uses judgment in evaluating the probability of collection of transaction price on real estate sales as a criterion for revenue recognition. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the collection history from customers and number of sales cancellation in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 25% (sale of condominium and parking units) and 20% (sale of land) of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

(c) Determination of ECL on Financial Assets at Amortized Cost, and Contract Assets (2018)

The Group uses a provision matrix to calculate ECL for receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Notes 4.2 and 23.

(d) Distinction Between Operating and Finance Leases

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a 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.

Management has determined that its existing lease agreements are appropriately accounted for as operating lease.

(e) Distinction Among Owner-occupied Properties, Property Held for Sale or Development and Investment Property

The Group determines whether a property qualifies as Property Held for Sale or Development or Investment Property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in business while property held for sale or development are properties that will eventually be sold or developed. On the other hand, investment property generally generates cash flows independent with the other assets of the Group.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these

portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

The Group considers each property separately in making its judgment. Such evaluation resulted in the reclassification of a portion of the Group's parcel of land from Property Held for Sale or Development to Investment Property in 2017 (see Notes 12 and 13). No similar reclassification was made in 2018; however, the Group reclassified to Investment Property certain advance payments made in prior years for condominium units acquired, which was previously presented as part of Other Noncurrent Assets account, amounting to P11.2 million (see Notes 12 and 15).

(f) Distinction Between Joint Operation and Joint Venture

The Group determines whether a joint arrangement is classified as a joint operation or a joint venture. In making its judgement, the Group considers the structure of the joint arrangement. When the joint arrangement is structured through a separate vehicle, the Group considers the following factors: (i) the legal form of the separate vehicle; (ii) the terms of the contractual arrangement; and, (iii) other facts and circumstances.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 27.

(h) Impairment of AFS Financial Assets (PAS 39)

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of December 31, 2017.

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 reporting period:

(a) Revenue Recognition for Performance Obligations Satisfied Over Time

The Parent Company, with Ayala Land, Inc. (ALI) and Alveo Land Corporation (ALC), jointly develops the Makati City property where the condominium and parking units are located. As part of the agreement, the Group acquires a number of condominium and parking units being constructed and developed by ALC and ALI (see Note 13.2), which are for resale by the Parent Company to third parties.

In determining the amount of revenue to be recognized for performance obligations satisfied over time (sale of uncompleted condominium and parking units), the Parent Company refers to the periodical progress completion reports being submitted by ALI and ALC. Such reports indicate the estimated percentage of completion based on actual costs incurred relative to the estimated costs in completing the construction of the properties. Management regularly monitors and verifies the estimates through the submitted completion reports by ALI and ALC.

(b) Estimation of Allowance for ECL (2018)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Based on the new impairment model prescribed by PFRS 9, management assessed that no impairment loss for financial assets at amortized cost should be recognized in 2018. For real estate receivables and contract assets, no ECL is recognized since the real estate sold is collateralized to the related receivable arising from sale. With respect to cash and cash equivalents, and deposits other receivables, ECL is deemed negligible because of the existing and continuing business relationships with counterparties, which are in strong financial condition and with high quality external credit ratings. Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2.

(c) Impairment of Receivables (2017)

Adequate amount of allowance is made and provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of receivables and the related allowance for impairment on such financial assets are shown in Note 9. Impairment loss amounting to P3.4 million was recognized on certain receivables in 2017 and is presented under Other Income (Charges) account in the 2017 consolidated statement of comprehensive income (see Note 21).

(d) Estimation of Useful Lives of Property and Equipment and Franchise Cost

The Group estimates the useful lives of property and equipment and franchise cost based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and franchise cost 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 amount of property and equipment is presented in Note 11. In 2018, the Group reassessed the estimated useful life of certain assets related to club racing and determined to shorten the remaining life of such assets until the end of the effectivity of its racing franchise (see Notes 7 and 11). Such change in estimate resulted to an increase in depreciation amounting to P13.9 million in 2018. There was no change in the estimated useful lives of property and equipment in 2017.

(e) Impairment of Nonfinancial Assets

The Group's policy on estimating the impairment of nonfinancial assets is discussed in detail in Note 2.17. 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 the Group's operations.

Except for the impairment loss recognized in 2018 and 2016 amounting to P134.1 million and P325.9 million, respectively, in relation to the Parent Company's certain racing assets, no other impairment loss was recognized on the Group's property and equipment, investment in subsidiaries and property held for sale or development as of December 31, 2018 and 2017. The franchise cost, on the other hand, is fully impaired as of those dates.

(f) Determination of 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. Management assessed that the deferred tax assets recognized as at December 31, 2018 and 2017 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(g) Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment defined benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation are presented in Note 22.2.

(h) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Company's financial assets at FVTPL and FVOCI (previously AFS financial assets) and the amounts of fair value changes recognized on those assets are disclosed in Notes 10.1 and 14.1, respectively.

(i) Fair Value Measurement for Investment Property

The Company's investment property is composed of land and condominium units, which are held for lease, carried at fair value at the end of the reporting periods. The fair value of investment property is determined based on either the market approach using recent transaction prices for comparable properties and/or the discounted cash flow approach derived from management estimates of expected future net cash inflows from future rental payments over the term of the related existing lease contracts. The future cash flows were discounted at a certain discount rate, comparable to the current interest rate of an instrument with closely similar term as that of the lease contract and that is quoted in an active market.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described below and in the succeeding pages.

4.1 Foreign Currency Risk

The Group has limited exposure to foreign currency risk because most of its transactions are carried in Philippine peso, its functional currency. Exposures, if any, to currency exchange rates may arise from the Group's bank deposits which include United States (U.S.) dollar-denominated accounts.

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. The Group has no significant financial instruments denominated in foreign currencies except for cash in a U.S. dollar-denominated account amounting to P0.03 million as of December 31, 2018 and 2017. As such, the Group's management believes that the foreign currency risk is not material to the consolidated financial statements.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting receivables to customers, including related parties, and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.
Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as summarized below (unaudited for 2019 and audited for 2018).

	Notes	Mar 2019	2018
Cash and cash equivalents	8	P 606,275,159	P 354,403,379
Receivables - net	9	1,224,487,382	1,316,570,429
Contract assets	19	220,824,528	207,096,006
Other noncurrent assets – Deposits and other receivables	14.2	8,135,972	8,135,972
		P2,059,723,041	P 1,886,205,786

Certain financial assets of the Company, such as Cash and Cash Equivalents, Real estate receivables and Contract Assets are secured by collateral or other credit enhancement, as described below.

(a) Cash and Cash Equivalents

The credit risk for cash and similar financial assets herein is considered negligible or the probability of default from these reputable banks is remote since there has been no history of default from these counterparties and because of their high quality external credit ratings.

Cash in banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC*.

For cash and cash equivalents, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECL on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

As of December 31, 2018 and 2017, impairment allowance is not material.

(b) *Receivables and Contract Assets*

The Group applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all Receivables and Contract assets.

The Group's Real estate receivables and Contract assets relate mostly to receivables from third parties arising from real estate sales. The Group uses credit loss rate approach to calculate ECL for these financial assets. The management determined that there is no required ECL to be recognized on the Group's Real estate receivables and Contract assets since the real estate sold is collateralized to the related receivable arising from sale. Therefore, there is no expected loss given default as the recoverable amount from subsequent resale of the real estate is sufficient. Further, based on the experience of the Group, there were no cases of default and back out sales with regard to the Group's real estate sales.

The Group uses a provision matrix to calculate ECL for its other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is based on the Company's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

With respect to other components of the Group's Receivables such as Receivable from customers, Rental receivable, Receivable from officers and employees, and others, the Group assessed that no ECL should be provided based on the available liquid assets, existing and continuing business relations and credit standing of the counterparties. Further, as for rental receivable, these assets are secured to the extent of security deposit received from the lessees.

Hence, as of January 1, 2018 and December 31, 2018, the Group did not recognize any ECL for the foregoing financial assets.

The Group's management considers that all receivables are not impaired, except those specifically provided with allowance for impairment as of December 31, 2017.

(c) Deposits and other Receivables

With regard to deposits and other receivables, the Group is not subject to significant credit risk since the counterparties have strong financial condition. These are no longer discounted since management believes that the effect of discounting is not material to the financial statements.

4.3 Interest Rate Risk

The Group's policy is to minimize interest rate cash flow risk exposures on all financial instruments. At December 31, 2018 and 2017, the Group is exposed to changes in market interest rates on its cash and cash equivalents, which are subject to variable interest rates (see Note 8). All other financial assets and financial liabilities have fixed rates or are noninterest-bearing.

The sensitivity of the Group's profit before tax is analyzed based on a reasonably possible change in interest rates of +/- 0.58% in 2018 and +/- 0.11% in 2017 with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The percentage changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% confidence level. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. With all other variables held constant, if the interest rate increased by +/- 0.58% in 2018 and +/- 0.11% in 2017, profit before tax in 2017 and 2016 would have increased by P1.0 million and P0.6 million, respectively. Conversely, if the interest rate decreased by the same percentage, profit before tax would have been lower by the same amount.

If the market interest rate decreases, the above would have a reverse impact on the Group's net profit of the same amounts.

The Group has limited exposure to interest rate risk on loans and borrowings because outstanding loans and borrowings as of December 31, 2018 and 2017 are either noninterest-bearing or have fixed interest rate.

4.4 Liquidity Risk

The Group 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 Group maintains cash to meet its liquidity requirements for up to a 60-day period. Excess cash are invested in time deposits, mutual funds or short-term marketable securities.

As at December 31, 2018 and 2017, the Group's financial liabilities have contractual maturities which are presented below.

	2018			
	Current		Noncurrent	
	Within Six Months	Six to 12 Months	One to Five Years	Beyond Five Years
Loans and borrowings	P 159,890,008	P 56,031,140	P 948,153,428	P 336,895,465
Trade and other payables	381,331,986	-	-	-
Advances from stockholders	-	5,881,475	-	-
Other current liabilities	-	198,037,902	-	-
Other noncurrent liabilities	-	-	-	36,304,903
	P 541,221,994	P 259,950,517	P 948,153,428	P 373,200,368

	2017			
	Current		Noncurrent	
	Within Six Months	Six to 12 Months	One to Five Years	Beyond Five Years
Loans and borrowings	P 238,284,340	P 212,600,468	P1,340,924,740	P 385,503,437
Trade and other payables	308,025,567	-	-	-
Advances from stockholders	-	5,881,475	-	-
Other current liabilities	-	197,140,936	-	-
Other noncurrent liabilities	-	-	-	35,491,923
	P 546,309,907	P 415,622,879	P1,340,924,740	P 420,995,360

The contractual maturities show in the previous page reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

4.5 Equity Price Risk

Equity price risk is the risk that the fair values of quoted equity securities would decrease as the result of the adverse changes in the quoted equity prices as affected by both rational and irrational market forces. The equity price risk exposure of the Group arises mainly from its financial assets at FVTPL and FVOCI (previously, AFS financial assets). It manages its risk arising from changes in market prices by closely monitoring the market price changes of the investments.

The observed volatility rates using standard deviation of the fair values of the Group's financial assets at FVTPL and FVOCI (previously, AFS financial assets) and their impact on the Group's profit before tax and equity as of December 31, 2018 and 2017 are summarized below.

	Observed Volatility Rates		Impact of Increase		Impact of Decrease	
	Increase	Decrease	Profit before tax	Equity	Profit before tax	Equity
December 31, 2018						
Equity securities listed in the Philippines	+1.53%	-1.53%	P 2,165,744	P 10,115,035	(P 2,165,744)	(P 10,115,035)
December 31, 2017						
Equity securities listed in the Philippines	+1.27%	-1.27%	P 1,391,586	P 6,706,045	(P 1,391,586)	(P 6,706,045)

The assumed fluctuation rate is based on the average change in the PSE index for the years 2018 and 2017.

The investments in listed equity securities are considered short-term investments which do not require hedging activities.

The investment in club share has no volatility rates as of December 31, 2018 and 2017 since the average monthly market price per share data was not available. Nevertheless, the impact of the volatility rates using standard deviation of the club share on the Group's net profit and equity is assessed by management to be not significant.

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

5.1 Comparison of Carrying Amounts and Fair Values

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

		2018		2017	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
At amortized cost:					
Current:					
Cash and cash equivalents	8	P 354,403,379	P 354,403,379	P 317,095,342	P 317,095,342
Receivables – net	9	571,461,035	571,461,035	344,804,643	344,804,643
Noncurrent:					
Receivables – net	9	745,109,394	721,416,504	505,375,948	484,319,444
Deposits and other receivables	14.2	8,135,972	8,135,972	6,022,771	6,022,771
		1,679,109,780	1,655,416,890	1,173,298,704	1,152,242,200
Financial assets at FVTPL –	10.1				
Equity securities		141,551,902	141,551,902	109,573,700	109,573,700
Debt securities		9,400,000	9,400,000	-	-
Financial assets at FVOCI –					
Equity securities	14.1	519,561,523	519,561,523	418,461,314	418,461,314
		P 2,349,623,205	P2,325,930,315	P1,701,333,718	P1,680,277,214
Financial liabilities					
At amortized cost:					
Current:					
Loans and borrowings	16	P 197,259,397	P 197,259,397	P 409,671,869	P 409,671,869
Trade and other payables	15	381,331,986	381,331,986	308,025,567	308,025,567
Advances from stockholders	22	5,881,475	5,881,475	5,881,475	5,881,475
Other current liabilities	17	198,037,902	198,037,902	197,140,936	197,140,936
Noncurrent:					
Loans and borrowings	16	1,071,939,593	1,001,435,070	1,395,646,353	1,337,195,221
Other noncurrent liabilities	17	36,304,903	36,304,903	35,491,923	35,491,923
	P	1,890,755,256	P 1,820,250,733	P 2,351,858,123	P 2,293,406,991

See Notes 2.4 and 2.11 for a description of the accounting policies for financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Fair Value Hierarchy

In accordance with PFRS 13, Fair Value Measurement, the fair value of financial assets and financial liabilities and nonfinancial assets which are measured at fair value on a recurring or nonrecurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

5.3 Financial Instruments Measured at Fair Value

As of December 31, 2018 and 2017, instruments included in Level 1 amounting to P646.6.0 million and P514.0 million, respectively, comprise equity securities and a debt security classified as financial assets at FVTPL and FVOCI (previously, AFS financial assets). The equity securities were valued based on their market values quoted in PSE the end of the year. The fair value of the debt security is estimated by reference to quoted bid price in active market (bond exchange) at the end of the reporting period.

