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S.E.C. Registration Number

W A T E R F R O N T P H I L I P P I N E S ,
I N C O R P O R A T E D A N D S U B S I D I A R I E S

(Company's Full Name)

I P T B u i l d i n g , P r e - D e p a r t u r e
A r e a , M a c t a n C e b u
I n t e r n a t i o n a l A i r p o r t
L a p u - L a p u C i t y , C e b u

(Business Address : No. Street City / Town / Province)

MS. CONNIE FRANCISCO	687-0888
Contact Person	Company Telephone Number

1 2	3 1	1 7 - A	0 9	1 7
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

7 1 7		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 11
OF THE REVISED SECURITIES ACT AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended DECEMBER 31, 2005

2. SEC Identification Number AS 094-8678 3. BIR Tax Identification No. D80-003-978-254-NV.

4. Exact name of registrant as specified in its charter: WATERFRONT PHILIPPINES, INC.

5. PHILIPPINES 6. (SEC Use Only)

Province, Country or other jurisdiction of incorporation or organization

Industry Classification Code:

7. No. 1, Waterfront Drive, Off Salinas Drive, Lahug, Cebu City 6000
Address of principal office Postal Code

8. (0632) 2326989
Registrant's telephone number, including area code

9. NOT APPLICABLE
Former name, former address, and former fiscal year, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares - P1.00 par value	1,945,934,653

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [x] No [ ]

12. Check whether the registrant:

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

Yes [x] No [ ]

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

Yes [ ] No [x]

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Waterfront Philippines, Incorporated *(WPI)* was registered with the Securities and Exchange Commission *(SEC)* on September 23, 1994, as an investment holding company for hotel, leisure, and tourism businesses.

To realize the Group's vision of making *WPI* the flagship of the Group's hotel and gaming interests, *TWGI* vended into *WPI*'s acquired properties --- Waterfront Cebu City Casino Hotel, Inc. (WCCCHI) in Cebu City, Waterfront Mactan Casino Hotel, Inc. (WMCHI) in Mactan, Cebu and Davao Insular Hotel Company, Inc. *(DIHCI)* in Davao City. These properties are significant investments for *WPI*. During 2003, the company started acquiring common shares of ***ACESITE (Phils.) Hotel Corporation***. A major coup for WPI for the year 2004 was securing of controlling interest in the management over ACESITE (PHILS.) HOTEL CORP. Consequently, Acesite, operating under the trade name Manila Pavilion Hotel, is now part of the Waterfront group of hotels. *WPI* is now known as the largest Filipino hotel chain in the country.

The hotels fit WPI's continuous geographic diversification strategy and they are appropriate candidates for broad product renovation and operational repositioning. The hotels are well positioned in their respective markets, considering the presence of international airports in their locality. Studies indicate that international airports are major generators of lodging demand.

Marketing

The Company prides itself on having a first class hotel equipped with 562 luxury rooms in Cebu City and the biggest convention hall in the Philippines. As in the previous years, our approach has always been in rejuvenating our hotels and its amenities, promoting the quality of our guest services and programs and empowering our peers. We have much to offer the broad market with the right marketing mix: competitive room rates, premium, value-added guest programs, well-equipped function facilities and professional guest services. Although, extreme competition has always been present with the Waterfront Group and other destinations and hotels, the Company has unfazingly regarded this as a welcome challenge and motivation on increasing its market share with a corresponding increase in average room rates and in actual room occupancies. As part of its marketing strategy, the company exercises flexible rates for contingencies, tie-ups with airlines, special occasion packages and other promos. Also, the massive efforts of our sales and marketing division in creating and implementing dynamic programs designed to search for customers and developing and maintaining their loyalties, have certainly added to the hotels' marketability. Coupled with the efforts of our public relations division in ensuring that the reputation of our hotels are kept free from negative publicity and its awareness of social responsibility, has certainly given marketing strategy a deeper meaning. The Company aims for building a strong relationship with our guests.

Again, considering the successful operations of our Cebu-based hotels, it can be said that Waterfront has already made an impressive dent in the market. Although we continue to discover and learn many new things, we are taking advantage of investment opportunities, which will allow us to be a significant player in the casino and hotel arena nationwide. The Company has strengthened its brand visibility with an integrated marketing communications campaign that would invite continued patronage of its products and services. To complement its marketing and sales efforts, a unified visual advertising tool for all properties was implemented.

The integration of the Manila Hotel Pavilion gave the Company a foothold in the dynamic hotel business in the central political and commercial district of Manila. The Company's Sales and Marketing division has started the cross-selling each hotel. This made it easier for our guests to make reservations and bookings to any of the hotels through one hotel. Naturally, the central sales and reservation office served as the selling hub and augmented local sales efforts

Information Technology

As in all arenas of commerce, information technology represents one of the strongest forces for change. They are known to have significant impact in marketing of hotels. It provides an essential tool for hotel organization to keep a hand on the pulse of the customers' wants and needs. The challenge of any corporation is to conduct their operations efficiently and effectively at the least possible cost. Perhaps, one of the major advancement that happened at Waterfront is its tie-up with **Micros Fidelios** - the world leader in providing computer-related technology for hotel and restaurant chains around the world. They upgraded the system of the Company through their newest operating platform called **Opera**. This software will efficiently manage sales and accounting, reservations, point-of-sales and engineering- a first in the Philippines. This integrated system will aggressively keep track of inventory and manage revenues. The *"Fidelio"* system permits online monitoring of clients in the hotels. To date, here is a summary of the major systems used by Waterfront Hotels:

	WCCCHI	**WMCHI**	**DIHCI**
Micros-Fidelio Point-Of-Sale System	X	X	X
Micros-Fidelio Engineering Management Sytem	X	X	X
Micros-Fidelio Sales and Catering System	X	X	
Micros-Fidelio Opera System	X	X	
SUNSYSTEM	X	X	X
Human Resource Information System	X	X	
Micros-Fidelio Inventory System	X	X	X

In addition, the Company also has the Salute Loyalty Program that will keep track and monitor the points earned equivalent to the number of nights and the amount spent of a guest member.

The Manila Pavilion Hotel also uses the Micros-Fidelio POS System and Sales and Catering System. Presently, it is undergoing a shift to a higher version of the Micros-Fidelio Opera System and also Sunsytem for accounting is being implemented.

Employees

As the reputations of the hotels rise and the volume of their clientele grows, so will their expectations and demands. The fundamental key to clients' satisfaction will always be the delivery of the best service from the employees. Service is the hotels' most important product and first class service doesn't just happen overnight. It is a team effort, requiring constant attention, training and supervision. In an ongoing endeavor to carry on with this ideal, the Company continues to increase in-house and external training of its personnel to endow the employees with the competence essential to cope with the increasing standards and demands of the market. A salary structure has also been implemented to ensure more competitive compensation packages, which are at par with the industry's standards and the Department of Labor and Employment's mandated requirements**.**

In the year 2004, the Company unreservedly bestowed the employees the obligatory across-the-board increase in salary as required by the government. Also, the Company gave the usual 13th month pay in

December. The Company was also able to grant the employees a Christmas bonus equivalent to a full month's wage as it firmly deemed it appropriate to recognize the employees' hard work and dedication.

In 2005, the Company sent 4 of its Executives to study in the Cornell School of Hotel Administration in New York. The four took courses, which would aid them in their various held-positions. Furthermore, the Company also granted a midyear incentive in two of its hotels due to a great first six-month performance. Same as last year, the Company also granted the employees a Christmas bonus. The Company acknowledges the importance of permanent investment in human resource development and to instill in its employees the passion for excellence.

The Company's employees have undergone training in various skill-building seminars and workshops for F&B, Housekeeping, Front Office and even in Administrative functions. Year-to-date training index for the following are:

Property	Training Index
WCCHI	73.61
WMCHI	84.33
DIHCI	76.73
APHC	66.74

The Company believes that after all, happy employees translate into happy customers, and happy customers would be tantamount to greater satisfaction, sales and income for the Company.

The Company is currently one of the largest employers in Cebu.

As of the end of the calendar year 2005, *WPI* Group has a total of **1,402** employees that were distributed as follows:

WPI

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	4	0	4
Total	5	0	5

***WCCCHI**:*

	Filipinos	*Foreigners*	*Total*
Executive	20	3	23
Non-Executive	547	2	549
Total	567	5	572

***WMCHI**:*

	Filipinos	*Foreigners*	*Total*
Executive	9	0	9
Non-Executive	157	0	157
Total	166	0	166

DIHCI:

	Filipinos	*Foreigners*	*Total*
Executive	33	0	33
Non-Executive	108	0	108
Total	141	0	141

Grand Total	879	5	**884**

There is no existing union under the Company except for Davao where the Collective Bargaining Agreement (CBA) covered **105** Rank & File employees and **29** Management staff. The renegotiation of the CBA is pending for the next few years, as Memorandum of Agreement dated May 8, 2001.

For the next twelve months the Company plans to employ not more than 5% of its present total number of employees because after all the Company is still on a cautious stance, despite the progress that it has made.

In addition, **Acesite (Phils) Hotel Corp.** has the following number of employees:

	Actual Manpower Count As of	
	31 December 2004	31 December 2005
Department Head	42	39
Managerial and Supervisors	86	80
Line Staff	463	399
Total	591	518

The Manila Pavilion Hotel has not experienced any strikes for the past three years. The Collective Bargaining Agreement (CBA) for the line employees would have expired last June 30, 2005 but was extended for another year, while the CBA for the supervisors that expired on March 31, 2006 is currently being negotiated.

Business of WPI and Its Subsidiaries

- ***WPI***

Being an investment holding company in hotel and gaming businesses, *WPI* has a strategic advantage in the marketplace. It can move and position itself to grab opportunities in hospitality industry, which is known to be highly competitive. The world-class facilities that it brings to the Province of Cebu are designed to provide a diverse and complete entertainment system that will attract local, regional, and international visitors.

Despite the unforgiving economic situation and the Company's relative infant stage in the industry, both *WCCCHI* and *WMCHI* enjoyed favorable occupancy rate, successfully inviting both corporate and individual travel accounts.

Subsidiaries

The Company has the following subsidiaries, which are briefly described in the next pages:

1. Waterfront Cebu City Casino Hotel, Inc. (WCCCHI)
2. Waterfront Mactan Casino Hotel, Inc. (WMCHI)
3. Waterfront Insular Hotel Davao, Inc.
4. Waterfront Promotions Limited
5. Waterfront Entertainment Corporation
6. Waterfront Management Corporation
7. Waterfront Food Concepts, Inc.
8. Mayo Bonanza, Inc.
9. Grand Ilocandia Resort Development Incorporated
10. ACESITE (Phils.) Hotel Corporation

- ***Waterfront Cebu City Casino Hotel, Inc.***

WCCCHI was incorporated on September 23, 1994 to manage and undertake operations of Waterfront Cebu City Hotel and Casino *(WCCHC). WCCCHI* achieved a milestone during the year by opening the doors of *WCCHC* on January 5, 1998, with 158 guest-rooms which has already grown to 560 by the last quarter of 1999, six-storey convention center known as the **Cebu International Convention Center (*CICC)*,** and six-storey` **Entertainment Block**. Located in this Entertainment Block is a 1,000-square meter 5-star restaurant, which completes the Company's restaurants row. On February 5, 1998, *PAGCOR* commenced operations at the new purposely-built casino at the Entertainment Block.

-<u>*Cebu International Convention Center*</u>

Cebu International Convention Center is a six-storey building, especially-designed to adapt to any event size and purpose, with a total gross area of 40,587 square meters, and has been in operation since January 5, 1998. Major amenities of the center include ten (10) function rooms and two (2) Grand Ballrooms with a seating capacity of 4,000. *CICC* is the only convention and exhibition center of international standard in Cebu City.

- <u>*Entertainment Block*</u>

The Entertainment block is a six-storey building with a total gross area of 34,938 square meters. It is comprised of eleven (11) Food and Beverage entertainment outlets, an 11,000 square meters of public and international gaming area that includes the *"Casino Filipino",* and 62 hotel rooms and suites.

- <u>*Hotel Tower Block*</u>

The Hotel Tower block is a 22-storey building with a total gross area of 44,334 square meters. It consists of a podium, containing the lobby, a food and beverage outlet, a reception, a shopping arcade, three (3) press function rooms, and a high rise block of 498 hotel rooms and suites.

The Hotel, with its fairytale-inspired façade, is conveniently located in the center of Cebu City and is within easy reach from key business, commercial and shopping districts and is just 30 minutes away from the Mactan International Airport.

- ***Waterfront Mactan Casino Hotel, Inc.***

Waterfront Mactan was incorporated on September 23, 1994 to manage and undertake operations of Waterfront Mactan Island Hotel and Casino *(WMIHC).* WMCHI has completed Phase I of Waterfront Mactan Island Hotel and Casino (WMIHC). It is located right across Mactan-Cebu International Airport, on a land area of approximately 3.2 hectares. The hotel features 164 rooms and suites, 6 food-and-beverage and entertainment outlets, with a total built-up area of 38,000 square meters. Equipped with one of the largest casinos in the Philippines, WMIHC has made Cebu the only city in Southeast Asia that offers casino facilities to transients while waiting for their flights. For future development is Phase II, consisting of 200-guest rooms, which will be built depending on the demands of the market. It has recently improved its rooms by installing fax machines and Internet connections to cater to the needs of its guests. Additionally, the company has acquired the newest hospitality software in the industry, the **OPERA** Property Management System, which is designed to help run the hotel operations at a greater level of productivity and profitability. This was installed last January 14, 2003.

The hotel is conveniently located in front of the Mactan International and Domestic Airport, just a three-minute drive to the Industrial Zone, a fifteen-minute drive to the beaches of Mactan Island and just thirty minutes away from Cebu City's shopping and financial district.

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- ***WIHD (Waterfront Insular Hotel Davao, Inc)***

Davao Insular Hotel Company Inc. was incorporated in the Philippines on July 3, 1959 to engage in the operation of hotel and related hotel businesses. The hotel is a 98% owned subsidiary of Waterfront Philippines, Incorporated and is operating under its trading name Waterfront Insular Hotel Davao. Waterfront Insular Hotel, the prestigious business hotel in a sprawling garden resort setting, is only five to ten minutes to the downtown area. Nestled along the picturesque Davao Gulf, its open air corridors provide a refreshing view of the hotel's beautifully landscaped tropical garden and the sea.

In December 2000, the Hotel temporarily stopped its operations to undergo major rehabilitation. The Hotel reopened in June 2001.

Waterfront Insular Hotel Davao closed last Dec.7, 2000, for 6 months due to low occupancy levels, which was a result of the negative publicity caused by the Abbu Sayyaf insurgency and high labor costs. It underwent rehabilitation of its rooms and facilities, streamlined its bloated labor force to achieve its goal of re-opening more feasibly. With the improvement of the peace and order situation in Mindanao, the Management of Waterfront Phils. Inc. decided to formally announce the re-opening and resumption of its operations last June 5, 2002. With 50 rooms available for sale, 5 function rooms and 6 outlets ready to cater to guests, it was ready to resume its position as the prime destination for tourists, business as well as convention center for Davao City.

Features included in the newly re-opened hotel are the 5 Gazebos located along the beach area. The numerous requests for beach weddings have made these added features not only attractive but functional as well as providing added revenue.

A large garden tent with a 12,000 sq. meter area was erected in July 2002, in order to accommodate functions that require extra space not available at the grand ballroom while providing a panoramic view of the garden and the sea.

It hopes to achieve higher occupancy levels for the coming years by extending the Waterfront Way of Service to the tourism industry.

- ***Waterfront Promotions Limited***

Waterfront Promotion Ltd. was incorporated on March 6, 1995, under and by virtue of the laws of Cayman Islands to act as the marketing arm for the international marketing and promotion of hotels and casinos under the trade name of **Club Waterfront International Limited *(CWIL).*** It is a wholly owned subsidiary of Waterfront Philippines, Inc., a domestic company. Under the agreement with PAGCOR, WPL has been granted the privilege to bring in foreign players under the program in Waterfront Cebu City Hotel and Grand Ilocandia Resort Development Corp. On the other hand, CWIL is allowed to bring in foreign players in Waterfront Mactan Hotel. In connection to this, the company markets and organizes groups of foreign players as participants to the Philippine Amusement and Gaming Corporation's (PAGCOR) Foreign Highroller Marketing Program. The company also entered into agreements with various junket operators to market the casinos for foreign customers. Under these agreements, the company grants incentive programs to junket operators such as free hotel expenses, free airfares and rolling commissions.

The company participated in a joint venture with Jin Lin Management Corporation, its sole marketing agent and co-venturer on September 24, 2001. This joint venture was terminated on April 15, 2002.

The operations for Waterfront Promotions Limited, and likewise for Club Waterfront International Limited, had ceased for the year 2003 in March due to the bleak market.

- ***Grand Ilocandia Resort and Development, Inc.***

As of March 31, 2000, the Company carried its investments in GIRDI at cost since it intended to dispose such investment in the near future. In November 2000, GIRDI sold all of its property and equipment, inclusive of the hotel facilities and related operating assets and the investment in marketable securities. The Asia Pacific region including the Philippines continues to experience economic difficulties relating to currency fluctuations, volatile stock markets, and slowdown in growth. As a result there are uncertainties that may affect the future operations of the company and its subsidiary.

- ***Mayo Bonanza, Inc.***

Mayo Bonanza, Incorporated (MBI), a 100% owned subsidiary of *WPI* was incorporated on November 24, 1995 in the Philippines with principal activities in the operation and management of amusement, entertainment, and recreation businesses. MBI is to extend the gaming business of the Company. The market for MBI has not been so good for the last few years and has yet to commence its operations.

- ***Waterfront Entertainment Corporation, Waterfront Food Concepts and Waterfront Management Corporation***

WPI has planned to dip into the show business world by opening up its newest subsidiary, *Waterfront Entertainment Corporation*. The prime purpose of this new company is to produce or co-produce shows for the three signature hotels. Aside from generating additional revenues for the WPI family of companies, it also ensures greater fulfillments among the guests' stay in the hotels. In 2003, the company was in its early stages and registration was still being processed. Moreover, *Waterfront Food Concepts,* another planned subsidiary, is to be established to manage WPI's restaurants to better cater to the clientele's eclectic tastes and *Waterfront Management Corporation,* the 3rd planned subsidiary, is to converge its efforts to pursue management contracts within the country. WPI is yet to launch these new business ventures. A lot is anticipated from these new subsidiaries for the coming years.

- ***ACESITE (PHILS.) Hotel Corporation***

The principal property of the Company is a 22-storey building known as the Manila Pavilion Hotel located at the corner of United Nations Avenue and Maria Y. Orosa Street in Ermita, Manila. The Hotel has 538 rooms and suites that have individually controlled central air conditioning, private bathroom with bathtub and shower, multi-channel radio, color TV with cable channels and telecommunications facilities. The hotel has approximately 2,200 sq. m. of meeting/banquet/conference facilities, and also houses several restaurants, such as Seasons Café (coffee shop), the Rotisserie (grill room), the Peony Garden (Chinese restaurant), the Boulvar (bar & lounge) and the Patisserie (bakeshop and deli items). Other guest services and facilities include a chapel, swimming pool, gym, business center and a valet-service basement carpark. Concessionaires and tenants include beauty salon, foot spa, photography services, transportation services, travel agency, flower shop and boutiques. In addition, Casino Filipino – Pavilion, owned and operated by PAGCOR, occupies part of the first and second floors (a total of 9,283.45 sq. m.) of the building.

Business Development

In 1995, Waterfront Philippines, Inc. (WPI) set out to complete two major objectives in the province of Cebu- to focus on hotel and resort development and to promote tourism in the Philippines. Four years later, this vision became a reality with the full operation of the Waterfront Mactan Island Hotel and Casino, Inc, the Waterfront Cebu City Hotel and Casino and Cebu International Convention Center. At present, WPI would like to establish itself as the premiere tourism organization with leisure and entertainment activities, not only in Cebu, but also in the various provinces nationwide.

Year 2003

Aggressive strides were intended to paint a dynamic picture of growth of the Company. New subsidiaries were incorporated and are being incorporated to help increase revenues and efficiently manage the different aspects of the business. **Waterfront Entertainment Corporation** was incorporated before the year 2003 ended. Also a planned subsidiary, **Waterfront Food Concepts, Inc.** would be assigned to manage WPI's restaurants. This will also facilitate the introduction of new brands that will cater to Filipino and foreign tastes. WPI is also planning to put up two to three more restaurants on top of the two existing ones. **Waterfront Management Corporation** will be the third planned subsidiary, which main focus is to pursue management contracts within the country.

In line with the expansion plans of the company based on an expanded geographical coverage for the company's hotel and casino operations, WPI has acquired 74,889,892 shares of Acesite (Phils.) Hotel Corporation in the beginning of 2003. Acesite, in turn owns the *Manila Pavilion Hotel*.

The Company has no patents, trademarks, copyrights that are material enough for reporting and for protection measures except for the trade name- the Waterfront name. Moreover, there is no need for any additional governmental regulations or approval of principal products to be launched. The Company has already adopted measures to reduce its wastes and in line with this, there are no additional restrictions to the Company with regard to environmental laws.

Year 2004

The year has proven to be very optimistic for the Company. Revenues generated were higher than last year's. As previously mentioned, the Company was able to give the employees a bonus equivalent to a full month's wage. On June 24, 2004, the Company successfully took over the management of the Manila Pavilion Hotel (Acesite) of which the Company owns 75% of its shares. The Manila Pavilion Hotel has started renovating its rooms and facilities last year and it's still presently ongoing to make it at par with the Waterfront Hotels' standards. This is in line with the Company's plans to change the name Manila Pavilion Hotel into Waterfront Pavilion Hotel and Casino.

Year 2005

The year 2005 is perhaps, the most successful one in all the years that the Waterfront hotels have operated. It generated revenues from hotel operations at P1.79B, an increase of P 379.10M from the previous year. Many renovations and rehabilitations were done on the guest rooms, function rooms and food and beverage outlets of the four hotels in preparation for the anticipated insurgence of the tourism industry and emergence of other competitor hotels like, Marco Polo Plaza Hotel (previously Cebu Plaza Hotel) and Hilton Hotel and Resort in Mactan. ACESITE, one of WPI's subsidiaries, has also invested heavily in the renovations of its rooms and facilities to bring it back to its former glory. As a result of the ongoing renovation program, the food & beverage facilities of the hotel have been improved. The Boulvar Lounge replaced the Music Room as the favored nightspot for hotel guests, while the new Patisserie is now more spacious and offers a wider variety of bakery and deli items. In addition, the Peony Garden, which opened in December 2005, replaces the Pavilion Court as the premier Chinese restaurant in the Ermita area.

