April 29, 2011

MS JANET A. ENCARNACION
HEAD, DISCLOSURE DEPARTMENT
4/F Philippine Stock Exchange, Inc.
PSE Centre, Exchange Road, Ortigas Center
Pasig City, Metro Manila

Dear Ms. Encarnacion,

We submit herewith the Annual Report (SEC 17-A) of WATERFRONT PHLIPPINES, INC. for the year ended December 31, 2010.

Thank you for your kind attention.

Very truly yours,

Arsenio A. Alfiler, Jr.

Arsenio A. Alfiler, Jr.
Assistant Corporate Secretary

Cc:

Securities and Exchange Commission
Mandaluyong City

Watefront Philippines, Inc.
27/F Wynsum Corporate Plaza
22 Emerald Avenue, Ortigas Center, 1605 Pasig City
Tel. : (02) 687-0888 Fax : (02) 637-3896
Email: msro@waterfronthotels.net
Website: www.waterfronthotels.net

COVER SHEET

AS094-8678

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED

(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

12	31	17-A	08	14
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

534		
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.

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, 2010

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) 2326888
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	2,498,991,753

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

Yes [√] 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 there under 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 [√] No [ ]

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

Yes [ ] No [√]

TABLE OF CONTENTS

PART I – BUSINESS AND GENERAL INFORMATION

Item 1 Business
Item 2 Properties
Item 3 Legal Proceedings
Item 4 Submission of Matters to a Vote of Security Holders

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5 Markets for Registrant's Common Equity and Related Stockholders' Matters
Item 6 Management's Discussion and Analysis or Plan of Operation
Item 7 Financial Statements
Item 8 Changes in and Disagreements with Accountants and Financial Disclosure

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9 Directors and Executive Officers of the Registrant
Item 10 Executive Compensation
Item 11 Security Ownership of Certain Beneficial Owners and Management
Item 12 Certain Relationships and Related Transactions

PART IV – CORPORATE GOVERNANCE

SIGNATURES

FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY SCHEDULES

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 effort.

Information Technology

As in all areas 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	**WAH**	**WIHD**	**MPH**	**GHOTEL**	**WEC**	**WFC**	**GYM**
Micros-Fidelio Point-Of-Sale System (POS)	X	X	X	X				
Micros-Fidelio Engineering Management System	X							
Micros-Fidelio Opera Sales and Catering System	X							
Micros-Fidelio (OWS)	X	X	X	X	X			
Opera Property Management System (PMS)	X	X	X	X	X			
SUN SYSTEM	X	X	X	X				
Human Resource Information System (ACLT)	X	X		X				
Mitech Payroll System					X			
HR Payroll Trax			X					
Actatek Biometric Finger scan System	X	X	X	X	X	X	X	X
Lotus Email System	X	X	X	X	X	X	X	X
Micros-Fidelio Inventory System	X	X		X				
Online Automation System	X	X	X	X	X	X		
Call Center System						X		

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 2010, the Company gave the usual 13th month pay in December. The Company firmly believes that it is appropriate to recognize the employees' hard work and dedication so the company grant the employees incentives based on their performance appraisal during the whole year.

For the past years 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	71.85
WMCHI	81.38
DIHCI	87.82
APHC	49.31
WMC	99.89
Citigym	66.67
WEC	17.76

The company, take pride in its training and development programs. In fact, Waterfront sets a high standard of achieving 70 training hours per person every year. In order to ensure that such passion for never ending quest for improvement and excellence, Waterfront makes People Development an integral Key Performance Index, among others which is Quest Satisfaction Index and Financial Index.

Waterfront is run by its highly competent Peers- the people who make a difference in every aspect of its organization. The company ensure that the quality of the Waterfront experience is maintained through excellent service , and undergo constant training to ensure service quality and efficiency in all aspects of operations.

Waterfront's various seminars, trainings, and workshops are classified into five major categories: Inductive Program, Basic Skills Program, Upgraded and Advanced Skills, Supervisory and Management Programs, and other Wellness-related Programs.

Upon Joining the Waterfronts family newly-hired peers undergo a comprehensive Inductive Program to orient them to the Hotels Culture. Front liners undergo basic Skills Certification Program for their respective areas of assignment to ensure that hotel service standards are maintained.
Supervisors and managers are enrolled in our Supervisory and Managerial Development Programs which equip them with both basic and advanced skills to help them effectively perform their roles as leaders of the organization.

Programs offered do not only stop at improving the brain functioning as well as managing emotions and attitude. The wellness related programs are programs that are also designed and made a party of the entire Peers training and development with the aiming of maintaining a healthy lifestyle, physically, mentally and spiritually.

Waterfront also puts itself at par with the global hospitality industry by partnering with International learning Institutions such as Development Dimensions International (DDI), Ivy League member Cornell University, and the Educational Institute of the America Hotel Lodging Association (AHLA).

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.

As of the end of the calendar year 2010, *WPI* Group has a total of 1,193 employees that were distributed as follows:

WCCCHI:

	Filipinos	*Foreigners*	*Total*
Executive	24	4	28
Non-Executive	444	0	444
Total	**468**	**4**	**472**

WMCHI:

	Filipinos	*Foreigners*	*Total*
Executive	10	1	11
Non-Executive	139	0	139
Total	**149**	**1**	**150**

DIHCI:

	Filipinos	*Foreigners*	*Total*
Executive	13	0	13
Non-Executive	54	0	54
Total	**67**	**0**	**67**

APHC:

	Filipinos	*Foreigners*	*Total*
Executive	29	5	34
Non-Executive	389	0	389
Total	**418**	**5**	**423**

WMC:

	Filipinos	*Foreigners*	*Total*
Executive	7	0	7
Non-Executive	27	0	27
Total	**34**	**0**	**34**

WCWI:

	Filipinos	*Foreigners*	*Total*
Executive	3	0	3
Non-Executive	21	0	21
Total	**24**	**0**	**24**

WFCI:

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	8	0	8
Total	**9**	**0**	**9**

WEC:

	Filipinos	*Foreigners*	*Total*
Executive	2	0	2
Non-Executive	12	0	12
Total	14	0	14

Grand Total	**1,183**	**10**	**1,193**

There is no existing union under the Company except for Davao Insular Hotel and Manila Pavilion Hotel. For Davao Insular Hotel the Collective Bargaining Agreement (CBA) covered 2 members out of 53 members 51 of them were resigned/retired last Dec. 2010.

