

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2020
2. Commission identification number PW803 3. BIR Tax Identification No. 000-786-765
4. Exact name of issuer as specified in its charter MANILA JOCKEY CLUB, INC.
5. Province, country or other jurisdiction of incorporation or organization Republic of the Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
San Lazaro Leisure and Business Park, Brgy. Lantic, Carmona, Cavite 1014
8. Issuer's telephone number, including area code (632) 687-9889
9. Former name, former address and former fiscal year, if changed since last report N.A.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	1,494,251,136

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange, Inc.

Common Shares

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Please see attached **Annex "A"**.

- Consolidated Statements of Financial Position as of September 30, 2020 and December 31, 2019
- Consolidated Statements of Comprehensive Income for the quarters ended September 30, 2020 and 2019
- Consolidated Statements of Comprehensive Income for the periods ended September 30, 2020 and 2019
- Consolidated Statements of Changes in Equity for the periods ended September 30, 2020 and 2019
- Consolidated Statements of Cash Flows for the quarters ended September 30, 2020 and 2019
- Consolidated Statements of Cash Flows for the periods ended September 30, 2020 and 2019
- Aging Schedule of Receivables as of September 30, 2020
- Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Plan of Operations

Please see attached **Annex "B"**.

PART II – OTHER INFORMATION

There is no material information which had not been previously reported under SEC Form 17-C.

SIGNATURES

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

MANILA JOCKEY CLUB, INC.

November 11, 2020

Date

By:


NESTOR N. UBALDE
Chief Finance Officer

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019

	UNAUDITED SEPTEMBER 2020	AUDITED DECEMBER 2019
(In Philippine Peso)		
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	289,929,157	602,987,261
Receivables (Note 7)	156,141,071	176,853,170
Inventories (Note 8)	10,569,228	9,104,522
Other current assets (Note 9)	60,453,215	26,127,770
Total Current Assets	517,092,671	815,072,723
Noncurrent Assets		
Real estate receivables - net of current portion (Note 7)	20,791,854	7,944,094
Investments in and advances to associates and joint ventures (Note 10)	1,936,089,456	2,032,407,093
Property and equipment (Notes 11)	788,008,481	840,366,743
Investment properties (Note 12)	1,605,604,726	1,622,622,254
Deferred tax assets - net	1,799,260	1,799,260
Other noncurrent assets (Note 13)	138,253,645	161,224,234
Total Noncurrent Assets	4,490,547,422	4,666,363,678
	5,007,640,093	5,481,436,401
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of long-term loans and borrowings (Note 14)	63,000,000	63,000,000
Accounts payable and other liabilities (Notes 15)	278,627,488	507,619,135
Income tax payable	9,190,145	34,249,717
Due to related parties (Note 26)	13,734,482	13,734,482
Total Current Liabilities	364,552,115	618,603,334
Noncurrent Liabilities		
Long-term loans and borrowings - net of current portion (Note 14)	178,750,000	236,250,000
Deferred tax liabilities - net	170,419,412	170,419,412
Advances from third parties	505,076,000	505,076,000
Other noncurrent liabilities (Note 16)	151,878,756	143,480,967
Total Noncurrent Liabilities	1,006,124,168	1,055,226,379
	1,370,676,283	1,673,829,713
Equity		
Capital stock (Note 27)	1,494,251,136	1,494,251,136
Additional paid-in capital	27,594,539	27,594,539
Actuarial gains on accrued retirement benefits	13,708,769	13,708,769
Net cumulative changes in fair values of financial assets measured at FVOCI (Note 13)	4,260,960	4,260,960
Retained earnings (Note 31)	2,039,530,489	2,208,852,475
Treasury shares (Note 31)	(7,096)	(7,096)
Equity attributable to equity holders of the parent company	3,579,338,797	3,748,660,783
Non-controlling interests (Note 1)	57,625,013	58,945,905
Total Equity	3,636,963,810	3,807,606,688
	5,007,640,093	5,481,436,401

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019

	UNAUDITED SEPTEMBER 2020	UNAUDITED SEPTEMBER 2019
	(In Philippine Peso)	
REVENUES		
Club races	21,507,094	93,495,365
Cockfighting	234,933,338	1,025,498,704
Real estate	-	5,613,638
Rent (Notes 11 and 12)	255,142,008	56,929,353
Food and beverages	7,656,573	18,761,579
Others	3,384,819	2,638,277
	522,623,832	1,202,936,916
COST OF SALES AND SERVICES (Note 17)		
Club races	70,860,676	121,692,301
Cockfighting	215,649,873	596,151,760
Real estate	-	43,007
Rent	72,692,668	37,154,302
Food and beverages	8,148,187	21,092,259
Others	5,213,676	17,801,443
	372,565,080	793,935,072
GROSS INCOME	150,058,752	409,001,844
General and administrative expenses (Note 18)	(195,157,899)	(214,971,248)
Selling expense	-	(681,575)
Interest income (Notes 6, 7 and 22)	1,179,208	5,306,701
Finance costs (Notes 14 and 23)	(13,574,729)	(9,683,788)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	(96,317,638)	(66,438,836)
Other income - net (Note 24)	11,910,505	21,788,866
INCOME (LOSS) BEFORE INCOME TAX	(141,901,801)	144,321,964
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	28,741,077	66,833,592
Deferred	-	-
	28,741,077	66,833,592
NET INCOME (LOSS)	(170,642,878)	77,488,372
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>		
Net changes in fair values of AFS financial assets	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)	(170,642,878)	77,488,372
Net income attributable to:		
Equity holders of the parent company	(169,321,986)	78,872,590
Noncontrolling interests	(1,320,892)	(1,384,217)
	(170,642,878)	77,488,373
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(169,321,986)	78,872,590
Noncontrolling interests	(1,320,892)	(1,384,217)
	(170,642,878)	77,488,373
Basic/Diluted Earnings (Loss) Per Share (Note 28)	(0.1133)	0.0528

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE QUARTERS ENDED SEPTEMBER 30, 2020 AND 2019

	UNAUDITED SEPTEMBER 2020	UNAUDITED SEPTEMBER 2019
	(In Philippine Peso)	
REVENUES		
Club races	66,945	32,186,701
Cockfighting	-	379,705,693
Real estate	-	6,407,113
Rent (Notes 11 and 12)	78,465,943	19,340,480
Food and beverages	827,143	6,017,645
Others	1,766,392	1,652,975
	81,126,423	445,310,607
COST OF SALES AND SERVICES (Note 17)		
Club races	15,151,385	39,367,161
Cockfighting	6,240,557	230,354,998
Real estate	-	219,996
Rent	22,893,593	12,337,287
Food and beverages	1,505,314	6,716,036
Others	582,413	6,459,663
	46,373,262	295,455,141
GROSS INCOME	34,753,161	149,855,466
General and administrative expenses (Note 18)	(54,523,352)	(62,561,681)
Selling expense	-	(681,575)
Interest income (Notes 6, 7 and 22)	342,582	2,020,368
Finance costs (Notes 14 and 23)	(4,430,631)	(1,087,077)
Equity in net earnings (losses) of associates and joint ventures (Note 10)	(33,897,039)	(15,622,546)
Other income - net (Note 24)	3,286,513	5,357,982
INCOME (LOSS) BEFORE INCOME TAX	(54,468,766)	77,280,937
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	9,242,413	28,225,031
Deferred	-	-
	9,242,413	28,225,031
NET INCOME (LOSS)	(63,711,179)	49,055,906
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items of other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>		
Net changes in fair values of AFS financial assets	-	-
<i>Items of other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods</i>		
Actuarial gains (losses) on remeasurement of retirement benefits, net of tax	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)	(63,711,179)	49,055,906
Net income attributable to:		
Equity holders of the parent company	(63,074,067)	49,361,882
Noncontrolling interests	(637,112)	(305,976)
	(63,711,179)	49,055,906
Total comprehensive income (loss) attributable to:		
Equity holders of the parent company	(63,074,067)	49,361,882
Noncontrolling interests	(637,112)	(305,976)
	(63,711,179)	49,055,906
Basic/Diluted Earnings (Loss) Per Share (Note 28)	(0.0422)	0.0330

See accompanying Notes to Consolidated Financial Statements.

SEPTEMBER 2020 (UNAUDITED)

(In Philippine Peso)

	Capital Stock (Note 27)	Additional Paid- In Capital	Actuarial Gains on Accrued Retirement Benefits	Net Cumulative Changes in Fair Values of AFS Financial Assets	Retained Earnings - Unappropriated	Treasury Shares	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2019	1,494,251,136	27,594,539	13,708,769	4,260,960	2,208,852,475	(7,096)	3,748,660,783	58,945,905	3,807,606,688
Total comprehensive income (loss) for the period					(169,321,986)		(169,321,986)	(1,320,892)	(170,642,878)
BALANCES AT SEPTEMBER 30, 2020	1,494,251,136	27,594,539	13,708,769	4,260,960	2,039,530,489	(7,096)	3,579,338,797	57,625,013	3,636,963,810

See accompanying Notes to Consolidated Financial Statements.

SEPTEMBER 2019 (UNAUDITED)

(In Philippine Peso)

	Capital Stock (Note 26)	Additional Paid- In Capital	Actuarial Gains on Accrued Retirement Benefits (Note 20)	Net Cumulative Changes in Fair Values of AFS Financial Assets (Note 13)	Retained Earnings - Unappropriated (Note 26)	Treasury Shares (Note 26)	Subtotal	Noncontrolling Interests	Total
BALANCES AT DECEMBER 31, 2018	996,170,748	27,594,539	17,413,770	4,620,965	2,670,524,084	(7,096)	3,716,317,010	61,375,411	3,777,692,421
Total comprehensive income (loss) for the period					78,872,590		78,872,590	(1,384,217)	77,488,373
Stock dividends declared	498,080,388				(498,080,388)		-		
BALANCES AT SEPTEMBER 30, 2019	1,494,251,136	27,594,539	17,413,770	4,620,965	2,251,316,286	(7,096)	3,795,189,600	59,991,194	3,855,180,794

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2020 AND 2019

	UNAUDITED SEPTEMBER 2020	UNAUDITED SEPTEMBER 2019
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(141,901,801)	144,321,964
Adjustments for:		
Depreciation (Notes 11, 12 and 19)	108,539,154	65,406,428
Equity in net losses (earnings) of associates and joint ventures (Note 10)	96,317,638	66,438,836
Interest income (Note 22)	(1,179,208)	(5,306,701)
Finance costs (Note 23)	13,574,729	9,683,788
Amortization of franchise fee (Note 13)	1,345,500	1,345,500
Dividend income	-	(128,378,708)
Operating income before working capital changes	76,696,012	153,511,107
Decrease (increase) in:		
Receivables	7,864,339	(496,843,062)
Inventories	(1,464,706)	848,433
Other current assets	(34,325,446)	(18,066,712)
Increase (decrease) in:		
Accounts payable and other liabilities	(238,991,647)	11,264,935
Other noncurrent liabilities	(302,211)	-
Accrued retirement benefits (Note 21)	-	(6,740,517)
Net cash used in operations	(190,523,659)	(356,025,816)
Income taxes paid, including creditable withholding and final taxes	(44,060,788)	(32,878,489)
Net cash provided (used) by operating activities	(234,584,447)	(388,904,305)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (Note 22)	1,179,208	5,306,701
Dividends received	-	162,930,657
Decrease (increase) in other noncurrent assets	22,970,589	110,185
Acquisitions of property and equipment (Note 11)	(16,208,334)	(37,721,365)
Acquisitions of investment property (Note 12)	(15,340,391)	-
Advances to an associate	-	(54,000,000)
Deposits/advances received	-	500,000,000
Net cash provided (used) by investing activities	(7,398,928)	576,626,177
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short/long-term loans and borrowings	-	315,000,000
Payments of:		
Short-term loans and borrowings (Note 14)	(57,500,000)	(288,636,040)
Subscriptions	-	(17,000,000)
Interest paid	(13,574,729)	(9,683,788)
Net cash provided (used) in financing activities	(71,074,729)	(319,828)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(313,058,104)	187,402,044
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	602,987,261	332,347,036
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	289,929,157	519,749,080

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2020 AND 2019

	UNAUDITED SEPTEMBER 2020	UNAUDITED SEPTEMBER 2019
	(In Philippine Peso)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (Loss) before income tax	(54,468,766)	77,280,937
Adjustments for:		
Depreciation (Notes 11, 12 and 19)	36,399,014	22,345,990
Equity in net losses (earnings) of associates and joint ventures (Note 10)	33,897,039	15,622,546
Interest income (Note 22)	(342,582)	(2,020,368)
Finance costs (Note 23)	4,430,631	1,087,077
Amortization of franchise fee (Note 13)	448,500	448,500
Dividend income	-	(128,324,708)
Operating income (loss) before working capital changes	20,363,836	(13,560,025)
Decrease (increase) in:		
Receivables	(71,080,259)	(558,493,379)
Inventories	337,536	(344,236)
Other current assets	5,207,101	(8,796,516)
Increase (decrease) in:		
Accounts payable and other liabilities	8,557,119	21,633,239
Other noncurrent liabilities	2,545	(3,606,939)
Net cash used in operations	(36,612,122)	(563,167,856)
Income taxes paid, including creditable withholding and final taxes	(7,651,295)	904,990
Net cash provided (used) by operating activities	(44,263,417)	(562,262,866)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	342,582	2,020,368
Dividends received	-	152,812,756
Decrease (increase) in other noncurrent assets	(20,390,278)	(57,889)
Acquisitions of property and equipment	(19,206,126)	(14,853,650)
Acquisitions of investment property	(10,505,549)	-
Deposits/advances received	-	500,000,000
Net cash provided (used) by investing activities	(49,759,371)	639,921,585
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short/long-term loans and borrowings	-	315,000,000
Payments of:		
Short-term loans and borrowings (Note 14)	(26,000,000)	(253,000,000)
Subscriptions	-	(17,000,000)
Interest paid	(4,430,631)	(1,087,077)
Net cash provided (used) in financing activities	(30,430,631)	43,912,923
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(124,453,419)	121,571,641
CASH AND CASH EQUIVALENTS AT BEGINNING OF QUARTER	414,382,576	398,177,439
CASH AND CASH EQUIVALENTS AT END OF QUARTER (Note 6)	289,929,157	519,749,080

See accompanying Notes to Consolidated Financial Statements.