Strategies

Considering the market competes on four major areas namely: price, product, promotion and place (distribution), the Company plans to outwit its competitors on all of these.

As to price, the Company offers competitive rates and packages catering to the different markets, practices flexible schemes to respond to the dynamic market. As to product/services, consistent excellent service is the key. Moreover, well maintained facilities and equipment, impressive, exciting and value for money promotions in the F&B outlets would definitely make a difference. As to promotion, the Company has launched the Salute Loyalty Program, has made tie-up contracts with airlines for the Frequent Flyer programs (the Mabuhay Miles), VIP privilege cards, regular press releases in broadsheets, local dailies, consumer and travel guide promotions and many others. Each of the hotels also, has their monthly promotions in their food and beverage outlets (e.g. cake of the month, wine of the month) and in room rates (e.g. Valentine promo). Lastly, as to place, considering the wide distribution of the hotels of the Company all over the country, the Company believes that it can maintain its position as the prime company in the hotel business.

The Company is not dependent on a single customer or a few customers that account for 20% or more of its total sales.

The Company does not have an account for Research and Development Expense; neither does it engage in activities amounting to such.

Item 2. Properties

The Company, being a holding company, has no real properties in its name. Properties under the WPI Group are under the ownership or lease holdings of the respective subsidiaries. However, it is leasing its office in Ortigas, Pasig City. Information and terms of the lease are as follows:

Location	27th Floor Wynsum Corporate Plaza, 22 Emerald Avenue, Ortigas Center Pasig City
Size	249.25 square meters with parking spaces
Terms of the Lease	From April 1, 2005 to March 31, 2008 (3 years); renewable within 90 days before the lease period expires permissible by the laws of the Philippines
Rental	On the office spaces: Php 350 per sq. m. per mo.; total of Php 101,937.50 291.25with escalation fee of ten % on the third year. On the parking spaces: Php 3, 181.82 per month for each parking space for a total monthly rental fee of Php 6, 363.64 subject to an escalation fee of 10% on the third year.

	These rentals are exclusive of VAT.
Development	Lease improvements are made for the office space and are being capitalized by the company according to generally accepted accounting principles.

WCCCHI and *WMCHI* have separate contracts of lease for the use of parcels of land in the province of Cebu.

WCCCHI Land Lease:

Location	Former airport site at Lahug in Cebu City
Size	Approximately 4.9 hectares
Terms of lease	50 years with an option for renewal for another 25 years, permissible by the laws of the Philippines
Rental	Fixed rental per month of Php 11.00 per square meter or a total amount per annum of Php 6,072,000.00 + Percentage rental of 2% of the annual Gross Revenue as defined under the Land Lease Agreement
Development	Phase I, comprising of a 580-room Hotel Block, the *CICC* and an Entertainment Block. *CICC*, the International block, and 156 rooms of the Hotel Block commenced commercial operation on January 5, 1998.

WMCHI Land Lease:

Location	In front of Mactan-Cebu International Airport, Lapu-Lapu City
Size	Approximately 3.2 hectares
Terms of lease	50 years with an option for renewal for another 25 years, permissible by the laws of the Philippines
Rental	Fixed rental per month of Php 18.75 per square meter or a total amount per annum of Php 7,875,000.00 + Percentage rental of 2% of the Annual Gross Revenues as defined under the Land Lease Agreement.
Development	Phase I, comprising of 167 deluxe rooms, International Casino building, conference and related facilities that are in commercial operation. As of March 31, 1998, total project development cost, inclusive of furniture, fixtures, and equipment, amounts to Php 722 million.

The above leased properties together with hotel buildings and other improvements of Waterfront Phils. Inc.'s subsidiaries, the WMCHI and WCCCHI, are subject to a mortgage trust indenture to secure a US$30 million loan from the PNB.

DIHCI Wholly Owned:

Location	Title	Area (In Sq. Meters)
▪ Lanang, Davao City	TCT 0-255*	2,997
	0-256*	304
	0-257*	113

0-258*	50
0-259*	404
T-10250*	44,511
T-10250*	47,320
T-10251*	2,091
T-10251*	2,043
T-10252*	643
T-10252*	1,133
T-10252*	300
T-10252*	300
T-10252*	1,580
T-10252*	643
T-10254*	500
T-10254*	400
T-10303*	108
T-10303-A*	4,319
T-10303-A*	304
T-10379*	140
T-30874*	223
T-10264*	18959

*These properties are mortgaged with Urban Bank to secure a P240M loan.

ACESITE Land Lease

Location	Corner of United Nations Avenue & Maria Y. Orosa Street in Ermita, Manila
Size	Total land area of 6,500 square meters
Terms of lease	Lease is valid until January 2014, renewable for another 25 years up to 2039 with the option to purchase the land from CIMAR any time during the lease at a purchase option price of P25.0 million and may reassign this option to any qualified third party.
Rental	Annual rental of P6.1 million
Development	-

The building is mortgaged in favor of the Metropolitan Bank and Trust Company-Trust Department, as the trustee for the Singapore Branch of the Industrial and Commercial Bank of China (ICBC), a banking corporation organized under the laws of the People's Republic of China (PROC), to secure a loan in the original principal amount of Fifteen Million US Dollars (US$15,000,000.00). The Company has no plans to acquire other properties for 2006.

Item 3. Legal Proceedings

3.1 WPI is not engaged in any material litigation either as Plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against WPI or of any facts likely to give rise to any proceedings which might materially or adversely affect the position or business of WPI.

Item 4. Submission of Matters to a Vote of Security Holders

4.1 During the annual stockholders' meeting held last September 17, 2005, the stockholders approved and ratified the following matters:

a. Election of the members of the Board of Directors to serve for the term 2005-2006. Those elected regular members of the Board were:
    1. Mr. Renato B. Magadia
    2. Mr. Reno I. Magadia
    3. Mr. Kenneth T. Gatchalian
    4. Mr. Rexlon T. Gatchalian
    5. Mr. Arthur M. Lopez
    6. Mr. Dee Hua T. Gatchalian
    7. Ms. Elvira A. Ting
    8. Atty. Lamberto B. Mercado, Jr.
    9. Mrs. Alexandria P. Gonzales

    Atty. Arthur R. Ponsaran acts as the Corporate Secretary of the Company.

b. The designation of KPMG Laya Mananghaya & Co. as the Corporation's external auditor. KPMG was also the external auditor for the years 2003 and 2004.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

5.1 The common stock of the company is being traded currently in the Philippine Stock Exchange. On June 16,1999, the Parent Company declared cash dividend of Php 0.02 per share on its Common Shares outstanding as of May 15, 1999. This amounted to Php 19.23 million. The Parent Company also declared a 10% stock dividend as of September 15, 1999 record date.

The Company has not issue dividends since the year 2000. However, it promises to declare dividends once the deficit is offset and the market for the coming years proper.

5.2 The stocks of WPI shares which are listed on the Philippine Stock Exchange for the last two calendar years are as set out hereunder:

Peso	**High**	**Low**
2004		
January – March 2004	0.39	0.20
April- June 2004	0.25	0.16
July- September 2004	0.26	0.19
October- December 2004	0.25	0.18

Peso	High	Low
2005		
January – March 2005	0.44	0.16
April- June 2005	0.34	0.16
July- September 2005	0.29	0.18
October- December 2005	0.31	0.225

The price of the stock is P 0.49 as of March 31, 2006.

5.1 The number of stockholders of record as of December 31, 2005 on the Register of Shareholders was **717** but the company is not able to identify the actual number of beneficial owners who are registered under the name of the member companies of the Philippine Stock Exchange (PSE). Common shares outstanding as of December 31, 2005 were 1,945,934,653. There are no sales for the last three years of unregistered securities.

5.2 The list of top 20 stockholders of record as of December 31, 2005 is as stated hereunder:

	Name of Stockholder of Record	No. of Shares	%
1	The Wellex Group, Inc.	1, 227, 254, 239	63.07
2	PCD Nominee Corporation (Filipino)	347, 174, 450	17.83
3	Rexlon Realty Group, Inc.	56, 840, 000	2.92
4	Manuel O. Sanchez	45, 160, 000	2.32
5	Kenneth T. Gatchalian	30, 000, 100	1.54
6	Rexlon T. Gatchalian	44, 740, 000	3.84
7	Weslie T. Gatchalian	30, 000, 000	1.54
8	Forum HoldingsCorporation	20, 526, 000	1.06
9	PCD Nominee Corporation (Non-Filipino)	23, 513, 500	1.21
10	Primary Structures Corporation	16, 212, 500	0.83
11	Metro Alliance Holdings and Equities	14, 370, 000	0.74
12	Manuel H. Osmeña &/or Grelina O. Osmeña	12, 515, 800	0.64
13	Elvira A. Ting	10, 000, 009	0.51
14	Catalina Roxas Melendres	6, 246, 000	0.32
15	Concept Moulding Corporation	6, 067, 000	0.31
16	William T. Gatchalian	4, 683, 200	0.24
17	Pacific Concorde Corporation	3, 150, 000	0.16
18	Renato Chua	2, 749, 000	0.14
19	William C. Liu	2, 010, 450	0.10
20	Renato Yao Chua	1, 704, 500	0.09

Item 6. Management's Discussion and Analysis or Plan of Operation

Below are the results of operations of the Parent Company and its subsidiaries, for the years ending December 31, 2005 and 2004 together with its financial conditions as of the same periods.

RESULTS OF OPERATIONS (Amounts in P '000)

	Dec 2005	Dec 2004 (As Restated)
Revenues	1,804,209	1,979,147
Less: Costs and Expenses	1,305,382	1,090,662
Net Income (Loss) Before Fixed Financial And Other Charges	**498,827**	888,485
Fixed Financial and Other Charges (Dep'n and Amortization, and Interest)	419,693	463,077
Net Income (Loss) Before Income Tax	**79,134**	425,408
Provision for Income Tax	36,177	17,650
NET INCOME (LOSS)	**42,957**	407,758
Earnings (Loss) Per Share	**P0.023**	P0.212

FINANCIAL CONDITION (Amounts in P '000)

	Dec 2005	Dec 2004
ASSETS		
Current Assets	1,038,332	1,049,225
Total Assets	**7,341,428**	**6,832,477**
Current Liabilities	2,023,147	1,961,384
Total Liabilities	**4,089,499**	**3,976,749**
Total Stockholders' Equity	3,251,929	2,855,728
Total Liabilities & S/H Equity	**7,341,428**	**6,832,477**

Calendar Year ended December 31, 2005 as compared with Calendar Year ended December 31, 2004

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2005, was less than the previous year (as restated). This was due to the derecognition of the negative goodwill which was supposedly amortized over a period of three (3) years beginning April 1, 2004. With the effectivity of PFRS 3, the full amount of the negative goodwill was adjusted retroactively to 2004 and presented as "Other Revenues". In actual performance, revenues from hotel operations for the year 2005, is P1.79B compared to 2004's P1.41B, approximately a 27% increase.

  Earnings per share for 2005 was 0.023 compared to last year's 0.212

Cost and expenses

- Cost and expenses increased by P214.72M or 20% basically due to increase in prices.

  Even though, there was an increase in cost and expenses, still WPI registered a consolidated net income of P 42.96M

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account increased by P 6M or 10%, attributed mainly to an increase in short-term placements which earn interest at 2% per annum and maturity of 30 days.

Receivables - Intensified sales efforts brought about the increase in receivables by 37%, from P97.73M to P133.83M. Because of the Manila Sales and Reservations Office, the company continues to counter the increased credit sales, at the same time increase the Manila accounts collection.

Inventories – Increase in inventories by 42%, from P23.94M to P34M, attributed mainly to increase in approximately P 3.7M in food & beverage inventory as well as increase in operating supplies inventory by P 6.27M

Prepaid expenses and other current assets – There is a decrease of P0.52M in this account, from P29.40M to P28.88M for the year 2005.

Due from related parties – This account decreased by P62.54M or by 7.5%. This also represents interest bearing advances with MAHEC and TWGI at a rate of four percent (4%) per annum and non-interest bearing advances with FHI.

Property plant & equipment – This account increased by P524.65M or 11%. Under PAS 16, property and equipment (except operating and transportation equipments) are carried at revalued amounts and this attributed to the increase in this account and also there were additional acquisitions for the year and renovations of the properties that were capitalized.

Other assets – The account increased by P6.23M or 0.78%. This account is mainly composed of unsecured receivables from Acesite Limited (BVI) amounting to P717.42M, which accounts for 90% of the total Other Assets.

Current Liabilities – This account consists of trade, income tax payables and accruals. Additional purchases with various suppliers brought about the increase in this account by 3.14% from P1.96B to P2.02B. This also represents the current portion of the loans payable.

Payable to affiliated companies – This account increased by P.40M or by 11%. These are non-interest bearing and collateral-free advances from affiliates.

Loans Payable – There is a decrease of P206.74M or 20%, represents loan from the Social Security System, Philippine National Bank and from Industrial Commercial Bank of China – Singapore Branch.

Calendar Year ended December 31, 2004 as compared with Calendar Year ended December 31, 2003

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2004 increased by P611.32M or 64% from that of the financial year ending Dec 31, 2003. Likewise, the earnings per share increased from a negative (0.104) to 0.002.

Cost and expenses

- Cost and expenses increased by P283.07M or 35% due to increase in prices.

Even though, there was an increase in revenues and likewise an increase in cost and expenses, still WPI registered a consolidated net income of P3.92M, an increase from last year's net loss of P202.14M.

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account increased by P34.44M or 121% from previous year because of the consolidation of the newly acquired subsidiary, Acesite (Phils.) Hotel Corp.

Receivables - Intensified sales efforts brought about the increase in receivables by 17%, from P83.48M to P97.73 as well as the consolidation of the APHC. Because of the Manila Sales and Reservations Office, the company continues to counter the increased credit sales, at the same time increase the Manila accounts collection.

Inventories – Increase in inventories by 65%, from P14.48M to P23.93M is mainly due to consolidation of the latest acquired subsidiary.

Prepaid expenses and other current assets – The increase of P9.15M or 25% is due to additional prepayments for the year plus those from APHC.

Due from related parties – This account increased by P190.81M or by 30%, mainly due to the consolidation of APHC to WPI. This also represents interest bearing advances with MAHEC and TWGI at a rate of four percent (4%) per annum and non-interest bearing advances with FHI.

Property plant & equipment – This account increased by P1.21B due to the consolidation of the latest acquired subsidiary. The Manila Pavilion Hotel has renovated its rooms and facilities of which are capitalized.

Other assets – The account increased by P738.25M. The increase is predominantly attributed to unsecured receivables from Acesite Limited (BVI) amounting to P717.42M.

Current Liabilities – This account consists of trade, income tax payables and accruals. Additional purchases with various suppliers brought about the increase in this account by 14% from P1.48B to P1.99B. This also represents the current portion of the loans payable.

Payable to affiliated companies – This account decreased by P.028M or by 1%.

Loans Payable – The increase of P223M or 28% represents loan from the Social Security System. Also, Waterfront Phils. Inc. was also able to restructure its loan agreement (3rd) with the Philippine National Bank. In addition, APHC has a loan from the Industrial Commercial Bank of China (ICBC).

Item 7. Financial Statements

The consolidated financial statements are filed as part of this Form 17-A, attached hereto and marked as Annex 'A'.

INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

1) External Audit Fees and Services

KPMG Laya Mananghaya & Co. began the external audit of the financial statements of Waterfront Philippines, Inc. and its subsidiaries for the calendar year ended December 31, 2002.

A) Audit and Audit-Related Fees

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,	
	2005	***2004***
Aggregate Fees Billed for the external audit of the Company's financial statements	1,680,000.00	1,400,000.00

B) Tax Fees

None

C) All Other Fees

None

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

9.1 The names and ages of the Directors and Executive Officers as of December 31, 2005 are as follows:

Office	Name	Age	Position in other (listed) Companies
Chairman and Chief Executive Officer	Renato B. Magadia	68	Director- Phil. Estate Corp., Metro Alliance Holdings, Interphil Laboratories
Director	Reno I. Magadia	36	Managing Director- Misons Industrial & Development Corp., Serve Well Manpower Inc., Timecorde Ltd. & Firefly Enterprises Corp.
President	Rexlon T. Gatchalian	27	-
Treasurer	Elvira A. Ting	45	Director- Phil. Estate Corp. & Forum Pacific, Inc.
Corporate Secretary	Atty. Arthur R. Ponsaran	63	Director- Phil. Estate Corporation, Wellex Industries, Inc. & Forum Pacific, Inc.
Director	Kenneth T. Gatchalian	27	Director- Wellex Industries
Director	Arthur M. Lopez**	59	Director- Phil. Estate Corporation
Director	Dee Hua T. Gatchalian	57	Director- Philippine Estates Corporation, Express Savings Bank, Acesite (Philippines) Hotel Corporation
Director	Atty. Lamberto B. Mercado, Jr.	40	Director-The Wellex Group, Inc.
Director	Alexandria P. Gonzales**	26	-

**Arthur Lopez and Alexandria Gonzales are independent directors.

A brief description of the directors' and executive officers' business experience and other directorship held in other reporting companies are provided as follows:

Renato B. Magadia – ***Chairman and Chief Executive Officer***

A graduate of the University of the Philippines Diliman with a degree in Business Administration, he is concurrently, the Chairman of the Board of ZetaMark, Inc., Mabuhay Vinyl Corporation, Consumer Products Distribution Services, Inc., Metro Alliance Holdings and Equities Corporation, Waterfront Philippines, Inc., Mercator Securities Corporation and Zeta Holdings & Management Corp. He is also the Vice-Chairman of Acesite (Phils) Hotel Corporation. He is a Director of various companies like Accette Insurance Brokers, Inc., Accette Life & Accident Insurance Brokers, Inc., All Ocean Maritime Agency, Inc., Cunningham Toplis Philippines, Inc., F.E. Zuellig (M), Inc., GAC Logistics, Inc., Golden Eight Holdings Ltd – BVI Company, Harbor Center I & II, Inc., Interphil Laboratories, Inc.,Misons Industrial & Dev't Corp., Phil. Accident Managers, Inc., Phil. Estates Corp., Time Concorde Ltd. Hongkong Company, WTC Club Int'l, ZCM

Corp.,ZI-Techasia (Pilipinas). He is also a trustee in The Zuellig Foundation, Inc. He has been a director of Waterfront since 1999.

Reno I. Magadia

A Master's degree holder in Business Administration from Pepperdine University in Los Angeles,California, Mr. Magadia is currently the Managing Director of holding firm, Misons Industrial and Development Corp. He is also the President of RBM Consulting Inc. and RIM Business Consulting as well as a Director of Serve Well Manpower Inc., Timecorde Ltd. And Firefly Enterprises Corp. He previously held the position of Vice President for Mercator Filter Manufacturing Corp. and was the former Head of Research for brokerage firm Papa Securities Corp.

Rexlon T. Gatchalian – *President*

A graduate of Political Science from the George Washington University in 2001, Mr. Rexlon T. Gatchalian became a Director of Waterfront in November 2002. He is also a member of the Board of Directors of Express Savings Bank, Inc. He currently enjoys the position of being the Executive Vice-President for Hotel Operations of Waterfront Hotels & Casinos. He is only 26 years old.

Elvira A. Ting - *Treasurer*

Ms. Elvira A. Ting earned her Bachelor's Degree in Business Administration major in Management from the Philippine School of Business Administration. She's 43 years old and has been a Director of Waterfront since October 2000. She is also the President/Director of Philippine Estates Corp. and Wellex Industries, Inc. Also, she's a Chairperson/Director of Express Savings Bank, Treasurer of Palawan Estates Corp., Director/Treasurer of Forum Pacific Inc., Director of Mabuhay Vinyl Corp., and Director/CFO of Acesite Phils. Inc.

Arthur R. Ponsaran – *Corporate Secretary*

Mr. Arthur R. Ponsaran is the Managing Partner of Corporate Counsels, Philippines Law Offices and Director/Secretary of Forum Pacific Inc., Wellex Industries Inc., The Wellex Group Inc., and Express Savings Bank, Secretary of Reynolds Philippines and Director of Phil. Estates Corp. He is 62 years old and earned his Bachelor of Laws from the University of the Philippines. He is a CPA/Lawyer by profession.

Kenneth T. Gatchalian – *Director*

Mr. Kenneth T. Gatchalian holds a degree in Bachelor of Science in Architecture from the University of Texas in San Antonio, Texas, USA. He is only 27 years old and has been a Director of Waterfront since February 2001. He is also the Executive Vice President – Chief Operating Officer of the Phil. Estates Corp. and a member of the Board of Forum Pacific, Inc. and Wellex Industries, Inc.

Arthur M. Lopez – *Director*

Mr. Arthur M. Lopez is a Masters Degree holder in Business Administration from the University of Santo Tomas. He is 59 years old and has been a Director of Waterfront since October 2000. He is a Director of Phil. Estates Corp. and presently the President and CEO of CCA Phils. Corp.

Dee Hua T. Gatchalian – *Director*

A degree holder in Bachelor of Science in Medical Technology, Ms. Dee Hua T. Gatchalian is the EVP- Finance and Administration for both The Wellex Group, Inc. and Plastic City Corporation. She is also a

Board of Director for Philippine Estates Corporation, Express Savings Bank and Acesite (Philippines) Hotel Corporation.

Atty. Lamberto B. Mercado, Jr. – *Director*

A lawyer and a CPA by profession, Atty. Mercado is a member of the Board of Directors of several publicly-listed companies namely: Waterfront Philippines, Inc., Metro Alliance Holdings & Equities Corp., Forum Pacific, Inc., Acesite (Phils.) Hotel Corporation and Wellex Industries, Inc. He is currently the Vice-President for Legal Affairs of the Wellex Group, Inc. In the past as Deputy Administrator for Administration, he had supervised the largest group in the Subic Bay Metropolitan Authority (SBMA). He had also, helped in the drafting of Administrative Orders to effectively implement R.A. 7227 (the law creating the Subic Bay Freeport Zone) and its implementing rules and regulations. He was the President of Freeport Service Corporation, a subsidiary of SBMA and helped in the creation and organization of this service corporation. He studied BSC Major in Accountancy at the University of Santo Tomas and Bachelor of Laws (LLB) at the Ateneo de Manila University School of Law, graduated in 1985 and 1990, respectively.