The Manila Pavilion Hotel has not experienced any strikes for the past five years. The negotiation for the CBA for the supervisors was concluded on November 30, 2006 covering a period of five years (2006-2011). The Collective Bargaining Agreement (CBA) negotiation for the line employees was concluded last November 15, 2007. The Agreement shall be for a term of five (5) years and shall take effect from July 1, 2007 to June 30, 2012. However, the economic provisions of this Agreement shall be subject to renegotiation after the third year of its affectivity.

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. Mayo Bonanza, Inc.
7. Grand Ilocandia Resort Development Incorporated
8. ACESITE (Phils.) Hotel Corporation
9. Waterfront Food Concepts, Inc.
10. Waterfront Management Corporation
11. W Citigyms and Wellness, Inc.

- ***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 561 by the last quarter of 1999, six-storey convention center known as the *Waterfront Convention Center* , previously known as Cebu International Convention Center 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.

-Waterfront Convention Center-(WCC)

Waterfront Convention Center previously known as 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. *WCC* is the only convention and exhibition center of international standard in Cebu City.

- *Entertainment Block*

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

- *Hotel Tower Block*

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.

- ***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. Its primary purpose is to establish, operate, and manage the business of amusement entertainment, and recreation facilities for the use of the paying public. The Company entered into an agreement with the Philippine Amusement and Gaming Corporation (PAGCOR) whereby the latter shall operate the former's slot machine outside of casinos in line with PAGCOR's slot machine arcade project.

- ***Waterfront Entertainment Corporation***

WPI has successfully established the country's first ever integrated hotel reservations and booking system featuring a full-service, round-the-clock, 7 days a week Central Reservation Office. This service ranges from systems and solutions specializing in the operations hotel framework. It offers specialize hotel consultancy services to hotel owners, operators, brands, developers, lenders and investors with the support of hand-picked networks of experts covering all elements of the hotel or hospitality business within a global perspective.

- ***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, second, third, fourth and fifth floors (a total of 12,696.17 sq. m.) of the building.

- ***Waterfront Food Concepts, Inc.***

Waterfront Food Concepts, Inc. is a pastry business, catering to pastry requirements of Waterfront Cebu and Waterfront Mactan and other established coffee shops and food service channels outside the hotels. The property is located in the lobby level of Waterfront Cebu City Casino Hotel. It has started its operation on May of 2006. Its pastry products include cakes, cookies and sandwiches. The subsidiary has already catered most of the renowned coffee shops in the city of Cebu and even in places outside the city like Tagbilaran and Tacloban.

- ***Waterfront Management Corporation***

The newly opened G-Hotel by Waterfront located in 2090 Roxas Boulevard, Malate Manila on November of 2006 is being managed by Waterfront Management Corporation. It is a seven-story building with 10 deluxe suites, 20 deluxe king and 20 deluxe twin rooms which offers a personalized butler service. A boutique hotel boasting with its trendy Café Noir, pool bar Mirage and an elegant ballroom, Promenade, added to the list of must-go places in the busy district of Manila. The black and white concept of its lobby is distinctly G-Hotel.

- ***W Citigyms and Wellness, Inc.***

This new subsidiary is located in the Ground Level of Waterfront Cebu City Casino Hotel occupying 617.53 square meters. W Citigyms and Wellness, Inc. is a fully equipped gym with specialized trainers and state of the art equipments. The gym offers variety of services from aerobic instructions to belly dancing, boxing, yoga classes and a lot more. It also has its own nutritionist/dietician. Its highly trained therapists perform massage and spa services to guests within the hotel. The management has plan of opening Citigyms in all its hotels.

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, and Waterfront Cebu City Hotel. 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 2007

Despite the vindictive economic condition of the country specially in hotel industry, the company still survive to continue to serve and give world class facilities, diverse and absolute entertainment system that brings attraction to the Province of Cebu which attract local, regional and international visitors, to a highly competitive market. The newly opened subsidiaries have been in the up hill struggle to continue its existence with the help of the other group incorporators in order to achieve the goal which is to be the world class in competitive market, it was then truly a fruitful year to the company. This year marks the higher increase in the status of the financial condition compared to previous years of operation.

In years onward the company always have a vision to maintain to be on the peak world class market moreover the good and bad experiences of the company from previous years dictates to move forward and focus on the fundamentals of hotels operations in order to maximize profit. Stirring the effective marketing strategy, hospitable service and cost controls become the paramount to maintain in the highly competitive world.

Year 2008

The race is not always to the quick. It takes more than luck to reach the goal. Leaders oft make it to the top by dint of hard work, resourcefulness and a healthy streak of creativity. Waterfront Philippines, Inc. proved this philosophy when they surpassed the year 2008 which full of struggles. This year might be the crucial year of WPI, despite the ups and down, and tough competition from tourism industry, WPI still remain to continue its growth and existence as the largest Filipino owned chain hotels in the Philippines. Given this remarkable challenging performance, WPI aim not only to maintain the quality of lodging facilities and services but also raise it further. WPI made improvements in one of the Hotels-WCCHC, started in November 2008 the renovation of the offices. This investment is give pride to the employees who always remain loyal to the company by giving them comfort in their respective workplace, which essential in keeping the aforementioned momentum going. WPI still hopeful for the future that is well within the grasp, and remain in perseverance and continue to open the opportunities to come, whether by grace chance or for own making and size up tomorrow, meet the challenges and move further with banners spread out towards the future.