The club share classified as financial assets at FVOCI (previously, AFS financial assets) amounting to P24.0 million and P14.0 million, as of December 31, 2018 and 2017, respectively, are included in Level 2 as its price is not derived from market considered as active due to lack of trading activities among market participants at the end of 2018 and 2017.

There were no transfers into or out of Level 1 and Level 2 fair value hierarchy in 2018 and 2017.

5.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The fair value of cash and cash equivalents amounting to P354.4 million and P317.1 million as of December 31, 2018 and 2017, respectively, is classified as Level 1 while all other financial assets and financial liabilities measured at amortized cost for which fair value is disclosed are classified as Level 3.

The fair value of noncurrent portion of loans and borrowing amounting to P1.0 billion and P1.3 billion as of December 31, 2018 and 2017, respectively, is determined by discounting future cash flows related to these loans using the current market rate.

For financial assets with fair value included in Level 1, management considers that the carrying amount of these short-term financial instruments approximate its fair value.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on instrument where the significant inputs required to determine the fair values of such instruments are not based on observable market data.

There have been no transfers among Levels 1 and 3 in the reporting periods.

5.5 Fair Value Measurement of Investment Property

The tables below show the levels within the hierarchy of the Group's investment property measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	Level 1	Level 2	Level 3	Total
2018:				
Land	P -	P -	P1,169,427,086	P1,169,427,086
Condominium units	-	271,558,619	-	271,558,619
	P	P 271,558,619	P1,169,427,086	P 1,440,985,705
2017:				
Land	P -	P -	P1,213,536,766	P1,213,536,766
Condominium units	-	215,331,441	-	215,331,441
	P -	P 215,331,441	P1,213,536,766	P1,428,868,207

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's investment property indicated above is their current use.

The Level 3 fair value of land was determined using the income approach. In doing so, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

- Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and,

- Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

On the other hand, the Level 2 fair value of condominium units was derived using market comparable approach that reflects the recent transaction prices for similar property in nearby locations. Under this approach, when sales prices of comparable property in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

The reconciliation of the carrying amount of investment property included in Level 3 as of December 31, 2018 and December 31, 2017 is presented below.

	Notes	2018	2017
Balance at beginning of year		P 1,213,536,766	P 1,027,985,273
Fair value loss during the year	21	(44,109,680)	(24,046,906)
Reclassifications from property held for sale or development and other noncurrent assets	13.2, 14.2	-	253,208,771
Balance at end of year		P 1,169,427,086	P 1,213,536,766

Principal Assumptions for Management's Estimation of Fair Value

If information on current or recent prices is not available, the fair values of investment property are determined using the income approach of the discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

The time horizon considered in the discounted cash flow projection ranges from 21 years to 40 years with discount rates from 5.64% to 8.84% in 2018 and 22 years to 41 years with discount rates from 2.60% to 8.01% in 2017. The other principal assumptions underlying management's estimation of fair value are those related to the following: comparable market prices; receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; appropriate occupancy rates; and, discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market.

The Group considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the estimation of the fair value of investment property as the major assumptions used may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year are different

from assumptions that could require a material adjustment to the carrying amount of investment property.

The expected future market rentals are determined on the basis of current market for similar properties in the same nature and condition.

5.6 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments in 2018 and 2017 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party, particularly Maybank Philippines, Inc. (Maybank), Bank of the Philippine Islands (BPI), Banco de Oro (BDO), Union Bank of the Philippines (Union Bank) and Metrobank, to the Parent Company's loans and borrowings will have the option to settle all such amounts, with the Parent Company's cash in banks, on a net basis in the event of default of the Parent Company, through approval by both parties' BOD and stockholders or upon instruction by the Parent Company.

The Parent Company has cash in banks deposited with Maybank, BPI, BDO, Union Bank and Metrobank to which it also has outstanding loans as of December 31, 2018 and 2017. In case of the Parent Company's default on its loan amortization, cash in bank may be applied against the corresponding loans, depending on their agreement (see Notes 8 and 16). The Parent Company has loans and borrowings and cash in banks with carrying amount of P324.4 million and P237.5 million, respectively, as of December 31, 2018 and P796.9 million and P276.5 million, respectively, as of December 31, 2017.

6. SEGMENT INFORMATION

6.1 Business Segments

The Group's operating businesses are organized and managed separately according to the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's main reportable operating segments are the development and sale of real estate properties, operation and maintenance of race tracks and holding of horse races, leasing out stables and other facilities, and, sale of food, beverage and services.

In 2013, PNGSI had the full operation of its business processing outsourcing facility, hence, an additional operating segment for the Group. However, PNGSI discontinued its business process outsourcing operations on February 15, 2014 and on March 31, 2019 and December 31, 2018 it has not continued its operations.

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

6.2 Segment Assets and Liabilities

Segment assets and liabilities are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used and liabilities assumed by a segment.

6.3 Intersegment Transactions

As of December 31, 2018 and 2017, the Group's segments have no transactions between the other reportable segments.

6.4 Analysis of Segment Information

The segment result for the years ended December 31, 2018, 2017 and 2016 is shown below.

	2018						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Revenues	P1,816,216,207	P143,483,413	P 74,821,918	P 24,890,393	P -	P -	P2,059,411,931
Cost of sales and services	(419,525,753)	(171,335,372)	(12,265,016)	(18,963,549)	-	-	(622,089,690)
Gross profit	1,396,690,454	(27,851,959)	62,556,902	5,926,844	-	-	1,437,322,241
Other operating expense	(28,011,038)	(15,299,260)	(126,588,962)	(6,674,589)	(184,460)	(151,867,161)	(328,625,470)
Operating profit (loss)	1,368,679,416	(43,151,219)	(64,032,060)	(747,745)	(184,460)	(151,867,161)	1,108,696,771
Finance cost	(76,554,664)	-	-	-	-	(419,776)	(76,974,440)
Finance income	8,341,565	-	-	-	-	1,257,111	9,598,676
Other income (charges)	-	(134,104,465)	28,757,889	126,767	2,334	3,871,560	(101,345,915)
Profit (loss) before tax	1,300,466,317	(177,255,684)	(35,274,171)	(620,978)	(182,126)	(147,158,266)	939,975,092
Tax income (expense)	(323,118,150)	(32,381,450)	(15,490,016)	1,072,665	-	-	(369,916,951)
Net profit (loss)	P 977,348,167	(P209,637,134)	(P 50,764,187)	P 451,687	(P 182,126)	(P147,158,266)	P 570,058,141

	2017						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Revenues	P 640,483,065	P185,881,069	P 49,037,853	P 22,900,438	P -	P -	P 898,302,425
Cost of sales and services	(261,787,637)	(175,286,643)	(3,235,504)	(19,326,912)	-	-	(459,636,696)
Gross profit (loss)	378,695,428	10,594,426	45,802,349	3,573,526	-	-	438,665,729
Other operating expense	-	(15,674,739)	(105,419,043)	(5,950,128)	(20,000)	(112,941,642)	(240,005,552)
Operating profit (loss)	378,695,428	(5,080,313)	(59,616,694)	(2,376,602)	(20,000)	(112,941,642)	198,660,177
Finance cost	(78,201,987)	-	-	-	-	-	(78,201,987)
Finance income	10,528,400	-	-	-	-	1,209,364	11,737,764
Other income (charges)	-	447	220,427,567	81,294	2,489	(1,044,180)	219,467,617
Profit (loss) before tax	311,021,841	(5,079,866)	160,810,873	(2,295,308)	(17,511)	(112,776,458)	351,663,571
Tax income (expense)	(79,240,571)	(2,221,879)	(12,852,157)	698,821	-	3,971,163	(89,644,623)
Net profit (loss)	P 231,781,270	(P 7,301,745)	P147,958,716	(P 1,596,487)	(P 17,511)	(P 108,805,295)	P 262,018,948

	2016						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Revenues	P 225,447,862	P188,582,919	P 26,217,829	P 20,448,477	P -	P -	P 460,697,087
Cost of sales and services	(149,684,986)	(240,759,946)	(16,289,562)	(17,716,986)	-	-	(424,451,480)
Gross profit (loss)	75,762,876	(52,177,027)	9,928,267	2,731,491	-	-	36,245,607
Other operating expense	(1,061,262)	(179,963,393)	(11,421,667)	(5,907,361)	(302,546)	(27,281,442)	(225,937,671)
Operating profit (loss)	74,701,614	(232,140,420)	(1,493,400)	(3,175,870)	(302,546)	(27,281,442)	(189,692,064)
Finance cost	(69,369,622)	-	-	-	-	(2,806,516)	(72,176,138)
Finance income	15,164,587	-	-	-	-	1,333,980	16,498,567
Other income (charges)	-	(334,383,502)	653,547,085	73,930	4,824	226,735,499	545,977,836
Profit (loss) before tax	20,496,579	(566,523,922)	652,053,685	(3,101,940)	(297,722)	197,981,521	300,608,201
Tax income (expense)	(14,571,556)	(24,137,010)	(31,721,954)	950,053	-	(54,446,637)	(123,927,104)
Net profit (loss)	P 5,925,023	(P590,660,932)	P620,331,731	(P 2,151,887)	(P 297,722)	P 143,534,884	P 176,681,097

The segment assets and liabilities as of December 31, 2018 and 2017 are shown below.

	2018						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Total assets	P 3,500,102,497	P 442,821,038	P1,585,309,895	P 43,025,024	P 655,545	P1,087,906,632	P 6,659,820,631
Total liabilities	1,623,940,770	163,260,501	26,987,447	37,380,761	20,680,804	908,992,900	2,781,243,183

	2017						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Total assets	P 3,129,095,212	P 532,752,681	P 1,542,147,447	P 34,073,266	P 836,171	P 892,964,951	P 6,131,869,728
Total liabilities	1,761,621,446	161,579,655	17,469,992	17,278,355	20,679,304	744,309,910	2,722,938,662

The other segment information is shown below.

	2018						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Capital expenditures	P 248,092,710	P 202,846	P -	P 7,564,866	P -	P 6,918,937	P 262,779,359
Depreciation and amortization	-	38,929,424	9,851,315	3,354,960	-	30,491,662	82,627,361
Impairment loss	-	134,113,907	-	-	-	-	134,113,907

	2017						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Capital expenditures	P 429,889,281	P 3,293,141	P -	P 192,582	P -	P 31,383,544	P 464,758,548
Depreciation and amortization	-	33,254,835	3,235,504	3,221,673	-	25,699,115	65,411,127

	2016						
	Real Estate Sales	Club Races	Rental	Food, Beverage and Services	Outsourcing	Unallocated/ Common	Total
Capital expenditures	P -	P 100,533,970	P 1,841,435	P 19,355,980	P -	P -	P 121,731,385
Depreciation and amortization	-	110,104,885	16,289,562	2,969,409	270,000	1,672,793	131,306,649
Impairment loss	-	325,852,194	-	-	-	-	325,852,194

7. FRANCHISE

PRCI is a holder of a franchise granted through RA No. 6632, An Act Granting the Philippine Racing Club, Inc. a Franchise to Operate and Maintain a Race Track for Horse Racing in the Province of Rizal, 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 Group 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, An Act Granting the Philippine Racing Club, Inc. a Franchise to Operate and Maintain a Race Track for Horse Racing in the Province of Rizal and Extending the Said Franchise By Twenty-five Years From the Expiration, was enacted extending the Group's franchise for another 25 years up to October 2022, substantially under the same terms and conditions as the old franchise.

Under RA No. 7716, Expanded VAT Law, the Group is required to pay 10% VAT on its gross receipts. In view of this, the Group obtained a tax ruling wherein it was clarified that the Group is subject to the 10% VAT on its gross receipts instead of the 25% franchise tax on its operations. Accordingly, the Group 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.

In 2013, in relation to the continuous decline in related revenues, the Group conducted an assessment on the recoverability of the remaining cost of the franchise. Based on the assessment made, the estimated cash flows from racing activities based from the actual historical net cash flows generated from the franchise were significantly lower than the previously budgeted net cash flows. Consequently, the Group recognized a decline in value to the remaining franchise cost amounting to P38.2 million in 2013. Thus, the Group's franchise was already fully impaired as of December 31, 2013.

8. CASH AND CASH EQUIVALENTS

The details of this account follow (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Cash on hand and in banks	P 257,921,909	P 254,403,379
Short-term placements	348,353,250	100,000,000
	P 606,275,159	P 354,403,379

Cash in banks generally earn interest based on daily bank deposit rates. Interest income earned on cash in banks and short-term placements amounting to P2,100,723 in 2019 and P266,175 million in 2018, and are presented as part of Finance income under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21).

Short-term placements have an average maturity of 90 days and bears average interest rate of 6.8% in 2019 and 2018.

9. RECEIVABLES

This account includes the following (unaudited for 2019 and audited for 2018):

	Notes	Mar 2019	2018
Current:			
Real estate receivables	13.2	P 236,781,686	P 479,422,915
Accrued rent receivable		61,738,815	56,742,759
Receivables from customers		184,404,204	38,635,534
Receivables from officers and employees	23.7, 23.8	2,224,403	3,057,890
Others		11,052,872	10,425,928
		496,201,980	588,285,026
Allowance for impairment		(16,823,991)	(16,823,991)
		479,377,988	571,461,035
Noncurrent –			
Real estate receivables	13.2	745,109,394	745,109,394
		P1,224,487,382	P1,316,570,429

Real estate receivables have normal terms of two to four years. The receivables arising from the real estate sales in 2019 and 2018 have average effective interest rates of 6.77%, which are comparable to similar instruments.

The discounts related to these Real estate receivables amounting to P116.6 million and P17.4 million in 2018 and 2017, respectively, were recognized and charged against the reported sales during the reporting period. Interest income earned in 2019 and 2018 amounted to

P2,100,723 and P266,175, respectively, and is presented as part of Finance income under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21).

Receivables from officers and employees are unsecured, noninterest-bearing and payable through salary deduction within six months from the grant date (see Notes 23.7 and 23.8).

In 2018 and as of January 1, 2018 (the date of initial application of PFRS 9), the Group did not recognize any additional impairment losses related to its receivables based on the new impairment model prescribed by PFRS 9 (see Note 4.2). In 2017, the Parent Company recognized provision for impairment loss on receivables amounting to P3.4 million, which is presented as part of Other Income (Charges) in the 2017 consolidated statement of comprehensive income.