Alexandria P. Gonzales - *Director*

Mrs. Alexandria P. Gonzales studied in the University of the Philippines and took up Bachelor of Arts in Journalism. She was an assistant before in Larc and Asset Public Relations Consultancy. As a PR Assistant in Ogilvy and Mather Philippines Public Relations, she helped in arranging press conferences and media trainings for clients and assisted the editorial director in writing press releases and magazine articles for the company's clients. Then, she became junior reporter in Associated Broadcasting Company (ABC5).

9.2 The Directors of WPI are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified. **For the year 2005 the Board of Directors' meeting for the election of the Executive Officers was held on September 4, 2004. The Directors are to serve one year from then. The last annual stockholders' meeting was held at the Waterfront Cebu City Hotel last September 17, 2005.**

9.3 Mr. Rexlon T. Gatchalian and Mr. Kenneth T. Gatchalian are brothers and are the children of Ms. Dee Hua T. Gatchalian. Ms. Elvira A. Ting is a sister of Ms. Dee Hua T. Gatchalian and an aunt of both Mr. Rexlon and Kenneth T. Gatchalian.

Mr. Reno Magadia is also a son of Mr. Renato B. Magadia.

There are no other relationships among the officers listed.

9.4 None of the Directors and Executive Officers of the Corporation is engaged in any material litigation either as Plaintiff or Defendant, and the Directors and Executive Officers do not have any knowledge of any proceedings pending or threatened against them **for the past five years that are material to evaluation of the integrity and ability of any director including but not limited to the following: (a)** Any bankruptcy petition filed by or against any business of which such person was a general partner; **(b)** any conviction by final judgment, including the nature of the offense, including in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and minor offenses; **(c)** Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and **(d)** Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

9.5 There is **no significant employee** to the Company who is not an executive officer but who is expected by the Company to make a significant contribution to the business except for the Training Consultant and Legal Consultants, the organic pool of trainors as of the moment. In order to protect the long-term viability of the firm with regard to these people, the Company has included in their contracts a provision for conflict of interest, provision for lock in period and non-duplication of documents and developments with WPI copyrights.

Item 10. Executive Compensation

10.1 None of the directors receive compensation for serving as directors of the company.

10.2 The aggregate compensation paid to the four.

	Fiscal Year Ending December 31		
	2005	**2004**	**2003**
a) Aggregate compensation paid to four most highly compensated executive officers: i) Rexlon T. Gatchalian ii) Patrick C. Gregorio * iii) Marco Protacio iv) Dietmar Dietrich	5,580,000	6,420,000	6,060,000
b) Aggregate compensation paid to other Officers as a group unnamed	2,194,494	2,891,280	2,819,280

*Mr. Patrick C. Gregorio has resigned last year 2005.

10.3 To date WPI has not issued any options or implemented any option scheme to its directors and officers.

10.4 There are no issuance of warrants or options for the year 2005 to the directors or executive officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management

11.1 **Security Ownership of Certain Record and Beneficial Owners**

As of December 31, 2005, WPI has no knowledge of any individual or any party who beneficially owns in excess of 5% of WPI's common stock except as set forth in the table below:

Title of Class	Name of Record/ Beneficial Owner	Amount & Nature of Record/Beneficial Ownership ("r" or "b")	Percent Of Class
Common	The Wellex Group, Inc.	1,227, 254, 239 **"r" ***	63.10
Common	PCD Nominee Corp.(Fil)	347, 023, 028 **"r" ****	17.80

*Ms. Elvira A. Ting, the Treasurer, represents The Wellex Group, Inc.

PCD Nominee Corp. owns 17.80% of Waterfront Philippines, Inc., none of which owns at least 5% of Waterfront Philippines, Inc. stock. **Aside from those stated above there are no more persons or corporations owning at least 5% of PCD's stocks.

11.2 **Security Ownership of Management**

Title of Class	Name of Owner	Amount & Nature of Ownership ("r" or "b")	Percent Of Class
Common	Renato B. Magadia	2, 200 **r&b**	0.00
Common	Reno I. Magadia	10, 000 **r&b**	0.00
Common	Kenneth T. Gatchalian	30, 000, 100 **r&b**	1.50
Common	Rexlon T. Gatchalian	44, 740, 000 **r&b**	2.26
Common	Elvira A. Ting	10, 000, 009 **r&b**	0.51
Common	Arthur M. Lopez	1 **r&b**	0.00
Common	Atty. Lamberto B. Mercado, Jr.	100 **r&b**	0.00
Common	Dee Hua T. Gatchalian	350, 000 **r&b**	0.00
Common	Alexandria P. Gonzales	100 **r&b**	0.00
Common	Arthur R. Ponsaran (Corporate Secretary)	110 **r&b**	0.00

There are no persons holding a certain class of stocks under a voting trust or similar agreement. There are also no arrangements that may result in a change in control of the registrant.

Item 12. Certain Relationships and Related Transactions

The Directors by virtue of their interest in the shares of the Company are deemed to have interests in the shares of its subsidiary companies and associated companies to the extent the Company has an interest.

During the fiscal year, no director of WPI has received or become entitled to receive any benefit by reason of:

i) a contract made with WPI or
ii) a contract made with a related corporation or
iii) a contract made with a firm of which the director is a member or
iv) a contract made with a company in which the director has a substantial financial interest.

[Note: There is no Item 13 in the Form]

Item 13. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

(b) Reports on SEC Form 17-C

Reports on SEC Form 17-C (Current Report) dated November 9, 2000 has been filed during the 3rd quarter of fiscal year ending March 2001.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned; thereunto duly authorized, in the City of MAY 0 2 2006, 2006.

By:

REXLON T. GATCHALIAN
President / CEO/COO

ELVIRA A. TING
Treasurer/CFO

ARTHUR R. PONSARAN
Corporate Secretary

PRECILLA O. TORIANO
Director for Finance (Comptroller)

SUBSCRIBED AND SWORN to before me this MAY 0 2 2006 day of QUEZON CITY 2006 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
REXLON T. GATCHALIAN	16200074	1/11/06	Valenzuela City
ARTHUR R. PONSARAN	24829879	1/20/06	Makati City
ELVIRA A. TING	16200072	1/11/06	Valenzuela City
PRECILLA O. TORIANO	08274922	1/25/06	Cebu City

ATTY DELFIN R. AGCAOILI, JR.
NOTARY PUBLIC
PTR NO. 7115505
IBP NO. 645214
DATE ISSUED JAN 12, 2006
ISSUED AT QUEZON CITY
VALID UNTIL DEC. 31, 2006
TIN NO. 144-519-066

Doc. No. 1
Page No. 1
Book No. 9 2
Series of 2006

ANNEX A

CONSOLIDATED FINANCIAL STATEMENTS

Statement of Management's Responsibility

"The management of Waterfront Philippines Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2005. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. ***The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.***

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

KPMG Laya Mananghaya & Co., the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards ***in the Philippines*** *and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the* ***Board of Directors and stockholders.***

Signed under oath by the following:

Renato B. Magadia
Chairman of the Board

Kenneth T. Gatchalian
President

Precilla O. Toriano
Chief Financial Officer"

COVER SHEET

A S 0 9 4 - 0 0 8 6 7 8

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

(Company's Full Name)

IPT Building, Pre-Departure Area, Mactan Cebu International Airport Lapu-Lapu City, Cebu

(Business Address : No. Street Company / Town / Province)

MS. ELVIRA A. TING	(02) 687-0888
Contact Person	Company Telephone Number

1 2	3 1	A A C F S	0 9	17
Month	*Day*	FORM TYPE	*Month*	*Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

717		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

**WATERFRONT PHILIPPINES, INCORPORATED
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

KPMG

Laya Mananghaya & Co.
Certified Public Accountants & Management Consultants
22/F, Philamlife Tower, 8767 Paseo de Roxas
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
+63 (2) 893 8507
Fax +63 (2) 894 1985
+63 (2) 816 6595
Internet www.kpmg.com.ph
e-Mail manila@kpmg.com.ph

PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-1
BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Waterfront Philippines, Incorporated
IPT Building, Pre-Departure Area
Mactan Cebu International Airport
Lapu-Lapu City, Cebu

We have audited the accompanying consolidated balance sheets of Waterfront Philippines, Incorporated and Subsidiaries ("the Group") as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Acesite (Phils.) Hotel Corporation ("APHC"), a 75-percent owned consolidated subsidiary with total assets of P2.17 billion and P2.22 billion, stockholders' equity of P1.03 billion and P1.032 billion as of December 31, 2005 and 2004, respectively, and total revenues of P640 million and P433 million for the year ended December 31, 2005 and the nine months ended December 31, 2004, respectively. Waterfront Philippines, Incorporated's investment in APHC at December 31, 2005 and 2004 amounted to P144 million. The financial statements of APHC dated April 21, 2006 and May 27, 2005, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for APHC, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

Without qualifying our opinion, based on our audits and the report of the other auditor, we draw attention to Note 22 to the consolidated financial statements, which indicates that APHC has receivables from Acesite Limited (BVI) amounting to P717.4 million as of December 31, 2005 and 2004. These receivables have not been provided with any impairment giving due course to the ongoing collection proceedings, as discussed in Note 22. The receivables were included in the net assets of APHC as of March 31, 2004, for purposes of deriving the negative goodwill amounting to P540 million as presented in Note 23. The negative goodwill has been amortized to income over three years starting 2004 in compliance with the provisions of Statement of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) 22, *Business Combinations*. The balance of the negative goodwill, however, was derecognized in the beginning of 2005 as a retroactive adjustment to Deficit, in accordance with the provisions of the Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*. Similarly, as explained in Note 22, Acesite Limited (BVI) had a legal case against Equitable PCI Bank Hong Kong Branch (EPCIB) and Waterfront Philippines, Incorporated for the foreclosure of its 74,889,231 shareholding in APHC by EPCIB and the subsequent sale of the said shares to Waterfront Philippines, Incorporated. Although the legal case had been dismissed with finality by the Supreme Court on March 14, 2005, as mentioned above, the ultimate collectibility of the receivables from Acesite Limited (BVI) cannot presently be determined because of the impracticability of arriving at a reasonable estimate of the amount to be collected as a result of the collection proceedings. Currently, APHC is pursuing the collection of the said receivables.

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Issued January 16, 2006 at Makati City

May 12, 2006
Makati City, Metro Manila
Philippines

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2005	2004 (As Restated - Note 27)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**P68,944,690**	P62,945,448
Receivables - net (Note 5)	**133,832,034**	97,729,960
Inventories (Note 6)	**34,003,594**	23,936,382
Due from related parties - net (Note 8)	**772,667,173**	835,208,119
Prepaid expenses and other current assets (Note 7)	**28,884,060**	29,405,030
Total Current Assets	**1,038,331,551**	1,049,224,939
Property and Equipment - net (Notes 9 and 13)	**5,321,235,280**	4,796,587,362
Land under Finance Lease (Note 21)	**25,000,000**	25,000,000
Available-For-Sale (AFS) Investment (Note 8)	**10,405,200**	-
Deferred Tax Assets (Note 18)	**150,911,550**	172,346,411
Other Non-current Assets (Note 10)	**795,544,158**	789,318,131
	P7,341,427,739	P6,832,476,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	**P802,720,786**	P726,587,502
Current portion of loans payable (Note 13)	**1,101,200,403**	1,138,644,461
Income tax payable (Note 18)	**2,028,030**	2,344,749
Due to related parties (Note 8)	**4,116,294**	3,714,947
Other current liabilities (Note 12)	**113,081,541**	90,092,282
Total Current Liabilities	**2,023,147,054**	1,961,383,941
Loans Payable - net of current portion (Note 13)	**816,665,798**	1,023,406,182
Deferred Tax Liabilities - net (Note 18)	**838,582,065**	634,618,501
Other Non-current Liabilities (Note 14)	**411,104,113**	357,340,623
Total Liabilities	**4,089,499,030**	3,976,749,247
Stockholders' Equity (Note 27)		
Equity attributable to the equity holders of the Parent	**2,788,332,431**	2,379,422,187
Minority interest	**463,596,278**	476,305,409
	3,251,928,709	2,855,727,596
	P7,341,427,739	P6,832,476,843

See Notes to Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31	
	2005	2004 (As Restated - Note 27)
REVENUES		
Hotel operations	**P1,788,026,954**	P1,408,923,163
Others (Note 23)	**16,182,097**	570,224,009
	1,804,209,051	1,979,147,172
COSTS AND EXPENSES (Note 16)		
Hotel operations	**1,229,487,282**	996,664,189
Others	**75,894,891**	93,997,976
	1,305,382,173	1,090,662,165
INCOME BEFORE INTEREST, DEPRECIATION AND AMORTIZATION, PROVISION FOR DOUBTFUL ACCOUNTS AND INCOME TAX	**498,826,878**	888,485,007
INTEREST, DEPRECIATION AND AMORTIZATION, AND PROVISION FOR DOUBTFUL ACCOUNTS		
Depreciation and amortization (Note 9)	**240,059,478**	206,808,181
Interest (Note 13)	**172,760,231**	184,559,766
Provision for doubtful accounts	**1,709,674**	71,049,944
Others	**5,163,898**	659,059
	419,693,281	463,076,950
INCOME BEFORE INCOME TAX	**79,133,597**	425,408,057
PROVISION FOR INCOME TAX (Note 18)	**36,177,075**	17,649,761
NET INCOME	**P42,956,522**	P407,758,296
Attributable to:		
Equity holders of the Parent	**P45,074,189**	P412,196,530
Minority interest	**(2,117,667)**	(4,438,234)
	P42,956,522	P407,758,296
EARNINGS PER SHARE (Note 19)	**P0.023**	P0.212

See Notes to Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31	
	2005	2004 (As Restated - Note 27)
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		
Capital Stock - P1 par value		
Authorized - 5 billion shares		
Issued - 1,945,934,653 shares	**P1,945,934,653**	P1,945,934,653
Additional Paid-in Capital	**755,435,050**	755,435,050
Revaluation Surplus in Property and Equipment		
Balance at beginning of year		
As previously reported	**-**	-
Prior period adjustment (Note 27)	**100,076,066**	-
As restated	**100,076,066**	-
Adjustment to revaluation for the year (Note 9)	**483,155,461**	130,498,948
Transfer of revaluation surplus absorbed through depreciation for the year	**(51,157,951)**	(30,422,882)
Change in corporate tax rate	**7,658,849**	-
Balance at end of year	**539,732,425**	100,076,066
Unrealized Valuation Loss on AFS Investments	**(1,383,953)**	-
Foreign Currency Translation Adjustment	**56,194,821**	56,194,821
Deficit		
Balance at beginning of year		
As previously reported	**(593,397,579)**	(727,824,631)
Effects of transition to PFRS and prior period adjustments (Note 27)	**115,179,176**	(193,013,184)
As restated	**(478,218,403)**	(920,837,815)
Change in accounting policy (Note 27)	**(125,594,302)**	-
Transfer of revaluation surplus absorbed through depreciation for the year	**51,157,951**	30,422,882
Net income for the year	**45,074,189**	412,196,530
Balance at end of year	**(507,580,565)**	(478,218,403)
	2,788,332,431	2,379,422,187

Forward

	Years Ended December 31	
	2005	2004 (As Restated - Note 27)
MINORITY INTEREST		
Balance at beginning of year		
As previously reported	**P480,192,235**	P218,393,613
Effects of transactions to PFRS (Note 27)	**(3,886,826)**	(3,462,477)
As restated	**476,305,409**	214,931,136
Change in accounting policy (Note 27)	**(10,591,464)**	265,812,507
Net loss for the year	**(2,117,667)**	(4,438,234)
Balance at end of year	**463,596,278**	476,305,409
	P3,251,928,709	P2,855,727,596

See Notes to Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As Restated - Note 27)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**P79,133,597**	P425,408,057
Adjustments for:		
Depreciation and amortization	**240,059,478**	206,808,181
Interest expense	**172,760,231**	184,559,766
Loss on exchange of assets	**31,104,530**	-
Retirement costs	**17,698,929**	17,179,334
Provision for doubtful accounts	**1,709,674**	71,049,944
Loss on sale and disposal of property and equipment	**357,743**	71,618
Unrealized foreign exchange loss (gain)	**(29,284,200)**	383,441
Interest income	**(17,899,122)**	(22,665,449)
Write-off of negative goodwill	**-**	(540,160,243)
Operating income before working capital changes	**495,640,860**	342,634,649
Decrease (increase) in:		
Receivables	**(50,923,232)**	38,334,889
Inventories	**(10,067,212)**	(2,853,008)
Prepaid expenses and other current assets	**(23,863,973)**	(1,968,161)
Increase (decrease) in:		
Accounts payable and accrued expenses	**135,506,503**	(108,309,883)
Other current liabilities	**51,424,302**	(37,918,231)
Cash generated from operations	**597,717,248**	229,920,255
Interest received	**1,717,025**	2,014,556
Income taxes paid	**(10,760,362)**	(27,152,800)
Retirement plan contributions paid	**(2,033,737)**	-
Interest paid	**(205,987,384)**	(134,897,510)
Net cash provided by operating activities	**380,652,790**	69,884,501
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	**(154,432,187)**	(44,443,308)
Proceeds from sale of property and equipment	**220,000**	-
Advances from (to) related parties	**12,772,439**	(175,176,966)
Increase in other non-current assets	**(18,313,558)**	(8,808,831)
Net cash used in investing activities	**(159,753,306)**	(228,429,105)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of loans payable	**(214,900,242)**	(64,648,400)
Increase in other non-current liabilities	**-**	257,635,783
Net cash provided by (used in) financing activities	**(214,900,242)**	192,987,383

Forward

	Years Ended December 31	
	2005	2004 (As Restated - Note 27)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**P5,999,242**	P34,442,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**62,945,448**	28,502,669
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P68,944,690**	P62,945,448

See Notes to Consolidated Financial Statements.

1. Organization and Status of the Business

Corporate Information
Waterfront Philippines, Incorporated ("the Parent Company") was incorporated in the Philippines on September 23, 1994, and is 60%-owned by The Wellex Group, Inc. ("TWGI"). It holds equity interest in hotels and resorts, as well as in entities engaged in the international marketing and promotion of casinos. The details of the equity interest of the Parent Company are shown below:

	Percentage of Ownership	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated ("WCCCHI")	100	-
Waterfront Mactan Casino Hotel, Incorporated ("WMCHI")	100	-
Davao Insular Hotel Company, Inc. ("DIHCI")	98	-
Acesite (Phils.) Hotel Corporation ("APHC")	75	-
Grand Ilocandia Resort and Development, Inc. ("GIRDI")	54	-
International marketing and promotion of casinos:		
Waterfront Promotion Ltd ("WPL")	100	-
Mayo Bonanza, Inc. ("MBI")	100	-
Club Waterfront International Limited ("CWIL")	-	100

The Parent Company and its subsidiaries were incorporated in the Philippines, except for WPL and CWIL which were registered in the Cayman Islands.

WCCCHI
WCCCHI was incorporated on September 23, 1994, to manage and undertake the operations of Waterfront Cebu City Hotel and Casino. WCCCHI's facilities include an international convention center, an international casino building and a 562-room deluxe hotel at the former Lahug Airport, Cebu City. It started commercial operations in January 1998.

In 2005, WCCCHI renovated its Business Center and some of its restaurants to improve the delivery of services to its customers.

WMCHI
WMCHI was incorporated on September 23, 1994, to manage and undertake the operations of Waterfront Mactan Island Hotel and Casino. Located right across the Mactan Cebu International Airport, it features 167 rooms and suites, 8 food-and-beverage and entertainment outlets, and an international casino. It started operations in 1996.

DIHCI
DIHCI was incorporated on July 3, 1959, and is currently operating under its trade name "Waterfront Insular Hotel Davao". The Parent Company acquired 98% of DIHCI in December 1999. In December 2000, DIHCI temporarily stopped its operations to undergo major rehabilitation of its 150-room hotel facilities. It reopened in June 2001.

APHC

APHC was incorporated on October 10, 1952 and commenced commercial operations in March 1968. On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. APHC owns and operates the Manila Pavilion Hotel, a 590-room hotel with casino located in Ermita, Manila (see Note 3).

In 2005, APHC invested heavily in the renovations of its rooms and facilities and expects to increase its occupancy rate and profit.

GIRDI

GIRDI was incorporated on December 18, 1990 to engage in the hotel and resort business. The Parent Company acquired 54% of GIRDI in December 1999.

In November 2000, all of the property and equipment of GIRDI, including the hotel facilities and other operating assets, as well as its investment in marketable securities, were transferred to a third party. With this transfer, GIRDI ceased its involvement in the hotel and resort business. Management is currently looking for new business opportunities for GIRDI and intends to continue operating GIRDI as a going concern entity.

WPL, CWIL and MBI

On March 23, 1995, WPL became a wholly-owned subsidiary following its acquisition by the Parent Company from Waterfront Amusement and Gaming Limited. WPL and its wholly-owned subsidiary, CWIL were primarily established for the international marketing and promotion of hotels and casinos. In 2003, these companies including MBI have been temporarily laid inoperative in response to a general slow down in the economy. Management, however, commits to resume operations when better business opportunities present themselves in the future.

Office Address and Number of Employees

The registered office of the Parent Company is located at IPT Building, Pre-Departure Area, Mactan Cebu International Airport, Lapu-Lapu City, Cebu.

The Parent Company and its subsidiaries (“the Group”) have 1,523 and 1,454 employees as of December 31, 2005 and 2004, respectively.

The consolidated financial statements as of and for the year ended December 31, 2005 and 2004 were authorized for issue by the Board of Directors on May 12, 2006.

2. Summary of Significant Accounting Policies

The following summary explains the significant accounting policies which have been adopted in the preparation of the consolidated financial statements:

Basis of Preparation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRSs). These are the Group’s first PFRS financial statements where PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, has been applied.

The Group has made use of the temporary relief given by the Securities and Exchange Commission for public companies to present a comparative format of only two (2) years for its financial statements ending December 31, 2005. The Group will resume the three-year comparative presentation, as required by the SEC, for financial statements beginning January 1, 2006, and onwards.

An explanation of how the transition to PFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 27.

The consolidated financial statements are presented in Philippine Pesos, which is the Group's functional and presentation currency under PFRS. They are prepared on the historical cost basis, except for certain property and equipment which are carried at revalued amounts.

The preparation of consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of PFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening PFRS consolidated balance sheet at January 1, 2004 for the purposes of the transition to PFRSs.