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES
AGING SCHEDULE OF RECEIVABLES
AS OF SEPTEMBER 30, 2020

UNAUDITED
(In Philippine Peso)

A. AGING OF ACCOUNTS RECEIVABLE-NET

	TYPE OF RECEIVABLES	TOTAL	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120 DAYS
1	Real estate receivables - current portion	14,441,993	-	-	-	-	14,441,993
2	Rent receivables	135,733,494	40,720,048	27,146,699	20,360,024	13,573,349	33,933,374
3	Receivables from off-track/off-cockpit betting (OTB/OCB) operators	6,006,108	-	-	-	14,938	5,991,170
4	Receivables from food and beverage operations	1,566,226	19,381	-	-	-	1,546,845
5	Advances to suppliers and contractors	25,169,633	2,516,963	-	-	20,136	22,632,534
6	Advances and loans to officers and employees	23,140,821	64,412	151,518	8,625	86,863	22,829,403
7	Due from related parties	5,036,049	-	-	-	-	5,036,049
8	Others	10,159,177	512,932	820,691	-	1,641,381	7,184,173
	TOTAL	221,253,501	43,833,736	28,118,907	20,368,649	15,336,667	113,595,541
	Less ECL/allowance for doubtful accounts	65,112,430					65,112,430
	RECEIVABLES - NET	156,141,071	43,833,736	28,118,907	20,368,649	15,336,667	48,483,111

B. ACCOUNTS DESCRIPTION

	TYPE OF RECEIVABLES	DESCRIPTION	COLLECTION PERIOD
1	Real estate receivables - current portion	Sales on real estate operations	Monthly
2	Rent receivables	Receivables on leasing transactions from stables, building and other facilities	Semi-monthly/Monthly
3	Receivables from off-track/off-cockpit betting (OTB/OCB) operators	Receivables from racing and cockfighting operations	Monthly
4	Receivables from food and beverage operations	Receivable from sale of food and beverages	Daily/Monthly
5	Advances to suppliers and contractors	Advances granted to and loans availed by officers and employees	Daily/Monthly
6	Advances and loans to officers and employees	Advance payments to suppliers for goods and services yet to be received	Daily/Monthly
7	Due from related parties	Due from third parties	Monthly
8	Others	Various deposits and advances	Daily/Semi-monthly/Monthly

C. OPERATING CYCLE

Calendar Year

MANILA JOCKEY CLUB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

1.1 General Corporate Information

Manila Jockey Club, Inc. (the “Parent Company”) and Subsidiaries (collectively referred to as the “Group”) was incorporated in the Philippines on March 22, 1937 and was listed in the Philippine Stock Exchange (PSE) on October 11, 1963. In 1987, the Philippine Securities and Exchange Commission (SEC) approved the extension of the Parent Company’s corporate life for another 50 years starting March 22, 1987.

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

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

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

1.2 Subsidiaries, Joint Ventures and Associates

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership			
				SEPT 2020		DEC 2019	
				Direct	Indirect	Direct	Indirect
Subsidiaries							
Gametime Sports and Technologies, Inc. (GSTI)	Philippines	Gaming	Philippine Peso	100.00	–	100.00	–
Manilacockers Club, Inc. (MCI)	Philippines	Gaming	Philippine Peso	100.00	–	100.00	–
MJC Forex Corporation (MFC)	Philippines	Money changer	Philippine Peso	100.00	–	100.00	–
New Victor Technology, Ltd. (NVTL)	Hong Kong	Gaming	Philippine Peso	100.00	–	100.00	–
San Lazaro Resources and Development Corporation (SLRDC) ^(a)	Philippines	Real estate	Philippine Peso	100.00	–	100.00	–
SLLP Holdings, Inc. (SLLPHI) ^(a)	Philippines	Holdings	Philippine Peso	100.00	–	100.00	–
Hi-Tech Harvest Limited ^(a)	Hong Kong	Marketing Beach	Philippine Peso	100.00	–	100.00	–
Apo Reef World Resorts, Inc. (ARWRI) ^(a)	Philippines	Resorts Complex	Philippine Peso	56.87	–	56.87	–
Biohitech Philippines, Inc. (Biohitech) ^(a)	Philippines	Waste management	Philippine Peso	50.00	–	50.00	–
San Lazaro BPO Complex (SLBPO) ^(b, c)	Philippines	Real estate	Philippine Peso	90.00	10.00	90.00	10.00

	Place of incorporation	Nature of business	Functional currency	Percentage of ownership			
				SEPT 2020		DEC 2019	
				Direct	Indirect	Direct	Indirect
Joint Ventures							
Gamespan, Inc. (Gamespan) ^(a)	Philippines	Gaming	Philippine Peso	50.00	–	50.00	–
Associates							
MJC Investments Corporation Doing business under the name and style of Winford Leisure and Entertainment Complex and Winford Hotel and Casino (MIC)	Philippines	Gaming Information	Philippine Peso	22.31	–	22.31	–
Techsystems, Inc. (Techsystems) ^(a)	Philippines	Technology	Philippine Peso	33.33	–	33.33	–

^(a) Not yet started commercial operation as of June 30, 2020

^(b) Acquired in 2019 (see Note 1.5)

^(c) Accounted for as investment in subsidiaries, associates and joint ventures in 2019.

2. Basis of Preparation

Basis of Preparation

The consolidated financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI), which are carried at fair value. The consolidated financial statements are presented in Philippine Peso (₱ or Peso), the Group's functional and presentation currency. All values are rounded to the nearest Peso, unless otherwise indicated.

3. Summary of Significant Changes in Accounting Policies and Disclosures

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended standards as at January 1, 2019:

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases in the consolidated statements of financial position.

The Group adopted PFRS 16 using the modified retrospective method of adoption, with the date of initial application as January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized only at the date of initial application. The comparative information was not restated and continues to be reported under PAS 17 and related interpretations. The Group elected to apply the recognition exemptions for leases for which the lease term ends within 12 months of the date of initial application and leases for which the underlying asset is of low value. The Group disclosed the amount of adjustment, on a line-by-line basis, in the balance sheet on the date of initial application.

The Group have lease contracts for office spaces and parking lots. Before the adoption of PFRS 16, the Group classified this lease (as lessee) at the inception date as an operating lease.

The effect of adoption of PFRS 16 at January 1, 2019 is, as follows:

	Increase (decrease)
Consolidated Statements of Financial Position	
ASSETS	
Property and equipment (Note 31)	₱36,417,492
Net impact in total assets	₱36,417,492
LIABILITIES	
Lease liabilities - current portion (Note 31)	₱9,645,170
Lease liabilities - noncurrent portion (Note 31)	26,772,322
Net impact in total liabilities	₱36,417,492

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

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

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

The Group determined, based on its tax compliance review/assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the adoption of this Interpretation has no significant impact on the consolidated financial statements.

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income (FVOCI), provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

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

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

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

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture to which the equity method is not applied.

- Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

These amendments did not have any impact to the consolidated financial statements of the Group.

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

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

other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

These amendments had no impact on the consolidated financial statements of the Group because no financial instruments classified as equity.

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

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

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

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2023

- PFRS 17, *Insurance Contracts*

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

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

Deferred effectivity

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

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

These amendments may apply to future transactions of the Group.

- *PIC updates on PFRS 15 implementation issues – PIC Q&A no. 2018-14*

PIC Q&A no. 2018-14 prescribed the accounting treatment for cancellation of real estate sales using two approaches. Both approaches are acceptable but each approach should be applied consistently.

The first approach prescribed that the repossessed property is recognized at its fair value less cost to repossess, while the second approach prescribed that the repossessed property is recognized at its fair value plus repossession cost.

On February 7, 2019, upon request by the real estate industry to defer the implementation of the above PIC Q&A, the Securities and Exchange Commission (SEC) en banc decided to provide relief to the real estate industry by deferring the application of the above PIC Q&A for a period of three years.

Effective January 1, 2021, real estate companies are required to adopt PIC Q&A no. 2018-14 retrospectively or as the SEC will later prescribe. Real estate companies which opted for the deferral shall be required to disclose in the notes to the consolidated financial statements the accounting policy applied, a discussion of the deferral and a qualitative discussion of the impact in the consolidated financial statements had the concerned application guidance been adopted.

As of December 31, 2019, the Group opted to avail of the relief provided by the SEC.

4. Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at September 30, 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to the transactions between members of the Group are eliminated in full consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Subsidiaries. Subsidiaries are entities controlled by the Parent Company. Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Non-controlling Interests. Non-controlling interests represent the portion of profit or loss and net assets in Biohitech and ARWRI in 2020 and 2019 that are not held by the Group and are presented separately in the consolidated statements of comprehensive income and consolidated statements of financial position separate from equity attributable to equity holders of the parent.

An acquisition, transfer or sale of a non-controlling interest is accounted for as an equity transaction. No gain or loss is recognized in an acquisition of a non-controlling interest. If the Group loses control over a subsidiary, it: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated profit or loss; and (iii) reclassifies the Parent Company's share of components previously recognized in OCI to the consolidated profit or loss or retained earnings, as appropriate.

Transactions Eliminated on Consolidation. All intragroup transactions and balances including income and expenses, and unrealized gains and losses are eliminated in full.

Accounting Policies of Subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as those of the Parent Company.

Functional and Presentation Currency. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

Initial Measurement

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "General and administrative expenses" account in the consolidated statements of comprehensive income.

Subsequent Measurement

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's format determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is

included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets and goodwill is recognized as gain or loss in the consolidated statements of comprehensive income.

Acquisition of Assets

When assets are acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not adjudged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identified assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Current versus Noncurrent Classification

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as noncurrent.

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

Fair Value Measurement

The Group measures financial instruments and non-financial assets at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost..

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

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

The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

Cash and Cash Equivalents

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

Financial Instruments – Classification and Measurement

Classification of financial assets. Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

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

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

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

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

Financial assets at amortized cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

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

Financial assets at fair value through other comprehensive income (FVOCI)

Debt instruments. A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and

losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in consolidated profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in consolidated profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

As of September 30, 2020, and December 31, 2019, the Group elected to classify irrevocably all debt instruments as financial assets at FVOCI.

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

As of September 30, 2020, and December 31, 2019, the Group elected to classify irrevocably all equity instruments as financial asset at FVOCI.

Financial assets at fair value through profit or loss (FVTPL)

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

The Group does not have financial assets at FVTPL.

Reclassifications of financial instruments

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets (Effective January 1, 2018)

PFRS 9 introduces a single, forward-looking “expected loss” impairment model, replacing the “incurred loss” impairment model under PAS 39.

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

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

No ECL is recognized on equity investments.

Loss allowance

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either: a) has transferred substantially all the risks and rewards of ownership of the asset; or b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Write-off Policy

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

Financial Assets and Financial Liabilities (applicable prior to January 1, 2018)

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

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

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

The Group has no financial assets or liabilities at FVTPL and held-to-maturity investments as of December 31, 2019.