A reconciliation of the allowance for impairment at the beginning and end of first quarter 2019 and full year 2018 is shown below (unaudited for 2019 and audited for 2018).

	Note	Mar 2019	2018
Balance at beginning of year		P 16,823,991	P 16,823,991
Impairment losses	21	-	-
Balance at end of year		P 16,823,991	P 16,823,991

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND PREPAYMENTS AND OTHER CURRENT ASSETS

10.1 Financial Assets at FVTPL

The Group's financial assets at FVTPL comprised of listed equity securities and an investment in bond which are designated by the Group to be carried at fair value through profit or loss. The details of this account follow (unaudited for 2019 and audited for 2018):

	Note	Mar 2019	2018
Balance at beginning of year		P 150,951,902	P 109,573,700
Additions		0	28,787,627
Fair value gain (loss) - net	21	0	17,556,705
Disposals		0	(4,966,130)
		P 150,951,902	P 150,951,902

The types of investments classified under financial assets at FVTPL consist of the following (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Equity securities	P 141,551,902	P 141,551,902
Debt security	9,400,000	9,400,000
	P 150,951,902	P 150,951,902

The fair values of the equity securities and debt security have been determined based on quoted prices in active markets (see Note 5.3).

10.2 Prepayments and Other Current Assets

The details of this account follow (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Input VAT	P 2,542,729	P 7,493,313
Prepaid marketing fees	5,754,430	5,754,430
Prepaid expenses	23,636,411	1,996,914
	P 31,933,570	P 15,244,657

Prepaid marketing fees pertain to deferred commissions paid by the Group related to certain contracts of sale of condominium and parking units (see Note 13.2). The noncurrent portion of the deferred commissions is presented as part of Other Noncurrent Assets account (see Note 14.2).

Prepaid expenses include prepaid employee benefits, association dues, insurance and creditable withholding tax.

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 1st quarter 2019 and year 2018 are shown below (unaudited for 2019 and audited for 2018).

	Land	Machinery and Equipment	Transportation Equipment	Buildings and Improvements and Land Improvements	Office Equipment, Furniture and Fixtures	Construction in Progress	Total
March 31, 2019							
Cost	P 173,825,899	P 162,746,544	P 84,083,555	P 1,352,047,631	P 14,058,580	P -	P 1,786,762,210
Accumulated depreciation and amortization	-	(145,077,610)	(63,621,581)	(684,063,434)	(9,813,813)	-	(902,576,439)
Accumulated impairment loss	(34,891,958)	(1,625,302)	(105,952)	(421,377,544)	-	-	(458,000,756)
Net carrying amount	P 138,933,941	P 16,043,633	P 20,356,022	P 246,606,652	P 4,244,767	P -	P 426,185,012
December 31, 2018							
Cost	P 265,666,169	P 161,613,832	P 84,083,555	P 1,480,426,942	P 13,890,901	P -	P 2,005,681,399
Accumulated depreciation and amortization	-	(143,692,899)	(61,283,077)	(713,956,019)	(9,566,412)	-	(928,498,407)
Accumulated impairment loss	(34,891,958)	(1,625,302)	(105,952)	(423,342,889)	-	-	(459,966,101)
Net carrying amount	P 230,774,211	P 16,295,631	P 22,694,526	P 343,128,034	P 4,324,489	P -	P 617,216,891
December 31, 2017							
Cost	P 265,666,169	P 158,559,315	P 81,865,098	P 1,474,591,148	P 12,342,355	P -	P 1,993,024,085
Accumulated depreciation and amortization	-	(136,788,802)	(52,740,997)	(649,960,132)	(7,823,538)	-	(847,313,469)
Accumulated impairment loss	(34,891,958)	(1,625,302)	(105,952)	(289,228,982)	-	-	(325,852,194)
Net carrying amount	P 230,774,211	P 20,145,211	P 29,018,149	P 535,402,034	P 4,518,817	P -	P 819,858,422

The reconciliations of the carrying amounts of property and equipment at the beginning and end of 1st quarter 2019 and year 2018 are shown below (unaudited for 2019 and audited for 2018).

	Land	Machinery and Equipment	Transportation Equipment	Buildings and Improvements and Land Improvements	Office Equipment, Furniture and Fixtures	Construction in Progress	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 230,774,211	P 16,295,631	P 22,694,527	P 343,128,034	P 4,324,489	P -	P 617,216,891
Additions	-	1,132,712		1,965,346	167,679	-	3,265,738
Disposals	(91,840,270)	-	-	(128,379,313)	-	-	(220,219,584)
Reclassification	-	-	-		-	-	-
Impairment	-	-	-	-	-	-	-
Depreciation and amortization charges for the year	-	(1,384,710)	(2,338,504)	29,892,585	(247,401)	-	25,921,969
Balance at March 31, 2019, net of accumulated depreciation, amortization and impairment	P 138,933,941	P 16,043,633	P 20,356,022	P 246,606,652	P 4,244,767	P -	P 426,185,012
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 230,774,211	P 20,145,211	P 29,018,149	P 535,402,034	P 4,518,877	P -	P 819,858,482
Additions	-	3,832,086	4,515,536	4,737,389	1,783,636	-	14,868,647
Disposals	-	-	(30,002)	-	-	-	(30,002)
Reclassification	-	-	-	(738,968)	-	-	(738,968)
Impairment				(134,113,907)		-	(134,113,907)
Depreciation and amortization charges for the year	-	(7,681,666)	(10,809,157)	(62,158,514)	(1,978,024)	-	(82,627,361)
Balance at December 31, 2018, net of accumulated depreciation, amortization and impairment	P 230,774,211	P 16,295,631	P 22,694,526	P 343,128,034	P 4,324,489	P -	P 617,216,891

Land represents the cost of the 65.5 hectares of land in Cavite developed as the site of the Parent Company's racetrack and related facilities (see Note 13.1) and the land where the building of the Parent Company's office is situated.

Certain property and equipment (land and building) with total carrying value of P175.5 million of March 31, 2019 and December 31, 2018, are under a real estate mortgage (see Note 16.2).

In 2018, the Parent Company sold certain property and equipment to third parties for a total consideration of P0.4 million. The related gain or loss on sale is presented as part of Others - net under Other Income (Charges).

The Parent Company also acquired certain transportation equipment with carrying value of P18.1 million December 31, 2018, through bank loans with Union Bank, BDO and Metrobank (see Note 16). The vehicles are acquired under chattel mortgage.

The Group's construction in progress pertains to the major renovation of the Parent Company's office building in Makati City. This was completed during the year and was reclassified accordingly as part of building and improvements. There were no borrowing costs capitalized as part of the cost of the asset in 2019 and 2018.

The amount of depreciation and amortization is allocated as follows (both periods are unaudited):

	Mar 2019	Mar 2018
Cost of club races	P 8,722,650	P 23,671,671
Cost of rental	4,068,554	4,068,554
Other operating expenses	4,826,208	7,143,634
	P 17,617,412	P 34,883,859

The cost of fully depreciated assets that are still being used in the Group's operations amounts to P578.5 million as of March 31, 2019 and December 31, 2018, respectively.

Due to continuous decline in revenues from club races, the Parent Company assessed that its property and equipment used in its racing activities are impaired as of December 31, 2018. These property and equipment related to the Company's racing activities have carrying amount of P512.5 million as of December 31, 2018. Using a discount rate of 6.12%, the management assessed that these property and equipment have estimated recoverable values amounting to P323.3 million as of December 31, 2018, which is the value in use. Accordingly, the Parent Company recognized impairment loss in year 2018 amounting to P134.1 million which is presented under Other Income (Charges) account in the full year 2018 consolidated statement of comprehensive income (see Note 21). A similar impairment loss was recognized by the Parent Company in 2016 amounting to P325.9 million.

In 2019 and 2017, the management assessed that no additional impairment loss is necessary to be recognized.

The carrying amount of the Company's property and equipment used in its racing activities amounts to P323.3 million as of December 31, 2018.

12. INVESTMENT PROPERTY

The changes in the carrying amounts of investment property presented in the consolidated statements of financial position are summarized below (unaudited for 2019 and audited for 2018).

	Notes	Mar 2019	2018
Balance at beginning of year		P 1,440,985,705	P 1,428,868,207
Reclassifications during the year	13.2, 14.2	0	11,168,504
Fair value gain (loss) during the year	21	0	948,994
Balance at end of year		P 1,440,985,705	P 1,440,985,705

Investment property is mainly composed of parcels of land that are currently held to earn rentals. Rental income from these properties amounted to P18,821,943 and P12,429,247 in 2019 and 2018, respectively, and is included as part of Rental Revenues in the consolidated statements of comprehensive income (see Note 19).

Rental income for certain leases is based on agreed monthly fixed fee or share in lessees' revenues, whichever is higher. In all the periods presented, the Group received rentals based on fixed rates.

In 2018 and 2017, the Company reclassified to Investment Property advance payments made in the prior years for condominium units acquired (see Note 14.2) and certain parcels of land , which are the subject of lease agreements (see Note 13.2). Total fair value gains recognized on the dates of reclassification amounted to P246.3 million in full year 2017 and is presented under Other Income (Charges) in the consolidated statements of comprehensive income (see Note 21). No similar adjustment was made in 2018 as the cost of the condominium unit reclassified approximate its fair value.

Full year advance rentals in relation to these leases amount to P64.6 million and P81.7 million as of December 31, 2018 and 2017, respectively, and are presented as part of Advances from customers under Other Current Liabilities account in the consolidated statement of financial position (see Note 17).

Other information about the fair value measurement and disclosures related to the investment property are presented in Note 5.5.

13. PROPERTY HELD FOR SALE OR DEVELOPMENT

This account includes the following (unaudited for 2019 and audited for 2018):

	Note	Mar 2019	2018
Cavite properties:			
PRCI-owned	13.1	P 537,857,786	P 537,857,786
PNVC-owned	13.1	152,396,344	152,396,344
		690,254,130	690,254,130
Makati City properties	13.2	670,477,813	718,154,244
Quezon City properties	13.3	149,762,144	149,762,144
Davao and Antipolo City properties	13.4	410,193,679	410,193,679
		P1,920,687,766	P1,968,364,197

The Parent Company entered into agreements with certain real estate developers to develop portions of the Parent Company's properties located in Cavite and Makati.

Management assessed that the recoverable values of the properties exceed their carrying amounts, hence, no impairment is recognized in all periods presented.

Presented below and in the succeeding pages are relevant information for each of the property held for sale or development.

13.1 Cavite Properties

The Parent Company has tracks of land in Cavite of approximately 214.9 hectares. Of the total land area, approximately 149.4 hectares is being developed as commercial and residential areas and approximately 65.5 hectares was developed as the site of the Parent Company's racetrack and related facilities (see Note 11).

In 1999, the Parent Company entered into a joint venture agreement (the Agreement) with Sta. Lucia Realty Development, Inc. (Sta. Lucia), a related party through interlocking directorates, for the development of the 149.4 hectares of land (see Note 23.2). Based on the Agreement, the Parent Company agreed to contribute the land and Sta. Lucia, as the developer, agreed to shoulder the development costs.

The Parent Company has already received about 20.0 hectares of developed residential lots and about 9.8 hectares of developed commercial lots arising from the conditions of the Agreement. On the other hand, the development of a portion of the Cavite property into the Parent Company's racetrack 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 horse owners; 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.

The Phase 1 of the development project was completed in 2008 (see Note 23.3). With respect to Phase 2 development, which was completed in 2011, the Parent Company appointed several contractors, including Sta. Lucia, to undertake the various sections of the development.

Documentation of ownership titles for the Cavite property is presently being completed. For the combined 29.8 hectares of developed subdivisions lots, Transfer Certificates of Title covering around 27.4 hectares are already obtained by the Parent Company. Titling of the remaining portion of developed subdivisions lots, including the 65.5-hectare racetrack complex is still in progress.

There are no commitments and contingencies on the part of the Parent Company related to the Agreement.

In addition, PNVC owns properties also located in Cavite with a total land area of 4.6 hectares as of March 31, 2019 and December 31, 2018.

13.2 Makati City Properties

The movement of this account follows (unaudited for 2019 and audited for 2018):

	March 2019		2018	
	Area in square meters	Amount	Area in square meters	Amount
Land				
Balance at beginning of year	151,853	P 301,504,799	151,853	P 301,504,799
Disposal	(4,568)	(9,070,784)	(4,568)	(9,070,784)
Balance at end of year	147,285	P 292,434,015	147,285	P 292,434,015
Condominium and Parking Units				
Balance at beginning of year		P 425,719,229		P 422,661,472
Additions (see Note 16.1)		0		209,412,012
Disposal		(47,676,431)		(206,354,255)
Balance at end of year		378,042,798		425,719,229
		P 670,477,813		P 718,154,244

The Makati City properties include parcels of land where the Parent Company's old racetrack used to be located. It also includes office and parking units, which the Group acquired from ALC in 2017 and 2015. The outstanding balance from this acquisition is presented as part of the Loans and Borrowings account in the consolidated statements of financial position (see Note 16.1).

On February 24, 2011, the BOD authorized and approved the execution and delivery of the Master Development Agreement (MDA) with ALI and ALC for the joint development of the Makati City property into a mixed use real estate development.

Under the MDA, the Parent Company will contribute certain parcels of land to ALI depending on the status of the development of the mixed use real estate development. ALI and ALC, on the other hand, shall construct and develop the Makati City property.

In return, the Parent Company shall receive 18% of the saleable units.

Other salient features of the agreement are as follows:

- The removal of all unnecessary structures and settlers inside the Makati City 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; and,
- All titles to the property remain with the Parent Company. Depending on the development of specific projects, title for the covered property will then be released.

Under the MDA, ALI is also given the option to purchase the properties under certain terms and conditions agreed between the parties.

In 2017, the Parent Company recognized an additional revenue amounting to P178.5 million resulting from the increase in gross floor area of the development projects on certain parcels of land sold to ALC in 2014 and 2012. The recognized sale, which is presented as part of Real Estate Sales under the Revenue section in the 2017 consolidated statement of comprehensive income, represents the Company's 18% share in the additional saleable units as a result of the finalization of building plans by ALC in 2017. The related outstanding receivable amounting to P58.6 million and P140.7 million as of December 31, 2018 and 2017, respectively, is presented as part of Real estate receivables under the Receivables account in the 2018 consolidated statement of financial position (see Note 9).