<u>Adoption of Revised and New Accounting Standards</u>
The Accounting Standards Council (ASC) approved in 2004 the issuance of revised and new accounting standards which are based on new International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and revised International Accounting Standards (IAS) arising from the improvements project of the IASB. The new and revised standards are effective for annual periods beginning on or after January 1, 2005.

Accordingly, effective January 1, 2005, the Group adopted the following PFRS and PAS which are relevant to its operations.

Philippine Financial Reporting Standards (PFRS)
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards.*

Philippine Accounting Standards (PAS)
- PAS 1, *Presentation of Financial Statements;*
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors;*
- PAS 10, *Events after the Balance Sheet Date;*
- PAS 16, *Property, Plant and Equipment;*

- PAS 17, *Leases;*
- PAS 19, *Employee Benefits;*
- PAS 21, *The Effects of Changes in Foreign Exchange Rates;*
- PAS 24, *Related Party Disclosures;*
- PAS 27, *Consolidated and Separate Financial Statements;*
- PAS 32, *Financial Instruments: Disclosure and Presentation*;
- PAS 33, *Earnings Per Share;*
- PAS 36, *Impairment of Assets;*
- PAS 38, *Intangible Assets;* and
- PAS 39, *Financial Instruments: Recognition and Measurement.*

Standards and Interpretation Effective Subsequent to 2005

The Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits* **-** *Actuarial Gains and Losses, Group Plans and Disclosures;*
- PFRS 7, *Financial Instruments* **-** *Disclosures;* and
- IFRIC 4, *Determining Whether an Agreement Contains a Lease.*

The Group does not expect any significant changes in its consolidated financial statements when it adopts the above standards and amendments in 2006 and 2007, if applicable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company, as well as those of its subsidiaries enumerated in Note 1. Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has the power to exercise control over the operations of these companies. All subsidiaries have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Segment Reporting

Business segments provide services that are subject to risks and returns that are different from those of other business segments. The Group's businesses are operated and organized according to the nature of business provided, with each segment representing a strategic business unit, namely the Hotel and Marketing operations segments. The Group's only reportable geographical segment is the Philippines.

Revenue Recognition

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.

Revenue from hotel operations is recognized when the services are rendered. Revenues from banquets and other special events are recognized when the events take place. Rental income on leased areas of the Group is recognized as earned based on the terms of the lease contracts.

Interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

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 (3) months or less and that are subject to an insignificant risk of change in value.

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at fair value. The fair values of the consideration given or received are determined in reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments includes transaction costs. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets 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, is done using settlement date accounting.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to stockholders' equity, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial instruments are further classified into the following categories: financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Group determines the classification at initial recognition and where allowed and appropriate, re-evaluates this designation at every reporting date.

a. Financial asset or financial liability at fair value through profit or loss

   A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near future or upon initial recognition, it is designated by management at fair value through profit and loss. Derivatives are also categorized as held at fair value through profit and loss, except those derivatives designated and considered as effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets or liabilities are accounted for in earnings. Financial instruments held at fair value through profit or loss are classified as current if they are expected to be realized within twelve months from the balance sheet date.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at amortized cost in the consolidated balance sheets. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months of the balance sheet date. Otherwise, these are classified as non-current assets.

c. Held-to-maturity assets and liabilities

Held-to-maturity assets and liabilities are non-derivative quoted financial assets and liabilities with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. Held-to-maturity assets are carried at amortized cost in the consolidated balance sheets. Amortization is determined by using the effective interest rate method. Asset under this category are classified as current assets if maturity is within twelve months from the balance sheet date and non-current assets if maturity is more than a year.

d. Available-for-sale (AFS) financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are accounted for in equity. These financial assets are classified as non-current assets unless there is intention to dispose such assets within twelve months from the balance sheet date.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

As of December 31, 2005, the Group's financial assets and liabilities consist of loans and receivables and AFS financial assets.

<u>Derecognition of Financial Assets and Liabilities</u>

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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. 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 the 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 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 amounts is recognized in the consolidated statements of operations.

<u>Inventories</u>
Inventories, which represent food, beverage and operating supplies, are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the resale.

<u>Property and Equipment</u>
Property and equipment, except for operating and transportation equipments which are stated at cost, are carried at revalued amounts less accumulated depreciation and impairment losses, if any. The revalued amount is the fair value at the date of revaluation less any impairment losses. Revaluations are performed by an independent firm of appraisers with sufficient regularity to ensure that the carrying amount of the asset does not differ materially from that which would be determined using fair values at the balance sheet date.

The net surplus resulting from the revaluation was credited to "Revaluation Surplus in Property and Equipment" account (net of corresponding deferred tax liability) in the consolidated statements of changes in stockholders' equity. Any increase in the revaluation amount is credited to the "Revaluation Surplus in Property and Equipment" unless it offsets a previous decrease in the value of the same asset recognized in the statements of operations. A decrease in value is recognized in the consolidated statements of operations where it exceeds the increase previously recognized in the "Revaluation Surplus in Property and Equipment". Upon disposal, any related revaluation surplus is transferred to Retained Earnings and is not taken into account in arriving at the gain or loss on disposal. Also, the amount of revaluation surplus absorbed through depreciation is being transferred to Retained Earnings.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

All costs that were directly and clearly associated with the construction of certain hotels, including borrowing costs, were capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are as follows:

	Number of Years
Hotel buildings and improvements	10 - 50
Furniture, fixtures and equipment	3 – 25
Land improvements	5 – 10
Transportation equipment	5

Leasehold and leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

Operating equipments consisting of chinaware, glassware, silverware and linen are stated at cost less accumulated amortization and adjustments based on periodic inventory method. Under this method, the recorded costs of operating equipment are amortized using various rates and adjusted based on periodic inventory count. The amortization and adjustments are credited to or charged against current operations.

The useful lives and depreciation method are reviewed at each balance sheet date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from those assets.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Construction in progress, included in property and equipment, represents structures under construction and is stated at cost. 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 put into operational use.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Cost or Amortized Cost

For financial assets carried at cost or amortized cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of receivable, an allowance for doubtful accounts is recognized in the consolidated statements of operations. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Reversal of allowance for doubtful accounts previously recognized is recorded when the decrease can be objectively related to an event occurring after the write-down. Such reversal is recorded in the consolidated statements of operations. However, the increased carrying amount is only recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

Available-for-Sale Financial Assets
If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statements of operations, is transferred from stockholders' equity to the consolidated statements of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statements of operations. Reversals of impairment losses on debt instruments are reversed through the consolidated statements of operations, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment losses was recognized in the consolidated statements of operations.

Impairment of Non-current Assets (Other than Financial Assets)
The carrying amounts of the Group's non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss of a revalued asset is recognized in the same way as a revaluation decrease. All other impairment losses are recognized in the consolidated statements of operations.

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss in respect of a revalued asset is recognized in the same way as a revaluation increase. All other reversals of impairment are recognized in the consolidated statements of operations.

Borrowing Costs
Borrowing costs relating to the loan obtained to finance the construction of the hotel project of WCCCHI were capitalized as part of the cost of the hotel project.

Retirement Cost
The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on treasury bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the consolidated statements of operations on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the consolidated statements of operations.

In respect of actuarial gains and losses that arise subsequent to January 1, 2004 in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in the consolidated statements of operations over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Provisions and Contingent Liabilities

A provision is a liability of uncertain timing or amount. It is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Philippine Pesos based on the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated to their Philippine Peso equivalents using the rates of exchange prevailing at the balance sheet date.

The accounts of foreign subsidiaries of the Parent Company are being maintained in U.S. Dollars and during the translation of the financial statement accounts of the foreign subsidiaries for consolidation, the differences between the reporting currency and the functional currency are recorded under the "Foreign Currency Translation Adjustment" account in the statements of changes in stockholders' equity, in compliance with PAS 21.

The results and financial position of the foreign subsidiaries are translated into the presentation currency using the following procedures:

- assets and liabilities are translated at the closing rate at balance sheet date;
- income and expenses are translated at exchange rates at the dates of the transaction; and,
- all resulting exchange differences shall be recognized as a separate component of equity.

Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry-forward tax benefits of the net operating loss carryover (NOLCO) and the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the income tax rates and income tax laws that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in the consolidated statements of changes in stockholders' equity, and not in the consolidated statements of operations.

Earnings (Loss) Per Share

Earnings (loss) per share ("EPS") is determined by dividing net income or loss for the year by the weighted average number of common shares subscribed and issued during the year, after retroactive adjustment for any stock dividend declared during the year. Diluted EPS is computed in the same manner as the aforementioned, except that all outstanding convertible preferred shares were further assumed to have been converted to common stock at the beginning of the period or at the time of issuance during the year.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the Group (as lessor) are classified as operating leases. Lease income from operating leases is recognized in the consolidated statements of operations on a straight-line basis over the term of the lease.

Finance Leases

Finance leases, which transfers to the Group substantially all the risk and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Subsequent Events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Accounting Estimates and Judgments

The Group's consolidated financial statements prepared in accordance with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related disclosures. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. These estimates and judgments are detailed below:

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of goods and services and the costs of these goods and services.

Operating Lease Commitments (as Lessor)
The Group has leased out its commercial spaces to third parties. The Group has determined that all significant risks and rewards of ownership of these spaces remain with the Group (see Note 21).

Finance Leases
The Group has entered into lease agreements for the land and certain equipment as a lessee. The Group has determined that is has substantially acquired all the risks and benefits incidental to ownership of the land and the equipment. The Group accounted for these as finance leases, and thus, capitalized the fair value of the land and the present value of future minimum lease payments of the equipment (see Note 21).

Collectibility of Receivables from Acesite Limited (BVI)
The Group has receivables from Acesite Limited (BVI) totaling P717.4 million which has been the subject of collection efforts by management. Management has made a judgment that the ultimate amount and timing of collection of the said receivables cannot presently be determined (see Note 22).

Estimating Allowances for Doubtful Accounts
The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with its customers, their payment behavior and known market factors. The Group reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. Allowance for doubtful accounts as of December 31, 2005 and 2004 amounted to P178.6 million and P190.7 million, respectively. Receivables, net of valuation allowance, amounted to P133.8 million and P97.7 million as of December 31, 2005 and 2004, respectively (see Note 5).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease non-current assets. As of December 31, 2005 and 2004, the aggregate net book values of property and equipment at revalued amounts amounted to P5.3 billion and P4.8 billion, respectively (see Note 9).

Estimating Impairment of Assets
The Group assesses at each reporting date whether there is an indication that carrying amount of an asset may be impaired. If any such indication exists, the Group makes an estimate of the assets recoverable amount. At the reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. As of December 31, 2005 and 2004, the carrying amounts of property and equipment at revalued amounts and other non-current assets amounted to P6.1 billion and P5.6 billion, respectively (see Notes 9 and 10).

Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. As of December 31, 2005 and 2004, the gross deferred tax assets amounted to P150.9 million and P172.3 million, respectively (see Note 18).

Retirement Costs
The determination of the Group's obligation and cost for retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 17. As of December 31, 2005 and 2004, the net retirement benefit plan obligation and net retirement cost amounted P85.95 million and P17.7 million and P70.3 million and P17.2 million, respectively (see Note 17).

4. Cash and Cash Equivalents

This account consists of:

	2005	2004
Cash on hand and in banks	**P56,169,258**	P55,924,698
Short-term placements	**12,775,432**	7,020,750
	P68,944,690	P62,945,448

Short-term placements earn interest at an annual rate of 2% with an average maturity of 30 days.

5. Receivables

This account consists of:

	2005	2004
Trade	**P279,821,359**	P250,743,438
Others	**32,636,774**	37,681,967
	312,458,133	288,425,405
Less: allowance for doubtful accounts	**178,626,099**	190,695,445
	P133,832,034	P97,729,960

6. Inventories

This account consists of:

	2005	2004
Food and beverage	**P17,982,978**	P14,219,829
Operating supplies	**15,267,088**	8,998,009
Others	**753,528**	718,544
	P34,003,594	P23,936,382

7. Prepaid Expenses and Other Current Assets

The component of the account follows:

	2005	2004
Prepaid taxes	**P23,511,097**	P24,397,219
Prepaid expenses	**1,308,698**	3,517,143
Others	**4,064,265**	1,490,668
	P28,884,060	P29,405,030

8. Related Party Transactions

In the ordinary course of business, certain related parties within and without the Group extend/obtain interest-bearing and non-interest-bearing, collateral-free cash advances to/from one another to finance working capital requirements and the construction of certain hotel projects. These receivable and payables from related parties, as discussed below, are due on demand.

The "Due from related parties" account consists of:

	2005	2004
TWGI	**P389,410,719**	P439,747,406
Metro Alliance Holdings and Equities Corp. ("MAHEC")	**282,518,612**	283,579,708
Forum Holdings Corp. ("FHC")	**145,315,423**	141,778,096
East Asia Oil Company ("EAOC")	**-**	15,750,000
Others	**3,050,926**	1,751,423
	820,295,680	882,606,633
Less: allowance for doubtful accounts	**47,628,507**	47,398,514
	P772,667,173	P835,208,119

a. In 2005 and 2004, the Parent Company and APHC extended interest-bearing, collateral free advances to MAHEC at a rate of four percent (4%) per annum. The Parent Company also extended interest-bearing, collateral-free advances to TWGI at a rate of four percent (4%) in 2003. Interest income on the advances to TWGI and MAHEC amounted to P12.6 million and P16.8 million in 2005 and 2004, respectively.

b. Advances to FHC is non-interest bearing and collateral-free.

c. Receivable from EAOC in 2004 represents non-interest bearing cash advances payable within 180 days from date of grant or, at their option, are convertible into a one year interest-bearing promissory note upon the expiry of the 180-day period.

d. In July and August 2005, the BOD approved the conversion of APHC's net receivables from MAHEC and EAOC into 86,710,000 shares of stock of Wellex Industries, Incorporated (WII), a related party, the shares of which are listed in the Philippine Stock Exchange. The net receivable at the time of conversion is P43.3 million. The conversion resulted in a loss on exchange of assets of P31.1 million. In accordance with PAS 39, the Group classified the investment in WII's shares of stocks as an AFS investment. The aggregate fair market value of WII shares based on its closing market price as of December 31, 2005 is P10.4 million, resulting in an unrealized valuation loss of P1.8 million.

The collectibility of the receivables from TWGI, MAHEC and FHC is unconditionally recognized and will be paid by the related parties as represented by the major stockholders of the said related parties.

The "Due to related parties" primarily represents non-interest bearing, collateral-free and due on demand cash advances from related parties. The account consists of:

	2005	2004
WII	**P2,038,246**	P1,652,899
Philippine Estates Corp.	**1,734,887**	1,734,887
Others	**343,161**	327,161
	P4,116,294	P3,714,947

Total key management personnel compensation amounted to P44.8 million and P43.9 million in 2005 and 2004, respectively.

9. Property and Equipment

The movements in this account are as follows:

	For the Year Ended December 31, 2005								
	Land	Land Improvements	Leasehold and Leasehold Improvement	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipments	Transportation Equipment	Construction - in Progress	Total
Measurement Basis:	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***Revalued***	***At Cost***	***At Cost***	***At Cost***	
Gross carrying amount:									
Beginning balance	**P694,968,500**	**P21,076,724**	**P2,691,789**	**P5,424,686,570**	**P679,171,580**	**P159,995,646**	**P16,863,145**	**P298,616**	**P6,999,752,570**
Additions	**-**	**387,801**	**-**	**51,363,908**	**57,276,006**	**24,737,667**	**2,645,991**	**18,020,814**	**154,432,187**
Equipment acquired under finance lease	**-**	**-**	**-**	**-**	**9,763,129**	**-**	**-**	**-**	**9,763,129**
Disposal	**-**	**-**	**-**	**(28,540,739)**	**(6,819,556)**	**(388,489)**	**(2,254,375)**	**-**	**(38,003,159)**
Reclassifications	**-**	**-**	**-**	**45,815,887**	**(40,698,705)**	**-**	**-**	**(5,117,182)**	**-**
Adjustments due to revaluation	**(202,402,500)**	**(144,429)**	**-**	**523,932,670**	**231,462,489**	**-**	**721,386**	**-**	**551,569,616**
Ending balance	**490,566,000**	**21,320,096**	**2,691,789**	**6,017,258,296**	**930,154,943**	**184,344,824**	**17,976,147**	**13,202,248**	**7,677,514,343**
Accumulated depreciation:									
Beginning balance	**-**	**15,697,379**	**1,570,145**	**1,624,710,132**	**421,462,166**	**124,569,313**	**15,156,073**	**-**	**2,203,165,208**
Provision	**-**	**1,338,634**	**448,657**	**166,061,015**	**60,889,237**	**8,984,691**	**2,337,244**	**-**	**240,059,478**
Disposal	**-**	**-**	**-**	**(28,540,450)**	**(6,818,456)**	**-**	**(2,066,510)**	**-**	**(37,425,416)**
Reclassifications	**-**	**-**	**-**	**40,698,705**	**(40,698,705)**	**-**	**-**	**-**	**-**
Adjustments due to revaluation	**-**	**(7,536,917)**	**-**	**(84,658,067)**	**42,484,974**	**-**	**189,803**	**-**	**(49,520,207)**
Ending balance	**-**	**9,499,096**	**2,018,802**	**1,718,271,335**	**477,319,216**	**133,554,004**	**15,616,610**	**-**	**2,356,279,063**
Net carrying value:									
Beginning Balance	**P694,968,500**	**P5,379,345**	**P1,121,644**	**P3,799,976,438**	**P257,709,414**	**P35,426,333**	**P1,707,072**	**P298,616**	**P4,796,587,362**
Ending balance	**P490,566,000**	**P11,821,000**	**P672,987**	**P4,298,986,961**	**P452,835,727**	**P50,790,820**	**P2,359,537**	**P13,202,248**	**P5,321,235,280**

	For the Year Ended December 31, 2004								
	Land	Land Improvements	Leasehold and Leasehold Improvement	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipments	Transportation Equipment	Construction - in Progress	Total
Measurement Basis:	*Revalued*	*Revalued*	*At Cost*	*Revalued*	*At Cost*	*Revalued*	*At Cost*	*At Cost*	
Gross carrying amount:									
Beginning balance	P694,968,500	P20,964,139	P2,691,789	P3,156,810,320	P486,011,113	P25,360,059	P16,560,830	P344,820	P4,403,711,570
Unconsolidated APHC property and equipment as of March 31, 2004 (Note 22)	-	-	-	2,149,551,000	201,487,772	129,005,209	-	-	2,480,043,981
Additions	-	112,585	-	14,544,726	23,805,619	5,630,378	350,000	-	44,443,308
Disposal	-	-	-	-	(1,372,930)	-	(47,685)	-	(1,420,615)
Reclassifications	-	-	-	(390,976)	(17,010,934)	-	-	(46,204)	(17,448,114)
Adjustments due to revaluation	-	-	-	104,171,500	(13,749,060)	-	-	-	90,422,440
Ending balance	694,968,500	21,076,724	2,691,789	5,424,686,570	679,171,580	159,995,646	16,863,145	298,616	6,999,752,570
Accumulated depreciation:									
Beginning balance	-	14,674,262	1,121,487	495,784,293	272,500,846	3,628,990	13,030,590	-	800,740,468
Unconsolidated APHC property and equipment as of March 31, 2004 (Note 22)	-	-	-	1,071,420,541	192,344,416	115,783,229	-	-	1,379,548,186
Provision	-	1,446,711	448,658	159,030,513	37,763,706	5,310,088	2,808,505	-	206,808,181
Disposal	-	(423,594)	-	(437,179)	(1,067,155)	-	(47,682)	-	(1,975,610)
Reclassifications	-	-	-	-	(15,709,833)	(152,994)	-	-	(15,862,827)
Adjustments due to revaluation	-	-	-	(101,088,036)	(64,369,814)	-	(635,340)	-	(166,093,190)
Ending balance	-	15,697,379	1,570,145	1,624,710,132	421,462,166	124,569,313	15,156,073	-	2,203,165,208
Net carrying value:									
Beginning Balance	P694,968,500	P6,289,877	P1,570,302	P2,661,026,027	P213,510,267	P21,731,069	P3,530,240	P344,820	P3,602,971,102
Ending balance	P694,968,500	P5,379,345	P1,121,644	P3,799,976,438	P257,709,414	P35,426,333	P1,707,072	P298,616	P4,796,587,362

In 2004, the Group, except for DIHCI and APHC, carried their property and equipment at cost less accumulated depreciation and amortization, as well as impairment losses, if any. DIHCI and APHC carried its property and equipment at revalued amounts, except for operating equipment which have been consistently carried at cost. The latest revaluation dates for DIHCI and APHC prior to 2005 were September 15, 1999 and December 31, 2004, respectively.

Generally, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances in accordance with PAS 27. In compliance with PAS 27, the property and equipment of the two (2) hotel properties, WCCCHI and WMCHI, are carried at revalued amounts effective July 7, 2005. Subsequently, DIHCI's property and equipment was revalued on December 31, 2005. The revaluation in 2005 resulted in the increase in the gross carrying amount of property and equipment amounting to about P552 million.

Had the property and equipment been carried at cost less accumulated depreciation and amortization, as well as impairment losses, if any, their carrying amounts would have been as follows:

	2005	2004
Hotel buildings and improvements	**P3,409,165,148**	P3,340,309,274
Furniture, fixtures and equipment	**697,097,260**	701,566,912
Transportation equipment	**17,444,563**	17,052,947
Land improvements	**9,757,815**	9,370,015
Leasehold improvements	**2,691,789**	2,691,789
Construction in progress	**13,202,248**	298,616
	4,149,358,823	4,071,289,553
Less: accumulated depreciation and amortization	**1,348,388,056**	1,261,000,212
	2,800,970,767	2,810,289,341
Land	**515,909**	515,909
	P2,801,486,676	P2,810,805,250

As of December 31, 2005 and 2004, the gross carrying value of hotel buildings and improvements include capitalized borrowing costs amounting to about P154 million.

The hotel building and improvements owned by WCCCHI and WMCHI, which have a total net carrying value of about P2.1 billion as of December 31, 2005, have been collateralized against the PNB loan (see Note 13).