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

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

a. Loans and receivables

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

b. AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity. For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to consolidated profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statements of comprehensive income.

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

The Group's AFS financial assets consist of investments in quoted and unquoted equity securities, quoted debt securities, preferred shares and club membership shares as of December 31, 2019.

c. Other financial liabilities

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

Included in this category are the Group's short-term loans and borrowings, accounts payable and other liabilities, and due to related parties as of September 30, 2020.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group has currently enforceable right when if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

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

Real Estate Inventories

Real estate inventories include completed projects of the Group, and are stated at the lower of cost and net realizable value. Cost of real estate inventories pertains to the cost of land. Real estate inventories include memorial lots for sale in the ordinary course of business. In few cases of buyer defaults, the Group can repossess the properties and hold it for sale in the ordinary course of business at the prevailing market price. The repossessed properties are included in the "Real Estate Inventories" account in the consolidated statements of financial position at its original cost. Costs incurred in bringing the repossessed assets to its marketable state are included in their carrying amounts unless these exceed the recoverable values.

Accounting for cancelled sales and repossessed inventories

PIC Q&A no. 2018-14 prescribed the accounting treatment for cancellation of real estate sales using two approaches. Both approaches are acceptable but each approach should be applied consistently.

The first approach prescribed that the repossessed property is recognized at its fair value less cost to repossess, while the second approach prescribed that the repossessed property is recognized at its fair value plus repossession cost.

On February 7, 2019, upon request by the real estate industry to defer the implementation of the above PIC Q&A, the Securities and Exchange Commission (SEC) en banc decided to provide relief to the real estate industry by deferring the application of the above PIC Q&A for a period of three years. Effective January 1, 2021, real estate companies are required to adopt PIC Q&A no. 2018-14 retrospectively or as the SEC will later prescribe.

The Group availed the relief for the year ended December 31, 2019. As a result, the Group recognized the repossessed inventory from cancelled sales at original cost.

Investments in Associates and Joint Ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investment in its associate and joint venture are accounted using the equity method.

Under the equity method, the cost of investment in associates and a joint venture is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associates and the joint venture. Goodwill, if any, relating to associates or a joint venture is included in the carrying amount of the investment and is not amortized or separately tested for impairment. The consolidated statements of comprehensive income reflect the share of the results of operations of the associates and joint venture. Where there has been a change recognized directly in the equity of the associates and the joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in equity. Unrealized profits or losses resulting from transactions between the Group and the associates and joint venture are eliminated to the extent of the interest in the associates and joint venture.

The reporting dates of the associates, the joint venture and the Parent Company are identical and the accounting policies of the associates and joint venture conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint venture and its carrying value, and then recognizes the loss as "Equity in net earnings (losses) of associates and joint ventures" in the consolidated statements of comprehensive income.

Property and Equipment

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

Investment Properties

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

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

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

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

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

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

Franchise Fee

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

Impairment of Nonfinancial Assets

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

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

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

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

Retained Earnings

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

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

Dividend Distribution

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

Earnings per Share (EPS)

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

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

The Parent Company currently does not have potential dilutive common shares.

Revenue Recognition (applicable starting January 1, 2018 upon the adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding incentives, output tax, and other sales taxes or duties.

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

Commission income from club races

Revenue is recognized at a point in time based on a percentage of total wager funds from horse racing operations in accordance with the Parent Company's franchise agreement.

Commission income from cockfighting

Revenue is recognized at a point in time based on a percentage of net ticket sales from cockfighting operations.

Revenue from food and beverages

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

Real estate sales

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

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

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

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

The real estate projects were already completed as of December 31, 2019.

In case of sales cancellation due to the default of the buyers, the Group derecognizes the outstanding balance of contract asset or real estate receivables and recognize the repossessed property at its original cost, applying the relief provided by SEC.

Cost recognition

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

Commission income from club races

Revenue is recognized as earned based on a percentage of gross receipts from ticket sales from horse racing operations in accordance with the Parent Company’s franchise agreement.

Commission income from cockfighting

Revenue is recognized as earned based on a percentage of gross receipts from ticket sales of cockfighting operations.

Revenue from food and beverages

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

Real estate sales

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

Revenue from sales of completed real estate projects from the joint venture is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Parent Company has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and

preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are included in the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position. If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Trade payable and buyers' deposits" under the "Accounts payable and other liabilities" account in the consolidated statements of financial position.

Cost of real estate sales pertains to the cost of the land and is recognized under the percentage-of-completion method, if the criteria of the full accrual method are not satisfied.

The cost of inventory recognized in the consolidated statements of comprehensive income upon sale is determined with reference to the costs of the land contributed for the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

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

The real estate projects were already completed as of December 31, 2019.

Rental income from stables, building and other facilities

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

Interest income

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

Dividend income

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

Cost of Sales and Services and Expenses

Cost of club races, cost of cockfighting, cost of rental services and expenses are recognized in the consolidated statements of comprehensive income at the date they are incurred.

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

Other Comprehensive Income (OCI)

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

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

Retirement Benefits Cost

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

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

Leases

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

The Group as a lessee (effective January 1, 2019 upon adoption of PFRS 16)

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

Right-of-use assets

Effective January 1, 2019, it is the Group's policy to classify right-of-use assets with "Property and Equipment" in the consolidated statements of financial position. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated statements of financial position. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Group as a lessor

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

Taxes

Current tax

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

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

Deferred tax

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

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

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

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

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

Value Added Tax (VAT)

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

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

Foreign Currency Denominated Transactions and Translations

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

Provisions

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

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

Contingencies

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

Events after the Reporting Date

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from the estimates and assumptions used. The effects

of any change in estimates or assumptions are reflected in the consolidated financial statements when these become reasonably determinable.

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

Judgments

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

Assumption of Going Concern

The use of the going concern assumption involves management making judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain. The Group has no plans to liquidate. Management believes that it will be able to generate positive cash flow through cost savings measures, resolve the BIR audit amicably and obtain potential sources of financing. Accordingly, the consolidated financial statements are prepared on a going concern basis since management has future plans with regards to the Group as disclosed in Note 1.

Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3

Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

The acquisition of Vertex One from ALI in 2019 qualified as an acquisition of a business in accordance with PFRS 3 and was accounted for under the purchase method (see Note 1).

Determination if control exists in an investee company

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

Determination if joint control exists in a joint venture

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Management has determined that it has joint control in San Lazaro BPO Complex Joint Venture and Gamespan Inc. since the strategic financial and operating decisions of the entity are made jointly for all relevant activities by the venturers through its BOD (see Note 1).

Determination of joint venture or joint operation

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

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

Determination if significant influence exists in an associate

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

Distinction between real estate inventories and investment properties

The Group determines whether a property is classified as investment property or real estate inventories as follows:

Investment properties comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Transfers are made to investment properties when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

Real estate inventories comprise property that is held for sale in the ordinary course of business. Principally, this is residential and industrial property that the Group develops and intends to sell before or on completion of construction.

In 2019, the Group reclassified real estate inventories to investment property amounting to ₱52.2 million (see Notes 8 and 12).

Determination of lease term of contracts with renewal and termination options – the Group as a lessee – Effective starting January 1, 2019

The Parent Company has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of office spaces and parking lots with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of office spaces and parking lots with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Refer to Note 31 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Leases - Estimating the IBR – Effective starting January 1, 2019

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Parent Company's stand-alone credit rating).

The Group's lease liabilities amounted to ₱27.2 million as at December 31, 2019.

Classification of leases - Effective prior to January 1, 2019

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

a. *Operating lease commitments - the Group as a lessor*

The Group has entered into lease agreements on certain items of its property and equipment and investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties. i.e. ownership of the assets remains with the Group at the end of the lease terms. Accordingly, the lease agreements are accounted for as operating leases.

b. *Operating lease commitments - the Group as lessee*

The Group has entered into a lease agreement for the lease of office space and parking lots where it has determined that the risks and rewards related to the leased assets are retained by the lessor. i.e. ownership of the assets remains with the lessor at the end of the lease term. As such, the lease agreement was accounted for as an operating lease.

Impairment of noncurrent nonfinancial assets

The Group assesses at each reporting date whether there is any indication that its interest in associates and joint ventures, advances to an associate, property and equipment, investment properties and franchise fee may be impaired. Indication of impairment includes: (a) decline in the asset's market value that is significantly higher than would be expected from normal use; (b) evidence of obsolescence or physical damage; (c) internal reports indicate that the economic performance of the asset will be worse than expected; etc. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Based on management's assessment, there was an indicator of impairment of investment in and advances to an associate and property and equipment as of December 31, 2019.

In 2019, due to continuous decline in revenues from club races, the Parent Company assessed that its property and equipment used in its racing activities may be impaired. These property and equipment related to the Parent Company's racing activities have a carrying amount of ₱433.9 million as of December 31, 2019 prior to impairment assessment. The recoverable amount of the CGU has been determined based on fair value less cost to sell. Fair value less cost to sell is based on appraisal of the property performed by an independent appraiser.

Management has determined that certain land improvements, that was supposed to generate new cash inflow for the Group did not materialize, therefore, the Group will not be able to recover the costs of construction. As a result, the Group recognized an allowance for impairment amounting to ₱14.6 million in 2019.

In addition, due to the continuous losses incurred by MIC, the Group performed impairment testing on its investment in and advances to MIC with a carrying value of ₱2.0 billion as of December 31, 2019. The recoverable amount of investment in and advance to an associate is the greater of the investment's fair value less costs to sell and value-in-use. Determination of impairment of investment in and advances to an associate requires an estimation of the value-in-use of the CGU to which the investments relate. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and applying an appropriate discount rate in order to calculate the present value of those cash flows. In discounting, the Group uses a discount rate based on the weighted average cost of capital adjusted to reflect the way that the market would assess the specific risks associated with the cash flow and exclude risks that are not relevant to the cash flow. The recoverable amount resulting from the impairment testing done by the Group was based on value in use method.

In 2019, no impairment provisions were recognized for nonfinancial assets of the Group, except for the land improvement amounting to ₱14.6 million in 2019.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

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

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

In 2017, provision for doubtful accounts are disclosed in Note 7 to the consolidated financial statements, and written off receivable accounts without previous impairment allowance are disclosed in Note 26 to the consolidated financial statements.

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

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

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

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

Provision for ECL of financial assets not held at FVTPL

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

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

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

Determination of NRV of real estate inventories

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

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

As of December 31, 2019, the cost of the real estate inventories, the amount written down to NRV and the carrying value of the real estate inventories are disclosed in Note 8 to the consolidated financial statements.

Estimation of impairment of financial assets at FVOCI

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

The Group defines 'significant' generally as a reduction of 20% or more of the original cost. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities.

As of September 30, 2020, and December 31, 2019, the carrying value of the Group's FVOCI financial assets is disclosed in Note 13 to the consolidated financial statements. No impairment loss was recognized in 2019.

Estimation of the useful lives of property and equipment and investment properties (excluding Land)

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

There were no changes in the useful lives of property and equipment and investment properties in 2019.

As of September 30, 2020, and December 31, 2019, the carrying amount of depreciable property and equipment are disclosed in Note 11 to the consolidated financial statements. The carrying amount of depreciable investment property as of September 30, 2020 and December 31, 2019 are disclosed in Note 12 to the consolidated financial statements.

Provisions and Contingencies

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed to the Group. The Group's management and legal counsels believe that the eventual liabilities under these lawsuits or claims, if any, will not have material effect on the consolidated financial statements. Further, the Group's management, together with its tax counsel, has assessed that the findings on MCI have no legal or factual basis (see Note 31).

No provisions were recognized as of December 31, 2019.

Recognition of deferred tax assets

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

Estimation of retirement benefits cost and obligations

The determination of the obligation and cost for retirement benefits cost is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 21 and include among others, discount rates, expected rate of return on plan assets and expected rate of salary increase. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore generally affect the recognized expense and recorded obligation in such future period. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement and other retirement obligations.

As of September 30, 2020, and December 31, 2019, the carrying value of accrued retirement benefits are disclosed in Note 21 to the consolidated financial statements.

6. Cash and Cash Equivalents

This account consists of:

	SEPT 2020	DEC 2019
Cash on hand	₱12,652,001	₱28,509,541
Cash in banks	122,171,509	549,372,073
Cash equivalents	155,105,647	25,105,647
	₱289,929,157	₱602,987,261

Cash in banks generally earns interest at the respective bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months and earn interest at the respective short-term deposit rates. Interest income earned amounted to ₱1.1 million and ₱2.1 million for the periods ended September 30, 2020 and 2019 (see Note 22).