The Parent Company recognized the sales of condominium and parking units for a total consideration of P102,142,650 and P31,709,416 in 2019 and 2018, respectively, which are presented as part of the Real Estate Sales under the Revenues section in the consolidated statements of comprehensive income (see Note 19). In accordance with PFRS 15, the Parent Company accounts for contract receivables and obligations relating to the performance of the identified performance obligations. The details of Contract Assets and Contract Liabilities accounts as of December 31, 2018 are presented in Note 19. The Parent Company also received advance payments from various customers amounting to P108.4 million and P45.2 million as of December 31, 2018 and 2017, respectively, for the sale of several units and is presented as part of Advances from customers under Other Current Liabilities account in the consolidated statements of financial position (see Note 17).

In 2018, the Parent Company sold a parcel of land to ALC on its Makati Property with a land area of 4,568 square meters for a total consideration of P1,159.8 million (see Note 19). Such sale is presented as part of the Real Estate Sales under Revenues section in the 2018 consolidated statement of comprehensive income. The land, with original cost of P9.1 million, is to be paid in annual installment with the last installment to be paid in 2025. The related outstanding receivable amounting to P934.9 million as of March 31, 2019 and December 31, 2018 is presented as part of Real estate receivables under the Receivables account in the consolidated statement of financial position (see Note 9).

The Parent Company sold a 0.5 hectare property to ALC for a consideration of P864.3 million in 2015. The specific location for the 0.5 hectare is already identified and agreed by both parties. Outstanding receivables from this transaction amounted to P322.3 million as of March 31, 2019 and December 31, 2018, which are presented as part of the Real estate receivables under the Receivables account in the consolidated statements of financial position (see Note 9).

In 2017, certain parcels of land, with a carrying value of P6.9 million was reclassified from property held for sale or development to investment property because of the change in the use of the properties (see Note 12). No similar reclassifications were made in 2019 and 2018.

13.3 Quezon City Property

In 2011, the Parent Company acquired eight parcels of land totalling 1.4 hectares amounting to P271.5 million from Sta. Lucia at the Neopolitan Subdivision in Quezon City (see Note 23.5).

In 2018 and 2016, the Parent Company sold parcels of land for P126.9 million and P109.9 million, respectively, with a total cost of P71.2 million and P86.4 million, respectively. The revenue and cost recognized are recorded as part of Real estate sales under Revenues and Cost of Sales and Services accounts, respectively, in the 2018 and 2016 consolidated statements of comprehensive income (see Notes 19 and 23). There were no similar transactions in 2019 and 2017.

13.4 Davao and Antipolo City Properties

The cost of the Group's parcels of land located in Davao and Antipolo City are as follows (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Davao properties	P 403,186,679	P 403,186,679
Antipolo City properties	7,007,000	7,007,000
	P 410,193,679	P 410,193,679

In 2018, the Group sold parcels of land in its Davao properties for a total consideration of P135.5 million with a total cost of P68.8 million. The revenue and cost recognized are recorded as part of Real estate sales under Revenues and Cost of Sales and Services accounts, respectively, in the full year 2018 consolidated statement of comprehensive income (see Notes 19 and 20). There were no similar transactions in 2019 and 2017.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND OTHER NONCURRENT ASSETS

14.1 Financial Assets at FVOCI (2017: AFS Financial Assets)

The reconciliation of the carrying amounts of financial assets at FVOCI (previously, AFS financial assets) are as follows (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Balance at beginning of period	P 519,561,523	P 418,461,314
Fair value gain (loss) - net	0	99,574,536
Additions	0	1,552,182
Disposals	0	(26,509)
Balance at end of period	P 519,561,523	P 519,561,523

Financial assets at FVOCI consist of listed equity securities and a proprietary club share with carrying amounts based on their fair values of P495.6 million as of March 31, 2019 and December 31, 2018. The fair values of listed equity securities were determined by reference to published prices quoted in an active market (i.e., PSE), while fair values of club shares were determined directly by reference to published prices from a SEC-registered club share broker.

In 2018 the Group sold certain financial assets at FVOCI (previously, AFS financial assets) for a total consideration of P0.1 million. The resulting gain on disposals amounting to P0.1 million in 2018 is presented as part of Unrealized Fair Value Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income section in the full year 2018 consolidated statement of comprehensive income..

The Group recognized an increase in the fair value in 2018 amounting to P99.6 million, which are presented as Unrealized Fair Value Gain (Loss) on Financial Assets at FVOCI (previously, AFS financial assets) under Other Comprehensive Income section in the full year consolidated statements of comprehensive income (see Note 18.7).

14.2 Other Noncurrent Assets

Other noncurrent assets consist of the following (unaudited for 2019 and audited for 2018):

	Notes	Mar 2019	2018
Deposit for purchase of properties	12	P 35,821,277	P 35,821,277
Prepaid marketing fees	10	14,621,722	14,621,722
Deposits and other receivables	4.2	8,135,972	8,135,972
Goodwill	1.3	123,122	123,122
Miscellaneous		12,630,832	10,723,849
		P 71,332,925	P 69,425,942

Deposit for purchase of properties pertains to reservation fees, downpayments and amortization payments during the year for the condominium units which are intended to be held for capital appreciation in the future. The payments were classified as deposits since the properties are still under construction as of March 31, 2019 and December 31, 2018.

In 2018, the Group reclassified deposit for purchase of properties amounting to P11.2 million to Investment Property as part of the cost of the purchased property, which was fully constructed and paid for during the same year (see Note 12).

A reconciliation of the capitalized marketing fees is as follows (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Balance at beginning of period	P 20,376,152	P 14,982,745
Additional capitalized cost	0	31,669,592
Disposals	0	(26,276,185)
Balance at end of period	P 20,376,152	P 20,376,152

Deposits and other receivables include advances to Manila Electric Railroad and Light Company for the installation of various poles and transformers in Cavite amounting to P2.6 million as of March 31, 2019 and December 31, 2018.

Goodwill arose from the acquisition of PNVC (see Note 1.3), where the acquisition cost is higher than the fair value of the net assets acquired from the subsidiaries. Goodwill, which represents the expected synergy between the Parent Company and subsidiary's business and operations, is subject to annual impairment testing and whenever there is an indication of impairment. No impairment loss was recognized in any of the years presented.

15. TRADE AND OTHER PAYABLES

The details of this account are presented below (unaudited for 2019 and audited for 2018):

	Notes	Mar 2019	2018
Accrued expenses	16, 23.6	P 239,999,775	P 229,071,299
Accounts payable		73,461,966	77,413,036
Accrued taxes		35,663,263	44,494,074
Output VAT payable		10,917,998	40,320,048
Due to National Stud Farm		33,724,444	33,506,427
Dividends payable	18.5	61,598,235	20,426,455
Due to Philracom		749,107	1,423,090
Miscellaneous		33,940,138	19,491,679
		P 490,054,926	P 466,146,108

Accrued expenses include accrual of management bonuses and various operating expenses incurred during the year which are still unpaid as of the end of the reporting periods.

Accounts payable includes unpaid obligations to off-track betting (OTB) owners, horse owners, contractors, suppliers and various stale checks. These are expected to be settled within 12 months from the end of the reporting period.

Due to Philracom refers to the liability of the Parent Company to Philracom as stated under the Parent Company's franchise. The Parent Company sets aside 1% of the gross receipts from the sale of betting tickets and 25% of the breakages. Breakages pertain to the betting receipts corresponding to fractions of less than ten centavos eliminated from the dividends paid to the winning tickets. Breakages are divided equally among Philracom, National Stud Farm, Dangerous Drugs Board and charitable institutions (see Note 17).

Miscellaneous includes payables to Philippine Charity Sweepstakes Office, The New Philippine Jockeys Association, Inc., and local government authorities.

16. LOANS AND BORROWINGS

Loans and borrowings consist of the following (unaudited for 2019 and audited for 2018):

	Note	Mar 2019	2018
ALC	16.1	P 827,267,069	P 904,152,351
Maybank	16.2	164,975,177	214,353,754
BPI	16.6	111,025,000	118,000,000
Global Versatech, Inc. (GVI)	16.3	22,632,627	22,632,627
BDO	16.4	5,509,996	6,185,165
Metrobank	16.5	3,505,698	3,875,093
		P 1,134,915,567	P 1,269,198,990

The classification of the loans and borrowings as presented in the consolidated statements of financial position follows (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Current	P 59,375,974	P 197,259,397
Noncurrent	1,075,539,593	1,071,939,593
	P 1,134,915,567	P 1,269,198,990

Interest expense from loans and borrowings amounted to P7,892,560 and P11,646,163 in 2019 and 2018, respectively, and are presented as part of Finance costs under Other Income (Charges) account in the statements of comprehensive income (see Note 21). Unpaid interests as at March 31, 2019 and December 31, 2018 are presented as part of Accrued expenses under Trade and Other Payables account in the statements of financial position (see Note 15). The loans are not subject to any significant covenants and collaterals.

16.1 ALC Loan and Other Payables

On February 25, 2011, the Parent Company obtained an unsecured and noninterest-bearing loan from ALC amounting to P500.0 million. The loan was initially recorded at its estimated present value of P203.4 million using a discount rate of 6.18% (which is the rate of a similar instrument at the time the loan agreement was executed). In 2013, the Parent Company and ALC agreed to amend the term of the loan to make it due and demandable. In 2016, the Parent Company paid P43.8 million from this loan and the outstanding balance was restructured by both parties to be settled over a period of 12 years. The present value of the loan was approximately P289.4 million using a discount rate of 6.00%.

Outstanding liability from this transaction amounted to P278.9 million as of March 31, 2019 and December 31, 2018.

Another unsecured outstanding liability amounting to P237.6 million as of March 31, 2019 and December 31, 2018, pertains to the unpaid balance on the acquisition of condominium and parking units in 2015, payable until 2022. The effective interest for this liability is 2.73%.

The remaining balance of P387.7 million as of March 31, 2019 and December 31, 2018 pertains to the outstanding liability on the acquisition of additional condominium and parking units in 2017, payable until 2022 (see Note 13.2). The effective interest for this liability is 3.0%.

16.2 Maybank Loans

On July 16, 2015, the Parent Company obtained an unsecured loan with Maybank on July 16, 2015 amounting to P4.0 million, payable over five years with an interest rate of 5.50% per annum. This loan is under the line of credit amounting to P300.0 million, which is intended to finance the acquisition of treasury shares. In 2017, a loan drawdown with a total amount of P234.0 million was also obtained under this line of credit.

16.3 Payable to GVI

In July 2008, the Parent Company entered into an agreement with GVI for the latter to supply equipment to rehabilitate and upgrade the Parent Company's existing system, to increase the number of terminals and to develop new online betting systems or Totalizator Betting System (TOTE). Under the agreement, GVI also agreed to provide continuing operations maintenance and support services to the Parent Company's totalizator system. The totalizator system is presented as part of Machinery and equipment under the Property and Equipment account in the consolidated statements of financial position (see Note 11).

Payment of the TOTE 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 Parent Company initially recorded the liability and the related asset at its estimated present value of P90.0 million using a discount rate of 10.00% (which is the rate of a similar instrument at the time the agreement was executed). The annual effective interest rate applied is

9.90% in 2015.

In 2015, the Parent Company and GVI extended the agreement until December 31, 2015. As of March 31, 2019, the two parties are still negotiating for the final settlement of the obligations arising from the expired agreement.

16.4 BDO Loans

In 2017, the Parent Company obtained four interest-bearing loans with BDO with a total amount of P10.5 million to finance the acquisition of transportation equipment (see Note 11). The loans are payable within three to four years with interest rates between 7.31% to 9.02% per annum. The equipment purchased through these loans are under chattel mortgage.

16.5 Metrobank Loan

On May 13, 2017, the Parent Company obtained an interest-bearing loan with Metrobank amounting to P6.0 million to finance the acquisition of transportation equipment (see Note 11). The loan has a term of three years with interest rate of 7.66%. The equipment purchased through this loan is under chattel mortgage.

16.6 BPI Loans

On December 21, 2015, the Parent Company obtained an unsecured and interest-bearing loan with BPI amounting to P300.6 million to finance the acquisition of certain investments. The loan has a term of seven years with interest rate of 6.04%. In 2016, the Parent Company obtained two additional drawdowns totaling P180.0 million under the same line of credit. The loans have a term of five years with an interest rate of 5.25% and 6.68%, respectively.

16.7 Union Bank Loans

On October 9 and 17, 2013, the Parent Company obtained two interest-bearing loans with Union Bank amounting to P3.4 million and P3.5 million, respectively, to finance the acquisition of transportation equipment (see Note 11). The loans are payable within three years with an interest rate of 8.53% and 8.54%, respectively, per annum. The equipment purchased through these loans are under chattel mortgage. The amount was fully settled in 2017.

17. OTHER LIABILITIES

The details of this account are presented below (unaudited for 2019 and audited for 2018).

	Notes	Mar 2019	2018
Current:			
Advances from customers	12, 13.2	P 119,516,816	P 173,012,522
Payable to Sta. Lucia	22.5	145,125,000	145,125,000
Payable to charitable institutions	15	53,130,920	52,912,902
Accrued marketing fees		34,262,776	34,262,776
		352,035,512	405,313,200
Noncurrent – Security deposits		36,011,840	36,304,903
		P 388,047,352	P 441,618,103

Payable to charitable institutions corresponds to 25% of breakages and will be donated to different charitable institutions in the area where the racetrack is located (see Note 15).

Accrued marketing fees pertains to unpaid commissions incurred by the Company related to certain contracts of sale of condominium and parking units (see Note 13.2).

Security deposits are 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 since these will not be refunded as long as the owners continue to operate the Parent Company's off-track betting stations.

18. EQUITY

18.1 Capital Management Objective, Policies and Procedures

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

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

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Group 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 Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As of March 31, 2019 and December 31, 2018, the Group's debt-to-equity ratio follows (unaudited for 2019 and audited for 2018):

	March 2019	2018
Total liabilities	P 2,709,804,319	P 2,781,243,183
Total equity	3,903,421,153	3,878,577,448
Debt-to-equity ratio	0.69: 1.00	0.72 : 1.00

18.2 Capital Stock

The Parent Company has authorized capital stock of 1,000,000,000 shares with P1 par value per share. As of March 31, 2019 and December 31, 2018, the Parent Company's subscribed share capital amounts to P585,687,130, divided into 585,687,130 shares, of which 585,608,270 shares, amounting to P585,608,270, are issued.