10. Other Non-current Assets

This account consists of:

	2005	2004
Receivables from Acesite Limited (BVI) (Note 22)	**P717,426,534**	P717,426,534
Rent receivable (Note 20)	**30,513,510**	9,939,135
MERALCO refund (Note 26)	**12,699,676**	-
Refundable deposits	**8,211,104**	8,211,103
Others	**26,693,334**	53,741,359
	P795,544,158	P789,318,131

As of December 31, 2005 and 2004, APHC also has unsecured receivables from Acesite Limited (BVI) amounting to P717.4 million. Currently, APHC is pursuing the collection of the receivables from Acesite Limited (BVI). The component of the receivables from Acesite Limited (BVI) follows:

Non-interest bearing:	
Receivable from sale of investment in:	
Listar Properties Limited (LPL)	**P327,587,500**
Working capital advances	**374,839,034**
	702,426,534
Interest-bearing:	
Unsecured loan receivable - granted on August 8, 2002, with interest at 2% per annum	**15,000,000**
	P717,426,534

11. Accounts Payable and Accrued Expenses

This account consists of:

	2005	2004 (As Restated - Note 27)
Trade	**P306,607,997**	P259,294,768
Accrued interest and penalties (Note 13)	**209,209,273**	183,240,621
Accrued expenses	**137,827,237**	150,676,619
Withholding taxes payable	**32,243,538**	30,765,171
Deferred income	**2,972,719**	2,855,770
Others	**113,860,022**	99,754,553
	P802,720,786	P726,587,502

12. Other Current Liabilities

This account consists of:

	2005	2004 (As Restated - Note 27)
Advance payments	**P61,329,757**	P46,136,450
Accrued interest on obligations under finance lease (Note 21)	**30,896,775**	25,061,400
Tenants' deposits	**11,267,629**	10,144,408
Customers' deposits	**5,850,056**	6,642,091
Others	**3,737,324**	2,107,933
	P113,081,541	P90,092,282

13. Loans Payable

This account consists of:

	2005	2004
Philippine National Bank ("PNB")	**P1,055,500,001**	P1,194,422,243
Industrial Commercial Bank of China - Singapore Branch ("ICBC")	**487,366,200**	592,628,400
Social Security System ("SSS")	**375,000,000**	375,000,000
	1,917,866,201	2,162,050,643
Less: current portion	**1,101,200,403**	1,138,644,461
	P816,665,798	P1,023,406,182

PNB Loan

The PNB loan originally represents a US$30 million long-term debt acquired by the Parent Company, together with WCCCHI and WMCHI (collectively known as "the Borrowers") on March 26, 1997, to partly finance the construction of the Cebu City Hotel Project. Subsequently, the loan underwent several restructurings resulting to the conversion of the loan currency from U.S. Dollars to Philippine Pesos.

First Restructuring Agreement

On October 15, 1999, the PNB loan, with an outstanding principal balance as of April 15, 1999, amounting to $23.198 million, was restructured as follows:

FCDU Loan - $11.599 million Five-Year Term Loan (inclusive of a two (2) year grace period) payable in 12 quarterly amortizations, with the first amortization to commence at the end of the ninth (9^{th}) quarter from the Effective Date of the restructuring agreement. The FCDU loan is subject to interest at LIBOR based rates plus applicable spread set by PNB, subject to quarterly repricing.

Peso Loan - P487.373 million Five-Year Term Loan (inclusive of a two (2) year grace period) payable in 12 quarterly amortizations, with the first amortization to commence at the end of the ninth (9^{th}) quarter from the Effective Date of the restructuring agreement. The Peso loan is subject to interest at Prime rate-based rates plus applicable spread set by PNB, subject to quarterly repricing.

The restructuring agreement provided for the conversion of the outstanding balance of the FCDU loan, together with accrued interest thereon, into Philippine Peso using the prevailing selling rate at the time of conversion upon written consent of the Borrowers.

The restructuring agreement provided for the restructured loans to be secured by the existing mortgage on the building and improvements of the WCCCHI and WMCHI and the assignment of the Borrowers' rental receivables from PAGCOR, which is evidenced by the Deed of Assignment (DA) dated October 20, 1999.

By the end of April 2001, the loan had been completely converted into Philippine Pesos.

Second Restructuring Agreement
On December 28, 2001, the loan, including the unpaid interest thereon of about P125 million, were restructured into a two-tranche loan totaling about P1.194 billion.

The restructured loan had the following terms:

Tranche 1 -	P1 billion payable in 11 equal quarterly payments of P50 million each starting March 31, 2004 until September 2006, and a final balloon payment of P450 million in December 2006. This is secured by the building and improvements of WCCCHI.
Tranche 2 -	P194 million payable in eight equal quarterly payments starting March 2002 until December 2003. This is secured by the building and improvements of WMCHI.

The restructured loan was subject to interest of 14% per annum, which had been fixed for one year, and then subjected to yearly repricing thereafter (2% discount is given whenever an interest obligation is paid before its monthly due date).

Under the terms of this restructuring, PNB is entitled to a representation in the Board of Directors of the Parent Company. Moreover, the earnings of the WCCCHI and WMCHI from PAGCOR rentals should continue to be remitted directly to PNB upon collection, until such time that the restructured loan is paid in full in accordance with the terms of the DA.

As of December 31, 2003, the total loan obligation under Tranche 2 amounting to P194 million became due and demandable.

Third Restructuring Agreement
On September 2, 2004, the PNB loan was restructured for the third time effective March 1, 2004 ("Effective Date"). The 3rd loan restructuring basically, covered the same loan obligation as stipulated in the 2nd restructuring agreement, including provisions for collaterals attached to tranche 1 and 2 of the loan. Under the rescheduling of payment of the principal portion of the restructured loan, the loan obligations should now mature on December 31, 2008.

The restructured loan is subject to an annual interest rate equivalent to the prevailing 91-day Treasury bill plus four percent (4%) spread, payable monthly in arrears.

The restructured loan is to be paid in amortizations of P1.5 million weekly, or P6 million monthly, or higher, depending on the cash flow from WCCCHI and WMCHI operations, from the Effective Date up to the maturity date of the restructured loan. From the Effective Date up to September 24, 2004, the payments shall be applied on the interest due on the restructured loan. Any excess in the amount remitted by WCCCHI and WMCHI and the actual monthly interest shall be applied to the principal of the restructured loan.

The earnings of WCCCHI and WMCHI from PAGCOR rentals will continue to be remitted directly to PNB starting October 2004 up to the maturity date of the restructured loan in accordance with the DA dated October 20, 1999.

In case the restructured loan becomes past due, all the penalties and other charges waived by PNB due to the restructuring will become automatically reinstated and demandable.

The restructuring agreements also included negative covenants that resulted in certain restrictions on the Borrowers, as follows:

a. Changing the nature of its business, initiating any form of liquidation, or entering into any kind of business combination;

b. Incurring additional indebtedness or becoming liable as surety or guarantor on the obligation of another entity, except in the use of normal trade credit or acceptance of negotiable instruments in the normal course of business;

c. Reacquiring its capital stock or distribution of its assets to stockholders;

d. Assignment or disposition of its business or assets or incurring of any indebtedness to be secured by these assets; and

e. Directly or indirectly leasing its property or capital equipment to any person or entity.

Presently, the Borrowers are substantially in compliance with the covenants.

SSS Loan

On October 28, 1999, the Parent Company also obtained a five-year term loan from SSS amounting to P375 million which shall be due on October 29, 2004. The SSS loan bears interest at the prevailing market rate plus 3%, or 14.5% per annum, whichever is higher. Interest is repriced annually and is payable semi-annually. Initial interest payments are due 180 days from the date of the release of the proceeds of the loan. The repayment of the principal shall be based on eight semi-annual payments, after a one-year grace period.

The SSS loan was availed to finance the completion of the facilities of WCCCHI. It was secured by way of a first mortgage over parcels of land owned by Wellex Industries, Inc. ("WII"), a related party, and by the assignment of 200 million common shares of the Parent Company owned by The Wellex Group, Inc. ("TWGI"). The common shares assigned shall be placed in escrow in the possession of an independent custodian to be mutually agreed upon by both parties.

On August 7, 2003, the total loan obligation to SSS including penalties and interest amounted to P605 million. The Parent Company, WII and TWGI were considered in default with the payments of the loan obligations, thus, on the same date, SSS executed a foreclosure proceeding on the mortgaged parcels of land owned by WII. The SSS' winning bid on the foreclosure sale amounting to P198 million was applied to penalties and interest amounting to P74 million and P124 million, respectively. In addition, the Parent Company accrued penalties charged by SSS amounting to P30.5 million covering the months of August until December 2003, and unpaid interest expense of P32 million.

The certificate of sale on the foreclosed property was registered on October 17, 2003. However, the Parent Company, WII and TWGI were given the right to redeem the foreclosed property within one year from the date of registration of the certificate of sale. The Parent Company recognized the proceeds of the foreclosure sale, which were partly applied against its SSS loans, as its liability to WII and TWGI. The Parent Company, however, agreed with TWGI to offset this directly against its receivable from the latter. In August 2004, the redemption period for the Parent Company, WII and TWGI expired.

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation pending before the Regional Trial Court of Quezon City, docketed as Civil Case No. Q-04-52629. To date, the case is still in the preliminary stage and has not yet reached the pre-trial stage.

As of December 31, 2005, total outstanding loan obligations to SSS of the Parent Company amounted to P582 million consisting of the principal of P375 million and interest and penalties of P207 million. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS.

The SSS loan is secured by the shares of stocks of the Parent Company owned by TWGI and shares of WII numbering 235 million and 80 million shares, respectively. To date, no action has yet been taken by SSS with regard to the foreclosure of these shares.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. The Parent Company believes that it will be able to restructure the said loan. In the absence yet of a formal restructuring agreement, the entire outstanding loan balance amounting to P375 million has been classified as current in the December 31, 2005 and 2004 consolidated balance sheets.

ICBC Loan

This represents the balance of US$15 million loan obtained by APHC from ICBC under the terms and conditions of a Facility Agreement issued on March 27, 1995, which was amended on September 17, 1997 (collectively, the “Existing Facility Agreement”). The loan restructured in 2000 with interest at prime rate plus 5% spread.

On June 3, 2003, an Amended Agreement was signed by the parties to amend the Existing Facility Agreement. As amended, the balance of the loan amounting to US$14,256,987 shall bear annual interest rate at 2% above Singapore Interbank Offer Rate (SIBOR) and shall be payable in semi-annual installments up to April 30, 2006.

The loan is guaranteed by a first legal mortgage over the parcel of land owned by CIMAR where Manila Pavilion Hotel is situated, hotel building and equipment, and furniture, fixtures and all other items thereon which belong to APHC. The loan is also covered by corporate guarantees from Sino-i and CIM Co. Ltd., Hong Kong (former owner of CIMAR) and a personal guarantee from Mr. Yu Pun Hoi, Chairman of Sino-i.

APHC was not able to pay the installment amounting to US$1.5 million and its related interest due on April 30, 2004. On July 6, 2004, the new management of APHC requested ICBC that they will be given two months to review the Amendment Agreement and to be allowed to suspend amortization payment for the said period. The new management guaranteed and committed that APHC would honor the amortization payment after two months. The new management also gives its commitment that APHC would pay the unpaid interest up to June 30, 2004.

On July 9, 2004, ICBC communicated to APHC that they were not agreeable to any further extension of time for the new management to review the Amendment Agreement and the suspension of loan installment payment. ICBC also demanded to effect payment of the overdue loan installment plus interest and legal fees amounting to US$1.7 million as of June 30, 2004 within the next five days. Only upon the receipt of the said payment within the next five days that ICBC would be prepared to discuss the arrangement with APHC on a strictly without prejudice basis; if payment was not received by then, ICBC would declare an event of default and proceed to recover the outstanding balance from APHC under the Amendment Agreement without any further reference. On July 12, 2004, APHC paid interests and legal fees totaling US$164,043 which ICBC accepted.

On July 19, 2004, representatives of APHC and ICBC formally met where APHC requested for the reconsideration of the five-day deadline and allowing a reprieve in paying the loan installment payment due for the period, or any balance thereof, which APHC suggested to be placed at the end of the term of the Amendment Agreement. However, the scheduled loan installment due in October 2004 should resume and the succeeding installment payments thereafter. APHC also offered to pay 10% of the loan installment (US$150,000) due for the period and committed to update all interest payments. On July 23, 2004, APHC paid the 10% of the loan installment of US$150,000 which ICBC accepted.

In 2005, APHC paid US$1.35 million principal out of US$5 million that matured during the year.

To date, APHC management is still currently negotiating with ICBC for the rescheduling of payments of APHC's overdue loan principal installments totaling US$5.5 million as of December 31, 2005, and the balance of US$3.68 million due in April 2006. ICBC has yet to provide APHC with its written reply on the latter's loan payment rescheduling proposal.

In the absence yet of a formal approval by ICBC of APHC's proposed rescheduling, the entire outstanding loan balance has been classified as current in the consolidated balance sheets. Under the original term of the Amendment Agreement, the balance of P207,110,400 (US$3,680,000) is due on April 2006.

In May 2006, APHC submitted its revised restructuring proposal to ICBC. Should the proposed payment schedule be approved by ICBC, the current and non-current portions of APHC's loan payable as of December 31, 2005, will be as follows:

	In US$	In PHP
Current	$2,250,000	P119,452,500
Non-current	6,930,000	367,913,700
	$9,180,000	P487,366,200

14. Other Non-current Liabilities

The account is broken down as follows:

	2005	2004 (As Restated - Note 27)
PAGCOR Security Deposit - WCCCHI (Note 20)	**P157,098,312**	P157,098,312
PAGCOR Security Deposit - WMCHI (Note 20)	**75,600,000**	75,600,000
Retirement liability (Note 17)	**85,950,776**	70,285,584
Concessionaires and other deposit - APHC (Note 20)	**58,424,283**	29,356,727
Obligations under finance lease (Note 21)	**34,030,742**	25,000,000
	P411,104,113	P357,340,623

Retirement liability pertains to the defined benefit obligation of the following:

	2005	2004 (As Restated - Note 27)
APHC	**P48,889,874**	P38,810,947
WCCCHI	**16,715,511**	14,044,297
DIHCI	**14,921,051**	12,710,667
WMCHI	**5,424,340**	4,719,673
	P85,950,776	P70,285,584

15. Segment Information

The Parent Company's operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit - the Hotel operations and the Marketing operations. The Corporate and Others segment include general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2. The Parent Company generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following table present revenue and profit information regarding industry segments for the years ended December 31, 2005 and 2004 and certain asset and liability information regarding industry segments as of December 31, 2005 and 2004 (in millions):

	Hotel Operations December 31		Marketing Operations December 31		Corporate and Others December 31		Eliminations December 31		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
TOTAL REVENUES										
External sales	**P1,788**	P1,409	**P -**	P9	**P -**	P -	**P -**	P -	**P1,788**	P1,418
RESULTS										
Segment results	**P317**	P196	**(P5)**	(P3)	**(P70)**	(P146)	**P -**	P -	**P242**	P47
OPERATING INCOME (LOSS)										
Interest expense	**P -**	P -	**P -**	P -	**(P179)**	(P185)	**P -**	P -	**(P179)**	(P185)
Interest income	**-**	-	**-**	-	**16**	23	**-**	-	**16**	23
Amortization of deferred credit	**-**	-	**-**	-	**-**	540	**-**	-	**-**	540
Income taxes	**-**	-	**-**	-	**(36)**	(17)	**-**	-	**(36)**	(17)
Net Income	**P317**	P196	**(P5)**	(P3)	**(P269)**	P215	**P -**	P -	**P43**	P408
OTHER INFORMATION										
Segment assets	**P6,438**	P6,083	**P199**	P401	**P4,958**	P5,027	**(P4,405)**	(P4,851)	**P7,190**	P6,660
Deferred tax asset	**150**	172	**-**	-	**1**	-	**-**	-	**151**	172
Consolidated total assets	**P6,588**	P6,255	**P199**	P401	**P4,959**	P5,027	**(P4,405)**	(P4,851)	**P7,341**	P6,832
Segment liabilities	**P4,568**	P4,607	**P11**	P207	**P424**	P702	**(P3,039)**	(P3,882)	**P1,964**	P1,634
Loans and interest payable	**-**	-	**-**	-	**2,125**	2,342	**-**	-	**2,125**	2,342
Consolidated total liabilities	**P4,568**	P4,607	**P11**	P207	**P2,549**	P3,044	**(P3,039)**	(P3,882)	**P4,089**	P3,976
Other segment information										
Capital expenditures	**P154**	P44	**P -**	P -	**P -**	P -	**P -**	P -	**P154**	P44
Depreciation and amortization	**240**	207	**-**	-	**-**	-	**-**	-	**240**	207

16. Costs and Expenses

These accounts consist of:

	2005	2004 (As Restated - Note 27)
Cost of sales	**P364,803,692**	P291,668,932
Payroll-related expenses (Note 17)	**331,691,081**	254,668,551
Energy costs	**248,689,886**	185,420,903
Penalties and other charges (Notes 11 and 13)	**70,836,006**	87,576,995
Repairs and maintenance	**42,134,049**	21,991,034
Rent (Note 21)	**27,912,615**	25,793,302
Supplies	**18,617,083**	23,635,980
Taxes and licenses	**16,861,368**	22,818,482
Advertising	**11,613,648**	13,628,053
Security and other services	**9,968,005**	9,512,654
Insurance	**7,802,260**	8,660,500
Commissions	**6,685,032**	4,892,175
Representation and entertainment	**5,024,362**	11,522,703
Communications	**3,406,988**	3,808,008
Professional fees	**3,417,302**	1,747,814
Fuel and oil	**1,410,333**	794,420
Management fees	**-**	3,248,315
Miscellaneous	**134,508,463**	119,273,344
	P1,305,382,173	P1,090,662,165

17. Retirement Costs

The Group has a non-contributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and compensation during the last 5 years of employment. Retirement costs charged to operations in 2005 and 2004 amounted to about P17.7 million and P17.2 million, respectively.

As of December 31, 2004, the actuarial present value of defined benefit obligation amounted to P129.3 million and the fair value of plan assets amounted to P88.7 million. The actuarial valuation is made on a regular basis.

The reconciliation of the retirement liability included under "Other Non-current Liabilities" in the consolidated balance sheets is shown below:

	2005	2004
Present value of defined benefit obligation	**P147,483,666**	P129,342,335
Fair value of plan assets	**(86,238,921)**	(88,653,828)
Net present value of defined benefit obligation	**61,244,745**	40,688,507
Unrecognized actuarial gains	**24,706,031**	29,597,077
Retirement liability at December 31	**P85,950,776**	P70,285,584

Movements in the retirement liability recognized in the consolidated balance sheets are shown below:

	2005	2004
Retirement liability at January 1	**P70,285,584**	P54,065,682
Expenses recognized in the consolidated statements of operations	**17,698,929**	17,179,334
Contributions paid	**(2,033,737)**	(959,432)
Retirement liability at December 31	**P85,950,776**	P70,285,584

Expenses recognized in the consolidated statements of operations follow:

	2005	2004
Current service costs	**P8,321,653**	P7,806,674
Interest cost	**18,107,930**	18,038,063
Expected return on plan assets	**(7,978,845)**	(8,665,403)
Net actuarial gains recognized during the year	**(751,809)**	-
	P17,698,929	P17,179,334

The expenses are recognized as part of the "Costs and Expenses" in the consolidated statements of operations.

The principal actuarial assumptions at the balance sheet date:

	2005	2004
Discount rate	**12%**	14%
Expected rate of return on plan assets	**10%**	9%
Salary increase rate	**10%**	10%

18. Income Taxes

The components of the Group's provision for income tax are as follows:

	2005	2004 (As Restated - Note 27)
Current	**P63,997,196**	P19,409,498
Deferred	**(27,820,121)**	(1,759,737)
Provision for income tax	**P36,177,075**	P17,649,761

The reconciliation of the expected provision for income tax computed at the statutory tax rate to the actual provision shown in the consolidated statements of operations is as follows:

	2005	2004 (As Restated - Note 27)
Income before income tax and minority interest	**P79,133,597**	P425,408,057
Provision for income tax at 32.5% in 2005 and 32% in 2004	**P25,718,419**	P136,130,578
Additions to (reductions in) income tax resulting from the tax effects of:		
Loss on exchange of assets	**10,108,972**	-
Non-deductible representation expense	**1,486,466**	-
Loss from write-off of investment	**1,378,905**	-
Non-deductible interest expense	**1,200,805**	1,320,548
Non-deductible operating expenses	**399,832**	-
Income already subjected to final tax	**(558,033)**	(463,250)
Write-off of negative goodwill	**-**	(172,851,278)
	39,735,366	(35,863,402)
Expiration of NOLCO	**13,029,671**	67,506,623
Changes in unrecognized deferred tax assets	**19,691,005**	(13,746,023)
Changes in statutory tax rate	**(35,609,932)**	-
Others	**(669,035)**	(247,437)
	P36,177,075	P17,649,761

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2005	2004	**2005**	2004	**2005**	2004
Property and equipment	**P -**	P -	**P822,221,716**	P631,307,124	**P822,221,716**	P631,307,124
Rent receivable	**-**	-	**10,805,489**	3,311,377	**10,805,489**	3,311,377
MERALCO refund	**-**	-	**5,554,860**	-	**5,554,860**	-
Unamortized past service cost	**(4,357,051)**	(5,211,910)	**-**	-	**(4,357,051)**	(5,211,910)
Rent received in advance	**(21,465,415)**	(14,497,794)	**-**	-	**(21,465,415)**	(14,497,794)
Unrealized forex loss	**(87,200,820)**	(102,158,429)	**-**	-	**(87,200,820)**	(102,158,429)
Allowance for doubtful accounts	**(11,158,124)**	(1,343,373)	**-**	-	**(11,158,124)**	(1,343,373)
Accrued retirement benefits	**(24,860,404)**	(18,423,974)	**-**	-	**(24,860,404)**	(18,423,974)
NOLCO	**-**	(16,750,527)	**-**	-	**-**	(16,750,527)
Minimum Corporate Income Tax (“MCIT”)	**(1,869,736)**	(13,960,404)	**-**	-	**(1,869,736)**	(13,960,404)
Net tax (assets)/liabilities	**(P150,911,550)**	(P172,346,411)	**P838,582,065**	P634,618,501	**P687,670,515**	P462,272,090

As of December 31, 2005 and 2004, deferred tax liability recognized directly in equity relating to the revaluation of property and equipment amounted to P822 million and P631 million, respectively.