7. Receivables

This account consists of:

	SEPT 2020	DEC 2019
Trade		
Real estate receivables - current portion	₱14,441,993	₱57,520,558
Rent receivables (Notes 11 and 12)	135,733,494	75,348,327
Receivables from off-track/off-cockpit betting (OTB/OCB) operators	6,006,108	19,415,437
Receivables from food and beverage operations	1,566,226	3,766,582
Non-trade		
Advances to suppliers and contractor	25,169,633	45,125,815
Advances and loans to officers and employees	23,140,821	23,920,604
Due from related parties (Note 26)	5,036,049	5,027,071
Receivable from third parties	-	3,553,975
Others	10,159,177	8,287,231
	221,253,501	241,965,600
Less Allowance for ECL	65,112,430	65,112,430
	₱156,141,071	₱176,853,170

Real Estate Receivables

The real estate receivables of the Parent Company are as follows:

	SEPT 2020	DEC 2019
Current	₱14,441,993	₱57,520,558
Noncurrent	20,791,854	7,944,094
	₱35,233,847	₱65,464,652

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

Interest income from accretion of real estate receivables amounted to ₱0.08 and ₱2.65 million for the periods ended September 30, 2020 and 2019, respectively (see Note 22).

Advances and Loans to Officers and Employees

The Parent Company grants salary loans and advances to its officers. The loans bear an average interest rate of 9% per annum. Interest income earned on advances and loans to officers and employees amounted to ₱0.03 million and ₱0.58 million for the periods ended September 30, 2020 and 2019, respectively (see Note 22).

Advances to Suppliers and Contractors

Advances to suppliers are noninterest-bearing payments, which is normally collectible within 12 months or within the normal operating cycle.

Other Receivables

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

Allowance for ECL

Movements in the allowance for doubtful accounts are summarized below:

	SEPT 2020		
	Trade	Nontrade	Total
Balance at beginning of year	₱21,122,304	₱14,228,604	₱35,350,908
Provision during the year	25,430,692	5,387,173	30,817,865
Amounts written off during the year	-	(894,212)	(894,212)
Recovery of doubtful accounts	-	(162,131)	(162,131)
Balance at end of period	₱46,552,996	₱18,559,434	₱65,112,430

	DEC 2019		
	Trade	Nontrade	Total
Balance at beginning of year	₱21,122,304	₱14,228,604	₱35,350,908
Provision during the year	25,430,692	5,387,173	30,817,865
Amounts written off during the year	-	(894,212)	(894,212)
Recovery of doubtful accounts	-	(162,131)	(162,131)
Balance at end of year	₱46,552,996	₱18,559,434	₱65,112,430

8. Inventories

This account consists of:

	SEPT 2020	DEC 2019
Real estate:		
Memorial lots for sale - at net realizable value	₱6,489,904	₱6,489,904
Gamefowls - at cost	3,505,500	2,024,000
Food and beverages - at cost	573,824	590,618
	₱10,569,228	₱9,104,522

Condominium units for sale and residential units for sale pertain to the completed condominium and residential projects of the Parent Company.

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

	SEPT 2020	DEC 2019
Balance at beginning of year	₱6,489,904	₱51,343,992
Repossessed real estate inventories	-	9,668,688
Transfers to investment property (Note 12)	-	(52,215,354)
Cost of real estate sold (Note 17)	-	(2,307,422)
Balance at end of period	₱6,489,904	₱6,489,904

Repossessed real estate inventories pertain to sales cancellations due to buyers' default in payment. These are recorded at fair value less cost to sell and cost to complete at the time of transfer and are held for sale in the ordinary course of business.

No sale from memorial lots as of September 30, 2020. The cost of memorial lots for sale as at September 30, 2020 and December 31, 2019 amounted to ₱6.5 million.

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

Significant provisions of the agreements are discussed below.

Condominium units for sale

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

Towers 1 to 5 of Avida and Towers 1 to 3 of Alveo are fully completed as of December 31, 2019.

Residential units for sale

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

Marketing expense, presented as "Selling expense" in the consolidated statements of comprehensive income, is the share of the Parent Company in the marketing cost pertaining to real estate operations. The amount of marketing cost for the periods ended September 30, 2020 and 2019 amounted to nil.

Gamefowls

The movements in the gamefowls inventory account are as follows:

	SEPT 2020	DEC 2019
Balance at beginning of year	₱2,024,000	₱2,448,000
Purchases	17,549,830	107,430,972
Cost of gamefowls used (Note 17)	(16,068,330)	(107,854,972)
Balance at end of period	₱3,505,500	₱2,024,000

9. Other Current Assets

This account consists of:

	SEPT 2020	DEC 2019
Input VAT	42,551,121	₱12,773,224
Prepaid expenses	17,658,599	12,512,859
Deposit	224,206	130,000
Others	19,289	711,687
	₱60,453,215	₱26,127,770

Prepaid expenses include prepayments made for insurance, licenses, employee health benefits and professional fees.

Others include fuel and oil.

10. Investments in and Advances to Associates and Joint Ventures

This account consists of:

	SEPT 2020	DEC 2019
Cost	₱2,312,510,445	₱2,312,510,445
Equity in net losses of associates and joint ventures		
Beginning balance	(601,336,998)	(417,690,108)
Equity in net losses during the period	(96,317,637)	(114,568,044)
Share on dividends declared	-	(48,770,708)
Derecognition of equity in joint venture	-	(20,308,138)
	(697,654,635)	(601,336,998)
	1,614,855,810	1,711,173,447
Advances to an associate	321,233,646	321,233,646
	₱1,936,089,456	₱2,032,407,093

	SEPT 2020	DEC 2019
Investment in associates		
MIC	₱1,605,063,649	₱1,701,381,286
	1,605,063,649	1,701,381,286
Investment in joint ventures		
Gamespan	9,792,161	9,792,161
	9,792,161	9,792,161
	1,614,855,810	1,711,173,447
Advances to an associate	321,233,646	321,233,646
	₱1,936,089,456	₱2,032,407,093

Investment in and Advances to Associates

MIC. Investment in MIC pertains to the Group's 22.31% interest in MIC as of September 30, 2020 and December 31, 2019. MIC started its commercial operations on January 6, 2016. The movements and details of the accounts are as follows:

	SEPT 2020	DEC 2019
Investment in associate	₱1,701,381,286	₱1,844,622,146
Equity in net losses of the associate	(96,317,637)	(143,240,860)
	1,605,063,649	1,701,381,286
Advances to an associate	321,233,646	321,233,646
	₱1,926,297,295	₱2,022,614,932

Advances to MIC pertains to deposit for future stock subscriptions.

The summarized financial information of MIC is as follows:

	SEPT 2020	DEC 2019
Current assets	₱409,473,605	₱497,491,866
Noncurrent assets	5,385,983,745	5,599,362,854
Current liabilities	705,280,284	726,519,308
Noncurrent liabilities	5,123,553,476	4,971,957,402
Equity	(33,376,410)	398,378,010
Income	197,432,913	758,808,720
Expenses	629,854,859	1,400,901,652
Net loss	(431,754,420)	642,092,932

The difference between the carrying values of investment in MIC against the share in net asset of MIC as of December 31, 2019 represents goodwill amounting to ₱1.6 billion. Fair value of the investment in MIC as of December 31, 2019 amounted to ₱2.3 billion.

On April 12, 2018, the BOD of MIC approved the conduct of a stock rights offering in order to raise additional capital. The total number of shares to be issued is 1,587,202,910 common shares and the stock offer price shall be ₱1.00 per share. The entitlement ratio shall be one (1) rights share for every two (2) common shares held as of record date.

On September 17, 2018, the BOD approved the offer price for the rights shall be ₱1.00 per rights share, if paid in full upon submission of the application to subscribe and ₱2.00 per right share, if paid on installment basis. As of July 15, 2020, the stock rights offering is still pending for approval of SEC.

Status of Operations

On March 15, 2020, in response to the directive of the Philippine government to impose stringent social distancing measures in the National Capital Region to contain the spread of COVID-19, PAGCOR issued a memorandum to suspend the all gaming operations in Metro Manila until the end of the community quarantine. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed community quarantine, which resulted to the temporary suspension of the hotel and casino operations. On June 7, 2020, the hotel resumed its operations after receiving the approval from the Department of Tourism.

Techsystems. The investment in associate, Techsystems, pertains to the acquisition cost of ₱1.0 million representing 33.33% ownership of the Parent Company. Techsystems undertakes to facilitate the short message service betting or online betting for the races conducted by the Parent Company. The investment in Techsystems is fully provided with allowance. As of November 13, 2020, Techsystems has not yet started commercial operations.

The summarized financial information of Techsystems is as follows:

	SEPT 2020	DEC 2019
Total liabilities	₱5,184,317	₱5,184,317
Capital deficiency	(5,184,317)	(5,184,317)

Investment in Joint Ventures

Gamespan. Gamespan was incorporated on June 20, 2012 to operate and manage the totalizator hardware and software owned by the Parent Company, set-up new media infrastructure for offering and taking bets in horse racing and other sports. It shall also have the exclusive broadcast rights to all the races and other games operated by the Parent Company which it may distribute to different broadcasters to maximize viewership and participation. As of November 13, 2020, Gamespan has not yet started its commercial operations.

Reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is as follow:

	SEPT 2020	DEC 2019
Current assets	₱20,184,979	₱20,184,979
Noncurrent assets	29,167	29,167
Current liabilities	(629,824)	(629,824)
Equity	19,584,322	19,584,322
Percentage of ownership	50%	50%
	₱9,792,161	₱9,792,161

Equity investment in joint venture in Gamespan amounted to ₱9.8 million as of September 30, 2020 and December 31, 2019. Equity in net earnings amounted to nil for periods ending September 30, 2020 and 2019.

SLBPO. On December 12, 2008, the Parent Company entered into a Joint Venture Agreement (JVA) with ALI to create SLBPO, an unincorporated entity, for the purpose of leasing, managing and administering the developed office units and retail development area in the building complex at the Sta. Cruz property (the Building Complex). The Building Complex was also constructed and developed under a JDA with ALI. The Building Complex was thereafter named “Vertex One”.

In September 2019, the Parent Company acquired from ALI, developed office units and parking lots and ALI's equity interest in SLBPO for a total consideration of P511.7 million, excluding applicable taxes. This resulted in the Parent Company owning 100% of Vertex One. In connection with acquisition, ALI assigned, transferred and conveyed all its rights, interest and obligations in certain lease and service contracts which it has entered into with certain office tenants and service providers in connection with its obligation under the JVA with respect to the management and leasing operation of the building. On the same date, ALI, with the conformity of the Parent Company, assigned its rights under the JVA in favor of SLLPHI, including, the right (i) to manage, market and lease the developed office units, retail units, and parking slots, of Vertex One, and (ii) to manage the funds of SLBPO.

The Parent Company and SLLPHI, as assignee-in-interest ALI to SLBPO, agreed to continue the unincorporated joint venture. SLLPHI shall act as property manager of Vertex One. On the same date, the Parent Company and SLLPHI amended the division of net rental income from leasing the developed office units in Vertex One by SLBPO for a more equitable distribution of net income of the JV, proportionate to and taking into account SLLPHI's contribution. The net rental income from leasing out the developed office units by SLBPO shall be divided between the Parent Company and SLLPHI as dividends, on the basis of the following percentages: Parent Company – 90%, SLLPHI – 10%.

Effective October 1, 2019, SLBPO is a wholly owned subsidiary of the Group.