Year 2009

We started 2009 with resolve to face the challenges brought on by unrelenting international crises that contributed to the slow pace of recovery of the tourism and tourism-related services sectors. The company targets continued to remain modest and view in mind that we would take this year as a challenge to lay groundwork for greater profitability in the next year onward. The company and the management itself continue to navigate to a position of incontestable strength and market leadership. To go beyond outside traditional markets and develop new revenue streams. And further enhance measures to decrease our operating cost without sacrificing the need and satisfaction of our guest.

The company work hard to tap into alternative opportunities available, such as reaching out to the local market, which has been provided us with a remarkable revenue stream that should be further nurtured and explored.

Year 2010

In all regions of the world, the hotel sector has suffered big losses. Many hotels have slashed prices and are offering special discounts just to keep customers. Despite the dismal global numbers, Waterfront Philippines has kept to its primary commitment to taking care of its guest, employees and shareholders. Waterfront Philippines exhaust all means to increase the revenue and ensure the stability and profitability of the business. The hotels continue to cross-sell their rooms and continue to promote agency/tour-groups repeat business, and other subsidiaries like Mayo Bonanza and Citigym bring in revenue growth streams for the company.

Waterfront Philippines, Inc. remains secure and highly adaptable to the shifts in global tourism trends. Our strategic location in the country's prime hubs for tourism and key areas of economic expansion contributes to our stability and enables us to take advantage of emerging business opportunities.

The company aim to keep healthy, dynamic, profitable enterprises while maintaining the quality of excellent service and keeping the essential corporate values that company celebrated for. Facility upgrades in recent years have served to pique consumer interest.

Strategies

The hotel properties are centrally located in the central business districts of three prime Philippine destinations, Manila, Cebu and Davao. These are the key cities of the country with the highest tourism traffic. As such our location gives us access to a greeter number of foreign and local travelers.

The management team has a substantial management experience in the acquisition of equity interests in hotels in the Philippines. We have enjoyed considerable success in formulating and implementing clear acquisition strategies, and seizing opportunities to explore market potential of the hotel industry.

The acquisition strategy remains sound as it takes half the time to acquire and renovate properties as it does to conceptualize, construct and pre-open new properties. With the expertise in the hotel management, and the partnership with an investment group that is premised on the transfer of clean properties with minimal business risks, the company is confident enough the ability to improve operations and enhance value of acquired assets.

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 Central Reservations System has made it the only integrated network of hotels in the country with a powerful presence through 24/7 booking service. As the company strive towards further convenience and accessibility, the company has introduced its outline booking facility. The newly redesigned website offers highly efficient online reservations facility that allows customers from all over the world to book real time and receive real time confirmation. This high-speed reservations feature enables the company to fully cater to the online market, whether the purpose is for travel research or convenient booking. All in all the company continue to expand in innovative ways, using technology and new media as a cost effective way to expand its market share, explore new markets and ensure the strength locally and internationally.

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, 2008 to March 31, 2011 (3 years); renewable within 90 days before the lease period expires permissible by the laws of the Philippines.
Rental	On the office spaces: Php 600 per sq. m. per mo.; total of Php 174,750.00 with escalation fee of 7% on the second and third year. On the parking spaces: Php 4,000 per month for each parking space for a total monthly rental fee of Php 8,000 subject to an escalation fee of 7% on the second and 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 4.6 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.

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

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).

Item 3. Legal Proceedings

3.1 SSS vs WPI. Et al civil case no. Q-04-52629 at regional trail court, Quezon City.

SSS claim for sum of money with damages filed against WPI, Wellex Industries, Inc. and the Wellex Group, Inc. for non payment of the Contract of Loan with Real Estate Mortgage and Assignment of Shares with option to Convert to shares of Stock in the amount of P375,000,000.00. The SSS applied for a preliminary attachment against the properties of WPI. The preliminary attachment was initially granted by the Regional Trial Court but was later on reversed by the Court of Appeals upon appropriate appeal by WPI, et al. The case is now on trial proper. The case is pending trial. SSS presented its first witness Ms. Lilia S. Marquez, Assistant Vice President of the Institutional Loans Department of the SSS. Presently, the Parent Company has been charging WCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan.

3.2. BIR Assessment

On April 10, 2007, the Parent Company received a demand letter with notice of assessment from the Bureau of Internal Revenue (BIR) for deficiency taxes for the 2003 taxable year totaling P18.67 million, inclusive of related interest and penalties. On May 9, 2007, the Parent Company sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On May 22, 2007, BIR answered in another letter that it maintains its position that the Parent Company has tax deficiencies. On October 10, 2007, the Parent Company again sent a letter to the BIR contesting the assessment. On February 13, 2009, the BIR sent a final demand letter requesting payment for the deficiency taxes. On November 9, 2009, the BIR issued Final Demand Letter (Preparatory to Court Action) on deficiency income tax, documentary stamp tax, expanded withholding tax, and compromise penalties for the 2003 taxable year in the total amount of P27.2 million.

On November 10, 2008, the Parent Company received a preliminary assessment notice from the BIR for deficiency taxes for the 2006 taxable year totaling P305.9 million, inclusive of interest and penalties. On February 9, 2009, the Parent Company sent a protest letter to BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On February 18, 2009, the Regional Office of the BIR sent a letter to the Parent Company informing the latter that the docket was returned to Revenue District Office for reinvestigation and further verification.

On December 8, 2009, the Parent Company received BIR's Final Decision on Disputed Assessment for deficiency taxes for the 2006 taxable year. The final decision of the BIR seeks to collect deficiency assessments totaling to P3.2 million. However, on January 15, 2010, the Parent Company appealed the final decision of the BIR with the Court of Tax Appeals (CTA) on the grounds of lack of legal and factual bases in the issuance of the assessments.