On March 2, 1952, the SEC approved the listing of the Parent Company's shares. As of December 31, 2018 and 2017, 338,174,728 or 61.87% and, 335,938,738 or 61.46% respectively, of the listed shares are held by the public. Such listed shares closed at P8.49 and P9.48 per share as of March 31, 2019 and December 31, 2018, respectively.

18.3 APIC

The APIC as of March 31, 2019 and December 31, 2018 pertains to the amount recognized as a result of the issuance of shares through the exercise of the stock rights in 2009.

18.4 Treasury Shares

On March 1, 2013, the BOD authorized the Parent Company to reacquire additional shares up to an amount equivalent to 60% of unrestricted retained earnings as of December 31, 2012. Subsequently, the Parent Company and certain subsidiaries reacquired shares, as shown below, and appropriated an equivalent amount of retained earnings (unaudited for 2019 and audited for 2018 and 2017).

	Number of Shares		
	Mar 2019	2018	2017
Balance at beginning of year	77,952,174	77,942,174	54,322,174
Reacquired during the year	0	10,000	23,620,000
Balance at end of year	77,952,174	77,952,174	77,942,174

	Amount		
	Mar 2019	2018	2017
Balance at beginning of year	P 677,615,387	P 677,535,151	P 457,646,650
Reacquired during the year	0	80,236	219,888,501
Balance at end of year	P 677,615,387	P 677,615,387	P 677,535,151

In 2017, PNVC acquired shares of the Parent Company classified as AFS financial assets in PNVC's separate financial statements with cost of P219.9 million. In 2016, 2014 and 2012, PNVC also acquired shares of the Parent with a cost of P0.8 million, P3.7 million and P90.5 million, respectively. In 2016, Circuit Makati also acquired shares of the Parent Company with cost of P1.6 million. These are treated as part of treasury shares in the consolidated financial statements.

The Parent Company's retained earnings are restricted to the extent of the cost of the treasury shares as of the end of the reporting periods.

18.5 Declaration of Cash Dividends

The Parent Company's BOD approved the declaration of the following cash dividends (unaudited for 2019 and audited for 2018 and 2017):

	Cash Dividends	
Date of Declaration	Amount	Per share
January 29, 2019	P 44,210,000	P 0.08
January 25, 2018	P 41,081,320	P 0.08
January 12, 2017	P 42,509,196	P 0.08

Total unpaid dividends as of March 31, 2019 and December 31, 2018 and 2017, shown as part of Trade and Other Payables account in the consolidated statements of financial position, amounts to P61.60 million and P20.40 and P17.00 million, respectively (see Note 15).

18.6 Appropriated Retained Earnings

In 2018 and 2016, the Parent Company made an appropriation equivalent to the total cost of shares reacquired during the respective periods (see Note 18.4).

In December 2015, the BOD appropriated a total of P1,880.0 million for the furtherance of the Parent Company's real estate activities. In a board meeting held on March 22, 2017, the BOD approved the reversal of P280.0 million from the earlier approved appropriation as the BOD assessed such appropriation to be in excess of the funding requirement for the aforementioned purpose for the next five years.

As of March 31, 2019 and December 31, 2018, the Appropriated Retained Earnings amounted to P2.3 billion.

18.7 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under the Revaluation Reserves account attributable to Parent Company's shareholders, are shown below.

	Financial Assets at FVOCI	Post-employment Defined Benefit Asset (Obligation)	Total
Balance as of January 1, 2018	P 99,480,258	P 188,959	P 99,669,217
Remeasurements of post-employment defined benefit asset	-	1,938,302	1,938,302
Unrealized fair value gain on financial assets at FVOCI	99,574,536	-	99,574,536
Fair value gains on disposed financial assets at FVOCI reclassified to retained earnings	(18,275)	-	(18,275)
Other comprehensive income before tax	99,556,261	1,938,302	101,494,563
Tax expense	(3,448,309)	(581,491)	(4,029,800)
Other comprehensive income after tax	96,107,952	1,356,811	97,464,763
Balance as of December 31, 2018	P 195,588,210	P 1,545,770	P 197,133,980
Balance as of January 1, 2017	P 127,003,720	P 10,082,549	P 137,086,269
Remeasurements of post-employment defined benefit asset	-	(14,133,700)	(14,133,700)
Unrealized fair value gain on AFS financial assets	(26,659,002)	-	(26,659,002)
Fair value gains on disposed AFS financial assets reclassified to profit or loss	(1,002,768)	-	(1,002,768)
Other comprehensive loss before tax	(27,661,770)	(14,133,700)	(41,795,470)
Tax income	138,308	4,240,110	4,378,418
Other comprehensive loss after tax	(27,523,462)	(9,893,590)	(37,417,052)
Balance as of December 31, 2017	P 99,480,258	P 188,959	P 99,669,217
Balance as of January 1, 2016	P 8,880,003	P 8,154,346	P 17,034,349
Remeasurements of post-employment defined benefit asset	-	2,754,576	2,754,576
Unrealized fair value gain on AFS financial assets	121,671,599	-	121,671,599
Fair value gains on disposed AFS financial assets reclassified to profit or loss	(2,758,486)	-	(2,758,486)
Other comprehensive income before tax	118,913,113	2,754,576	121,667,689
Tax expense	(789,396)	(826,373)	(1,615,769)
Other comprehensive income after tax	118,123,717	1,928,203	120,051,920
Balance as of December 31, 2016	P 127,003,720	P 10,082,549	P 137,086,269

19. REVENUES

When the Company's management evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Notes 6.1 and 6.4.

The Company determines that the categories in the financial reports used by the management can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

A summary of additional disaggregation from the segment revenues for 2018 is shown below.

	Notes	
At a point in time		
Real estate sales:		
Sale of land:		
Makati City	2.14, 13.2	P 1,159,788,132
Quezon City	2.14, 13.3	126,910,714
Davao City	2.14, 13.4	135,545,536
		1,422,244,382
Sale of food, beverage, and services	2.14	24,890,393
Over time		
Real estate sales:		
Sale of condominium and parking units	2.14, 13.2	393,971,825
Club races	2.14	143,483,413
		537,455,238
Rentals (PAS 17):		
Investment property	2.15, 12	61,687,386
Others	27.2, 12	13,134,532
		74,821,918
		P 2,059,411,931

The aggregate amount of transaction price allocated to partially or wholly unsatisfied contracts as of December 31, 2018 is P679.5 million. The Company expects to recognize revenue from unsatisfied contracts as follows:

Within a year	P 221,495,757
More than one year to three years	319,221,445
More than three years to five years	138,807,329
	P 679,524,531

The significant changes in the balances of contract accounts related to real estate sales in 2018 are as follows:

	Contract Assets	Contract Liabilities
For 1st Quarter 2019		
Balance at beginning of year	P 207,096,006	P 130,620,435
Net additions during the quarter	13,728,522	27,791,091
	P 220,824,528	P 158,411,526

For Year 2018		
Balance at beginning of year (effect of adoption of PFRS 15)	P 49,731,792	P 182,660,150
Increase as a result of changes in measurement of progress	157,364,214	-
Decrease due to recognition of revenue, net of increase due to cash received during the year	-	(52,039,715)
	P 207,096,006	P 130,620,435

20. OPERATING EXPENSES

20.1 Operating Expenses by Nature

The details of operating expenses by nature are shown below (both periods are unaudited).

	1st Qtr 2019	1st Qtr 2018
Cost of real property sold	P 47,676,431	P 17,225,642
Salaries and employee benefits	42,011,159	28,952,533
Depreciation and amortization	17,617,413	34,883,859
Taxes and licenses	6,270,632	7,052,379
Utilities	5,687,325	2,307,979
Repairs and maintenance	4,929,099	4,267,887
Outside services	4,638,228	9,225,545
Professional fees	3,277,033	2,273,929
Transportation and travel	3,260,600	3,944,158
Site rentals	3,250,722	4,457,145
Communication	3,182,737	4,274,014
OTB expense	2,054,023	2,368,851
Insurance	1,546,575	1,491,410
Representation	1,148,374	1,111,438
Tote operation and maintenance	435,354	1,120,747
Supplies	372,326	1,365,133
Added prizes	94,491	2,592,447
Miscellaneous	8,225,240	5,458,434
Total	P 155,677,761	P 134,373,530

These expenses are presented in the consolidated statements of comprehensive income as follows (both periods are unaudited):

	1st Qtr 2019	1st Qtr 2018
Cost of sales and services:		
Real estate sale	P 47,676,431	P 17,225,642
Club races	37,311,881	61,360,733
Rental	4,068,554	4,068,554

Other operating expenses	66,620,895	51,718,601
Total	P 155,677,761	P 134,373,530

20.2 Club Races

The details of costs of club races are as follows (both periods are unaudited):

	1st Qtr 2019	1st Qtr 2018
Salaries and employee benefits	P 9,952,904	P 10,205,045
Depreciation and amortization	8,722,650	23,671,671
Outside services	3,370,735	4,521,577
Site rentals	3,250,722	4,457,145
Communication	2,684,091	3,734,173
OTB expense	2,054,023	2,368,851
Transportation and travel	2,018,767	2,396,115
Repairs and maintenance	1,922,354	3,573,931
Utilities	1,494,326	1,272,231
Insurance	1,150,128	1,238,890
Tote operation and maintenance	435,354	1,120,747
Added prizes	94,491	2,592,447
Miscellaneous	161,355	207,910
Total	P 37,311,881	P 61,360,733

20.3 Other Operating Expenses

The details of other operating expenses are as follows (both periods are unaudited):

	1st Qtr 2019	1st Qtr 2018
Salaries and employee benefits	P 32,058,255	P 18,747,488
Taxes and licenses	6,270,632	7,052,379
Depreciation and amortization	4,826,208	7,143,634
Utilities	4,192,999	1,035,748
Professional fees	3,277,033	2,273,929
Repairs and maintenance	3,006,745	693,956
Outside services	1,267,493	4,703,968
Transportation and travel	1,241,833	1,548,043
Representation	1,148,374	1,111,438
Communication	498,646	539,841
Insurance	396,447	252,521
Supplies	372,326	1,365,133
Miscellaneous	8,063,905	5,250,523
Total	P 66,620,895	P 51,718,601

21. OTHER INCOME (CHARGES)

The details of other income (charges) are presented below (both periods are unaudited).

	1st Qtr 2019	1st Qtr 2018
Finance costs	(P 7,892,560)	(P 11,646,163)
Interest income	2,100,723	266,175
Others	138,871,821	3,432,385
Total	P 133,079,984	(P 7,947,603)

Dividend income refers to dividends received from AFS financial assets.

Others include rent income and utilities income from Circuit Lane and gain on disposal of assets.

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

	Notes	2018	2017	2016
Short-term employee benefits		P 201,148,044	P 133,229,206	P 133,864,083
Post-employment defined benefit	22.2	4,840,476	4,537,823	4,570,747
	20.1	P 205,988,520	P 137,767,029	P 138,434,830

The salaries and employee benefits expense is allocated as follows:

	Notes	2018	2017	2016
Cost of services – Club races	20.2	P 40,197,723	P 31,567,074	P 37,675,958
Cost of food, beverage and services	20.1	3,607,149	3,398,612	2,714,980
Other operating expenses	20.3	162,183,648	102,801,343	98,043,892
		P 205,988,520	P 137,767,029	P 138,434,830

22.2 *Post-employment Defined Benefit*

(a) Characteristics of the Defined Benefit Plan

The Parent Company maintains a funded, tax-qualified, noncontributory retirement plan that is being administered by trustee banks covering all regular full-time employees.

The normal retirement date of each member shall be the first day of the month coincident with or next following his attainment of age 55. The plan also provides for an early retirement at age 50 with a minimum of ten years of credited service with the consent of the Parent Company's Retirement Committee. A member who is allowed by the Parent Company to continue to work on a yearly extension basis beyond his normal retirement date shall continue to be a member of the plan up to his late retirement date. The retirement benefit shall be a sum equal to one month's plan salary for every year of credited service. The normal, early and late retirement benefits shall be computed in accordance with the retirement benefit formula as of normal, early or late retirement date.

(b) Explanation of Amounts Presented in the Financial Statements

The Parent Company maintains a tax-qualified, noncontributory retirement plan that is being administered by trustee bank covering all regular employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2018, 2017 and 2016.

The amounts of post-employment defined benefit asset (obligation) recognized in the consolidated statements of financial position are determined as follows:

	2018	2017	2016
Fair value of plan assets	P 59,845,470	P 70,188,767	P 87,450,554
Present value of the obligation	(67,789,120)	(76,510,467)	(74,532,839)
Excess (deficiency) of plan assets	(7,943,650)	(6,321,700)	12,917,715
Unrecognized asset due to effect of asset ceiling	-	(-)	(1,048,564)
Post-employment defined benefit asset (obligation)	(P 7,943,650)	(P 6,321,700)	P 11,869,151

The movements in the present value of the retirement benefit obligation are as follows:

	2018	2017	2016
Balance at beginning of year	P 76,510,467	P 74,532,839	P 73,896,613
Current service cost	4,840,476	4,537,823	4,570,747
Interest expense	4,330,492	3,473,230	3,059,320
Remeasurements on actuarial losses (gains) arising from:			

Experience adjustments	(12,231,549)	(1,733,573)	25,941
Changes in financial assumptions	(1,771,067)	(1,191,236)	(3,878,693)
Benefits paid by the plan	(3,889,699)	(3,108,616)	(3,141,089)
Balance at end of year	P 67,789,120	P 76,510,467	P 74,532,839

The movement in the fair value of plan assets is presented below.

	2018	2017	2016
Balance at beginning of year	P 70,188,767	P 87,450,554	P 87,691,340
Loss on plan assets (excluding amounts included in net interest)	(12,064,314)	(18,155,936)	(665,098)
Interest income	3,910,716	4,002,765	3,565,401
Benefits paid by the plan	(3,889,699)	(3,108,616)	(3,141,089)
Contributions paid into the plan	1,700,000	-	-
Balance at end of year	P 59,845,470	P 70,188,767	P 87,450,554

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2018	2017	2016
Cash in banks	P 1,424,618	P 2,281,135	P 2,282,459
Loans and receivables	3,414,276	4,106,043	3,804,099
Quoted securities:			
Equity securities (casino and gaming)	55,006,576	58,488,300	81,363,996
Others	-	5,313,289	-
Balance at end of year	P 59,845,470	P 70,188,767	P 87,450,554

The fair values of the above equity and government debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a negative return of P8.2 million and P14.2 million in 2018 and 2017, respectively, and a positive return of P2.9 million in 2016.