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

	SEPT 2020	SEPT 2019
MIC	(P96,317,637)	P-
SLBPO	-	27,548,375
	(P96,317,637)	P27,548,375

11. Property and Equipment

Movements in this account are as follows:

<u>SEPT 2020</u>	January 1	Effect of PFRS 16	Additions	Disposals	Reclassifications and adjustments	Sept 2020
Cost						
Land	P304,869,383	P-	P-	P-	P-	P304,869,383
Land improvements	363,389,437	-	1,405,940	-	-	364,795,377
Building and improvements	683,012,552	-	4,680,342	-	-	687,692,894
Machinery and equipment	612,236,260	-	10,122,052	-	-	622,358,312
Transportation equipment	74,815,266	-	-	-	(9,614,951)	65,200,315
Furniture and fixtures	33,743,390	-	-	-	(2,196,467)	31,546,923
Right-of-use assets	36,417,492	-	-	-	-	36,417,492
	2,108,483,780	-	16,208,334	-	(11,811,418)	2,112,880,695
Accumulated depreciation						
Land improvements	228,133,126	-	13,107,431	-	-	241,240,557
Building and improvements	427,118,713	-	34,662,835	-	-	461,781,548
Machinery and equipment	537,085,331	-	11,420,179	-	-	548,505,510
Transportation equipment	39,911,118	-	8,872,697	-	-	48,783,815
Furniture and fixtures	29,314,764	-	1,085,328	-	-	30,400,092
Right-of-use assets	11,343,354	8,537,247	-	-	-	19,880,601
	1,272,906,406	8,537,247	69,148,470	-	-	1,350,592,123
Net book value	835,577,374	(8,537,247)	(52,940,136)	-	(11,811,418)	762,288,573
Construction in progress	19,426,750	-	20,930,540	-	-	40,357,290
	855,004,124	(8,537,247)	(32,009,596)	-	(11,811,418)	802,645,863
Allowance for impairment	(14,637,381)	-	-	-	-	14,637,381
	P840,366,743	(P8,537,247)	(P32,009,596)	P-	(P11,811,418)	P788,008,481

DEC 2019

	January 1	Effect of PFRS 16 (see Note 3)	Additions/ Effect of PFRS 3 (see Note 15)	Disposals	Reclassifications and adjustments	December 31
Cost						
Land	₱304,869,383	₱-	₱-	₱-	₱-	₱304,869,383
Land improvements	349,904,869	-	-	-	13,484,568	363,389,437
Building and improvements	672,282,229	-	10,730,323	-	-	683,012,552
Machinery and equipment	581,148,687	-	31,161,127	(73,554)	-	612,236,260
Transportation equipment	45,034,816	-	30,480,450	(700,000)	-	74,815,266
Furniture and fixtures	33,198,923	-	544,467	-	-	33,743,390
Right-of-use assets	-	36,417,492	-	-	-	36,417,492
	1,986,438,907	36,417,492	72,916,367	(773,554)	13,484,568	2,108,483,780
Accumulated depreciation						
Land improvements	212,920,601	-	15,212,525	-	-	228,133,126
Building and improvements	399,801,330	-	27,317,383	-	-	427,118,713
Machinery and equipment	511,291,037	-	25,847,416	(53,122)	-	537,085,331
Transportation equipment	33,336,500	-	6,901,285	(326,667)	-	39,911,118
Furniture and fixtures	27,352,759	-	1,962,005	-	-	29,314,764
Right-of-use assets	-	-	11,343,354	-	-	11,343,354
	1,184,702,227	-	88,583,968	(379,789)	-	1,272,906,406
Net book value	801,736,680	36,417,492	(4,324,247)	(393,765)	13,484,568	835,577,374
Construction in progress	30,045,780	-	2,865,538	-	(13,484,568)	19,426,750
	831,782,460	36,417,492	(1,458,709)	(393,765)	-	855,004,124
Allowance for impairment	-	-	(14,637,381)	-	-	(14,637,381)
	₱831,782,460	₱36,417,492	(₱16,096,090)	(₱393,765)	₱-	₱840,366,743

Depreciation Charges

The amount of depreciation is allocated as follows:

	SEPT 2020	SEPT 2019
Cost of sales and services (Notes 17)	₱55,735,486	₱50,829,199
General and administrative expenses (Notes 19)	20,445,749	14,577,229
	₱76,181,235	₱65,406,428

Capitalized Borrowing Costs

No interest on loans was capitalized in 2020 and 2019. Undepreciated capitalized interest relating to land improvements, building and improvements and machinery and equipment as of September 30, 2020 and December 31, 2019 amounted to ₱26.9 million.

Land

In 2001, the Parent Company acquired a parcel of land located in Carmona, Cavite from Royal Asia Land, Inc. (RALI), formerly known as KPPI Land Corporation, valued at ₱523.6 million payables in 12 equal quarterly installments from 2001 to 2004. The remaining installment payments due in 2004 were rescheduled as part of the requirements of the term loan obtained from a local bank. Total payments made by the Parent Company amounted to ₱433.7 million. No payments were made in 2020 and 2019. The outstanding balance of ₱89.9 million as of September 30, 2020 and December 31, 2019 is included under "Accounts payable and other liabilities" in the consolidated statements of financial position (see Note 15).

Assets Under Operating Lease – the Parent Company as Lessor

The Parent Company has various operating lease agreements for its building improvements, specifically, cluster stables, with horse owners. The lease agreements provide for fixed monthly payments which are subject to rental escalations and renewal options. The carrying value of the cluster stables that are leased out on these operating leases amounted to ₱20.08 million and ₱21.3 million as of September 30, 2020 and December 31, 2019, respectively. Rent income from stable

rentals for the periods ended September 30, 2020 and 2019 amounted to ₱24.19 million and ₱31.5 million, respectively.

The Parent Company has various operating lease agreements with concessionaires to lease certain areas within the Turf Club. The lease shall be for a period of two to five years. Rent income from concessionaires amounted to ₱0.2 million and ₱0.4 million for the periods ended September 30, 2020 and 2019, respectively.

Impairment

Management has determined that certain land improvements, that was supposed to generate new cash inflow for the Group did not materialize, therefore, the Group will not be able to recover the costs of construction. As a result, the Group recognized an allowance for impairment amounting to ₱14.6 million in 2020 and 2019.

12. Investment Properties

This account consists of:

	SEPT 2020	DEC 2019
Land:		
Sta. Cruz property held for capital appreciation	₱397,821,478	₱397,821,478
Sta. Cruz property held for lease	238,168,692	238,168,692
Mamburao property	151,776,158	136,435,767
Carmona property held for capital appreciation	111,783,131	111,783,131
Undivided interest in a parcel of land in Batangas	56,723,976	56,723,976
	956,273,435	940,933,044
Building:		
Developed office units	611,419,980	641,737,853
Retail development area	26,497,068	27,998,224
Condominium units	11,414,243	11,953,133
	649,331,291	681,689,210
	₱1,605,604,726	₱1,622,622,254

The movements in the carrying amount of investment properties are shown below:

	SEPT 2020		
	Land	Building	Total
Cost			
Balance at beginning of year	₱940,363,044	₱816,703,839	₱1,757,636,883
Additions	15,340,391	-	15,340,391
Transfers from inventory	-	-	-
Balance at end of year	956,273,435	816,703,839	1,772,977,274
Accumulated Depreciation			
Balance at beginning of year	-	135,014,629	135,014,629
Depreciation	-	32,357,919	32,357,919
Balance at end of period	-	167,372,548	167,372,548
Net Book Value	₱956,273,435	₱649,331,291	₱1,605,604,726

	DEC 2019		
	Land	Building	Total
Cost			
Balance at beginning of year	₱892,705,490	₱316,205,945	₱1,208,911,435
Additions	8,005,310	488,504,784	496,510,094
Transfers from inventory (Note 8)	40,222,244	11,993,110	52,215,354
Balance at end of year	940,933,044	816,703,839	1,757,636,883
Accumulated Depreciation			
Balance at beginning of year	–	114,155,522	114,155,522
Depreciation (Notes 16 and 18)	–	20,859,107	20,859,107
Balance at end of year	–	135,014,629	135,014,629
Net Book Value	₱940,363,044	₱681,689,210	₱1,622,622,254

In 2019, the Parent Company acquired long-term loan amounting to ₱315.0 million. The loan is secured by land and building of Vertex One located in Sta. Cruz, Manila with a fair value of ₱1.8 billion as of December 31, 2019.

Fair Market Values

As of December 31, 2019, the aggregate fair value of the Parent Company's investment properties amounted to ₱12.7 billion. Fair values of the Carmona property and Sta. Cruz properties as of February 21 and 14, 2020 and the building as of September 30, 2019 have been determined based on valuation performed by Philippine SEC-accredited and independent professional appraisers using replacement cost approach method and market data approach method. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2019 from the most recent revaluations performed by independent appraisers.

As of December 31, 2019, the fair value of the Mamburao property amounted to ₱175.6 million. Fair values of the land as of July 25, 2019 have been determined based on valuation performed by Philippine SEC-accredited and independent professional appraisers using replacement cost approach method and market data approach method. Management has assessed that there are no material changes in fair value on these investment properties as of December 31, 2019 from the most recent revaluations performed by independent appraisers.

13. Other Noncurrent Assets

This account consists of:

	SEPT 2020	DEC 2019
Financial assets at FVOCI:		
Debt securities	₱85,327,727	₱65,573,299
Quoted equity securities	16,661,437	16,415,865
Deferred input VAT	17,126,445	58,079,891
Deposits	13,412,630	13,353,912
Franchise fee (Note 1)	4,069,339	5,414,839
Software	1,343,750	2,150,000
Others	312,318	236,428
	₱138,253,646	₱161,224,234

Financial Assets at FVOCI

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

	SEPT 2020	DEC 2019
Balance at beginning of year	₱81,989,164	₱34,284,796
Additions during the period	20,000,000	48,000,000
DTL – net	–	64,373
Disposal during the period	–	–
Unrealized mark-to-market gains (losses) during the period	–	(360,005)
Balance at end of period	₱101,989,164	₱81,989,164

The movements in net cumulative changes in fair values of financial assets at FVOCI are as follows:

	SEPT 2020	DEC 2019
Balance at beginning of year	₱4,260,960	₱4,620,965
Disposal during the period	–	–
Unrealized market-to-market gains (losses) during the period	–	(360,005)
Balance at end of period	₱4,260,960	₱4,260,960

Franchise Fee

Movements in the carrying amounts of franchise fee are shown below:

	SEPT 2020	DEC 2019
Acquisition cost	₱44,850,000	₱44,850,000
Accumulated amortization:		
Balance at beginning of year	39,435,161	35,641,161
Amortization for the year (Note 17)	1,345,500	1,794,000
Balance at end of period	40,780,661	39,435,161
	₱4,069,339	₱5,414,839

Franchise fee is to be amortized until November 2022.

Software

Movements in the carrying amount of the software are shown below:

	SEPT 2020	DEC 2019
Acquisition cost:	₱3,225,000	₱3,225,000
Accumulated amortization		
Balance at beginning of the year	1,075,000	–
Amortization for the period	806,250	1,075,000
Balance as at end of period	1,881,250	1,075,000
	₱1,343,750	₱2,150,000

14. Short-term and Long-term Loans and Borrowings

Short-term Loans

The outstanding balance of short-term loans and borrowings was fully paid in 2019.

Long-term Loan

In 2019, the Parent Company acquired five (5) year long-term loan amounting to ₱315.0 million maturing on September 2024. This loan is payable in equal monthly installments. The Parent Company has an option to shift from a floating rate every quarter to a fixed interest rate within two years from the availment date of the loan. The loan is secured by land and building of Vertex One located in Sta. Cruz, Manila with carrying value ₱1.0 million and fair value of ₱1.8 billion as of December 31, 2019.

The movements in long-term loans and borrowing is as follows:

	SEPT 2020	DEC 2019
Balance at beginning of year	₱299,250,000	₱315,000,000
Payment during the period	(57,500,000)	(15,750,000)
	241,750,000	299,250,000
Less current portion	63,000,000	63,000,000
Noncurrent portion	₱178,750,000	₱236,250,000

On March 19, 2020, the Parent Company exercised the option to fix the interest rate at 6.02%.

On September 19, 2020, the Parent Company was able to negotiate for a lower interest rate.

Interest expense on bank loans amounted to ₱12.21 million and ₱9.66 million for the periods ended September 30, 2020 and 2019, respectively.

15. Accounts Payable and Other Liabilities

This account consists of:

	SEPT 2020	DEC 2019
Due to RALI (Note 11)	₱89,900,000	₱89,900,000
Accounts payable	48,914,400	145,444,634
Accrued expenses	32,224,766	24,361,293
Cash bond on OTB/OCB operators	28,381,523	36,290,998
Unclaimed winnings	19,961,708	23,875,777
Rental deposits	15,287,458	15,041,923
Trade payables and buyers' deposits	6,611,347	5,344,843
Dividends payable (Note 27)	5,972,792	5,974,351
Lease liabilities - current portion	3,007,739	10,383,879
Retention payable	2,167,811	1,978,343
Due to contractors	1,683,538	1,683,538
Telebet accounts payable	1,119,923	1,581,718
Due to OTB/OCB operators	810,459	1,554,546
Withholding taxes payable	468,899	7,943,421
Documentary stamps payable	362,647	37,700,364
Due to winning horse owners	95,535	2,962,508
Percentage tax payable	-	72,920,022
Unearned income	-	4,050,481
Taxes on winnings	-	4,077,659
Others	20,819,195	14,548,837
	₱278,627,488	₱507,619,135

Accounts payable and other liabilities are noninterest-bearing and are normally settled within the next financial year.