The group's management legal counsel have made a judgment that the position of the Group is sustainable and, accordingly, believe that the Group does not have present obligation (legal or constructive) with respect t such assessment and claims.

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

4.1 During the annual stockholders' meeting held last August 14, 2010, the stockholders approved and ratified the following matters:

a. Election of the members of the Board of Directors to serve for the term 2010-2011. 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. Arthur M. Lopez
5. Mr. Dee Hua T. Gatchalian
6. Ms. Elvira A. Ting
7. Atty. Lamberto B. Mercado, Jr.
8. Mr. Sergio R. Ortiz-Luis, Jr.
9. Ruben Torres

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

b. The designation of KPMG Manabat Sanagustin & Co. as the Corporation's external auditor. KPMG was also the external auditor for the years 2006, 2007, 2008 , 2009 and 2010.

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**
2010		
January – March 2010	0.35	0.25
April- June 2010	0.29	0.25
July- September 2010	0.30	0.24
October- December 2010	0.32	0.26

Peso	**High**	**Low**
2009		
January – March 2009	0.28	0.185
April- June 2009	0.38	0.200
July- September 2009	0.35	0.25
October- December 2009	0.37	0.26

The price of the stock is P 0.49 and P 0.28 as of March 31, 2010.

5.1 The number of stockholders of record as of December 31, 2010 on the Register of Shareholders was 534 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, 2010 were 2,498,991,753. 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, 2010 is as stated hereunder:

	Name of Stockholder of Record	No. of Shares	%
1	The Wellex Group, Inc.	1, 143, 466, 800	45.757
2	PCD Nominee Corporation (Filipino)	344,186,341	13.773
3	PCD Nominee Corporation (Non-Filipino)	255,869,900	10.239
4	Silver Green Investment LTD	180,230,000	7.212
5	Chesa Holdings, Inc.	175, 924, 000	7.040
6	Tybalt Investment LTD	135,010,000	5.403
7	Pacific Wide Realty Development Corp.	36,445,000	1.458
8	Kenneth T. Gatchalian	30, 000, 100	1.200
9	Rexlon T. Gatchalian	30, 000, 000	1.200
10	Weslie T. Gatchalian	30, 000, 000	1.200
11	Forum Holdings Corporation	20, 626, 000	0.825
12	Primary Structures Corporation	16, 212, 500	0.649
13	Pacific Rehouse Corporation	15, 598, 900	0.624
14	Rexlon T. Gatchalian	14,370,000	0.575
15	Metro Alliance Holdings and Equities	14, 370, 000	0.575
16	Mispah Holdings, Inc.	10,489,200	0.420
17	Elvira A. Ting	10, 000, 009	0.400
18	Catalina Roxas Melendres	6, 246, 000	0.250
19	Renato Chua	2, 749, 000	0.110
20	William C. Liu	2, 010, 450	0.080

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, 2010 and 2009 together with its financial conditions as of the same period.

RESULTS OF OPERATIONS (Amounts in P)

	2010	**2009**
Revenues	1,930,693,824	1,873,605,214
Less: Costs and Expenses	1,541,676,650	1,449,997,627
Gross Income	**389,017,174**	**423,607,587**
Other Expenses (Income)	454,658,170	590,424,807
Net Income (Loss) Before Income Tax	**(65,640,996)**	**(166,817,220)**
Income Tax Expense (Benefit)	(13,483,801)	202,473
NET INCOME (LOSS)	**(52,157,195)**	**(167,019,693)**
Earnings (Loss) Per Share	**(P0.020)**	**(P0.064)**

FINANCIAL CONDITION (Amounts in P)

	2009	**2009**
ASSETS		
Current Assets	736,837,738	838,106,332
Non Current Assets	8,854,321,335	8,895,520,264
Total Assets	**9,591,159,073**	**9,733,626,596**
LIABILITIES		
Current Liabilities	2,476,405,070	2,815,196,828
Non-current Liabilities	2,264,514,937	2,003,398,198
Total Liabilities	**4,740,920,007**	**4,818,595,026**
Total Stockholders' Equity	**4,161,576,231**	**4,222,803,552**
Minority Interest	688,662,835	692,228,018
Total Liabilities & S/H Equity	**9,591,159,073**	**9,773,626,596**

Calendar Year ended December 31, 2010 as compared with Calendar Year ended December 31, 2009

RESULTS OF OPERATION

Revenues and Earnings per share

- Despite the hurdle that the tourism industry faces, WPI boasts solid performance for 2010. Total revenues for year ended Dec. 31, 2010, was higher than the previous year. In actual performance, revenues from hotel & other subsidiaries for the year 2010, is P1.93B compared to 2009's P1.87B. Impressive Increase of 3%.

  Earnings per share for 2010 were (P0.020) compared to last year's (P0.064). There are no potentially dilutive shares as of December 31, 2010, 2009, 2008.

Cost and expenses

- Cost and expenses increase of P91M reflecting a 6% increase from previous year. But despite the increase of cost and expenses WPI managed to keep the net loss under control lower than last year at 69%.

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account increase by P53M more or less 136%. Short-term placements earn interest at 2% per annum and maturity of 30 days.

Receivables – receivables increase of 2%, from P167M in 2009 to P170M in 2010. The company continues to counter the increased credit sales, at the same time increase the collection, generally on a 30 day term.

Inventories – Inventories for the period decrease of 9% compared to last year, this year being at P33 million and last year at P36 million. Best effort was exerted to lower the inventories, the company was nimble enough to react quickly to changes in customer demand and do it with little inventory to prevent a long lead time in-order to minimize cost.

Prepaid expenses and other current assets – There was an increased of P9M in this account approximately 70% from P13M in 2009 to P22M for this year. Prepaid expenses are defined as payment for services and or/ benefits yet to be performed or received, it also include prepaid taxes and insurance.