Plan assets consist of the Parent Company's own financial instruments (see Note 23.10).

The components of amounts recognized in profit or loss and in other comprehensive income (loss) in respect of the defined benefit post-employment plan are as follows:

	2018	2017	2016
Reported in profit or loss:			
Current service cost	P 4,840,476	P 4,537,823	P 4,570,747
Net interest expense (income)	419,776	(529,535)	(506,081)
	P 5,260,252	P 4,008,288	P 4,064,666

Reported in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
Experience adjustments	P 12,231,549	P 1,733,573	(P 25,941)
Financial assumptions	1,771,067	1,191,236	3,878,693
Effect of asset ceiling test	-	1,097,427	(433,078)
Loss on plan assets (excluding amounts included in net interest)	(12,064,314)	(18,155,936)	(665,098)
	P 1,938,302	(P 14,133,700)	P 2,754,576

Current service cost is allocated and presented in the consolidated statements of comprehensive income under the following accounts:

	Note	2018	2017	2016
Cost of sales and services		P 2,904,286	P 2,722,694	P 2,742,448
Other operating expenses		1,936,190	1,815,129	1,828,299
	20.1	P 4,840,476	P 4,537,823	P 4,570,747

The net interest income (expense) is included in Finance income (cost) under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21).

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2018	2017	2016
Discount rates	7.06%	5.66%	4.66%
Expected rate of salary increase	3.00%	3.00%	3.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 55 is 9.7 years both for males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

There are no unusual or significant risks to which the plan exposes the Parent Company. However, in the event a benefit claim arises under the Retirement Plan and the Retirement Fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Parent Company to the retirement fund.

The plan exposes the Parent Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Rate Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is heavily invested in equity securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Parent Company's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Parent Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding pages.

(i) Sensitivity Analysis

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the consolidated statements of financial position date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained constant. The sensitivities were expressed as the corresponding change in the defined benefit asset.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to sensitivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset (obligation) as of December 31, 2018 and 2017:

	Impact on Post-employment Defined Benefit Asset (Obligation)		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2018			
Discount rate	+/- 100 bps	(P 1,245,827)	P 1,159,059
Salary growth	+/- 100 bps	1,214,491	(1,283,907)
December 31, 2017			
Discount rate	+/- 100 bps	(P 1,191,236)	P 1,101,161
Salary growth	+/- 100 bps	714,428	(771,716)

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Parent Company ensures that the investment positions are managed by the Retirement Plan Trustee, as appointed by the Retirement Committee in the Trust Agreement executed between the parties. The duly appointed Retirement Plan Trustee is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of counsel and appoint an investment manager or managers to manage the Retirement Fund. The Retirement Plan Trustee has no specific matching strategy between the plan assets and the plan liabilities. The Parent Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of equity securities. The Parent Company believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are invested in entities in the casinos and gaming industry. Also, investments are considered to be in a concentrated portfolio since a significant portion is invested in the Parent Company's own shares.

There has been no change in the Parent Company's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The Parent Company is not required to pre-fund the future defined benefits payable under the retirement plan before they become due. For this reason, the amount and timing of contributions to the retirement fund are at the Parent Company's discretions. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Parent Company to the retirement fund.

The Parent Company does not expect to make a contribution to the retirement plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments for the next 10 years from the plan follows:

	2018	2017
Within one year	P 59,516,097	P 31,389,451
More than one year to five years	13,031,049	16,869,241
More than five years to ten years	6,619,971	6,677,590
	P 79,167,117	P 54,936,282

The weighted average duration of the defined benefit obligation at the end of the reporting period is 1.5 years.

23. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, related parties under common ownership, key management personnel and its retirement fund. The following are the Group's transactions with related parties (unaudited for 2019 and audited for 2018):

	Note	March 2019 Amount of Transactions	March 2019 Outstanding Balance	2018 Amount of Transactions	2018 Outstanding Balance
Stockholders –					
Advances	23.1	P -	(P 5,881,475)	P -	(P 5,881,475)
Other Related Party					
Joint operations	23.2	-	537,857,786	-	537,857,786
Project development	23.3	-	(137,200,000)	-	(137,200,000)
Purchase of shares	23.4	-	610,687,500	115,166,150	610,687,500
Other liability	23	-	(7,925,000)	-	(7,925,000)
Key Management:					
Management bonus	23.6	14,685,622	(188,028,892)	40,283,385	(173,343,270)
Car plans	23.7	(8,887)	29,157	(8,887)	29,157
Executive loans	23.8	(43,321)	517,547	(43,321)	517,547
Compensation	23.9	10,224,380	-	40,987,521	-

23.1 Advances from Stockholders

In 2013, PNGSI obtained unsecured, noninterest-bearing advances from various stockholders for working capital requirements. The advances are payable in cash upon demand and remained unpaid as of March 31, 2019 and December 31, 2018. Outstanding balances are presented as Advances from Stockholders in the consolidated statements of financial position.

23.2 Joint Operations

The Parent Company has a joint venture agreement with Sta. Lucia, a related party through interlocking directorates. The joint venture agreement covers the development of the Parent Company's real estate property in Cavite (see Note 13.1). The Parent Company has no significant commitments and contingencies under the joint venture agreement.

23.3 Project Development

As part of the Phase 1 development mentioned in Note 13.3, the Parent Company appointed Sta. Lucia to undertake the project. The Parent 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 Agreement would be used to settle such liability. The Phase 1 of the development project has been completed in 2008. The unpaid portion of the funds advanced by Sta. Lucia during the project development amounting to P137.2 million as of March 31, 2019 and December 31, 2018, which is noninterest-bearing and is secured by the properties related to the project, is presented as part of Other Current Liabilities account in the consolidated statements of financial position (see Note 17).

23.4 Purchase of Shares

As of March 31, 2019 and December 31, 2018, the Parent Company owns shares of Sta. Lucia and is classified as follows (unaudited for 2019 and audited for 2018):

	Notes	Mar 2019	2018
FVOCI	14.1	P 485,687,500	P 485,687,500
FVTPL	10.1	125,000,000	125,000,000
		P 610,687,500	P 610,687,500

The Parent Company recognized an increase in the fair value of these shares classified as financial assets at FVOCI (previously, AFS financial assets) amounting to P93.3 million in 2018, and a decrease of P31.1 million in 2017, both presented as part of Unrealized Fair Value Gain on AFS Financial Assets under Other Comprehensive Income (Loss) section in the consolidated statements of comprehensive income (see Note 14.1).

The Parent Company recognized an increase in the fair value of the FVTPL shares amounting to P21.9 million in 2018, presented as part of Fair value gain (loss) on financial assets at FVTPL under Other Income (Charges) in the full year consolidated statements of comprehensive income (see Note 21).

23.5 Acquisition of Land in Quezon City

In 2011, the Parent Company acquired eight parcels of land covering 1.4 hectares amounting to P271.5 million from Sta. Lucia at the Neopolitan Subdivision in Quezon City. The outstanding balance amounting to P7.9 million as of March 31, 2019 and December 31, 2018, which is unsecured, noninterest-bearing, and payable upon demand, is included as part of Other Current Liabilities account in the consolidated statements of financial position (see Notes 13.3 and 17).

23.6 Management Bonus

As stipulated under its By-laws, the Parent Company regularly grants management bonus equivalent to 10% of the annual income before bonus and tax to all members of the BOD and Executive Committee and management staff. Management bonus is included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 20.1 and 20.3). Unpaid management bonus is included as part of Accrued expenses under the Trade and Other

Payables account in the consolidated statements of financial position (see Note 15).

23.7 Car Plans

The Parent Company provides secured, noninterest-bearing car plan loans to its executive officers which are payable through salary deductions for a period of four years. The Parent Company capitalizes its share in the costs of the vehicles as part of Transportation equipment under the Property and Equipment account in the consolidated statements of financial position while the outstanding balances of the officers as of March 31, 2019 and December 31, 2018 from these transactions are recorded as part of Receivables from officers and employees under the Receivables account in the consolidated statements of financial position (see Note 9). Management assessed that these receivables are not impaired as of March 31, 2019 and December 31, 2018.

23.8 Loans

The Parent Company grants unsecured, noninterest-bearing loans to executive officers payable through salary deductions renewable every six months. The outstanding balance on these loans is presented as part of Receivables from officers and employees under the Receivables account in the consolidated statements of financial position (see Note 9). Management assessed that these receivables are not impaired as of March 31, 2019 and December 31, 2018.

23.9 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows (see Note 19.1):

	2018	2017	2016
Short-term employee benefits	P 40,283,386	P 37,538,825	P 58,794,030
Post-employment defined benefit	704,135	660,109	664,899
	P 40,987,521	P 38,198,934	P 59,458,929

23.10 Transactions with Retirement Fund

As discussed in Note 22.2, the Parent Company maintains a funded, tax-qualified, noncontributory retirement plan that is being administered by trustee banks covering all regular employees. The Parent Company contributed P1.7 million in its retirement fund assets in 2018.

The fair value of the Parent Company's retirement plan assets amounted to P59.8 million as of March 31, 2019 and December 31, 2018 (see Note 22.2).

Equity securities include shares of companies listed in the PSE. Cash in banks pertain to savings deposit earning 1.75% interest in both years. Loans and receivables include various receivables, accrued interest receivable and receivable from the Parent Company's loans to its employees.

As of March 31, 2019 and December 31, 2018, the retirement fund owns 5,802,500 shares of the Parent Company (included under Equity securities) as approved by the BOD. The fair value of these shares amounted to P55.0 million as of March 31, 2019 and December 31, 2018.

24. CURRENT AND DEFERRED TAXES

The components of tax expense (income) as reported in the consolidated statements of comprehensive income for the years ended December 31 follow (unaudited for both periods):

	1st Qtr 2019	1st Qtr 2018
Current tax expense (benefit):		
Regular corporate income tax (RCIT) at 30%	P 39,651,180	(P 15,391,193)
Final tax at 20%	525,181	66,544
	40,176,361	(15,324,649)
Deferred tax expense relating to origination and reversal of temporary differences	23,414,040	18,693,422
Tax expense reported in the statements of comprehensive income	P 63,590,401	P 3,368,773

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax expense (income) reported in the statements of comprehensive income follows (all figures are unaudited):

	1st Qtr 2019	1st Qtr 2018
Tax expense (benefit) on pre-tax income (loss)	P 39,651,180	(P 15,391,193)
Adjustment for income subjected to lower income tax rates	787,771	99,816
Application of OSD	23,151,450	16,896,394
Tax effects of non-deductible expenses And non-taxable income	0	1,763,756
Tax expense reported in the statements of comprehensive income	P 63,590,401	P 3,368,773

The net deferred tax liabilities presented in the consolidated statements of financial position of the Group as of December 31 relate to the following:

	Statements of Financial Position		
	2018	2017	2016
Deferred tax liabilities:			
Deferred gross profit	P 227,240,534	P -	P -
Unrealized fair value gain on investment property	223,398,775	223,227,957	183,694,590
Accrued rental income	10,440,553	8,323,684	3,968,773
Prepaid marketing fee	6,112,846	-	-
Unrealized fair value gain on financial assets at FVOCI (previously, AFS financial assets)	3,125,872	2,544,381	2,682,689
Unrealized fair value gain on financial assets at FVTPL	235,908	148,124	187,851
Post-employment defined benefit asset	-	-	3,560,745
	470,554,488	234,244,146	194,094,648
Deferred tax assets:			
Accrued management bonus	(52,002,981)	(43,756,484)	(35,341,356)
Accrued marketing fee	(10,278,833)	-	-
Net operating loss carryover (NOLCO)	(8,856,320)	(7,074,673)	(5,116,426)
Unamortized past service cost	(6,497,365)	(8,621,541)	(10,745,717)
Allowance for impairment	(4,164,121)	(10,738,675)	(9,722,257)
Post-employment benefit obligation	(2,383,096)	(1,896,510)	-
Deferred gross profit	-	(30,384,185)	(10,143,641)
	(84,182,716)	(102,472,432)	(71,069,397)
Net deferred tax liabilities	P 386,371,772	P 131,771,714	P 123,025,251

The net deferred tax expense (income) which forms part of the tax expense (income) presented in the consolidated statements of comprehensive income relate to the following:

	Profit or Loss		
	2018	2017	2016
Deferred gross profit	P 257,625,082	(P 20,240,908)	(P 7,763,901)
Accrued marketing fee	(10,278,833)	-	-
Accrued management bonus	(8,246,497)	(8,415,128)	604,598
Prepaid marketing fee	6,112,846	-	-
Amortization of past service cost	2,124,176	2,124,176	2,124,176
Accrued rental income	2,116,870	4,354,911	3,968,773
NOLCO	(1,773,374)	(1,958,247)	(2,016,161)
Post-employment defined benefit asset	(1,068,076)	(1,217,145)	(1,108,574)
Unrealized fair value gain on investment property	170,819	39,533,367	117,651,203
Unrealized fair value gain (loss) on financial assets at FVTPL	87,784	(39,727)	187,851
Allowance for impairment	-	(1,016,418)	59,043

Deferred tax expense (income)	P 246,870,797	P 13,124,881	(P 113,707,008)

	Other Comprehensive Income		
	2018	2017	2016
Post-employment defined benefit asset	P 3,448,309	(P 4,240,110)	P 826,373
AFS financial assets	581,491	(138,308)	789,396
Deferred tax expense (income)	P 4,029,800	(P 4,378,418)	P 1,615,769

The Parent Company, PNVC and PNGSI are subject to the minimum corporate income tax (MCIT), which is computed at 2% of gross income, as defined under the tax regulations, or the RCIT, whichever is higher. No MCIT was reported by the Parent Company in 2019, 2018 and 2017 as the RCIT is higher than MCIT for the said taxable years. On the other hand, no MCIT and RCIT was reported by PNVC and PNGSI in 2019, 2018 and 2017 as both are in a gross and net taxable loss position in those years. Circuit Makati and PCM F&B are not yet subject to MCIT.

The balance of the PNVC's NOLCO together with their respective expiry dates, is shown below. These amounts may be applied against PNVC's future taxable income, if any, up to the year of NOLCO's validity.