Deferred tax assets have not been recognized in respect of the following items:

	2005	2004
NOLCO	**P114,232,513**	P142,233,778
Provision for doubtful accounts	**17,172,545**	35,593,826
Provision for retirement benefits	**5,222,368**	6,492,092
	P136,627,426	P184,319,696

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2005, the Group has consolidated NOLCO of about P326 million, the details of which are as follows:

Taxable Period	Original Amounts	Applied Amount	Unapplied Balances	Valid Until
December 31, 2005	P72,602,977	P -	P72,602,977	December 31, 2008
December 31, 2004	71,959,775	-	71,959,775	December 31, 2007
December 31, 2003	181,815,855	-	181,815,855	December 31, 2006
	P326,378,607	P -	P326,378,607	

From 2003 to 2005, certain subsidiaries were required to pay MCIT under existing tax regulations. The MCIT payments and the applicable years that these will be deductible from regular taxable income are shown below:

Period Paid	Valid Until	Amount
December 31, 2005	December 31, 2008	P800,685
December 31, 2004	December 31, 2007	795,899
December 31, 2003	December 31, 2006	273,152
		P1,869,736

19. Earnings Per Share

The earnings per share as of December 31 are computed as follows:

	2005	2004 (As Restated - Note 27)
Net income attributable to equity holders of the Parent	**P45,074,189**	P412,196,530
Weighted number of shares outstanding	**1,945,934,653**	1,945,934,653
Earnings per share	**P0.023**	P0.212

There are no potential dilutive shares as of December 31, 2005 and 2004.

20. Lease Agreement with Philippine Amusement and Gaming Corporation ("PAGCOR")

In compliance with the decision of the Board of Arbitrators rendered on January 28, 2003, PAGCOR and the Parent Company (together with WCCCHI and WMCHI) executed an Amended Contract of Lease ("ACL") on January 31, 2003, which superseded entirely, upon its effectivity, the Original Contract of Lease ("OCL") of September 13, 1995, and revoked the exclusive right of the Parent Company (together with WCCCHI and WMCHI) to provide the sole venue for land-based casinos of PAGCOR in the Province of Cebu under a memorandum of agreement. The new lease period retroacts to January 1, 2001, and shall remain in force until December 31, 2008, unless sooner shortened or renewed, upon mutual agreement of the parties.

The ACL mandated for a straight rental of P1,200 per square meter of floor area, subject to a 5% cumulative increase computed on an annual basis commencing on the fourth year. This provision completely replaced the marketing incentive fee as stipulated in the OCL. In addition, the ACL provided for the immediate payment of PAGCOR of its lease rentals from January 1, 2001 to December 31, 2002 based on the new rate, net of amounts already paid. Likewise, PAGCOR agreed to pay cash advances starting in 2003, which amount shall be maintained at all times. Furthermore, PAGCOR will pay a sum equal to the total rental payments previously made for the years 2001, 2002 and 2003 under the OCL, which sum shall be considered as cash advances.

PAGCOR also agreed to pay WCCCHI and WMCHI security deposit equivalent to the rentals for one year based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit, which amounted to P232.6 million, is recorded in the December 31, 2005 consolidated balance sheet under the “Other Non-current Liabilities” account.

APHC also has an existing lease agreement with PAGCOR terminating in April 2008. The lease agreement between APHC and PAGCOR provides for a fixed rental rate per square meter of floor area, subject to a 5% cumulative increase computed on an annual basis.

Non-cancellable operating lease rentals receivable from PAGCOR by WCCCHI, APHC and WMCHI are as follows:

	2005	2004
Less than one year	**P447,800,407**	P411,521,157
Between one and five years	**756,335,899**	1,431,932,146
	P1,204,136,306	P1,843,453,303

Total annual rent recognized as revenues amounted to P255 million and P244 million for 2005 and 2004, respectively.

21. Other Lease Agreements

Lands Under Operating Lease

On September 15, 1994, Waterfront Hotel and Resort Sdn. Bhd. (“WHR”), a former related party, executed a lease contract with MCIAA for the lease of certain parcels of land where the hotels were constructed. On October 14, 1994, WHR assigned its rights and obligations on the MCIAA contracts to WCCCHI and WMCHI.

WCCCHI and WMCHI shall pay MCIAA fixed rentals per month plus a 2% variable rent based on the annual gross revenues of WCCCHI and WMCHI, as defined in the agreements. The leases are for a period of 50 years, subject to automatic renewal for another 25 years, depending on the provisions of the applicable Philippine laws at the time of renewal.

Fixed, non-cancellable operating lease rentals are payable to MCIAA as follows:

	2005	2004
Less than one year	**P13,793,443**	P13,793,443
Between one and five years	**55,173,772**	55,173,772
More than five years	**275,880,332**	289,673,775
	P344,847,547	P358,640,990

Total annual rent expense charged to operations amounted to P27.9 million and P25.5 million in 2005 and 2004, respectively.

Land Under Finance Lease

In January 1989, APHC executed a Deed of Assignment with CIMAR assigning to the latter the right to purchase the land on which APHC's hotel building is situated, from Government Service Insurance System (GSIS) under certain conditions which will allow APHC to lease back the land. Subsequently, CIMAR acquired and paid for the purchase price of the land to GSIS. Correspondingly, on January 17, 1989, a contract of lease for the land was executed between APHC and CIMAR for a period of ten (10) years with an annual rental of about P1.3 million. Moreover, APHC has the unconditional and irrevocable right to purchase the land from CIMAR and assign its rights to repurchase the land to any third party at any time during the term of the lease. In May 1989, the contract was amended extending the period of the lease to twenty-five (25) years and increasing the annual rental to about P6.1 million.

In view of the nature of the lease and related contracts, the lease has been classified as a finance lease as repurchase of the land can be exercised anytime during the period of the lease. Accordingly, APHC recognized the capitalized asset and related liability of P25.0 million (equivalent to the purchase option price and also the minimum lease payment) in its balance sheets. Payments to CIMAR until the purchase option is exercised are treated as financing costs (accretion expense).

On September 22, 2004, the legal counsel of CIMAR sent a demand letter to APHC enforcing payment of unpaid rentals amounting to about P23.0 million as of the date and threatening to terminate the lease contract.

In September 2005, CIMAR formally filed a case in court ordering APHC to vacate the premises where its hotel is situated and ordering APHC to pay the unpaid rentals and related interest. CIMAR claims that, as of the date of filing of the case, APHC failed to pay rentals and interest with an aggregate amount of P29.2 million.

In October 2005, APHC filed its answer in the court, claiming beneficial ownership over the land pursuant to an implied trust; i.e., the right to purchase the property was originally assigned to CIMAR, a corporation created by APHC. In January 2006, APHC filed a case for reconveyance of the land based on APHC's defense in its October 2005 filing.

The contract of lease between APHC and CIMAR stipulates that the said contract shall remain in full force and effect unless otherwise revoked or amended in writing by both parties, and, accordingly, in the opinion of APHC's legal counsel, the finance lease cannot be terminated unilaterally. As of December 31, 2005, total unpaid rentals and penalty interests due to CIMAR amounted to P30.9 million, shown as part of "Other current liabilities" account in the 2005 consolidated balance sheet.

As of December 31, 2005, the land under finance lease was determined by an independent appraiser to have a market value of P422.5 million, which is not taken up in the financial statements of APHC.

Lease Agreements with Concessionaires
The Hotels have lease agreements with concessionaires of the Hotels' available commercial spaces. These agreements typically run for a period of less than one year, renewable upon the mutual agreement of the parties.

Equipment under Finance Lease
DIHCI leased a certain equipment for a monthly fee of P125,000 starting November 2005 for 10 years from Edward Marcs Philippines, Inc. (EMPI). At the end of the 10-year lease period, EMPI shall transfer to DIHCI, free from any lien or encumbrance created by EMPI and without any payment of any compensation, all its rights, title and interest in and to the equipment.

The present value of the total expected lease payments is determined at P9,763,129. Depreciation expense charged to operations for the year ended December 31, 2005 amounted to P162,719.

A reconciliation between the total of future minimum lease payments and their present value as of December 31, 2005 is as follows:

	Future Minimum Lease Payments	Imputed Finance Charges	Present Value of Future Minimum Lease Payments
Less than one year	P1,500,000	P867,482	P632,518
Between one and five years	6,000,000	2,797,563	3,202,437
More than five years	7,250,000	1,421,695	5,828,305
	P14,750,000	P5,086,740	P9,663,260

22. Acquisition and Status of Acesite (Phils.) Hotel Corporation Shares

On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. The acquisition was effected through a cross-sale in the Philippine Stock Exchange. The shares were previously owned by Acesite Limited (BVI), non-resident stockholders of APHC and were acquired by the Parent Company (as "Assignee") from Equitable PCI Bank, Inc. (the "Assignor"), the lender of the non-resident stockholders. This transaction was covered by a Deed of Assignment of Shares of Stock entered into by the Parent Company and the Assignor on February 17, 2003, whereby the Assignor assigned, transferred and conveyed all its rights, title, and interests in the mortgaged shares for and in consideration of the amount of US$2,060,571 or P112,259,886, which was effectively the same as the prevailing market price of the APHC shares at that time (P1.66 per share). The acquisition was made pursuant to the Parent Company's plans to expand its operations, which are currently in Cebu City, to the Metro Manila area.

Acesite Limited (BVI) has contested the foreclosure and on February 20, 2003, filed a case for the annulment of the sale, with application for issuance of a writ of preliminary injunction and a prayer for a temporary restraining order with the Regional Trial Court of Makati City. On August 15, 2003, the Regional Trial Court of Makati City granted Acesite Limited (BVI)'s request for preliminary injunction upon posting of the necessary injunction bond.

On June 3, 2004, for failure of Acesite Limited (BVI) to post the full amount of the injunction bond, the Regional Trial Court of Makati City ordered the stock transfer agent of the APHC to transfer the 74,889,231 shares to EPCIB and, in accordance with the Deed of Assignment of Shares of Stock dated February 17, 2003, the shares were transferred to the Parent Company. Subsequently, Acesite Limited (BVI) filed a motion for reconsideration of the order dissolving the writ of injunction issued by the court.

On June 24, 2004, at the annual stockholder's meeting of APHC pursuant to the order of the SEC, the Parent Company, as the registered majority stockholder of record, elected new directors to serve as such until the next annual stockholder's meeting. On July 2, 2004, a certain stockholder filed a motion for intervention for the annulment of both the said stockholder's meeting and the election of the new directors at the Regional Trial Court of Manila. On August 16, 2004, the Regional Trial Court of Manila dismissed the case on the intervention filed by the stockholder.

On August 10, 2004, the Court of Appeals (CA) gave due course to EPCIB's petition, set aside the questioned Orders on Acesite Limited (BVI) request for preliminary injunction bond. On the same date, Acesite Limited (BVI) filed a Motion for Reconsideration which the CA denied on November 24, 2004.

On December 22, 2004, Acesite Limited (BVI) questioned the said Resolutions of the CA by filing a Petition for Review on Certiorari at the Supreme Court (SC). On January 19, 2005, the SC denied the Petition for Review on Certiorari of the decision and resolution of the CA dated August 10, 2004 and November 24, 2004, respectively, for failure of Acesite Limited (BVI) to state the material date showing when notice of judgment thereof was received. On March 1, 2005, Acesite Limited (BVI) filed a motion for reconsideration of the said denial by the SC. The petition for reconsideration has been denied with finality by the SC on March 14, 2005.

As of December 31, 2005 and 2004, APHC also has unsecured receivables from Acesite Limited (BVI) amounting to P717.4 million. Currently, APHC, through its lawyers in Hong Kong, is in the process of filing a case in Hong Kong against Acesite Limited (BVI) and all other parties involved.

23. Deferred Credit

The acquisition of 74,889,231 or 75% of the issued and outstanding capital stock of APHC for and in consideration of the amount of US$2,060,571 or P112,259,886 (exclusive of additional direct costs to effect the share purchase amounting to P14,518,448, which were capitalized to form part of the investment cost) resulted in a recognition of negative goodwill, representing the excess of the Parent Company's share in the book value of APHC as of March 31, 2004 over the total acquisition cost of the investment.

In the 2004 consolidated financial statements, the negative goodwill of P540,160,243 was amortized over a period of three (3) years beginning April 1, 2004, in compliance with the provisions of Statement of Financial Accounting Standards (SFAS)/International Accounting Standard (IAS) 22, *Business Combinations*. The negative goodwill amortization amounting to P135 million was presented as part of "Other revenues" in the 2004 consolidated statement of operations (as previously reported). The unamortized negative goodwill as of December 31, 2004, amounting to P405 million was presented as "Deferred Credit" in the 2004 consolidated balance sheet (as previously reported).

In accordance with PFRS 3, *Business Combinations*, which became effective January 1, 2005, the balance of the negative goodwill amounting to P405 has been derecognized in the beginning of 2005 as a retroactive adjustment to the opening balance of Deficit. Thus, the full amount of the negative goodwill amounting to P540 million is considered as earned income and presented as part of "Other revenues" in the 2004 consolidated statement of operations (as restated).

24. Financial Risk Management

The Group's principal financial instruments comprise of cash, receivables, trade and other payables, concessionaire's and other deposits and interest-bearing loans from PNB, SSS and ICBC. The main purpose of these financial instruments is to raise finances for the Group's operations.

The main risks arising from the financial instruments of the Company are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized below.

<u>Interest Rate Risk</u>
The Group's exposure to the risk changes in market interest rates relates primarily to the interest-bearing loans from SSS, PNB and ICBC. The annual interest rates of these loans are as follows:

	Annual Interest Rate
PNB	Prevailing 91-day treasury bill plus 4%
SSS	Prevailing market rate plus 3%, or 14.5% per annum, whichever is higher
ICBC	2% above SIBOR

<u>Credit Risk</u>
The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk from other financial assets of the Group, which mainly comprise of cash, due from related parties and receivable from Acesite Limited (BVI), the exposure of the Group to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Other than the receivables from Acesite Limited (BVI), there is no other significant concentration of credit risk in the Group.

Foreign Currency Risk
The Group does not have any material transactional foreign exchange risks as its revenue and costs are substantially denominated in Philippines Peso. The Group monitors and assesses cash flows from anticipated transactions and financing agreements denominated in US Dollars.

Liquidity Risk
The Group monitors and maintains a level of cash deemed adequate by the management to finance the Group's operation's and mitigate the effects of fluctuations in cash flows. Additional short-term funding is obtained from related party advances and short-term bank loans, when necessary.

Foreign Exchange Risk and Interest Risk
The Group's financial instrument that is exposed to foreign exchange risk and interest risk is its loan from ICBC. The loan bears interest at annual rate of 2% above SIBOR. The amount that will mature within 1 year is US$9.18 million which is also equal to the carrying value of the loan as of December 31, 2005.

Fair Value of Financial Instruments
Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements (in thousands) as of December 31, 2005:

	Carrying Amounts	Fair Values
Financial Assets		
Cash and cash equivalents	P68,945	P68,945
Receivables	133,832	133,832
Due from related parties	772,667	776,667
AFS investment	10,405	10,405
Financial Liabilities		
Accounts payable and accrued expenses	P802,721	P802,721
Loans payable	1,917,866	1,917,866
Due to related parties	4,116	4,116
Other current liabilities	113,082	113,082

Except for AFS investment, the carrying values of these financial instruments approximate their fair values as these have short-term maturities and are considered due and demandable.

The fair value of AFS investment was determined using the closing market price of the investment as of December 31, 2005.

The fair value of the receivables from Acesite Limited (BVI) as of December 31, 2005 cannot be presently determined due to the uncertainty of the ultimate amount and timing of the collection of the receivables (see Note 22).

25. Commitments and Contingencies

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

a. On March 1, 2005, APHC received an assessment from the BIR principally for deficiency expanded Value Added Tax on receipts from PAGCOR and final withholding taxes on foreign income payments for the fiscal year ended March 31, 2003 amounting to about P198.2 million, inclusive of surcharges and interest. On March 10, 2005, APHC sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of APHC is sustainable, and accordingly, believe that APHC does not have a present obligation (legal or constructive) with respect to this matter.

b. In 2002, the members of the DIHCI Employees Union-NFL filed a notice for Preventive Mediation, claiming that the Memorandum of Agreement ("MOA") entered into by the Union with the management was null and void on the following grounds: (a) it was entered into by the Union's officers without the consent of the Union's general membership; and (b) it provides for diminished employees' benefits in violation of the Labor Code. Complainants demanded payment of salary differentials for twenty-six (26) months in the total amount of P5.5 million and payment of differentials for their sick and vacation leaves in the total amount of P1.6 million. Management believes these obligations have been covered under their retirement program.

c. In the normal course of business, the Group enters into commitments and encounters certain contingencies, which include a case against a contractor of one of its hotels for specific performance. Management believes that the losses, if any, that may arise from these commitments and contingencies would not be material to warrant additional adjustment or disclosure to the consolidated financial statements.

26. Other Matter

As a customer of MERALCO, APHC could expect to receive a refund for some of MERALCO's previous billings under Phase IV-B of MERALCO's refund scheme. Under the refund scheme, the refund may be received through postdated checks or as a fixed monthly credit bills with cash option. APHC intends to recover the refund through receipt of quarterly postdated checks of equal amount over 5 years, starting April 2005 up to December 2010. APHC recognized a receivable from MERALCO amounting to P15.9 million (net of unearned interest income of P6.2 million), which was also recognized as accretion income from the refund (included in "Revenues – Others" in the 2005 consolidated statement of income). The receivable was discounted using an effective interest rate of 14%. The amount of P3.2 million expected to be recovered within 2006 is included in the "Receivables – net" in the 2005 consolidated balance sheet, while the amount of P12.7 million expected to be recovered beyond one year is included in "Other Non-current Assets" account in the 2005 consolidated balance sheet.

27. Effects of Transition to PFRS and Prior Period Adjustment

As stated in Note 2, these are the Group's first consolidated financial statements prepared in accordance with PFRS.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2005, the comparative information presented in these consolidated financial statements for the year ended December 31, 2004 and in the preparation of an opening PFRS consolidated balance sheet at January 1, 2004 (the Group's date of transition).

In preparing its opening PFRS consolidated balance sheet, the Group has adjusted amounts reported previously in consolidated financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to PFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Also, the balance of the Deficit at December 31, 2004 has been restated from the amount previously reported to recognize APHC's revaluation surplus in property and equipment, net of corresponding deferred tax liability, subsequent to March 31, 2004, the date where the Parent Company acquired control over APHC. This resulted in an increase in Deficit by P100.1 million as of December 31, 2004.

Reconciliation of stockholders' equity

In thousands of Philippine peso	Note	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
			January 1, 2004			December 31, 2004	
Assets							
Cash and cash equivalents		P28,503	P -	P28,503	P62,946	P -	P62,946
Receivables - net		83,483	-	83,483	97,730	-	97,730
Inventories		14,489	-	14,489	23,936	-	23,936
Due from related parties		628,641	-	628,641	835,208	-	835,208
Prepaid expenses and other current assets		36,005	-	36,005	29,405	-	29,405
Total current assets		791,121	-	791,121	1,049,225	-	1,049,225
Property and equipment - net	c	3,856,888	(259,860)	3,597,028	5,050,504	(253,917)	4,796,587
Land under finance lease		-	-	-	25,000	-	25,000
Investments in shares of stock		126,609	-	126,609	-	-	-
Deferred tax assets	b	58,591	10,686	69,277	159,389	12,958	172,347
Other non-current assets		51,064	-	51,064	789,318	-	789,318
Total Assets		**P4,884,273**	**(P249,174)**	**P4,635,099**	**P7,073,436**	**(P240,959)**	**P6,832,477**
Current Liabilities							
Accounts payable and accrued expenses	b	P634,465	(P8,929)	P625,536	P761,213	(P34,625)	P726,588
Current portion of loans payable		769,422	-	769,422	1,138,645	-	1,138,645
Income tax payable		273	-	273	2,345	-	2,345
Due to related parties		3,743	-	3,743	3,715	-	3,715
Other current liabilities	b	80,334	-	80,334	91,706	(1,614)	90,092
Total current liabilities		1,488,237	(8,929)	1,479,308	1,997,624	(36,239)	1,961,385
Loans payable - net of current portion		800,000	-	800,000	1,023,406	-	1,023,406
Deferred tax liabilities	c	347,893	(83,155)	264,738	715,872	(81,254)	634,618
Other non-current liabilities	b	-	39,386	39,386	287,055	70,286	357,341
Total Liabilities		2,636,130	(52,698)	2,583,432	4,023,957	(47,207)	3,976,750
Deferred Credit	a	-	-	-	405,120	(405,120)	-
Stockholders' Equity							
Equity attributable to the equity holders of the Parent							
Capital stock		1,945,935	-	1,945,935	1,945,935	-	1,945,935
Additional paid-in capital		755,435	-	755,435	755,435	-	755,435
Revaluation surplus in property and equipment		-	-	-	-	100,076	100,076
Deficit	d	(727,825)	(193,013)	(920,838)	(593,398)	115,179	(478,219)
Foreign currency translation adjustment		56,204	-	56,204	56,195	-	56,195
		2,029,749	(193,013)	1,836,736	2,164,167	215,255	2,379,422
Minority interest	b	218,394	(3,463)	214,931	480,192	(3,887)	476,305
Total Stockholders' Equity		2,248,143	(196,476)	2,051,667	2,644,359	211,368	2,855,727
Total Liabilities and Stockholders' Equity		**P4,884,273**	**(P249,174)**	**P4,635,099**	**P7,073,436**	**(P240,959)**	**P6,832,477**

Notes to the reconciliation of stockholders' equity

a. Under previous GAAP, the negative goodwill of P540 million, which resulted from the acquisition of 75% of the outstanding capital stock of APHC, was amortized over a period of three (3) years beginning April 1, 2004. In accordance with PFRS 3, the unamortized negative goodwill amounting to P405 million was fully written-off as of December 31, 2004.

The adoption of PFRS 3 resulted in a decrease in the following account as of December 31, 2004:

	December 31 2004
Deferred credit	(P405,120)

b. In accordance with PAS 19, the net present values of the defined benefit obligation at January 1 and December 31, 2004 for WCCCHI, WMCHI, APHC and DIHCI totaling P39.4 million and P70.3 million, respectively, have been recognized in the consolidated balance sheets.

The adoption of PAS 19 resulted in increases (decreases) in the following accounts as of January 1, 2004 and December 31, 2004:

	January 1 2004	December 31 2004
Deferred tax assets	P10,686	P12,958
Accounts payable and accrued expenses	(8,929)	(34,625)
Other current liabilities	-	(1,614)
Other non-current liabilities	39,386	70,286
Minority interest	(3,463)	(3,887)

c. Under previous GAAP, WCCCHI capitalized foreign exchange (FOREX) losses relating to acquisitions of property and equipment. In accordance with PAS 21, the net cumulative capitalized FOREX losses amounting to P254 million, net of accumulated amortization of P35 million, was fully written-off as of December 31, 2004.