Due from related parties-current portion – This account was decreased by P164M reflecting a 28% decrease from 2009 financial operation. This also represents interest bearing advances with MAHEC, TWGI and FHI at a rate of two percent (2%) per annum. For this year the parent company accepted an offer from TWGI and FHC whereby the latter parties would settle their obligation by a series of term payment from 2011-2015, and recorded as part of the non-current portion of the due from related parties.

Property plant & equipment – This account was decreased by P232M reflecting a 3% decrease from year. In compliance with PAS 27, property and equipment (except operating and transportation equipments) were carried at revalued amounts effective 2009.

Other non current assets – The account was increased by P75M or 106% from P717M of 2009 going up to P147M of 2010. This consist of refundable deposits, accrued rent receivable non-current, meralco refund net of current portion and others which cannot be listed under accounts that cannot be included under specific grouping.

Current Liabilities – This account consists of trade payable, income tax payable, accruals and loans payable. The account was decreased by 12% from last year, P2.8B of 2009 going down to P2.4B of 2010

Accounts payable & accrued expenses – these include trade payable to suppliers and accrued interest and penalties from SSS loan. The account was increased by 8% from last year.

Loans Payable – Their was a decreased of P431M equivalent to 27% growth rate, represents loan from Cosco Prime Holdings, Social Security System, PAGCOR, PBB and from Industrial Commercial Bank of China – Singapore Branch.

Calendar Year ended December 31, 2009 as compared with Calendar Year ended December 31, 2008

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2009, was lower than the previous year. In actual performance, revenues from hotel operations for the year 2009, is P1.87B compared to 2008's P1.90B. Decreased by P30M approximately 2% decrease.

  Earnings per share for 2009 was (P0.064) compared to last year's (P0.024)

Cost and expenses

- Cost and expenses decrease of 3%. For the year 2009, WPI hit by the low economic crisis, and resulted to revenue shortfalls amounting to negative P30M.

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account decreased by P7M more or less 16%. Short-term placements earn interest at 2% per annum and maturity of 30 days.

Receivables – receivables increased by 9%, from P153M in 2008 to P167M in 2009. The company continues to counter the increased credit sales, at the same time increase the Manila accounts collection, generally on a 30 day term.

Inventories – decrease in inventories by roughly 19% from P45M to P36M

Prepaid expenses and other current assets – There was a decreased of P16M in this account approximately 55% from P29M in 2008 to P13M in 2009.

Due from related parties-current portion – This account was decreased by P1.3B reflecting a 69% decrease from 2008 financial operation. This also represents interest bearing advances with MAHEC, TWGI and FHI at a rate of four percent (4%) per annum for this year. For this year the parent company accepted an offer from TWGI and FHC whereby the latter parties would settle their obligation by a series of term payment from 2010-2015, and recorded as part of the non-current portion of the due from related parties.

Property plant & equipment – This account was increased by P1.61 more or less 31% increase from last year. In compliance with PAS 27, property and equipment (except operating and transportation equipments) were carried at revalued amounts effective 2005.

Other non current assets **–** The account was increased by P3M or 5% from P67M of 2008 going up to P71M of 2009.

Current Liabilities **–** This account consists of trade payable, income tax payable, accruals and loans payable. Their was a decreased by 12% from last year, P3.1M of 2008 going down to P2.8B of 2009

Due to related parties **–** This account decreased by P61T roughly 2%. These are non-interest bearing and collateral-free advances from affiliates.

Loans Payable **–** Their was a decreased of P300M equivalent to 16% decrease, it represents loan from Cosco Prime Holdings, Social Security System, PAGCOR, Philippine National Bank and from Industrial Commercial Bank of China – Singapore Branch.

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 Manabat Sanagustin & Co. began the external audit of the financial statements of Waterfront Philippines, Inc. and its subsidiaries for the calendar year ended December 31, 2002 until present.

A) Audit and Audit-Related Fees

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,	
	2010	***2009***
Aggregate Fees Billed for the external audit of the Company's financial statements	2,427,000	2,337,0000

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, 2008 are as follows:

Office	Name	Age	Citizenship	Position in Other Listed Companies
Chairman of the Board	**Renato B. Magadia**	**72**	**Filipino**	**Director-Phil. Estate Corporation, Metro Alliance Holdings, Interphil Laboratories, 2007-2008Rotary Governor for district 3830.**

Director	**Kenneth T. Gatchalian**	**34**	**Filipino**	**Director-Wellex Industries Inc.**
Director	➢ Arthur M.Lopez	**67**	**Filipino**	**Director-Philippine Estate Corp.**
Director	**Dee Hua T. Gatchalian**	**62**	**Filipino**	**Director- Philippine Estates Corporation, Acesite (Philippines) Hotel Corporation**
Director	**Reno I. Magadia**	**40**	**Filipino**	**Managing Director- Misons Industrial & Development Corp., Serve Well Manpower Inc., Timecorde Ltd. & Firefly Enterprises Corp.**
Director	**Lamberto B. Mercado, Jr.**	**46**	**Filipino**	**Director-The Wellex Group, Inc.**
Director	➢ Sergio R. Ortiz-Luis, Jr.	**67**	**Filipino**	**Director- Philippine Exporters Confederation, Inc. (PHILEXPORT),** Philippine Foundation, Inc. (Team Philippines), Philippine Small & Medium Enterprises Development (PHILSMED Employers Confederation of the Philippines (ECOP, Export and Industry Bank, One Mckinley Place, Inc., EIB Realty & Development Corporation, EIB Securities, Inc., EIB Condominium Corporation, Manila Exposition Complex, Inc. (World Trade Center), Valuelife Insurance, Inc., Valuelife Financial, Inc., International Chamber of Commerce of the Philippines (ICCP), GS1 (Formerly Philippine Article Numbering Councill), Universal LRT Corp., Holy Angel Memorial Park.