Year Incurred	Original Amount	Expired	Applied	Remaining Balance	Valid Until
2018	P 3,303,648	P -	P -	P 3,303,648	2021
2017	1,828,043	-	-	1,828,043	2020
2016	1,061,262	-	-	1,061,262	2019
2015	3,294,415	2,639,410	116,720	-	
	P 9,487,368	P 2,639,410	P 116,720	P 6,192,953	

On the other hand, PNGSI's NOLCO (which is not recognized), together with its expiry date, is shown below. These amounts may be applied against PNGSI's future taxable income, if any, up to the year of NOLCO's validity.

Year Incurred	Original Amount	Expired Balance	Remaining Balance	Valid Until
2018	P 184,460	P -	P 184,460	2021
2017	20,000	-	20,000	2020
2016	302,546	-	302,546	2019
2015	305,900	305,900	-	
	P 812,906	P 305,900	P 507,006	

Circuit Makati's NOLCO together with their respective expiry dates, is also shown below. These amounts may be applied against Circuit Makati's future taxable income, if any, up to the year of NOLCO's validity.

Year Incurred	Original Amount	Expired Balance	Remaining Balance	Valid Until
2018	P 3,372,129	P -	P 3,372,129	2021
2017	2,370,042	-	2,370,042	2020
2016	3,009,070	-	3,009,070	2019
2015	2,651,133	2,651,133	-	
	P 11,402,374	P 2,651,133	P 8,751,241	

PCM F&B's NOLCO incurred in 2018, 2017 and 2016 amounting to P1,984,731, P3,079,869 and P2,341,354, respectively, may be applied against PCM F&B's future taxable income, if any, until 2021, 2020 and 2019, respectively.

In the light of these transactions, Chapter VIII, Section 49 of the National Internal Revenue Code states that if payments received during the year of sale do not exceed 25% of the total contract price, the instalment method on revenue recognition can be applied for tax purposes wherein the amount of taxable revenue recognized is up to the extent of instalment payments actually received during the year. Hence, the collections during the year pertaining to the aforementioned transactions have been recognized as sales for tax purposes

In 2019, 2018 and 2017, the subsidiaries opted to claim itemized deductions, while the Parent Company claimed OSD in 2019, 2018 and 2017 in computing for their income tax due.

25. EARNINGS PER SHARE

Earnings (loss) per share of the Group are computed as follows (unaudited for both periods):

	1st Qtr 2019	1st Qtr 2018
Net Income (loss) attributable to the Parent Company	P 68,580,199	(P 54,672,751)
Divided by the weighted average number of outstanding common shares	546,716,156	546,716,156
	P 0.1254	(P 0.1000)

Diluted earnings per share is equal to basic earnings per share since the Group does not have potentially dilutive instruments as of March 31, 2019 and December 31, 2018.

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic ratios measure the financial performance of the Group as of December 31 (unaudited for 2019 and audited for 2018):

	Mar 2019	2018
Current ratio	3.07	2.74
Asset-to-equity	1.69	1.72
Debt-to-equity	0.41	0.72
Profit margin	0.44	0.28
Return on average resources	0.01	0.09
Return on average equity	0.02	0.16

27. COMMITMENTS AND CONTINGENCIES

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

27.1 Operating Lease Commitments – Group as Lessee

The Group is a lessee under leases covering 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. The related expense amounting to P3,250,722 and P4,457,145 in 2019 and 2018, respectively, is presented as Site rentals under Cost of Sales and Services on Club Races in the consolidated statements of comprehensive income (see Note 20.2).

27.2 Operating Lease Commitments – Group as Lessor

The Parent Company entered into several operating lease agreements as lessor of its stables leased out to horse owners, and, parcels of land leased out to certain third parties. The leases to horse owners are normally for a period of one year and are renewable annually. A fixed rate per stable is charged monthly by the Parent Company. The Parent Company also leases certain parcels of land with terms ranging from 23 to 40 years and rates based on the higher of a fixed rate and a certain percentage of gross revenues, plus a share on rentals of the said properties.

Total rental income recognized from these operating leases amounted to P21,668,151 and P17,326,936 in 2019 and 2018, respectively, and is presented as part of Rental under Revenues section in the consolidated statements of comprehensive income. Advance rentals relating to these leases amounted to P71.2 million and P76.0 million as of March 31, 2019 and December 31, 2018, respectively, and is presented as part of Advances from customers under the Other Current Liabilities account in the consolidated statements of financial position (see Notes 12 and 17). There are no advance rentals for the other leases.

The future minimum lease payments under these non-cancellable operating leases are as follow as of December 31:

	2018	2017
Within one year	P 23,519,663	P 8,656,778
After one year but not more than five years	174,930,002	98,710,951
More than five years	1,974,630,591	1,272,535,289
	P2,173,080,256	P1,379,903,018

27.3 Others

There are other commitments and contingencies that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of March 31, 2019 and December 31, 2018, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of liabilities arising from loans and borrowings, and dividends payable, which includes both cash and non-cash changes:

	Loans and Borrowings* (Note 17)	Dividends Payable (Note 16)	Total
December 31, 2018:			
Balance at beginning of year	P1,806,559,230	P 16,971,801	P1,823,531,031
Cash flows from financing activities:			
Repayment of loans	(571,486,447)	-	(571,486,447)
Payment of interest	(40,544,378)	-	(40,544,378)
Dividend payment	-	(37,626,666)	(37,626,666)
Non-cash financing activities:			
Accrual of interest expense	76,134,888	-	76,134,888
Dividend declaration	-	41,081,320	41,081,320
Balance at end of year	P1,270,663,293	P 20,426,455	P1,291,089,748

December 31, 2017:			
Balance at beginning of year	P1,516,479,875	P 11,510,676	P1,527,990,551
Cash flows from financing activities:			
Repayment of loans	(213,588,505)	-	(213,588,505)
Payment of interest	(50,949,320)	-	(50,949,320)
Proceeds from additional loans and borrowings	46,525,912	-	46,525,912
Dividend payment	-	(37,048,071)	(37,048,071)
Non-cash financing activities:			
Acquisition of property	429,889,281	-	429,889,281
Accrual of interest expense	78,201,987	-	78,201,987
Dividend declaration	-	42,509,196	42,509,196
Balance at end of year	P1,806,559,230	P 16,971,801	P1,823,531,031

* Includes accrued interest payable presented as part of Accrued expenses under the Trade and Other Payables account in the statement of financial position (see Note 15).

Annex B

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

RESULTS OF OPERATIONS

Discussion on the Results of Operations

During the 1st three months of 2019, the Group hosted 26 race days *(28 race days in 2018)*. It should be noted that the Group's share in this gross handle is "only 8.5%" as fixed by the law granting the Company's franchise.

During 1st quarter of 2019, the Group registered P407.91 million of sales as compared to the P553.16 billion for the same period last year. This is equivalent to a very significant 26.26% decrease from last year's sales performance. This decrease in sales could be attributed mainly to the impact of the increased documentary stamp tax (DST) as prescribed by the TRAIN Law effective January 1, 2018. From generally 10% rate on horse race tickets, the new DST has doubled to 20%. This big increase in tax is taken out of the pool fund allocated to the winning ticket/s. Thus, the amount of winnings per Peso bet is significantly reduced and this has turned-off a lot of bettors. Management of the Company is exploring all available legal options to bring back the lower DST rate. However, there is no quick legal solution to this issue, thus, this situation is expected to continue in the next few quarters, and lower betting sales is sure to continue during the coming periods. Another factor that contributed to this fall in betting sales is the lower number of racing days for 2019 compared with 2018 (*26 days for 2019 vs 28 days in 2018*).

In addition, the revenue-source mix of the Group was as follows: 97.47% for OTBs in 2019 (compared to 97.70% in 2018); 2.26% for maintrack in 2019 (compared to 1.99% in 2018); and 0.26% for telebet in 2019 (compared to 0.31% in 2018). The Group has 204 OTBs as of March 31, 2019 as compared to 216 OTBs as of March 31, 2018.

There were some significant revenue and expense accounts which showed substantial changes during the 1st quarter of 2019 compared to same period in 2018. For purposes of determining the "materiality" of fluctuations in revenue and expense items, we selected all accounts which registered changes amounting to more than P15.0 million and 10%. We explain below the reason/s behind such changes.

Revenues

Real Estate Sales [P70.43 million or 222.12% increase]: This account represents the sale of office condominium and parking units inside the Circuit Makati development of Ayala Group. Sale of more condominium units was recognized for the first quarter of 2019 compared with the level of sales in 2018 (15 office units and 2 parking units in 2019 vs 2 office units and 10 parking units in 2018).

Additional real estate sale transactions are expected during the next three quarters of 2019.

Other Income [P135.44 million or 3,945.93% increase]: The increase is due solely to the recognition of gain on the sale of Otis, Manila office property during the first quarter of 2019 and this gain amounted to about P135.00 million.

No significant other income items are expected in the next quarters of 2019.

Expenses

Cost of Real Estate Sold [P30.45 million or 176.78% increase]: This account represents the recorded direct and allocated costs of office condominium and parking units sold as mentioned under Real Estate Sales above. With more office units sold during the first quarter of 2019 compared to the same period in 2018, the related cost of sales is expected to register similar increase.

Additional real estate sale transactions are expected during the next three quarters of 2019, thus, a corresponding increase in cost is expected to be recorded over this period.

Depreciation [P17.27 million or 49.50% decrease]: This account represents the amortization of recorded costs of depreciable assets with the bulk of such assets pertaining to those used in racing operation. The significant decrease in recorded depreciation was caused by the reduced recorded values of racing assets at the start of 2019. The reduction in recorded values is the direct result of the recognition in 2018 of additional impairment loss on the racing assets of the Company.

Similar decrease in depreciation charges is expected in the next quarter of 2019.

Estimated Income Tax [P60.22 million or 1,787.64% increase]: This account represents the combined effects of current and deferred income taxation. The increase in this account in 2019 versus 2018 is mainly caused by a bigger income tax due for the first three months of 2019 compared with the income tax due for the same period in 2018 (P58.85 million in 2019 versus P2.81 million in 2018). A much bigger taxable income is reported for first quarter 2019 compared with that for same period in 2018.

At the end of next quarter, we do not expect a significant change in this account.

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 1st quarter of 2019 compared with 2018, with brief discussions on expectations for the succeeding period. For purposes of determining the "materiality" of changes in account balances, we selected all accounts which registered changes amounting to more than P50.0 million and ten percent (10%). We explain below the reason/s behind such changes.

Assets

Cash and Cash Equivalents [P251.87 million or 71.07% increase]: The significant increase in this account is attributed mainly to the significant collections during the first quarter of 2019 from the sale of the Otis, Manila office property and the sale of more condominium units. Such collections are more than enough to compensate for disbursements for the same period.

The balance of this account is expected to increase in the next quarter due to expected big collections from the sale of the Otis, Manila office property and the continuing sales of condominium units. Such collections are projected to exceed the disbursements during this same quarter.

Property and Equipment - net [P191.03 million or 30.95% decrease]: The significant decrease in this account is attributed mainly to the sale of the Otis, Manila office property during the 1st quarter of 2019 and the depreciation charges for the same period. The book value of the Otis, Manila property at the time of sale was around P164 million.

The balance of this account is expected to decrease further in the next quarters because of the depreciation charges for same periods.

Liabilities

Loans and Borrowings [P134.28 million or 10.58% decrease]: The decrease was due solely to the significant scheduled payments of bank loans and borrowings from the Ayala Group, Maybank Philippines and Bank of the Philippine Islands during the 1st quarter of 2019. The payments made are summarized as follows: Ayala Group (P80.49 million); Maybank Philippines (P47.72 million); and BPI (P6.98 million).

It is projected that this account will decrease further in the next quarters of 2019 because of the scheduled amortizations of loans and borrowings during these periods.

Income Tax Payable [P58.85 million or 80.10% increase]: The increase was due mainly to the gain on sale of Otis, Manila office property and more condominium units sold during the first quarter of 2019.

It is projected that this account will increase further in the next quarter because of the expected sale of more condominium units during the same period.

Other Current Liabilities [P53.28 million or 13.14% decrease]: The decrease was due solely to the decrease in Advances from Customers related to the sale of condominium and parking units during the 1st quarter of 2019. This is a direct result of the Real Estate Revenue recognition policy of the Group as discussed under Note 2.14 of the consolidated financial statements. Part of this note is quoted as follows:

> *"Revenue from real estate sales – With respect to sale of condominium and parking units (ongoing projects), revenue is recognized over time proportionate to the progress of the development of the said properties. Under this method, revenue is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. This method faithfully depicts the transfer of goods or services because in a sale of real property, not all of the benefits are consumed by the customer until the complete satisfaction of the performance obligation. For completed properties, revenue is recognized at a point in time when control to the property is transferred to the customer. Revenue, whether completed or ongoing projects, is recognized when at least 25% of the total contract price has already been collected."*
>
> *"Revenue recognized from real estate sales, based on the foregoing discussions, is presented as Real Estate Sales account under the Revenues section in the consolidated statement of comprehensive income."*
>
> *"If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, any collections before the recognition of the sale are considered as unearned revenue and are recorded as part of Advances from customers under Other Current Liabilities account in the consolidated statement of financial position."*

It is projected that this account will decrease during the next quarter of 2019 due to the reclassification of portions that qualify as revenue for the same period as explained above.

OTHER DISCUSSIONS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATION

Gross Handle / Betting Sales

Year 2013 marked the 1st time in the history of local horseracing that three (3) racetracks have operated at same time. The government regulator Philracom did not want simultaneous racing in a day; only one club operates in any given racing day. Thus, the racing calendar is divided among three clubs, instead of two clubs prior to 2013. With this decision by Philracom, PRCI (and MJCI) got much lower number of racing days in 2013.