The adoption of PAS 21 resulted in decreases in the following accounts as of January 1, 2004 and December 31, 2004:

	January 1 2004	December 31 2004
Property and equipment – net	(P259,860)	(P253,917)
Deferred tax liabilities	(83,155)	(81,254)

d. The effects of the above adjustments on Deficit are as follows:

	Note	January 1 2004	December 31 2004
Deferred tax assets	b	P10,686	P12,958
Property and equipment - net	c	(259,860)	(253,917)
Accounts payable and accrued expenses	b	8,929	34,625
Other current liabilities	b	-	1,614
Deferred tax liabilities	c	83,155	81,254
Other non-current liabilities	b	(39,386)	(70,286)
Deferred credit	a	-	405,120
Revaluation increment in property and equipment		-	(100,076)
Minority interest	b	3,463	3,887
Total adjustments to deficit		(P193,013)	P115,179

Reconciliation of net income for 2004

In thousands of Philippine peso	Note	Previous GAAP	Effect of transition to PFRS	PFRS
Revenues				
Hotel operations		P1,408,923	P -	P1,408,923
Others	a	165,104	405,120	570,224
		1,574,027	405,120	1,979,147
Cost and Expenses				
Hotel operations	b	993,661	3,003	996,664
Others		93,998	-	93,998
		1,087,659	3,003	1,090,662
Income before interest, depreciation and amortization, provision for doubtful accounts and income tax		486,368	402,117	888,485
Interest, Deprecation and amortization and doubtful accounts				
Depreciation and amortization		206,808	-	206,808
Interest		184,560	-	184,560
Provision for doubtful accounts		71,050	-	71,050
Others		659	-	659
		463,077	-	463,077
Income before income tax		23,291	402,117	425,408
Provision for income tax	b	23,377	(5,727)	17,650
Net income		(P86)	P407,844	P407,758

Explanation of material adjustments to the consolidated statement of cash flows for 2004

Except for the effects of the adoption of new PFRS/PAS as discussed previously, there are no other material differences between the 2004 consolidated statement of cash flows presented under PFRSs and the 2004 consolidated statement of cash flows presented under previous GAAP.

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REPUBLIC OF THE PHILIPPINES)
) S.S

TREASURER'S CERTIFICATION

I, **ELVIRA A. TING**, of legal age, Filipino and with office address at the 27th Floor Wynsum Plaza, Emerald Ave., Ortigas Center Pasig City, after being sworn in accordance with law, hereby certify that:

1. I am the Treasurer of **WATERFRONT PHILIPPINES INC.** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines under SEC Certificate of Registration No. **AS094-8678**, with principal office address at No. 37 Calayab, Laoag City, Ilocos Norte.

2. The Financial Statement ("F/S") diskette submitted contains the exact data stated in the hard copies of the F/S of the Corporation.

3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the SEC.

WITNESS MY HAND on this 12th day of May 2006 at ______________________________.

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this 16 MAY 2006 ______day of ____________ at __________________. Affiant exhibited to me his Community Tax Certificate No./Passport No. 1620072 issued on January 11, 2006 at Valenzuela City.

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Book No 15
Series of 06

ATTY. HIPPOCRATES R. ROCINO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2006
PTR No. 40395
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COVER SHEET

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S.E.C. Registration Number

W A T E R F R O N T P H I L I P P I N E S ,

I N C O R P O R A T E D

(Company's Full Name)

I P T B u i l d i n g , P r e - D e p a r t u r e

A r e A , M a c t a n C e b u

I n t E r n a t i o n a l A i r p o r t

L a p u - L a p u C i t y , C e b u

(Business Address : No. Street Company / Town / Province)

MS. ELVIRA A. TING	(02) 687-0888
Contact Person	Company Telephone Number

1 2	3 1	A A F S	09	1 7
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

7 1 7

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.

WATERFRONT PHILIPPINES, INCORPORATED

PARENT COMPANY FINANCIAL STATEMENTS
December 31, 2005 and 2004

KPMG

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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-1
BSP Accredited

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Waterfront Philippines, Incorporated
IPT Building, Pre-Departure Area
Mactan Cebu International Airport
Lapu-Lapu City, Cebu

We have audited the accompanying parent company balance sheets of Waterfront Philippines, Incorporated as of December 31, 2005 and 2004, and the related parent company statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Waterfront Philippines, Incorporated as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Philippines.

LAYA MANANGHAYA & CO.

ROBERT P. LEPON
Partner
CPA License No. 0078968
SEC Accreditation No. 0207-A
Tax Identification No. 109-228-200
BIR Accreditation No. 08-002211-1-2005
Issued April 18, 2005; Valid until April 17, 2008
PTR No. 0522706 F
Issued January 16, 2006 at Makati City

May 12, 2006
Makati City, Metro Manila
Philippines

KPMG

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SEC Accreditation No. 0004-FR-1
BSP Accredited

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Waterfront Philippines, Incorporated
IPT Building, Pre-Departure Area
Mactan Cebu International Airport
Lapu-Lapu City, Cebu

We have audited the accompanying parent company financial statements of Waterfront Philippines, Incorporated for the year ended December 31, 2005, on which we have rendered our report dated May 12, 2006.

In compliance with SRC Rule 68, we are stating that the said Company has a total number of 711 stockholders owning one hundred (100) or more shares each.

LAYA MANANGHAYA & CO.

ROBERT P. LEPON
Partner
CPA License No. 0078968
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May 12, 2006
Makati City, Metro Manila
Philippines

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY BALANCE SHEETS

	December 31	
	2005	2004 (As Restated - Note 11)
ASSETS		
Current Assets		
Cash	**P535,724**	P102,817
Due from related parties (Note 4)	**445,893,442**	442,262,003
Total Current Assets	**446,429,166**	442,364,820
Investments in and Advances to Subsidiaries - net (Notes 3 and 11)	**3,721,049,636**	4,169,176,758
Property and Equipment - net (Note 5)	**773,306**	1,323,788
Deferred Tax Asset (Note 8)	**692,245**	439,349
Other Non-current Assets	**4,901,381**	4,074,257
	P4,173,845,734	P4,617,378,972
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables (Note 6)	**P208,382,418**	P180,285,407
Current portion of loans payable (Note 7)	**613,834,203**	546,016,061
Due to related parties (Note 4)	**369,804,937**	646,914,910
Income tax payable (Note 8)	**252,896**	343,491
Total Current Liabilities	**1,192,274,454**	1,373,559,869
Loans Payable - net of current portion (Note 7)	**816,665,798**	1,023,406,182
Stockholders' Equity (Note 11)	**2,164,905,482**	2,220,412,921
	P4,173,845,734	P4,617,378,972

See Notes to Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED

PARENT COMPANY STATEMENTS OF OPERATIONS

	Years Ended December 31	
	2005	2004 (As Restated - Note 11)
REVENUES		
Interest income (Note 4)	**P12,644,770**	P16,828,752
Others	**-**	453,258
	12,644,770	17,282,010
GENERAL AND ADMINISTRATIVE EXPENSES		
Penalties and other charges (Notes 6 and 7)	**64,636,603**	87,576,995
Representation and entertainment	**1,780,000**	1,911,661
Depreciation and amortization (Note 5)	**550,482**	569,990
Professional fees	**537,220**	345,702
Taxes and licenses	**325,080**	57,914
Provision for doubtful accounts (Note 4)	**229,993**	58,233,956
Transportation and travel	**79,614**	3,747
Salaries	**-**	97,804
Miscellaneous	**13,217**	482,194
	68,152,209	149,279,963
NET LOSS	**(P55,507,439)**	(P131,997,953)
LOSS PER SHARE (Note 9)	**(P0.029)**	(P0.068)

See Notes to Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31	
	2005	2004 (As Restated - Note 11)
CAPITAL STOCK - P1 par value		
Authorized **-** 5 billion shares		
Issued **-** 1,945,934,653 shares	**P1,945,934,653**	P1,945,934,653
ADDITIONAL PAID-IN CAPITAL	**755,435,050**	755,435,050
DEFICIT		
Balance at beginning of year		
As previously reported	**(593,397,579)**	(727,824,631)
Effect of transition to PFRS (Note 11)	**56,245,974**	322,670,979
As restated	**(537,151,605)**	(405,153,652)
Net loss for the year	**(55,507,439)**	(131,997,953)
Balance at end of year	**(592,659,044)**	(537,151,605)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**56,194,823**	56,194,823
	P2,164,905,482	P2,220,412,921

See Notes to Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As Restated - Note 11)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**(P55,507,439)**	(P131,997,953)
Adjustments for:		
Depreciation	**550,482**	569,990
Provision for doubtful accounts	**229,993**	58,233,956
Interest income	**(12,644,770)**	(16,828,752)
Operating loss before working capital changes	**(67,371,734)**	(90,022,759)
Decrease (increase) in other non-current assets	**(827,124)**	388,170
Increase in trade and other payables	**28,097,011**	124,133,416
Cash generated from (used in) operations	**(40,101,847)**	34,498,827
Income tax paid	**(343,491)**	(95,858)
Net cash provided by (used in) operating activities	**(40,445,338)**	34,402,969
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of loans payable	**(138,922,242)**	-
Advances from (to) related parties	**179,800,487**	(35,175,814)
Net cash provided by (used in) financing activities	**40,878,245**	(35,175,814)
DECREASE IN TRANSLATION ADJUSTMENT FOR THE YEAR	**-**	(8,937)
NET INCREASE (DECREASE) IN CASH	**432,907**	(781,782)
CASH AT BEGINNING OF YEAR	**102,817**	884,599
CASH AT END OF YEAR	**P535,724**	P102,817

See Notes to Parent Company Financial Statements.

1. Organization and Status of the Business

Corporate Information
Waterfront Philippines, Incorporated ("the Parent Company") was incorporated in the Philippines on September 23, 1994, and is 60%-owned by The Wellex Group, Inc. ("TWGI"). It holds equity interests in hotels and resorts, as well as in entities engaged in the international marketing and promotion of casinos. The details of the equity interest of the Parent Company are shown below:

	Percentage of Ownership	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated ("WCCCHI")	100	-
Waterfront Mactan Casino Hotel, Incorporated ("WMCHI")	100	-
Davao Insular Hotel Parent Company, Inc. ("DIHCI")	98	-
Acesite (Phils.) Hotel Corporation ("APHC")	75	-
Grand Ilocandia Resort and Development, Inc. ("GIRDI")	54	-
International marketing and promotion of casinos:		
Waterfront Promotion Ltd ("WPL")	100	-
Mayo Bonanza, Inc. ("MBI")	100	-
Club Waterfront International Limited ("CWIL")	-	100

The Parent Company and its subsidiaries were incorporated in the Philippines, except for WPL and CWIL, which were registered in the Cayman Islands.

WCCCHI
WCCCHI was incorporated on September 23, 1994, to manage and undertake the operations of Waterfront Cebu City Hotel and Casino. WCCCHI's facilities include an international convention center, an international casino building and a 562-room deluxe hotel at the former Lahug Airport, Cebu City. It started commercial operations in January 1998.

In 2005, WCCCHI renovated its Business Center and some of its restaurants to improve the delivery of services to its customers.

WMCHI
WMCHI was incorporated on September 23, 1994, to manage and undertake the operations of Waterfront Mactan Island Hotel and Casino. Located right across the Mactan Cebu International Airport, it features 167 rooms and suites, 8 food-and-beverage and entertainment outlets, and an international casino. It started operations in 1996.

DIHCI
DIHCI was incorporated on July 3, 1959, and is currently operating under its trade name "Waterfront Insular Hotel Davao". The Company acquired 98% of DIHCI in December 1999. In December 2000, DIHCI temporarily stopped its operations to undergo major rehabilitation of its 150-room hotel facilities. It reopened in June 2001.

APHC

APHC was incorporated on October 10, 1952 and commenced commercial operations in March 1968. On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. APHC owns and operates the Manila Pavilion Hotel, a 590-room hotel with casino located in Ermita, Manila (see Note 3).

In 2005, APHC invested heavily in the renovations of its rooms and facilities and expects to increase its occupancy rate and profit.

GIRDI

GIRDI was incorporated on December 18, 1990 to engage in the hotel and resort business. The Parent Company acquired 54% of GIRDI in December 1999.

In November 2000, all of the property and equipment of GIRDI, including the hotel facilities and other operating assets, as well as its investment in marketable securities, were transferred to a third party. With this transfer, GIRDI ceased its involvement in the hotel and resort business. Management is currently looking for new business opportunities for GIRDI and intends to continue operating GIRDI as a going concern entity.

WPL, CWIL and MBI

On March 23, 1995, WPL became a wholly-owned subsidiary following its acquisition by the Parent Company from Waterfront Amusement and Gaming Limited. WPL and its wholly-owned subsidiary, CWIL were primarily established for the international marketing and promotion of hotels and casinos. In 2003, these companies including MBI have been temporarily laid inoperative in response to a general slow down in the economy. Management, however, commits to resume operations when better business opportunities present themselves in the future.

Office Address and Number of Employees

The registered office of the Parent Company is located at IPT Building, Pre-Departure Area, Mactan Cebu International Airport, Lapu-Lapu City, Cebu.

The Parent Company has 5 and 6 employees as of December 31, 2005 and 2004, respectively.

The Parent Company financial statements as of and for the year ended December 31, 2005 and 2004, were authorized for issue by the Board of Directors on May 12, 2006.

2. Summary of Significant Accounting Policies

The following summary explains the significant accounting policies which have been adopted in the preparation of the financial statements:

Basis of Preparation

The Parent Company financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRS), applicable to the preparation of separate financial statements. These are the Parent Company's first PFRS financial statements where PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, has been applied.

In full compliance of PAS 27, *Consolidated and Separate Financial Statements*, the Parent Company has prepared consolidated financial statements in which the Parent Company consolidates all its investments in subsidiaries in accordance with the said standard. Such consolidated financial statements provide information about the economic activities of the Group.

An explanation of how the transition to PFRS has affected the reported financial position, financial performance and cash flows of the Parent Company is provided in Note 11.

The Parent Company financial statements are presented in Philippine Pesos. They are prepared on the historical cost basis.

The preparation of Parent Company financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening PFRS balance sheet at January 1, 2004, for the purposes of the transition to PFRS.

Adoption of Revised and New Accounting Standards

The Accounting Standards Council (ASC) approved in 2004 the issuance of revised and new accounting standards which are based on new International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and revised International Accounting Standards (IAS) arising from the improvements project of the IASB. The new and revised standards are effective for annual periods beginning on or after January 1, 2005.

Accordingly, effective January 1, 2005, the Parent Company adopted the following PFRS and PAS, which are relevant to its operations.

Philippine Financial Reporting Standards (PFRS)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards.*

Philippine Accounting Standards (PAS)

- PAS 1, *Presentation of Financial Statements;*
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors;*
- PAS 10, *Events After the Balance Sheet Date;*
- PAS 16, *Property, Plant and Equipment;*
- PAS 17, *Leases;*
- PAS 19, *Employee Benefits;*
- PAS 21, *The Effects of Changes in Foreign Exchange Rates;*
- PAS 24, *Related Party Disclosures;*
- PAS 27, *Consolidated and Separate Financial Statements;*
- PAS 32, *Financial Instruments: Disclosure and Presentation;*

- PAS 33, *Earnings Per Share;*
- PAS 36, *Impairment of Assets;*
- PAS 38, *Intangible Assets;* and
- PAS 39, *Financial Instruments: Recognition and Measurement.*

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company and the revenue can be reliably measured.

Interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

Cash

Cash includes cash on hand and with banks.

Investments in Subsidiaries

The Parent Company carries its investments in shares of stock of its subsidiaries under the cost method of accounting for investments. Under this method, the investment is carried at cost less impairment losses, if any.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization, as well as impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Parent Company. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of furniture, fixtures and equipment ranging from 5 to 10 years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

The useful lives and depreciation method are reviewed at each balance sheet date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from those assets.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Asset Impairment

The carrying amounts of non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the impaired asset is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are charged to current operations.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset being evaluated. If an asset does not generate cash inflows from continuing use that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the carrying amount. An impairment loss is reversed only to the extent that the carrying amount of the assets does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairments are credited to current operations.

Foreign Currency Transactions and Translation to the Presentation Currency

Transactions in foreign currencies are recorded in Philippine Pesos based on the exchange rates prevailing at the dates of transactions. Assets and liabilities denominated in foreign currency are translated to their Philippine Peso equivalents using the rates of exchange prevailing at the balance sheet date. Any translation adjustment relating to the loan obtained to finance the construction of WCCCHI's hotel project is passed on to WCCCHI. All other translation adjustments are credited or charged to current operations.

The accounts of foreign subsidiaries of the Parent Company are being maintained in U.S. Dollars and during the translation of the financial statement accounts of the foreign subsidiaries for consolidation, the differences between the reporting currency and the functional currency are recorded under the "Foreign Currency Translation Adjustment" account in the statements of changes in stockholders' equity, in compliance with PAS 21.

The results and financial position of the foreign subsidiaries are translated into the presentation currency using the following procedures:

- assets and liabilities are translated at the closing rate at balance sheet date;
- income and expenses are translated at exchange rates at the dates of the transaction; and,
- all resulting exchange differences shall be recognized as a separate component of equity.

Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statements of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carryforward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Provisions and Contingent Liabilities

A provision is a liability of uncertain timing or amount. It is recognized when the Parent Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Earnings (Loss) Per Share

Earnings (loss) per share (“EPS”) is determined by dividing net income or loss for the year by the weighted average number of common shares subscribed and issued during the year, after retroactive adjustment for any stock dividend declared during the year. Diluted EPS is computed in the same manner as the aforementioned, except that all outstanding convertible preferred shares, if any, were further assumed to have been converted to common stock at the beginning of the period or at the time of issuance during the year.

Subsequent Events

Post year-end events that provide additional information about the Parent Company’s position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Investments In and Advances to Subsidiaries

"Investments in and Advances to Subsidiaries" is composed of the following (amount in thousands):

	2005				2004			
	Acquisition Costs	**Advances to Subsidiaries**	**Foreign Currency Translation Adjustment**	**Total**	Acquisition Costs	Advances to Subsidiaries	Foreign Currency Translation Adjustment	Total
WCCCHI	**P13,800**	**P2,331,409**	**P -**	**P2,345,209**	P13,800	P2,679,316	P -	P2,693,116
WMCHI	**13,800**	**293,580**	**-**	**307,380**	13,800	306,898	-	320,698
DIHCI	**584,363**	**36,840**	**-**	**621,203**	584,363	-	-	584,363
APHC	**126,778**	**-**	**-**	**126,778**	126,778	16,888	-	143,666
GIRDI	**253,667**	**-**	**-**	**253,667**	253,667	-	-	253,667
WPL	**-**	**-**	**56,195**	**56,195**	-	106,886	56,195	163,081
MBI	**25**	**10,593**	**-**	**10,618**	25	10,561	-	10,586
	P992,433	**P2,672,422**	**P56,195**	**P3,721,050**	P992,433	P3,120,549	P56,195	P4,169,177

Advances to Subsidiaries

Advances to subsidiaries mainly represent funds used primarily to finance the construction and completion of certain hotel projects. As discussed in Note 7, these include interest charges and foreign exchange losses incurred on loans obtained from the Philippine National Bank ("PNB") and the Social Security System ("SSS").

Acquisition of DIHCI and GIRDI

On December 15, 1999, the Parent Company acquired 54% of GIRDI and 98% of DIHCI, from TWGI, through a share-for-share swap. The Parent Company issued 888,466,733 shares from its unissued shares in exchange for 4,075,000 shares of GIRDI and 14,855,765 shares of DIHCI. The Parent Company recorded the shares acquired at P1.30 per share, which was the fair market value of the shares that it issued at the time of acquisition. The acquisition of controlling interest in GIRDI and DIHCI are in line with the plan of the Parent Company to operate chains of hotels nationwide. Consequently, the goodwill representing the excess of the acquisition cost of the Parent Company over the net assets of GIRDI at the time of acquisition amounting to P256 million, was offset against the negative goodwill representing the excess of the net assets of DIHCI over the acquisition cost of the Parent Company amounting to P345 million. The net negative goodwill of P89 million was fully amortized in 2003.

In 2005, the Parent Company recognized an impairment loss of P316.98 million for its investment in DIHCI based on management's estimate of the recoverable amount of such investment, in accordance with the provisions of PAS 36. This has been accounted for retroactively.

Acquisition and Status of APHC Shares

On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. The acquisition was effected through a cross-sale in the Philippine Stock Exchange. The shares were previously owned by Acesite Limited (BVI), non-resident stockholders of APHC and were acquired by the Parent Company (as "Assignee") from Equitable PCI Bank, Inc. (the "Assignor"), the lender of the non-resident stockholders. This transaction was covered by a Deed of Assignment of Shares of Stock entered into by the Parent Company and the Assignor on February 17, 2003, whereby the Assignor assigned, transferred and conveyed all its rights, title, and interests in the mortgaged shares for and in consideration of the amount of US$2,060,571 or P112,259,886, which was effectively the same as the prevailing market price of the APHC shares at that time (P1.66 per share). Subsequently, the Parent Company incurred additional legal costs to complete the acquisition amounting to P14.5 million, which formed part of the cost of investment. The acquisition was made pursuant to the Parent Company's plans to expand its operations, which are currently in Cebu City, to the Metro Manila area.

Acesite Limited (BVI) has contested the foreclosure and on February 20, 2003, filed a case for the annulment of the sale, with application for issuance of a writ of preliminary injunction and a prayer for a temporary restraining order with the Regional Trial Court of Makati City. On August 15, 2003, the Regional Trial Court of Makati City granted Acesite Limited (BVI)'s request for preliminary injunction upon posting of the necessary injunction bond.

On June 3, 2004, for failure of Acesite Limited (BVI) to post the full amount of the injunction bond, the Regional Trial Court of Makati City ordered the stock transfer agent of the APHC to transfer the 74,889,231 shares to EPCIB and, in accordance with the Deed of Assignment of Shares of Stock dated February 17, 2003, the shares were transferred to PARENT COMPANY. Subsequently, Acesite Limited (BVI) filed a motion for reconsideration of the order dissolving the writ of injunction issued by the court.