				With government affiliations withExport Development Council (EDC), Social Security System (SSS), Foundation for Crime Prevention (Patrol "117" Commission), Dept. of Trade & Industry - Phil. Quality Award Committee, Consulate of Romania in the Philippines, Consular Corps of the Philippines, Constitutional Consultative Commission. **Civic Organizations: Rotary Club of Greenmeadows Quezon City RI District 3780, Philippine Jaycee Senate, Rotary Club of Valencia, Quezon City, League of Corporate Foundation, Philippine Coastguard Auxiliary, NCR PNP C.O.P.S. Foundation, Bestfriends Kontra Droga, International Association of Educators for World Peace, Council of Advisers Philippine National Police, Council of Advisers Eastern Police District.**
Director	➢ Ruben D. Torres	**69**	**Filipino**	**President – RUBENORI, Inc., Chairman & Chief Executive Officer – Universal Matrix Corporation, Senior Partner –Torres Clemencio Cabochan and Torres Law Offices, Chairman – EACOMM Corporation**
Director and	**Elvira A. Ting**	**50**	**Filipino**	**Director-Philippine**

Treasurer				**Estates Corp., Wellex Industries, Inc., Palawan Estates Corporation, Forum Pacific, Inc.**
Corporate Secretary	**Arthur R. Ponsaran**	**64**	**Filipino**	**Director-Philippine Estate Corporation, Wellex Industries, Inc., and Forum Pacific, Inc.**

- ***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., 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** and is a CPA by profession. From 2006-2008 he is the Rotary Governor for district 3830.

Kenneth T. Gatchalian – ***President***

Mr. Kenneth T. Gatchalian is a President of the Company. He is the Executive Vice President-Chief Operating Officer of Phil. Estates Corp. He is also a member of the Board of Forum Pacific, Inc. and Wellex Industries, Inc. He is 34 years old and holds a Degree in Bachelor of Science in Architecture from University of Texas in San Antonio, Texas, USA. **He's been a director of Waterfront since February 2001.**

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 50 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.

Reno I. Magadia – ***Director***

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. He Joined **Waterfront Hotels in 2005.**

Arthur M. Lopez – ***Director***

Arthur Lopez is a director of the company and currently a director of Phil. Estate Corp. He is at present the president and CEO of CCA Phils. Corp. He is 64 years old and a Masters Degree holder in Business Administration from the University of Santo Tomas. **He's been a director of Waterfront since October 2000.**

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. He joined **Waterfront Hotels in 2005.**

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**. He has been a director of Waterfront since 2003.**

Sergio R. Ortiz-Luiz, Jr. - ***Director***

Director- Philippine Exporters Confederation, Inc. (PHILEXPORT), Philippine Foundation, Inc. (Team Philippines), Philippine Small & Medium Enterprises Development (PHILSMED Employers Confederation of the Philippines (ECOP, Export and Industry Bank, One Mckinley Place, Inc., EIB Realty & Development Corporation, EIB Securities, Inc., EIB Condominium Corporation, Manila Exposition Complex, Inc. (World Trade Center), Valuelife Insurance, Inc., Valuelife Financial, Inc., International Chamber of Commerce of the Philippines (ICCP), GS1 (Formerly Philippine Article Numbering Councill), Universal LRT Corp., Holy Angel Memorial Park. With government affiliations withExport Development Council (EDC), Social Security System (SSS), Foundation for Crime Prevention (Patrol "117" Commission), Dept. of Trade & Industry - Phil. Quality Award Committee, Consulate of Romania in the Philippines, Consular Corps of the Philippines, Constitutional Consultative Commission. Civic Organizations: Rotary Club of Greenmeadows Quezon City RI District 3780, Philippine Jaycee Senate, Rotary Club of Valencia, Quezon City, League of Corporate Foundation, Philippine Coastguard Auxiliary, NCR PNP C.O.P.S. Foundation, Bestfriends Kontra Droga, International Association of Educators for World Peace, Council of Advisers Philippine National Police, Council of Advisers Eastern Police District. **He Joined Waterfront Hotels in 2006**

Ruben Torres – *Director*

Mr. Ruben Torres graduated in the University of the Philippines with a degree of Bachelor of Arts (Political Science) afterwhich he finished the degree of Bachelor of Laws at the same university. He is 69 years old. Presently he is also the President of RUBENORI, Inc., Chairman & Chief Executive Officer of Universal Matrix Corporation, Senior Partner of Torres Clemencio Cabochan and Torres Law Offices, and Chairman of EACOMM Corporation. He is associated with the Integrated Bar of the Philippines and Philippine Academy of Professional Arbitrators. His former positions include being a Member of the House of Representatives of the 2nd District of Zambales, E xecutive Secretary of the Office of the

President in Malacañang, Secretary of the Department of Labor and Employment, Managing Partner of Yulo, Torres, Tarrieta and Bello, Director of the Philippine Long Distance Company, Director of Puerto Azul Beach and Country Club, Director of Center for Research and Special Studies, Commissioner of Social Security System, Director of Land Bank of the Philippines, Board Member of Philippine Crop Insurance Corporation, Board Member of Population Commission, Board Member of National Housing Authority, Trustee of Home Development Mutual Fund, Member of Presidential Agrarian Reform Council, Member of President's Committee on Bases, Vice Chairman of Public Sector Labor-Management Council, Chairman of National Manpower and Youth Council, Chairman of Overseas Workers Welfare Administration, Chairman of National Maritime Polytechnic, Chairman of Employees Compensation Commission and Publisher of DIWALIWAN. **He joined Waterfront Hotels in 2006.**

Arthur R. Ponsaran – ***Corporate Secretary/Corporate Information Officer***

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 Secretary of Reynolds Philippines and Director of Phil. Estates Corp. He is 64 years old and earned his Bachelor of Laws from the University of the Philippines. He is a CPA/Lawyer by profession.