Cash bond on OTB/OCB operators serves as security deposits received by the Group from OTB/OCB operators at the inception of the operation. These are refunded to OTB/OCB operators upon termination of the OTB/OCB operations. Due to OTB/OCB operators are unpaid commissions to the operators that are settled within the next operating cycle.

16. Other Noncurrent Liabilities

This account consists of:

	SEPT 2020	DEC 2019
Accrued retirement benefits (Note 21)	₱72,828,767	₱64,128,767
Security deposit	41,650,845	46,914,903
Lease liabilities - net of current portion	16,846,389	16,846,389
Others	20,552,755	15,590,908
	₱151,878,756	₱143,480,967

Security deposit pertains to the security deposit from tenants of the Group's leased properties.

17. Cost of Sales and Services

Cost of club races consists of:

	SEPT 2020	SEPT 2019
Depreciation	₱30,165,745	₱30,608,148
Personnel costs	19,263,768	43,583,458
Utilities	5,435,778	16,609,596
Contracted services	1,647,156	4,126,369
Commission	1,446,503	6,674,930
Transportation and travel	1,352,670	1,305,675
Amortization of franchise fee	1,345,500	1,345,500
Supplies	1,305,964	932,860
Security services	1,148,163	1,961,907
Rent	848,855	3,215,883
Repairs and maintenance	670,714	2,930,053
Taxes and licenses	664,573	865,684
Software license	506,800	519,100
Prizes and winnings	300,000	1,700,000
Gas, fuel and oil	318,840	450,664
Meetings and conferences	302,074	1,624,992
Others	4,137,573	3,237,482
	₱ 70,860,676	₱121,692,301

Cost of real estate sold amounted to nil and ₱0.4 million for the period ended September 30, 2020 and 2019, respectively.

Cost of cockfighting consists of:

	SEPT 2020	SEPT 2019
Percentage tax	₱42,288,001	₱184,590,066
Taxes and licenses	39,051,379	2,660,292
Breeder's subsidy	38,018,748	109,284,751
Commission	29,489,575	96,746,278
Gamefowls	16,068,330	82,470,120
Service fee	8,162,000	22,216,636
Contracted services	7,359,893	-
Depreciation	6,299,354	3,613,516
Tellers allowances	5,896,550	21,238,472
Rent	4,736,020	17,756,271
Meetings and conferences	3,344,687	3,673,234
Communication	2,815,814	7,768,920
Supplies	2,678,057	8,797,123
Security services	1,637,954	3,219,232
Professional fees	1,379,270	7,070,323
Repairs and maintenance	978,966	3,586,470
Transportation and travel	969,154	4,892,536
Personnel costs	552,748	-
Utilities	455,079	-
Gas, fuel and oil	231,795	2,277,284
Others	3,236,499	14,290,236
	₱ 215,649,873	₱596,151,760

Cost of rental services consists of:

	SEPT 2020	SEPT 2019
Utilities	₱30,245,886	₱9,022,060
Depreciation	19,085,219	16,410,248
Security services	6,201,298	1,601,922
Repairs and maintenance	4,980,744	1,069,460
Taxes and licenses	2,933,124	-
Contracted services	2,611,940	2,834,537
Personnel costs	2,117,764	2,986,742
Advertising	350,636	-
Rent	226,885	433,397
Franchise tax – gaming	219,830	435,864
Meetings and conferences	150,608	335,954
Software license	63,240	904,870
Others	3,505,494	1,119,248
	₱72,692,668	₱37,154,302

Cost of food and beverages consists of:

	SEPT 2020	SEPT 2019
Purchased stocks	₱ 3,850,366	₱11,431,993
Personnel costs	1,730,910	2,199,191
Utilities	1,109,756	4,351,819
Repairs and maintenance	275,895	88,401
Meetings and conferences	219,962	702,121

	SEPT 2020	SEPT 2019
Depreciation	185,168	197,287
Contracted services	150,756	1,467,343
Supplies	65,618	185,123
Communication	56,451	-
Rent	27,654	10,096
Others	475,651	458,885
	₱8,148,187	₱21,092,259

18. General and Administrative Expenses

This account consists of:

	SEPT 2020	SEPT 2019
Personnel costs	₱72,628,995	₱75,310,282
Depreciation	52,803,668	14,577,229
Taxes and licenses	11,935,069	31,244,402
Professional fees	9,768,814	15,611,635
Repairs and maintenance	8,000,267	5,174,392
Utilities	6,904,898	8,422,367
Security services	6,735,384	7,342,466
Service fee	3,934,066	8,341,778
Director's fee	3,824,960	6,533,471
Rent	2,971,394	9,270,794
Meetings and conferences	2,611,650	5,690,104
Contracted services	2,075,141	10,600,090
Gas, fuel and oil	1,824,500	2,281,635
Transportation and travel	1,460,847	2,194,026
Insurance	960,871	529,735
Supplies	929,674	1,780,615
Membership dues	668,277	685,620
Advertising	518,820	1,455,652
Semi-expendable equipment	101,380	381,110
Seminars and trainings	56,349	136,543
Others	4,442,875	7,407,305
	₱ 195,157,899	₱214,971,248

19. Depreciation and amortization

This account consists of:

	SEPT 2020	SEPT 2019
Cost of sales and services (Notes 11 and 17)	₱55,735,486	₱50,829,199
General and administrative expenses (Notes 11, 12 and 18)	52,803,668	14,577,229
	₱108,539,154	₱65,406,428

20. Personnel Costs

This account consists of:

	SEPT 2020	SEPT 2019
Salaries and wages	₱66,443,716	₱100,461,259
Retirement benefits costs (Note 21)	21,037,133	10,593,062
Other employee benefits	8,813,336	13,658,594
	₱96,294,185	₱124,712,914

21. Retirement Benefits Costs

The Group has five tax-qualified, funded, noncontributory retirement plans covering both regular permanent and race day operation employees. The retirement plans provide for benefits on retirement, death and disability equivalent to a certain percentage of salary for every year of service based on the final monthly salary of the employee at the time of retirement, death or disability. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The latest actuarial valuation report as of December 31, 2019.

Movements in the accrued retirement benefits are as follows:

	SEPT 2020	DEC 2019
Balance at beginning of year	₱64,128,767	₱55,944,377
Net retirement benefits costs for the period	20,437,133	12,347,094
Contributions during the period	(11,550,000)	(9,446,992)
Defined benefit income recognized in OCI	-	5,292,859
Benefits paid from book reserves	(187,133)	(8,571)
Balance at end of period	₱72,828,767	₱64,128,767

22. Interest Income

Interest income related to:

	SEPT 2020	SEPT 2019
Cash and cash equivalents (Note 6)	₱1,066,119	₱2,073,304
Real estate receivables (Note 7)	79,785	2,652,385
Advances and loans to officers and employees (Note 7)	33,304	581,012
	₱1,179,208	₱5,306,701

23. Finance Costs

This account consists of:

	SEPT 2020	SEPT 2019
Interest expense on long-term loans (Note 14)	₱12,214,366	₱-
Interest expense on short-term loans (Note 14)	-	9,655,741
Interest expense on lease liabilities	1,335,501	-
Bank charges and others	24,862	28,047
	₱13,574,729	₱9,683,788

24. Other Income (Charges) - net

	SEPT 2020	SEPT 2019
Income from use of property and facilities	₱3,995,351	₱5,353,290
Tenant recoveries	4,234,592	3,158,161
Income from dividend breakages	404,784	501,167
Income from advertising	662,314	8,398,859
Income from subscriptions	1,080,637	1,206,507
Entrance/rehearsal fees	-	340,500
Dividend from financial assets	86,096	108,000
Foreign exchange gain (loss)	9,355	(83,314)
Income from third parties	-	623,606
Others	1,437,376	2,182,090
	₱11,910,505	₱21,788,866

Income from advertising campaign pertains to advertising placement rights granted by the Group to third parties. Others include various individually insignificant items of income and expenses.

25. Income Taxes

The provision for current tax consists of the following:

	SEPT 2020	SEPT 2019
RCIT	₱27,804,685	₱66,420,228
MCIT	725,045	-
Final tax on interest income	211,347	413,363
	₱28,741,077	₱66,833,592

26. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders. Outstanding balances are settled through cash.

During the special stockholders' meeting held on December 7, 2018, the stockholders approved the declaration of 50% stock dividends from the Parent Company's unrestricted retained earnings for the period ended December 31, 2017, to be taken from an increase in the Parent Company's authorized capital stock.

On May 3, 2019, the SEC approved the increase in the authorized capital stock and the declaration of the 50% stock dividends amounting to ₱498.1 million.

Retained Earnings

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2019 amounted to ₱632.9 million, respectively.

Retained earnings account is restricted for the payment of dividends to the extent of the cost of shares held in treasury and deemed cost adjustment totaling ₱428.1 million as of December 31, 2019.

Declaration of Dividends

The following are the details of the dividends declared in 2019 and 2018:

Type of Dividend	Date of Declaration	Date of Record	Dividends per Share
Cash	April 12, 2018	May 28, 2018	₱0.05
Stock	December 7, 2018	May 17, 2019	50.00%

As of September 30, 2020, and December 31, 2019, outstanding dividends payable amounted to ₱6.0 million.

During the special stockholders' meeting held on December 7, 2018, the stockholders approved the declaration of 50% stock dividends from the Parent Company's unrestricted retained earnings for the period ended December 31, 2017, to be taken from an increase in the Parent Company's authorized capital stock. On May 3, 2019, the SEC approved the declaration of the 50% stock dividends amounting to ₱498.1 million.

28. Basic/Diluted EPS

Basic/diluted loss per share were computed as follows:

	SEPT 2020	DEC 2019
Net income (loss) attributable to equity holders of the Parent Company	(₱169,321,986)	₱36,409,034
Divided by weighted average number of outstanding common shares	1,494,251,136	1,494,251,136
Basic/diluted income (loss) per share	(₱0.1133)	₱0.0244
Common shares outstanding at beginning of the year	1,494,251,136	996,170,748
Effect of stock dividends in 2019	-	498,080,388
Number of outstanding common shares	1,494,251,136	1,494,251,136

The Parent Company does not have potential dilutive common shares as of September 30, 2020 and December 31, 2019. Therefore, the basic and diluted loss per share are the same as of those dates.

29. Operating Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided. The Group's five reportable operating segments are the operation and maintenance of race tracks and holding of horse races, cockfighting operations, the development and sale of real estate properties, rental of stables, building and other facilities, and the food and beverage services provided in its casino and restaurant. No operating segments were aggregated to form these reportable operating segments. There have been no inter-segment sales and transfers. All sales and rendering of services are made to external customers and the Group does not have any major customers.

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

The Group's asset-producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Segment Revenue and Expenses

The segment results for periods ended September 30, 2020 and 2019 are as follows:

	SEPT 2020						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	₱21,507,094	₱234,933,338	₱-	₱250,749,272	₱7,656,573	(₱75,450,370)	₱439,395,907
Cost and expenses	(70,860,676)	(215,649,873)	-	(72,692,668)	(8,148,187)	(213,946,304)	(581,297,708)
Income (loss) before income tax	(49,353,582)	19,283,465	-	178,056,604	(491,614)	(289,396,674)	(141,901,801)
Provision for income tax	-	-	-	-	-	(28,741,077)	(28,741,077)
Net income (loss)	(₱49,353,582)	₱19,283,465	₱-	₱178,056,604	(₱491,614)	(₱318,137,751)	(₱170,642,878)

	SEPT 2019						
	Club Races	Cockfighting	Real Estate	Rent	Food and Beverage	Unallocated	Total
Segment revenue	93,495,365	1,025,498,704	8,266,023	56,929,353	18,761,579	(39,357,377)	1,163,593,647
Cost and expenses	(121,692,301)	(596,151,760)	(724,582)	(37,154,302)	(21,092,259)	(242,456,479)	(1,019,271,683)
Income (loss) before income tax	(28,196,936)	429,346,944	7,541,441	19,775,051	(2,330,680)	(281,813,856)	144,321,964
Provision for income Tax	-	(56,424,792)	-	-	-	(10,408,800)	(66,833,592)
Net income (loss)	(28,196,936)	372,922,152	7,541,441	19,775,051	(2,330,680)	(292,222,656)	77,488,372

Finance costs, other income - net and provision for income taxes are not allocated to individual segments as the underlying instruments are managed on a group basis and are not provided to the chief operating decision maker at the operating segment level in 2020 and 2019. Equity in net losses of associates and joint ventures amounting to ₱96.3 million and ₱66.4 million for the period ended September 30, 2020 and 2019, respectively, are included in the segment revenue of operating segment "Unallocated." Pre-operating cost of certain subsidiaries are also included in cost and expense of operating segment "Unallocated".