On June 24, 2004, at the annual stockholder's meeting of APHC pursuant to the order of the SEC, the Parent Company, as the registered majority stockholder of record, elected new directors to serve as such until the next annual stockholder's meeting. On July 2, 2004, a certain stockholder filed a motion for intervention for the annulment of both the said stockholder's meeting and the election of the new directors at the Regional Trial Court of Manila. On August 16, 2004, the Regional Trial Court of Manila dismissed the case on the intervention filed by the stockholder.

On August 10, 2004, the Court of Appeals (CA) gave due course to EPCIB's petition, set aside the questioned Orders on Acesite Limited (BVI) request for preliminary injunction bond. On the same date, Acesite Limited (BVI) filed a Motion for Reconsideration which the CA denied on November 24, 2004.

On December 22, 2004, Acesite Limited (BVI) questioned the said Resolutions of the CA by filing a Petition for Review on Certiorari at the Supreme Court (SC). On January 19, 2005, the SC denied the Petition for Review on Certiorari of the decision and resolution of the CA dated August 10, 2004 and November 24, 2004, respectively, for failure of Acesite Limited (BVI) to state the material date showing when notice of judgment thereof was received. On March 1, 2005, Acesite Limited (BVI) filed a motion for reconsideration of the said denial by the SC. The petition for reconsideration has been denied with finality by the SC on March 14, 2005.

Status of WPL and MBI
In June 2003, the management decided to temporarily stop the operations of WPL and MBI until such time that the economic conditions become favorable for the resumption of their operations.

4. Related Party Transactions

In the ordinary course of business, the Parent Company extends/obtains interest-bearing and non-interest-bearing, collateral-free cash advances to/from related parties to finance working capital requirements. These receivable and payables from related parties, as discussed below, are due on demand.

The "Due from related parties" account consists of:

	2005	2004
Metro Alliance Holdings and Equities Corp. ("MAHEC")	**P282,518,612**	P230,103,120
TWGI (Note 7)	**134,969,185**	183,565,872
Forum Holdings Corp. ("FHC")	**74,240,102**	74,240,102
Others	**1,794,050**	1,751,423
	493,521,949	489,660,517
Less: allowance for doubtful accounts	**47,628,507**	47,398,514
	P445,893,442	P442,262,003

In 2005 and 2004, the Parent Company and APHC extended interest-bearing, collateral free advances to MAHEC at a rate of four percent (4%) per annum. The Parent Company also extended interest-bearing, collateral free advances to TWGI at a rate of four percent (4%) per annum in 2003. Interest income on these advances amounted to P12.6 million and P16.8 million in 2005 and 2004, respectively.

Advances to FHC is non-interest bearing and collateral-free.

The collectibility of the receivables from TWGI, MAHEC and FHC is unconditionally recognized and will be paid by the related parties as represented by the major stockholders of the said related parties.

The "Due to related parties" account consists of:

	2005	2004
WPL	**P198,077,023**	P501,925,732
GIRDI	**155,439,046**	138,246,447
APHC	**13,061,378**	-
DIHCI	**-**	3,531,241
Others	**3,227,490**	3,211,490
	P369,804,937	P646,914,910

In the ordinary course of business, the Parent Company grants/obtains non-interest bearing, collateral-free cash advances to/from related parties for working capital purposes, as well as to finance the construction of its hotel projects.

5. Property and Equipment

The movements in this account are as follows:

	For the Year Ended December 31, 2005		
	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Gross carrying values:			
Beginning balance	**P2,691,789**	**P1,267,926**	**P3,959,715**
Additions	**-**	**-**	**-**
Ending balance	**2,691,789**	**1,267,926**	**3,959,715**
Accumulated depreciation and amortization:			
Beginning balance	**1,570,145**	**1,065,782**	**2,635,927**
Provisions for the year	**448,657**	**101,825**	**550,482**
Ending balance	**2,018,802**	**1,167,607**	**3,186,409**
Net carrying values:			
Beginning balance	**P1,121,644**	**P202,144**	**P1,323,788**
Ending balance	**P672,987**	**P100,319**	**P773,306**

	For the Year Ended December 31, 2004		
	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Gross carrying values:			
Beginning balance	P2,691,789	P1,267,926	P3,959,715
Additions	-	-	-
Ending balance	2,691,789	1,267,926	3,959,715
Accumulated depreciation and amortization:			
Beginning balance	1,121,487	944,450	2,065,937
Provisions for the year	448,658	121,332	569,990
Ending balance	1,570,145	1,065,782	2,635,927
Net carrying values:			
Beginning balance	P1,570,302	P323,476	P1,893,778
Ending balance	P1,121,644	P202,144	P1,323,788

6. Trade and Other Payables

This account is broken down as follows:

	2005	2004
Accrued interest and penalties - SSS Loan (Note 7)	**P207,040,878**	P142,404,275
Accrued interest - PNB Loan (Note 7)	**-**	37,174,335
Others	**1,341,540**	706,797
	P208,382,418	P180,285,407

7. Loans Payable

This account consists of:

	2005	2004
Philippine National Bank ("PNB")	**P1,055,500,001**	P1,194,422,243
Social Security System ("SSS")	**375,000,000**	375,000,000
	1,430,500,001	1,569,422,243
Less: current portion	**613,834,203**	546,016,061
	P816,665,798	P1,023,406,182

PNB Loan

The PNB loan originally represents a US$30 million long-term debt acquired by the Parent Company, together with WCCCHI and WMCHI (collectively known as "the Borrowers") on March 26, 1997, to partly finance the construction of the Cebu City Hotel Project (WCCCHI Hotel). Subsequently, the loan underwent several restructurings resulting to the ultimate conversion of the loan currency from U.S. Dollars to Philippine Pesos.

First Restructuring Agreement

On October 15, 1999, the PNB loan, with an outstanding principal balance of $23.198 million as of April 15, 1999, was restructured as follows:

FCDU Loan - $11.599 million Five-Year Term Loan (inclusive of a two (2) year grace period) payable in 12 quarterly amortizations, with the first amortization to commence at the end of the ninth (9^{th}) quarter from the Effective Date of the restructuring agreement. The FCDU loan was subject to interest at LIBOR based rates plus applicable spread set by PNB, subject to quarterly repricing.

Peso Loan - P487.373 million Five-Year Term Loan (inclusive of a two (2) year grace period) payable in 12 quarterly amortizations, with the first amortization to commence at the end of the ninth (9^{th}) quarter from the Effective Date of the restructuring agreement. The Peso loan was subject to interest at Prime rate-based rates plus applicable spread set by PNB, subject to quarterly repricing.

The restructuring agreement provided for the conversion of the outstanding balance of the FCDU loan, together with accrued interest thereon, into Philippine Peso using the prevailing selling rate at the time of conversion upon written consent of the Borrowers.

The restructuring agreement provided for the restructured loans to be secured by the existing mortgage on the building and improvements of the WCCCHI and WMCHI and the assignment of the Borrowers' rental receivables from PAGCOR, which is evidenced by the Deed of Assignment (DA) dated October 20, 1999.

By the end of April 2001, the loan had been completely converted into Philippine Pesos.

Second Restructuring Agreement

On December 28, 2001, the loan, including the unpaid interest thereon of about P125 million, was restructured into a two-tranche loan totaling about P1.194 billion.

The restructured loan had the following terms:

Tranche 1 -	P1 billion payable in 11 equal quarterly payments of P50 million each starting March 31, 2004 until September 2006, and a final balloon payment of P450 million in December 2006. This was secured by the building and improvements of WCCCHI.
Tranche 2 -	P194 million payable in eight equal quarterly payments starting March 2002 until December 2003. This was secured by the building and improvements of WMCHI.

The restructured loan was subject to interest of 14% per annum, which had been fixed for one year, and then subjected to yearly repricing thereafter (2% discount was given whenever an interest obligation was paid before its monthly due date).

Under the terms of this restructuring, PNB is entitled to a representation in the Board of Directors of the Parent Company. Moreover, the earnings of the WCCCHI and WMCHI from PAGCOR rentals should continue to be remitted directly to PNB upon collection, until such time that the restructured loan was paid in full in accordance with the terms of the DA.

As of December 31, 2003, the total loan obligation under Tranche 2 amounting to P194 million became due and demandable.

Third Restructuring Agreement

On September 2, 2004, the PNB loan was restructured for the third time effective March 1, 2004 ("Effective Date"). The 3rd loan restructuring basically, covered the same loan obligation as stipulated in the 2nd restructuring agreement, including provisions for collaterals attached to tranche 1 and 2 of the loan. Under the rescheduling of payment of the principal portion of the restructured loan, the loan obligations should now mature on December 31, 2008.

The restructured loan is subject to an annual interest rate equivalent to the prevailing 91-day Treasury bill plus four percent (4%) spread, payable monthly in arrears.

The restructured loan is to be paid in amortizations of P1.5 million weekly, or P6 million monthly, or higher, depending on the cash flow from WCCCHI and WMCHI operations, from the Effective Date up to the maturity date of the restructured loan. From the Effective Date up to September 24, 2004, the payments shall be applied on the interest due on the restructured loan. Any excess in the amount remitted by WCCCHI and WMCHI and the actual monthly interest shall be applied to the principal of the restructured loan.

The earnings of WCCCHI and WMCHI from PAGCOR rentals is to be remitted directly to PNB starting October 2004 up to the maturity date of the restructured loan in accordance with the DA dated October 20, 1999.

In case the restructured loan becomes past due, all the penalties and other charges waived by PNB due to the restructuring will automatically be reinstated and demandable.

The restructuring agreements also included negative covenants that resulted in certain restrictions on the Borrowers, as follows:

a. Changing the nature of its business, initiating any form of liquidation, or entering into any kind of business combination;

b. Incurring additional indebtedness or becoming liable as surety or guarantor on the obligation of another entity, except in the use of normal trade credit or acceptance of negotiable instruments in the normal course of business;

c. Reacquiring its capital stock or distribution of its assets to stockholders;

d. Assignment or disposition of its business or assets or incurring of any indebtedness to be secured by these assets; and

e. Directly or indirectly leasing its property or capital equipment to any person or entity.

Presently, the Borrowers are substantially in compliance with the covenants.

<u>SSS Loan</u>
On October 28, 1999, the Parent Company also obtained a five-year term loan from SSS amounting to P375 million originally due on October 29, 2004. The SSS loan carried interest at the prevailing market rate plus 3%, or 14.5% per annum, whichever was higher. Interest was repriced annually and was payable semi-annually. Initial interest payments were due 180 days from the date of the release of the proceeds of the loan. The repayment of the principal was based on eight semi-annual payments, after a one-year grace period.

The SSS loan was availed to finance the completion of the facilities of WCCCHI. It was secured by way of a first mortgage over parcels of land owned by Wellex Industries, Inc. ("WII"), a related party, and by the assignment of 200 million common shares of PARENT COMPANY owned by The Wellex Group, Inc. ("TWGI"). The common shares assigned were placed in escrow in the possession of an independent custodian mutually agreed upon by both parties.

On August 7, 2003, the total loan obligation to SSS including penalties and interest amounted to P605 million. The Parent Company, WII and TWGI were considered in default with the payments of the loan obligations, thus, on the same date, SSS executed a foreclosure proceeding on the mortgaged parcels of land owned by WII. The SSS' winning bid on the foreclosure sale amounting to P198 million was applied to penalties and interest amounting to P74 million and P124 million, respectively. In addition, the Parent Company accrued penalties charged by SSS amounting to P30.5 million covering the month of August until December 2003, and unpaid interest expense of P32 million.

The certificate of sale on the foreclosed property was registered on October 17, 2003. However, the Parent Company, WII and TWGI were given the right to redeem the foreclosed property within one year from the date of registration of the certificate of sale. The Parent Company recognized the proceeds of the foreclosure sale, which were partly applied against its SSS loans, as its liability to WII and TWGI. The Parent Company, however, agreed with TWGI to offset this directly against its receivable from the latter. In August 2004, the redemption period for the Parent Company, WII and TWGI expired.

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation pending before the Regional Trial Court of Quezon City, docketed as Civil Case No. Q-04-52629. To date, the case is still in the preliminary stage and has not yet reached the pre-trial stage.

As of December 31, 2005, total outstanding loan obligations to SSS of the Parent Company amounted to P582 million consisting of the principal of P375 million and interest and penalties of P207 million. Penalties were inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS.

The SSS loan was secured by the shares of stocks of the Parent Company owned by TWGI and shares of WII numbering 235 million and 80 million shares, respectively. To date, no action has yet been taken by SSS with regard to the foreclosure of these shares.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. The Parent Company believes that it will be able to restructure the said loan. In the absence yet of a formal restructuring agreement, the entire outstanding loan balance amounting to P375 million has been classified as current in the December 31, 2005 and 2004 balance sheets.

8. Income Taxes

The reconciliation of the expected benefit from income tax computed at the statutory tax rate to the actual benefit shown in the parent company statements of operations follows:

	2005	2004 (As Restated - Note 11)
Loss before income tax	**(P55,507,439)**	(P131,997,953)
Benefit from income tax at 32.5% in 2005 and 32% in 2004	**P18,039,918**	P42,239,345
Tax effects of:		
Nondeductible representation expense	**(578,500)**	(611,732)
Expiration of NOLCO	**(4,800,303)**	-
Interest income subjected to final tax	**-**	34,381
	12,661,115	41,661,994
Changes in statutory tax rates	**10,308,879**	-
Changes in unrecognized deferred income tax assets	**(22,969,994)**	(41,661,994)
	P -	P -

Republic Act (RA) 9337, which amends Section 27 of the National Internal Revenue Code, imposes an income tax rate of 35% on taxable income of domestic corporations beginning November 1, 2005.

The taxable income shall be computed without regard to the specific date when the specific sales, purchases and other transactions occur. Income and expenses for the fiscal year shall be deemed to have been earned equally for each month of the year. The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve.

The carryforward benefit of NOLCO was not recognized as a deferred tax asset since management believes that it is more likely than not that such carryforward benefit will not be realized prior to its expiration.

As of December 31, 2005, the Parent Company has NOLCO of P303 million. The amounts of NOLCO and the applicable years these are deductible from taxable income are shown below:

Taxable Year	Unapplied Amounts	Valid Until
December 31, 2005	P64,332,894	December 31, 2008
December 31, 2004	71,959,775	December 31, 2007
December 31, 2003	166,463,476	December 31, 2006
	P302,756,145	

Deferred tax assets have not been recognized in respect to the following items:

	2005	2004
NOLCO	**P105,964,651**	P81,029,769
Allowance for doubtful accounts	**16,669,978**	18,634,866
	P122,634,629	P99,664,635

From 2003 to 2005, the Parent Company paid MCIT equivalent to 2% of gross income, in compliance with existing tax regulations. The MCIT payments are presented as part of “Deferred Tax Asset” in the balance sheets. The MCIT payments and the applicable years that these will be deductible from regular corporate income tax follows:

Period Paid	Amount	Valid Until
December 2005	P252,896	December 2008
December 2004	343,491	December 2007
December 2003	95,858	December 2006
	P692,245	

9. Loss Per Share

The loss per share as of December 31 is computed as follows:

	2005	2004
Net loss	**(P55,507,439)**	(P131,997,953)
Weighted number of shares outstanding	**1,945,934,653**	1,945,934,653
Loss per share	**(P0.029)**	(P0.068)

There are no potential dilutive shares as of December 31, 2005 and 2004.

10. Lease Agreements with Philippine Amusement and Gaming Corporation ("PAGCOR")

In compliance with the decision rendered by the Board of Arbitrators on January 28, 2003, PAGCOR and the Parent Company (together with WCCCHI and WMCHI) executed an Amended Contract of Lease ("ACL") on January 31, 2003, which superseded entirely upon its effectivity the Original Contract of Lease ("OCL") of September 13, 1995, and revoked the exclusive right of the Parent Company (together with WCCCHI and WMCHI) to provide the sole venue for land-based casinos of PAGCOR in the Province of Cebu under the agreement with PAGCOR. The new lease period retroacts to January 1, 2001, and shall remain in force until December 31, 2008, unless sooner shortened or renewed upon mutual agreement of the parties.

The ACL mandated for a straight rental of P1,200 per square meter of floor area, subject to a 5% cumulative increase computed on an annual basis commencing on the fourth year. This provision completely replaced the marketing incentive fee as stipulated in the OCL.

In addition, PAGCOR agreed to pay WCCCHI and WMCHI security deposits equivalent to the rentals for one year based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposits amounted to P232.6 million as of December 31, 2005 and 2004.

APHC also has an existing lease agreement with PAGCOR terminating in April 2008. The lease agreement between APHC and PAGCOR provides for a fixed rental rate per square meter of floor area, subject to a 5% cumulative increase computed on an annual basis.

Non-cancellable operating lease rentals receivable from PAGCOR by WCCCHI, APHC and WMCHI are as follows:

	2005	2004
Less than one year	**P447,800,407**	P411,521,157
Between one and five years	**756,335,899**	1,431,932,146
	P1,204,136,306	P1,843,453,303

11. Effect of Transition to PFRS

As stated in Note 2, these are the Parent Company's first financial statements prepared in accordance with PFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2005, the comparative information presented in these financial statements for the year ended December 31, 2004, and in the preparation of an opening PFRS balance sheet at January 1, 2004 (the Parent Company's date of transition).

In preparing its opening PFRS balance sheet, the Parent Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to PFRS has affected the Parent Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

a. Reconciliation of stockholders' equity

In thousands of Philippine peso	Note	Previous GAAP	Effect of transition to PFRSs	PFRSs	Previous GAAP	Effect of transition to PFRSs	PFRSs
		January 1, 2004			December 31, 2004		
Current Assets							
Cash		P885	P -	P885	P103	P -	P103
Due from related parties		306,686	-	306,686	442,262	-	442,262
Total current assets		307,571	-	307,571	442,365	-	442,365
Investments in and advances to subsidiaries	a,b	4,025,673	322,671	4,348,344	4,112,931	56,246	4,169,177
Property and equipment - net		1,894	-	1,894	1,324	-	1,324
Deferred tax asset		96	-	96	439	-	439
Other non-current assets		4,569	-	4,569	4,074	-	4,074
Total Assets		**P4,339,803**	**P322,671**	**P4,662,474**	**P4,561,133**	**P56,246**	**P4,617,379**
Liabilities							
Trade and other payables		P56,152	P -	P56,152	P180,285	P -	P180,285
Current portion of loans payable		769,422	-	769,422	546,016	-	546,016
Due to related parties		684,384	-	684,384	646,915	-	646,915
Income tax payable		96	-	96	344	-	344
Total current liabilities		1,510,054	-	1,510,054	1,373,560	-	1,373,560
Loans payable - net of current portion		800,000	-	800,000	1,023,406	-	1,023,406
Stockholders' Equity							
Capital stock		1,945,935	-	1,945,935	1,945,935	-	1,945,935
Additional paid-in capital		755,435	-	755,435	755,435	-	755,435
Deficit	c	(727,824)	322,671	(405,153)	(593,398)	56,246	(537,152)
Foreign currency translation adjustment		56,203	-	56,203	56,195	-	56,195
Total Stockholders' Equity		2,029,749	322,671	2,352,420	2,164,167	56,246	2,220,413
Total Liabilities and Stockholders' Equity		**P4,339,803**	**P322,671**	**P4,662,474**	**P4,561,133**	**P56,246**	**P4,617,379**

b. Notes to the reconciliation of stockholders' equity

(a.) Under previous GAAP, investments in subsidiaries are accounted for using equity method in the Parent Company's separate financial statements. In accordance with PAS 27, investments in subsidiaries shall be accounted for either at cost or in accordance with PAS 39 in the Parent Company's separate financial statements.

The effect is to increase Investments in and advances to subsidiaries by P640 million at January 1, 2004 and by P373 million at December 31, 2004; and to decrease Equity in net earnings of subsidiaries by P136 million for the year ended December 31, 2004.

(b.) In accordance with PAS 36, the Parent Company recognized an impairment loss of P317 million for its investment in DIHCI based on management's estimate of the recoverable amount of such investment. This has been accounted for retroactively.

The effect is to decrease Investments in and advances to subsidiaries by P317 million at January 1, 2004 and December 31, 2004.

(c.) The effects of the above adjustments on Deficit are summarized as follows:

In thousands of Philippine peso	Note	January 1, 2004	December 31, 2004
Reversal of accumulated share in net losses of subsidiaries per PAS 27	a	P639,648	P373,223
Impairment loss on DIHCI	b	(316,977)	(316,977)
		P322,671	P56,246

Reconciliation of net income for 2004

In thousands of Philippine peso	Note	Previous GAAP	Effect of transition to PFRS	PFRS
Revenues				
Equity in net earnings of subsidiaries	a	P135,926	(P135,926)	P -
Interest income		16,829	-	16,829
Others		453	-	453
		153,208	(135,926)	17,282
General and Administrative Expenses				
Penalties and other charges		87,577	-	87,577
Provision for doubtful accounts		58,234	-	58,234
Representation and entertainment		1,911	-	1,911
Depreciation and amortization		570	-	570
Professional fees		346	-	346
Salaries		98	-	98
Taxes and licenses		58	-	58
Transportation and travel		4	-	4
Miscellaneous		482	-	482
		149,280	-	149,280
Net income (loss)		P3,928	(P135,926)	(P131,998)

c. Explanation of material adjustments to the statement of cash flows for 2004

Except for the effects of the application of PAS 27, *Consolidated and Separate Financial Statements*, there are no other material differences between the statement of cash flows presented under PFRSs and the statement of cash flows presented under previous GAAP.

REPUBLIC OF THE PHILIPPINES)
) S.S

TREASURER'S CERTIFICATION

I, **ELVIRA A. TING**, of legal age, Filipino and with office address at the 27th Floor Wynsum Plaza, Emerald Ave., Ortigas Center Pasig City, after being sworn in accordance with law, hereby certify that:

1. I am the Treasurer of **WATERFRONT PHILIPPINES INC.** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines under SEC Certificate of Registration No. **AS094-8678**, with principal office address at No. 37 Calayab, Laoag City, Ilocos Norte.

2. The Financial Statement ("F/S") diskette submitted contains the exact data stated in the hard copies of the F/S of the Corporation.

3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the SEC.

WITNESS MY HAND on this 12th day of May 2006 at ________________________.

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this 16 MAY 2006 day of __________ at ______________. Affiant exhibited to me his Community Tax Certificate No./Passport No. 1620072 issued on January 11, 2006 at Valenzuela City.

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Book No 15.
Series of 06.

ATTY. HIPPOCRATES R. ROCINO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2006
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