Precilla O. Toriano-***Compliance Officer***

Precy Toriano joined Waterfront in 2001, is a graduated in the University of the East with a degree of Bachelor of Science in Business Administration major in Accounting. She is a CPA by profession. She took up MBA units in the Polytechnic University of the Philippines. She had several trainings in the following fields: managerial leadership and decision making skills, the basics of management audit, accounting and BIR Regulation, accounting and bookkeeping audit, and accounting and administrative control. Before joining the Waterfront Group, she has been employed as accounting staff in Liberty Corrugated Boxes Manufacturing, Inc. and Control Management Inc. (Seiko Group of Companies) after which became Accounting Manager in Philippine Remnants Corporation. Then, she handled audit work in Air Philippines Corporation. After this, she was hired in The Wellex Group as Corporate Audit Manager, which paved the way for her coming in the Waterfront Group of Hotels. In 2005 she acquired a Certification in Financial Management for Hotels at Cornell University School of Hotel Administration, in New York USA, and she attended the CFO Congress 2007 at Malaysia, in 2010 she was sent to Singapore to attend the Strategic & Sustainable Cost Control Training. Recently she attended the MBA Financial Modeling Training at Singapore.

Ricky L. Ricardo- ***Corporate Affairs Officer***

Mr. Ricardo is the Corporate Affairs Officer. He is currently the Vice President for Corporate Affairs of APHC and Vice President for Strategic Initiatives of the Wellex Group, Inc. Mr. Ricardo is a graduate of the Ateneo de Manila University with a degree in Management Economics. He started in banking and lending industry with the Far East Bank and Trust Company, 2nd later handled corporate planning for the Philippine Banking Corporation. He was previously worked with AEA Development, an investment house and he has also served in the government under both the office of the Prime Minister and the Department of Finance.

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 2010 the Board of Directors' meeting for the election of the Executive Officers was held on last August 14, 2010. The Directors are to serve one year from then. The last annual stockholders' meeting was held at the Waterfront Cebu City Hotel last August 14, 2010.

9.3 Mr. Kenneth T. Gatchalian is a child of Ms. Dee Hua T. Gatchalian. Ms. Elvira A. Ting is a sister of Ms. Dee Hua T. Gatchalian and an aunt of Mr. 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		
	2010	**2009**	**2008**
a) Aggregate compensation paid to four most highly compensated executive officers: -estimated i) Marco Protacio ii) Gaye Maureen Cenabre iii) Alecio Lodo iv) Precilla O. Toriano	5,771,972.30	4,675,507	4,778,976
b) Aggregate compensation paid to other Officers as a group unnamed -estimated	3,919,702.25	3,715,563	2,826,000

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

10.4 There is no issuance of warrants or options for the year 2010 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, 2010, WPI has no knowledge of any individual or any party who beneficially owns in excess of 10% 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.	1,143, 466, 800 **"r"** *	45.757
Common	PCD Nominee Corp.(Fil)	344,196,341 **"r"** **	13.773
Common	PCDNomineeCorp.(Non Fil)	255,869,900 **"r"** **	10.239

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

11.2 **Security Ownership of Management**

Title Of Class	Name of Owner	Amount and Nature of Ownership ("r" or "b")	Percent of Class
Common	Renato B. Magadia	2, 200 **r&b**	0.000
Common	Kenneth T. Gatchalian	30, 000, 100 **r&b**	1.200
Common	Arthur M. Lopez	1 **r&b**	0.000
Common	Elvira A. Ting	10, 000, 009 **r&b**	0.400
Common	Lamberto Mercado	100 **r&b**	0.000
Common	Arthur R. Ponsaran	110 **r&b**	0.000
Common	Dee Hua T. Gatchalian	350, 000 **r&b**	0.000
Common	Reno Magadia	10, 000 **r&b**	0.000
Common	Sergio R. Otiz-Luis Jr.	110 **r&b**	0.000
Common	Ruben Torres	1, 000 **r&b**	0.000

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 have 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.

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

(a) Exhibits

(b) Reports on SEC Form 17-C

PART IV – CORPORATE GOVERNANCE

The following are the point-by-point compliance of the Company to the Manual:

1. The Company has a compliance officer in the name of Precilla O. Toriano as required by the Manual for Corporate Governance. Said Compliance Officer reported directly to the Chairman of the Board and in his absence, to the executives of the Company.

2. The Compliance Officer monitored the compliance regarding the provisions and requirements of the Corporate for Governance Manual.

3. The Compliance Officer is issuing this certification to the extent of compliance of the Company to this Manual.

4. The Compliance Officer has identified, monitor and controlled the compliance risks involved in the Company considering the large scope of its operations and the accounting procedures that have to be done correspondingly.

5. The Board of Directors has taken care of its responsibility to foster long-term success of the Corporation through its meeting every other month. Each meeting has been carefully recorded in minutes. The authority given to each Board member has been within the by-laws of the Company and within the limits of the law.

6. The Board of Directors has implemented a process of selection to ensure the combination of its directors and officers.

7. The Corporation through the Board and the Corporate Secretary has complied with all the relevant laws, regulations and codes of best business practices.

8. The Board of Directors has implemented the proper disclosure of information to its stockholders as exemplified in the General Information Statement sent to each of them.

9. According to Company's assessment, the directors have conducted fair business transactions with the Corporation, seen to it that personal interests did not prejudice their Board decisions, have devoted time and attention needed for the discharge of their duties and responsibilities, acted judiciously, exercised independent judgment, observed confidentiality, and ensured the continuing soundness, effectiveness and adequacy of the Corporation's internal control environment.

10. The Board has created committees, namely: the Nomination Committee, Compensation & Remuneration Committee, and the Audit Committee.

11. The Nomination Committee, composed of 3 voting directors (one is independent), is in charge of the screening of the candidates for a seat in the Board of Directors in accordance to the qualifications set in the Manual. Said Committee has also considered the disqualifications specifically enumerated.