The P553.16 million gross handle in 2018 resulted from this revenue mix – 97.47% from OTBs, 2.26% from maintrack and 0.26% from telephone betting. The share of OTBs in the revenue generation continues to be the biggest source of sales due to the continuing expansion of the OTB network. Efforts to improve the OTB reach and the improvement of racing and betting facilities should bear fruits in the near future. (*See related discussion below.*)

Expansion of Betting Operation

PRCI continues to find ways to improve the OTB network inspite of the continuing operational issues affecting the off-site facilities. The biggest challenge to the expansion of the betting operation remains to be the policies of the local governments against proliferation of gambling in their areas. There are areas within Metro Manila that show potential to contribute big sales, particularly the Cities of Pasig, Taguig and Makati but the current mayors of these cities are against having betting outlets in their areas. There is also the threat of other gambling outlets, both legal and illegal, in many areas. Under this situation, we are constantly reviewing the viability all OTBs, in Metro Manila and in the provinces of Bulacan and Pampanga in Central Luzon, and Cavite, Rizal, Laguna and Batangas south of Metro Manila. By end of 1st quarter 2019, we have 204 quality OTBs compared to 216 OTBs as of end of March 2018. The strategy remains the same: open new OTBs in better locations such as restaurants and bars to bring comfort to the racing afficionados. As of end of 1st quarter 2019, the farthest OTB in the north is in Calasiao, Pangasinan and in the south is in Malvar, Batangas.

Property Development

In 2011, the Company has entered into a joint development agreement with ALI and Alveo Land Corporation for the development of the Santa Ana Park Makati City property. Pursuant to this agreement, PRCI recognized as revenue around 0.457 hectare (*sold for about P1.18 billion*) in 2018; around 0.492 hectare (*sold for about P920 million*) in 2015; around 1.2 hectares (*sold for about P773.4 million*) in 2014; and around 2.96 hectares (*sold for about P2.31 billion*) in 2013 (*and none in years 2016 and 2017*), all parcels of land coming from the Makati City property of PRCI (*for additional details on the Makati City property development, see Note 13.2 to the consolidated financial statements*).

In 2017 and 2016 (*none in 2018*), certain parcels of land inside the Circuit Makati project were reclassified from property held for sale or development to investment property because of the change in the use of the properties. The item reclassified to investment property in 2017 pertains to a parcel of land where a condominium project for lease, Circuit Flats, will be constructed. The difference between the cost and fair value of the parcel of land at the date of transfer amounted to P246.3 million and is presented as Fair value gain on property held for sale or development reclassified to investment property under Other Income (Charges) in the 2017 consolidated statement of comprehensive income.

The Neopolitan, Quezon City property investment refers to eight (8) parcels of land totalling 1.4 hectares acquired in 2011. Original acquisition cost for these parcels of land from Sta. Lucia Land, Inc. is P271.5 million. In 2016, the Company sold two parcels of land for P109.9 million with a total cost of P86.4 million (*see Note 13.3 to the audited financial statements*). In April 2018, another two (2) parcels of land were sold by the Company for P126.91 million.

As to the joint venture project (*residential and commercial subdivision*) near the Cavite 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 (*see Note 13.1 to the audited financial statements*).

Dividend Declaration

On January 29, 2019, the Board of Directors declared cash dividends equivalent to P0.08 per share or about P44.21 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, March 19, 2019, payable on April 12, 2019.

On January 25, 2018, the Board of Directors declared cash dividends equivalent to P0.08 per share or about P43.73 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, March 26, 2017, payable on April 18, 2017.

On January 12, 2017, the Board of Directors declared cash dividends equivalent to P0.08 per share or about P43.73 million out of its unrestricted retained earnings to all stockholders of record as of end of trading day, March 13, 2017, payable on April 5, 2017.

Continuing Impact of Economic Crisis

Although we might say that the crisis of 1997 has bottomed out, the country continued to experience economic difficulties. Most businesses, including the Group, 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 the Group. 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 the Group for the periods January to March of 2018 and 2017 are as follows:

		Jan to Mar 2019	Jan to Mar 2018
1.	**Number of OTBs**	**204**	**216**

The number of off-track betting stations or OTBs is a very important performance indicator considering the present operating structure of the Group. 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.

There was another decrease in the number of OTBs from end of 1st quarter of 2018 until the end of 1st quarter of 2019. This is a continuation of management's thrust towards improving and streamlining the betting outlets and network. OTB sales performance is closely monitored and nonperforming ones are closed. New OTBs continue to be opened but under a more strict guidelines and selection process. With the projected downward trend in communication costs (long distance telephone charges and video costs), expansion in the provinces becomes more viable.

		Jan to Mar 2019	Jan to Mar 2018
2.	**Market Share**	**31.93%**	**34.05%**

Before February 2013, there were only two horse racetracks operating in the country, PRCI and MJCI. It was very important to monitor the market share of PRCI. It is important to note

that the number of racedays in each year is determined by Philracom. Racedays in one year were 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 was more informative to use same number of racedays in determining market share. Using calendar date is better applied for annual market share determination.

In February 2013, a third racetrack located in Malvar, Batangas started operating.

For the first three months of 2019, PRCI had 26 racing days. Share of the Group in industry gross sales went down compared with the same period last year. Also, the other two racing clubs have bigger market share during this current period. MJCI market share is at 34.66% while MMTC share is at 33.41%. The low market share for PRCI during this current period could be attributed to lower number of quality horses that participated in the scheduled races and to a few operational issues in the OTBs.

To regain market leadership, management should introduce ways to make it more attractive for horseowners and trainers to run their horses in PRCI and to improve the betting facilities and network. Under this situation, PRCI will have the edge in quality and number of participating horses in races and this should attract more interest from bettors. Coupled with reliable betting system, this situation should result in higher sales. Additional possible actions may include the putting up of more added prizes and the setting up of enough number of better stable facilities in our racetrack in Cavite.

		Jan to Mar 2019	Jan to Mar 2018
3.	**Average Horse Prize (for 1st place)**	**P103,735**	**P120,758**

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 the Group.

The average horse prize for first place during the first quarter of 2019 went down significantly compared with the average prize in same period in 2018. This unfortunate situation could be traced to the expected adverse impact of the increase in DST on horse race tickets under the TRAIN Law effective January 1, 2018. This 2019 horse prize was also slightly lower than the average prize generated by MJC (P108,749) and MMTC (P110,150) for same period in 2019.

Management must find ways to arrest the slide of the betting sales (to improve HOP) although we expect that it will not be easy because of the very high taxes in horseracing and the competition among three racetracks and the competition posed by other gambling options like e-games, PCSO keno and other on-line games, on-line bingo, cockfighting and illegal bookies. The Group must strive to regain its edge in terms of HOP and betting sales over the other two racetracks. 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 the Group over its competitors.

		Jan to Mar 2019	Jan to Mar 2018
4.	**Distribution of Sales**		
	- OTB	**97.47%**	**97.70%**
	- Maintrack	**2.26%**	**1.99%**
	- Telebet accounts	**0.26%**	**0.31%**

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. This condition is expected to remain at this level for the next few quarters.

One spot that deserves more focus is how to improve further the share in gross handle of telebet or account betting. Then, the mobile communication betting system which is already adopted by MJCI and MMTC should be given attention by Management because this, together with telebet, offers the best avenue for future growth. Both mobile communication betting system and telebet offer convenient and secured betting platform for bettors and for the Group, both platforms offer totally secured and cost efficient sales outlet. A combination of tapping the potentials of technology (through mobile phones) and a more aggressive marketing and promotion is one sure way of generating additional sales.

		Jan to Mar 2019	Jan to Mar 2018
5.	**Earnings (Loss) per Share**	**(P0.1000)**	**(P0.1000)**

Earnings (loss) per share or EPS indicate the relative profitability (loss) of the Group 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 1st three months of 2019 is slightly lower than that for same period in 2018 due mainly to the combined effects of lower real estate sales and club races revenue and higher club race expenses in 2018 compared to those accounts in 2017.

This situation is expected to improve in the next quarters due to the expected increase in real estate revenues that are more than enough to offset the expected racing operation loss for the same periods.

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 the Group's liquidity existed during the reporting period.

- There were no events that would trigger direct or contingent financial obligation that is material to the Group, 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 the Group with unconsolidated entities or other persons created during the reporting period.

- There were no material commitments for capital expenditures during the reporting period.

- Other than the expected adverse impact of the increased DST on horserace tickets as provided for in the TRAIN Law effective January 1, 2018, there were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations

that may materially affect the financial report of PRCI (*see related Discussion on the Results of Operations*).

- 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 the Group.

- Finally, there are no known seasonal factors that may materially affect the racing operation of PRCI.

ADOPTION OF PFRS 9, *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*
SEC Memorandum Circular No. 3, Series of 2012

The Company does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. Based on management's current assessment, this standard has no significant impact to the Group's financial statements. Currently, all of the Company's financial assets and liabilities are measured at amortized cost. Existing financial assets are classified as loans and receivables consisting of cash and cash equivalents, receivables, and customers and other deposits. The Company expects that its intention is to hold these financial assets to collect contractual cash flows and based on management evaluations, the cash flow characteristics of the existing financial assets do not contain terms and conditions such as leverage features that would result in the classification of the assets as at fair value rather than at its current measurement which is at amortized cost. The Company will continue to assess the possible effect of this standard considering the impact of all changes until its implementation in 2015.

APPLICABLE FINANCIAL SOUNDNESS INDICATORS *[Based on unaudited figures]*

Shown below are the important financial soundness indicators of the Group for the 1st quarters of 2019 and 2018:

		Jan to Mar 2019	Jan to Mar 2018
1.	**Current / Working Capital Ratio**	2.65	0.69

The current ratio is used to evaluate the liquidity, or ability to meet short term debts. It is a test of the Company's financial strength. It calculates how many pesos in assets are likely to be converted to cash within one year in order to pay debts that come due during the same year.

It can be calculated by dividing current assets by current liabilities.

		Jan to Mar 2019	Jan to Mar 2018
2.	**Debt to Equity Ratio**	0.38	0.52

The debt to equity ratio measures how much money the Company should safely be able to borrow over long periods of time. It expresses the relationship between capital contributed by creditors and the contributed by equity holders. It also expresses the degree of protection provided by the owners to the creditors. The higher the ratio, the greater the risk assumed by creditors. Conversely, a low ratio indicates a more stable financial position with possible collateral opportunities for outside financing.

It can be calculated by dividing total debts by stockholders' equity.

		Jan to Mar 2019	Jan to Mar 2018
3.	**Asset to Equity Ratio**	1.66	1.79

The asset to equity ratio shows the relationship of the total assets of the Company to the portion owned by shareholders. The asset to equity ratio indicates the Company's leverage, the amount of debt used to finance the Company. A relatively high asset/equity ratio may indicate the company has taken on substantial debt merely to remain in business. By the same token, a low asset/equity ratio can indicate a strong firm that needs no debt.

It can be calculated by dividing total assets by stockholders' equity.

		Jan to Mar 2019	Jan to Mar 2018
4.	**Interest Rate Coverage Ratio**	**17.75x**	**(3.41x)**

The interest coverage ratio indicates the extent of which earnings are available to meet interest payments. The interest coverage ratio measures the ability to meet annual interest payments. A high interest coverage ratio may indicate that the firm has the capacity to increase debt. A lower interest coverage ratio means less earnings are available to meet interest payments and that the business is more vulnerable to increases in interest rates.

It can be calculated by dividing income (loss) before interest and taxes by fixed interest charges.

		Jan to Mar 2019	Jan to Mar 2018
5.	**Return on Assets**	**0.97%**	**(0.91%)**

The return on assets ratio (ROA) is considered an overall measure of profitability. It measures how much net income was generated for each P1.00 of assets the Company has.

It can be calculated by dividing net income (loss) by average total assets.

		Jan to Mar 2019	Jan to Mar 2018
6.	**Return on Equity**	**1.61%**	**(1.63%)**

The return on common stockholders' equity (ROE) measures how much net income was earned relative to each peso of common stockholders' equity.

It is calculated by dividing net income (loss) by average common stockholders' equity.

		Jan to Mar 2019	Jan to Mar 2018
7.	**Net Profit Margin**	**44.31%**	**(60.07%)**

Net profit margin is the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of **profit** that a business can extract from its total sales.

It is calculated by dividing net income (loss) by gross revenue.

		Jan to Mar 2019	Jan to Mar 2018
8.	**Price / Earnings Ratio**	**67.70**	**(81.10)**

The price-earnings (P/E) ratio indicates the Peso amount an investor can expect to invest in a company in order to receive one Peso of that company's earnings. This is why the P/E is sometimes referred to as the price multiple because it shows how much investors are willing to pay per Peso of earnings.

It is calculated by dividing price per share by the earnings per common share.

ANNEX C

PHILIPPINE RACING CLUB, INC.
AGING OF RECEIVABLES
AS OF MARCH 31, 2019

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	22,275	22,275				
2) Advances to Employees	2,126,007	2,126,007				
3) SSS Maternity, Sickness Benefits	76,121	76,121	-	-		
4) Leased Properties	61,738,815	61,738,815				
5) Real Estate Sales Receivable	981,891,080	981,891,080				
6) Other Receivables	195,457,075	195,457,075	-	-	-	-
TOTAL	1,241,311,373	1,241,311,373	-	-	-	-
Allowance for Doubtful Accounts	(16,823,991)					
NET RECEIVABLE	**1,224,487,382**					

B. DESCRIPTION of ACCOUNTS

TYPE OF RECEIVABLES	NATURE/DESRIPTION	COLLECTION PERIOD
1) Executive Car Plan/Loan	Part 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	Social benefits of all employees as provided by the labor Code	Monthly
4) Leased Porperties	Leased areas, e.g., stables, aircon boxes, & concessions	Monthly
5) Real Estate Sales Receivable	Receivables mainly from development of Makati property	Monthly/Quarterly
6) Other Receivables	Various other receivables	Monthly

C. NORMAL OPERATING CYCLE: Calendar Year

Annex – D

OTHER INFORMATION

There are NO **REPORTABLE ITEMS or INFORMATION** arising during the covered period not previously reported in a report on SEC Form 17-C.

Annex – E

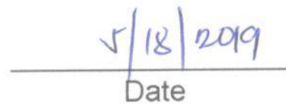
SIGNATURES

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.

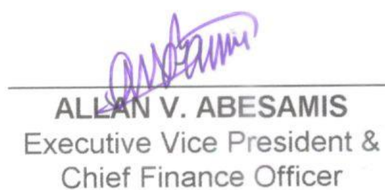
Issuer: **PHILIPPINE RACING CLUB, INC.**

PRINCIPAL FINANCIAL / ACCOUNTING OFFICER / CONTROLLER

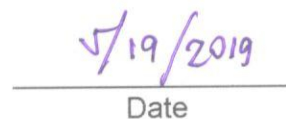
MARIA CECILIA S. LOPEZ
Accountant



Date



ALLAN V. ABESAMIS
Executive Vice President &
Chief Finance Officer



Date