30. Commitments and Contingencies

Commitments

The following are the significant commitments of the Group:

a. Right-of-Use Assets and Lease Liabilities/Operating Lease

The Group as Lessee

The Group has lease contracts for the office space and parking lots. Leases of property generally have lease terms of 5 years. The Parent Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Parent Company is restricted from assigning and subleasing the leased assets and some contracts require the Parent Company to maintain certain financial ratios.

The Group as Lessee - Operating Lease

On December 31, 2017, the Parent Company renewed its lease agreement with AMDC, an affiliate under common control, for the lease of office space and four parking lots. The lease is for a period of five years starting January 1, 2018 to December 31, 2022. The monthly rate of the lease amounted to ₱545,671 subject to an annual escalation rate of 5.0%.

On January 1, 2011, the Parent Company entered into another lease agreement with AMDC for another office space. The lease is for the period of five years starting 2011 and has ended on December 31, 2015. The contract was renewed for another five years from January 1, 2016 to December 31, 2020. The monthly rate of the lease for 2019 is ₱332,297 subject to an annual escalation rate of 5.0%.

b. Operating Lease Commitment with PAGCOR - the Parent Company as Lessor

In 2013, the Parent Company entered into a lease contract for three years commencing July 10, 2013 with PAGCOR to lease an area of 189.231 sqm. for a monthly fixed rental of ₱510.51 per sqm. for its casino and related activities. The agreement expired on June 30, 2016. In January 2019, the Parent Company renewed the lease agreement for a period of three (3) years.

Rent income from PAGCOR amounted to ₱0.2 million and ₱0.8 million for the periods ended September 30, 2020 and 2019, respectively.

c. In October 2013, the Parent Company entered into a lease agreement with PAGCOR to lease 1,427 sqm. property, with modern slot machines, including the rights to a proprietary system of linking and networking the said slot machines in Turf Club Bldg., San Lazaro Leisure Park, Carmona, Cavite. The Parent Company shall receive monthly variable rent equivalent to thirty-five percent (35%) of revenues less winnings/prizes and five (5%) franchise tax. The agreement expired on June 30, 2016. In May 2018, the Parent Company renewed the lease agreement with PAGCOR for five (5) years until May 2023.

Income from lease agreement with PAGCOR amounted to ₱4.4 million and ₱8.7 million for the periods ended September 30, 2020 and 2019, respectively.

d. In April 2018, the Parent Company entered into an agreement with Jade Entertainment and Gaming Technologies, Inc., where the latter shall supply, install, commission, conduct and provide marketing for Casino, including but not limited to, food and beverages, entertainment, promotions, consumables for membership station. In addition, the latter shall provide and maintain the floor

management system to the machines. The Parent Company shall pay USD\$1.00 per day per machine for all machined connected to the system.

- e. On May 1, 2018, the Parent Company entered into a lease agreement with Datem Inc. to lease an area of 16,719 sqm. in Sta. Cruz, Manila for a monthly fixed rental of ₱150,000, exclusive of VAT. On January 1, 2019, the lease agreement is renewed for another nine (9) months. The agreement was not renewed after it expired. Income recognized for the period ended September 30, 2020 and 2019 amounted to nil and ₱1.1 million, respectively.
- f. In 2018, the Parent Company entered into various lease agreements for one year to lease condominium units in Alveo and Avida for a monthly fixed rental of ₱24,000 - ₱25,000 inclusive of VAT. The lease agreements are renewable for another one (1) year upon mutual agreements of both parties. Income recognized for the period ended September 30, 2020 and 2019 amounted to nil and ₱0.7 million, respectively.
- g. Memorandum of Agreement with AKL Properties, Inc. (AKL)

On July 16, 2019, a memorandum of agreement has been executed between the Parent Company and AKL Properties, Inc. (AKL) to purchase the Parent Company's land properties located in Carmona, Cavite with 608,712 sqm., for the purpose of developing it into a mixed-used township project with complementary uses. This excludes the MJC Turf Club Building with 36,000 sqm. where the Parent Company shall retain its ownership. The Parent Company agrees to vacate the land properties no later than three (3) years from the signing of the agreement or the expiration of the congressional franchise on November 23, 2022 whichever is later, subject to a phase-out plan acceptable to AKL. If the agreement is terminated, the advances shall be paid within 90 days from the termination date.

On September 13, 2019, the Parent Company received advances from AKL amounting to ₱500.0 million and is presented as part of "Advances from third parties" account in the consolidated statements of financial position. These advances are subject to liquidation in 2022.

- h. Memorandum of Agreement with Wisem Global Inc. (WGI) and SymVerse Inc. (SVI)

On October 29, 2019, a memorandum of agreement has been executed between the WGI, SVI, the Parent Company and MCI to deliver to WGI and SVI the content in accordance with their specifications and in such format as agreed between the parties, to enable WGI and SVI to create, develop and deliver a betting platform on or before the delivery date. In accordance with the contract, the Parent Company and MCI will share in the revenue derived from the use of the betting platform.

The Parent Company received advances from WGI and SVI amounting to US\$100.0 thousand (₱5.1 million) and are presented as part of "Advances from third parties" account in the consolidated statements of financial position. The deposits shall thereafter be deducted from the revenue share of the Parent Company upon commencement of operations, which is expected to be in 2021.

Contingencies

Unclaimed Dividends on Winnings

Under PR58D of the *Rules and Regulations on Horse Racing* promulgated by the Philippine Racing Commission (PHILRACOM), the latter claims control over the disposition of unclaimed dividends.

The Parent Company disputed the legality of PR58D in its letters to PHILRACOM dated June 14, 2012 and July 13, 2012. The Parent Company maintained that there is no law authorizing PHILRACOM to determine the proper use or disposition of the unclaimed dividends and PHILRACOM exceed its rule-making authority in issuing PR58D. The Parent Company likewise contended that unclaimed dividends are private funds as these funds are not included in the amounts that are supposed to be remitted to or held by the Parent Company for the government under its charter.

Furthermore, a *Notice* appears in the dorsal portion of the Parent Company's betting tickets which state that winning tickets must be claimed within thirty days from date of purchase, otherwise, the prize shall be forfeited in favor of the Parent Company. This provision is a valid agreement between the Parent Company and the bettor under the principle of autonomy of contracts.

As part of its audit of the PHILRACOM, the Commission on Audit (COA) issued an *Independent Auditor's Report* dated March 27, 2013 wherein COA opined that unclaimed dividends of winning bettors should be forfeited in favor of the government and should form part of the National Treasury. However, in the same report, COA acknowledged the absence of any legislative mandate as regards the disposition of unclaimed dividends. Thus, COA required the PHILRACOM to request for a Declaratory Relief from the Department of Justice to resolve the issue on the nature of unclaimed dividends.

To resolve the foregoing issue, the Parent Company filed a *Petition for Declaratory Relief* on November 6, 2013.

On July 27, 2016, the Regional Trial Court of Bacoor, Cavite granted the petition in favor of the Parent Company. On January 17, 2017, PHILRACOM and Games and Amusement Board (GAB) filed a Petition for Review on Certiorari before the Supreme Court. As of August 14, 2020, the case is still pending before the Supreme Court.

Claims and Legal Actions

As of December 31, 2019, and 2018, there are pending claims and legal actions against or in favor of the Parent Company arising from the normal course of business, in addition to the matters already mentioned elsewhere in these consolidated financial statements. In the opinion of the Parent Company's management and its legal counsel, liabilities arising from these claims, if any, would not have any material effect on the Parent Company and any liability or loss arising therefrom would be taken up when the final resolution of the claims and actions are determined.

BIR Audit of MCI

Pursuant to Letter of Authority No. eLOA/LOA SN: eLA201600068464 (LOA) dated January 23, 2019, the books of accounts and accounting records of MCI was audited by the Bureau of Internal Revenue (BIR). After the BIR's audit, the BIR National Investigation Division (BIR-NID) issued a Notice for Informal Conference dated October 3, 2019 with attached Details of Discrepancy.

The BIR has not yet issued any Preliminary Assessment Notice (PAN), Final Assessment Notice (FAN), or Formal Letter of Demand (FLD). It is only at that point in time that it can be said that MCI has been assessed deficiency taxes. Thus, MCI maintains that it has no deficiency taxes.

In a letter to the BIR dated November 21, 2019, MCI, through its tax counsel, requested that the findings of deficiency taxes be cancelled and withdrawn as it has no legal or factual basis. After finding merit in MCI's reply, the BIR issued a revised assessment reducing the deficiency tax from ₱3.0 billion to ₱1.3 billion.

The revised tax assessment essentially hinges on the following three (3) legal issues to which MCI had already presented its position and counterarguments in its reply letter to the BIR's NIC:

1. Whether or not the tickets issued for the cockfights are subject to documentary stamp tax (DST) under Section 190 of the National Internal Revenue Code, as amended, (the "Tax Code"), which imposes DST on jai alai, horse race tickets, lotto or other authorized numbers games;
2. Whether or not winnings from cockfights, as in the case of winnings from casinos, are subject to final withholding tax of 20% under Section 24(B) and Section 25(A)(2) of the Tax Code; and
3. Whether or not the machines issuing tickets for cockfights qualify as POS machine requiring registration thereof.

Since BIR maintains its position on the BIR registration of the MCI's totalizator system and betting terminals, MCI has signified its intention to comply with the registration considering the amount of registration fees involved is not significant.

31. Capital Management

The Group considers the total equity as its capital. The Group maintains a capital base to cover risks inherent in the business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

The following table summarizes the total capital considered by the Group:

	SEPT 2020	DEC 2019
Capital stock	₱1,494,251,136	₱1,494,251,136
Additional paid-in capital	27,594,539	27,594,539
Net cumulative changes in fair values of financial assets measured at FVOCI	4,260,960	4,260,960
Remeasurement on retirement benefits	13,708,769	13,708,769
Retained earnings	2,039,530,489	2,208,852,475
Treasury shares	(7,096)	(7,096)
Noncontrolling interest	57,625,013	58,945,905
	₱3,636,963,810	₱3,807,606,688

No changes were made in the objectives, policies and processes from the previous years.

32. Events after Reporting Date

COVID-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. On May 12, 2020, the NCR and certain parts of the Philippines were placed under a modified form of ECQ (MECQ) until May 31, 2020. On May 28, 2020, the NCR was placed under GCQ starting June 1, 2020, while the rest of the country were placed under either MECQ, GCQ or modified GCQ, depending on the risk classification of the area. These measures have caused disruptions to businesses and economic

activities, and its impact on businesses continue to evolve. As of November 13, 2020, NCR is under GCQ.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and comprehensive income as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, comprehensive income and cash flows. The Group will continue to monitor the situation.

MANAGEMENT DISCUSSION & ANALYSIS OF PLAN OF OPERATIONS

Discussion on Operating Results for the Periods Ended September 30, 2020 and 2019

Revenues

Income from club races decreased by ₱72.0 million from ₱93.5 million for the period ended September 30, 2019 to ₱21.5 million for the same period in 2020. There were eighty (80) racing days from January to September 2019 compared to only twenty racing days covering the same period in 2020. The Parent Company operated for only two racing days in March 2020 as operations has been disrupted by the COVID-19 outbreak. Racing operations has just resumed on September 13, 2020.

Income from cockfighting operations for the period September 30, 2019 amounted to ₱1,025.5 million and ₱234.9 million for the same period in 2020 or a decrease of ₱790.6 million. Fights/derbies were down from 11,993 for the period ended September 30, 2019 to 3,299 for the same period in 2020. There were 201 cockfighting days in 2019 compared to only 50 days in 2020 as operations were disrupted by the pandemic. Operations have not resumed as of November 13, 2020.

The Group recognizes income from real estate sale which is the subject of Joint Venture Agreements with Ayala for Sta. Cruz property and Century Communities Corp. for Carmona property. Revenue from real estate is recognized under the percentage of completion (POC) method. For the period ended September 30, 2019 revenue from real estate amounted to ₱5.6 million while for the same period in 2020, there was no sale during the period.

Rental revenue from the leasing of stables, buildings and other facilities amounted to ₱56.9 million and ₱255.1 million for the periods ended September 30, 2019 and 2020, respectively. Rental revenue increased as a result of the Parent Company's acquisition of ALI interest in Vertex One Building in September 2019.

Revenue from sale of food and beverages decreased by ₱11.1 million from ₱18.8 million for the period ended September 30, 2019 to ₱ 7.7 million covering the same period in 2020. The food and beverage business segment of the Company was affected by the lockdown brought about by the pandemic.

Other revenues increased by ₱0.7 million from ₱2.6 million for the period ended September 30, 2019 to ₱3.4 million for the same period in 2020.

Other Income

For the period ended September 30, 2019, equity in net losses of associates and joint venture amounted to ₱66.4 million and ₱96.3 million for the same period in 2020. The ₱62.4 million losses recognized in the current period is due to the equity share in the net losses of MIC. For the period ended September 30, 2019, equity losses from MIC amounted to ₱94.0 million tapered by the equity share in net earnings of SLBPO amounting to ₱27.6 million.

Interest income relates to real estate receivables, cash and cash equivalents and advances and loans to officers and employees. Interest income for the period ended September 30, 2019 amounted to ₱5.3 million compared to ₱ 1.2 million for the same period in 2020 or a decrease of ₱4.1 million. The decrease came primarily from the interest income from accretion of real estate receivables.

Other income – net decreased by ₱9.9 million from ₱21.8 million for the period ended September 30, 2019 to ₱11.9 million for the same period in 2020. The decrease came primarily from advertising revenue.

Expenses

Cost of Sale and Services

Cost of racing services decreased by ₱50.8 million from ₱121.7 million for the period ended September 30, 2019 to ₱70.9 million for the same period in 2020. Direct costs such as personnel costs, utilities, commission, contracted services, repairs and maintenance, among others, decreased in 2020. Since the start of the lockdown in March 2020 due to the COVID-19 pandemic, the racing operations has just resumed on September 13, 2020.

Direct costs from cockfighting decreased by ₱380.5 million from ₱596.1 million for the period ended September 30, 2019 compared to ₱215.6 million for the same period in 2020. Significant expenses in 2020 that decreased are percentage taxes, breeder's subsidies, commission and cost of gamefowls. These expenses are directly related to the conduct of cockfighting operations that has not yet resumed until now due to the pandemic.

Cost of real estate pertains to the cost of real estate property recognized under the percentage of completion method, if the criteria of full accrual method are not satisfied. For the periods ended September 30, 2019, cost of real estate amounted to ₱0.04 million and nil for the same period in 2020. There were no units sold nor cancelled in 2020. The amount in 2019 was net result of the new unit sales and the reversal to inventory account of the cost of previously sold real estate units that were cancelled during that period.

Rental cost of services increased by ₱35.5 million from ₱37.2 million for the period ended September 30, 2019 to ₱72.7 million for the same period in 2020. Notable increases came from utilities, security services, repairs and maintenance as well as contracted service from the leasing operations of the Vertex One building. The Parent Company acquired ALI's interest in Vertex One Building in September 2019.

Cost of food and beverage amounted to ₱21.1 million for the period ended September 30, 2019 and ₱8.1 million for the same period in 2020. The decrease amounting to ₱13.0 million came primarily from utilities and cost of purchased stocks. The food and beverage business segment of the Company was affected by the lockdown brought about by the pandemic.

The cost of sales for "Others" amounted to ₱5.2 million and ₱17.8 million for the periods ended September 30, 2020 and 2019, respectively or a decrease of ₱12.6 million in 2019.

General Operating Expenses

General and administrative expenses constitute costs of administering the business. For the period ended September 30, 2019, general and administrative expenses amounted to ₱215.0 million compared to ₱195.2 million for the same period in 2020. It decreased by ₱19.8 million. Significant decreases in general and administrative expenses include taxes and licenses, professional fees, contracted services and rental expenses, among others.

Selling expenses pertain to marketing fees related to the sale of real estate properties. It amounted to nil and ₱0.6 million for periods ended September 30, 2020 and 2019, respectively.

Finance costs pertain to interest expenses on bank loans availed for working capital requirements. It amounted to ₱9.7 million for the period September 30, 2019 and ₱13.6 million for the same period in 2020. The increase of ₱3.9 million is due to the increase in outstanding principal balances of bank loans as of the end of year 2019.

CHANGES IN FINANCIAL CONDITION

Discussion on some Significant Changes in Financial Condition as of September 30, 2020 and December 31, 2019

Total assets decreased due to the following:

1. For the period ended September 30, 2020, cash and cash equivalents amounted to ₱289.9 million from ₱603.0 million as of December 31, 2019. The decrease of ₱313.1 million can be attributed to the payment of matured payables to suppliers, principal and interest payments on bank loans, acquisition of property and equipment as well as investment property and the payment of taxes.
2. Receivables, including real estate receivables-net of current portion decreased by ₱7.9 million from ₱184.8 million as of December 31, 2019 to ₱176.9 million as of September 30, 2020. Receivables that decreased during the current period include rent receivables, receivable from off-track/off-cockpit operators and advances to suppliers and contractor.
3. Inventories increased by ₱1.5 million in the current period from ₱9.1 million as of December 31, 2019 to ₱10.6 million as of September 30, 2020.

4. Other current assets increased by ₱34.3 million from ₱26.1 million as of December 31, 2019 to ₱60.4 million as of September 30, 2020. The increase came from primarily from the reclass of Input VAT from noncurrent to current.
5. Investments in and advances to associates and joint ventures amounted to ₱1,936.1 million and ₱2,032.4 million as of September 30, 2020 and December 31, 2019, respectively. This account was decreased by the equity share in the net losses of MIC for the current period amounting to ₱96.3 million.
6. Property and equipment decreased from ₱840.4 million as of December 31, 2019 to ₱788.0 million as of September 30, 2020. The decrease in property and equipment amounting to ₱52.4 million in the current period is the net effect of the depreciation charges recognized and the acquisitions of property and equipment during the period.
7. Investment properties decreased by ₱17.0 million from ₱1,622.6 million as of December 31, 2019 to ₱1,605.6 million as of September 30, 2020. The net decrease is the result of the depreciation recognized during the period and the additional purchase of investment property.
8. Other noncurrent assets decreased by ₱23.0 million from ₱161.2 million as of December 31, 2019 to ₱138.2 million as of September 30, 2020. The decrease is due primarily to the reclass of Input VAT from noncurrent to current.

Total Current Liabilities decreased due to the following:

9. Accounts payable and other liabilities decreased by ₱229.0 million from ₱507.6 million as of December 31, 2019 to ₱278.6 million as of September 30, 2020. Accounts payable, percentage and documentary stamps taxes payable decreased.
10. Income tax payable decreased by ₱25.0 million from ₱34.2 million as of December 31, 2019 to ₱9.2 million as of September 30, 2020. The decrease primarily the effect of lockdown due to the COVID-19 pandemic, in which the racing operations has just resumed on September 13, 2020.

Total Noncurrent Liabilities decreased due to the following:

11. Noncurrent portion of the long-term loans and borrowings decreased by ₱57.5 million as a result of the monthly payment of the principal balance.
12. Other noncurrent liabilities as of December 31, 2019 amounted to ₱143.5 million and ₱151.9 million as of September 30, 2020. The decrease amounting to ₱8.4 million is the net effect of the contributions made to the retirement fund and the retirement expense recognized in the current period.

Total Equity increased due to the following:

13. Retained earnings decreased by ₱169.4 million from ₱2,208. as of December 31, 2019, to ₱2,039.5 million as of September 30, 2020. The decrease pertains to the result of operations of the Group covering the period ended September 30, 2020.
14. Non-controlling interest decreased by ₱1.3 million in the current period which represents primarily the 56.87% share of minority interest in the net losses of ARWRI for the period ended September 30, 2020.

OTHERS

No known trends, events, commitments or uncertainties that will have an effect on the company's liquidity. The company is not expecting anything that will have a material favorable or unfavorable impact on the company's current operation. All the figures reflected or presented during the reporting period arose from normal conditions of operation.

TOP FIVE (5) KEY PERFORMANCE INDICATORS:

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

	SEPT 2020	DEC 2019
Current Ratio	1.42	1.32
Asset to Liability Ratio	3.65	3.27

	SEPT 2020	SEPT 2019
Sales to Revenue Ratio	0.04	0.08
Sales to Expenses Ratio	0.04	0.09
Earnings Per Share	(₱0.1133)	₱0.0528

Current ratio or working capital ratio is a measure of a company's liquidity or its ability to meet maturing obligations. It is computed by dividing current assets over current liabilities. Total current assets as of September 30, 2020 and December 31, 2019 amounted to ₱517.1 million and ₱815.1 million, respectively. As of September 30, 2020, and December 31, 2019, total current liabilities amounted to ₱364.6 million and ₱618.6 million, respectively. The Group's current ratio of 1.42 shows that it has ₱1.42 current assets to support ₱1.00 current liabilities.

The asset to liability ratio or solvency ratio exhibits the relationship of total assets with total liabilities. It is computed by dividing total assets over total liabilities. As of September 30, 2020, and December 31, 2019, total assets amounted to ₱5,007.6 million and ₱5,481.4 million, respectively while total liabilities as of September 30, 2020 amounted to ₱1,370.7 million and ₱1,673.8 million as of December 31, 2019. The Group's asset to liability ratio of 3.65 shows that for every ₱1.00 liability, it has a ₱3.65 asset to support it.

Sales to revenue ratio is computed by dividing the income from horse racing over total operating revenue. Income from club races for the periods ended September 30, 2020 and 2019 amounted to ₱21.5 million and ₱93.5 million, respectively. Total operating revenue for the period ended September 30, 2020 amounted to ₱522.6 million and ₱1,202.9 million for the same period in 2019.

Sales to expenses ratio is computed by dividing income from horse racing over total expenses which include cost of sales and services, general and administrative expenses, selling expenses and finance costs. Income from club races for the periods ended September 30, 2020 and 2019 amounted to ₱21.5 million and ₱93.5 million, respectively, while total expenses amounted to ₱581.3 million for the period ended September 30, 2020 and ₱1,019.3 million for the same period in 2019.

Earnings per share is computed by dividing net income (loss) attributable to equity holders of the parent company over the weighted average number of outstanding common shares. Net loss attributable to equity holders of the parent company for the period ended September 30, 2020 amounted to ₱169.3 million and net income attributable to equity holders of the parent company amounted to ₱78.9 million for the same period in 2019. The weighted average number of outstanding common shares as of September 30, 2020 and 2019 is 1,494.3 million.

Analysis of plan of operations

The continuing (mis)fortune of affected businesses after government had imposed strict lockdown since March 16, 2020 because of COVID 19 and government's play safe policies of little by little loosening the grip for the economy to start rolling had not so far made considerable progress to the business(es) of the Manila Jockey Club, Inc.

Slowly itching but not enough to push the needed rescue was the company's principal core business, the horseracing business. Under strict regulation by Philracom, the agency had already opened up the start of horse racing from one day a month now slowly progressing to two days a month with a number of Off-Track Betting Stations (OTB) were allowed to be opened but with certain guidelines to be followed pursuant to IATF's list of conditions. The move, although with inconsequential results thus far, was a breather to the horseracing industry, and MJCI hopes to regain the revenues it once generated before the pandemic.

Nonetheless, the parent company's real estate group still remain buoyant as it continuously able to provide the much needed revenue support to MJCI.

The Memorandum of Agreement (MOA) that MJCI executed with AKL Properties, Inc., an affiliate of Ayala Land, Inc. (ALI), for the redevelopment of MJCI's 60-hectare property in Carmona, Cavite into a mixed-use development is progressing in the right direction. Estimated target launch of the Phase 1 of the Carmona project is slated 4Q of 2021.

The other real estate operation in Sta. Cruz, Manila, particularly in San Lazaro Tourism and Business Park is the 15-storey Vertex One office building which is 98% occupied, hosting to BPO companies and technology firms, primarily by Concentrix CVG Philippines, one of the country's top BPO companies.

At the ground floor, retail areas are fully leased out. To maximize the business potential of the area, MJCI is open to offers for additional retail space at the ground floor lobby and exploring bazaars in the open/landscape area adjacent to Vertex One during the Christmas season.

So far, Celadon park Tower 3 had closed 11 units and were considered sold. With aggressive marketing, the real estate group is targeting to sell the remaining MJCI units by year-end.

The vacant lot which is currently used as open parking is in the list of must do projects with a renowned big real estate developer. The start of the project is still open but hopefully it will be soon.

Also, in the pipeline, is a 70-room, 400 bed dormitory project in Manila on our 269sqm property, right in front of SM San Lazaro.

The wholly owned subsidiary Apo Reef World Resorts Inc (ARWRI) was temporarily put in the sideline as the pandemic is still reeling economic havoc especially to the leisure and resorts industry.