12. The Compensation and Remuneration Committee is composed of three members, one of them is independent as provided for in the guidelines.

13. The Compensation and Remuneration Committee has made sure that the compensation of the key officers and executives of the Company was in line with the culture and policies of the Company.

14. The Compensation and Remuneration Committee has developed a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors and officers. The Committee has also developed a system regarding disclosure of all the incoming officers as to their business interests which might be in conflict with that of the Company. No director or officer has been allowed to decide on his own remuneration.

15. The Compensation and Remuneration Committee has provided annual reports, information and proxy statements on the disclosure of the compensation for the executives and officers of the Company.

16. The Audit Committee has been composed of three members, one of whom is independent. The said Committee has reviewed all financial reports against compliance with both the internal financial management policy and pertinent accounting standards. The Committee has also reviewed management policies on financial management, audit plans, interface with the internal and external auditors. The Committee has also developed a financial management system that ensured the integrity of internal control activities throughout the Company.

17. The Corporate Secretary of Waterfront Philippines, Inc. is Atty. Arthur R. Ponsaran, a Filipino citizen. He possesses the administrative and interpersonal skills. He is also a Certified Public Accountant. He gathered all documents with regard to the discharge of his duties and responsibilities, prepared board meeting notices, submitted through the SEC 17C the annual certification as to attendance of the directors during Board meetings.

18. The External Auditor for the year 2004 and 2010 is KPMG Manabat Sanagustin and was chosen by the Board and approved by the stockholders upon recommendations of the Audit Committee.

19. The Internal Auditor reporting directly to the Audit Committee provided reasonable assurance that the key organizational and procedural controls were effective, appropriate and complied.

20. The Manual for Corporate Governance has been made available to discerning stockholders during office hours of Waterfront Philippines, Inc.

21. The reports required for the Manual were prepared and submitted to the Commission.

22. All material information that could potentially affect shares was publicly disclosed in accordance with the rules of the Philippine Stock Exchange and the Commission. The Annual Reports were properly disseminated to the stockholders.

23. The stockholders were given the right to elect, remove and replace directors in accordance with the Corporation Code. Cumulative was used during the last annual stockholders' meeting. They were also provided the power of inspection of the corporate books and records including the minutes of the Board Meetings, without costs and restrictions.

Other Matters

1. The Compliance Officer was deemed to have reported grave violations of the Manual but since there was none, none was reported.

2. The Compliance Officer was deemed to have appeared before the Securities and Exchange Commission upon summons but since there was none; said Officer was not compelled to.

3. For Waterfront Philippines, Inc. being a holding company and limited in terms of physical office space with only a few people holding key functions, it was enough that a few copies were available for inspection by all of its few employees.

4. The company did not issue any additional shares during the year to make use of the preemptive right for the stockholders.

5. The shareholders had been granted the right to propose the holding of a meeting, right to propose items in the agenda, but to date none has been communicated to the management of the Company regarding such proposals.

6. The right to dividends has always been in mind of the Company but in the year 2004 and 2005 no dividends have been issued due to financial status of the Company.

7. None so far has expressed to exercise his right to Appraisal in the last annual meeting of the stockholders.

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 ________________________on__________, 2011.

By:

KENNETH T. GATCHALIAN	ELVIRA A. TING
President / CEO/COO	*Treasurer/CFO*
ARTHUR R. PONSARAN	PRECILLA O. TORIANO
Corporate Secretary	*Director for Finance (Comptroller)*

SUBSCRIBED AND SWORN to before me this APR 13 2011 _____ day of _________ 2011__ affiant(s) exhibiting to me his/their Passport.

NOTARY PUBLIC

MARIEL LATORRE FRANCISCO
Notary Public for Pasig City
App. No. 117: Until 12/31/11: Roll No. 57260
PTR No. 6640416 1/5/11: IBP No. 845221 1/5/11
3104 Antel Global Corporate Center
Julia Vargas Ave., Ortigas Center, Pasig City

Doc. No. 758
Page No. 98
Book No. II
Series of 2011

COVER SHEET

AS094-8678

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED

(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

12 / 31	AFS10	08 / 14
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

534		
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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Waterfront Philippines, Inc.** is responsible for all information and representations contained in the consolidated financial statements for the period ended December 31, 2010. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regards, 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the Stockholders of the Company.

Manabat Sanagustin & Co., the independent auditor and appointed by the Stockholders, has examined the financial statements of the Company in accordance with Philippines Standards on Auditing and has expressed its opinion in its report to the Board of Directors and Stockholders.

Signed under oath by the following:

Precilla O. Toriano
Corporate Finance Director

Elvira A. Ting
Treasurer

Kenneth T. Gatchalian
President

Renato B. Magadia
Chairman of the Board

SUBSCRIBED AND SWORN TO BEFORE ME THIS 14 APR 2011
IN CEBU CITY, PHILIPPINES

ATTY. DELON RICHEL RAMON B. UROT
NOTARY PUBLIC
NOTARIAL COMMISSION No.211-06
UNTIL DECEMBER 31, 2011
PTR No. 8141067/1-4-11/CEBU PROV.
IBP No. 821362/1-4-11/CEBU PROV.
ROLL OF ATTORNEY'S No.40563

DOC. NO. 341
PAGE NO. 69
BOOK NO. 76
SERIES OF 2011

Waterfront Philippines, Inc.
27/F Wynsum Corporate Plaza
22 Emerald Avenue, Ortigas Center, 1605 Pasig City
Tel.: (02) 687-0888 • Fax: (02) 687-5970
Email: msro@waterfronthotels.net
Website: www.waterfronthotels.com.ph

REPUBLIC OF THE PHILIPPINES)
) S.S

TREASURER'S CERTIFICATION

I, **Elvira A. Ting** ,of legal age, Filipino and with office address at the 27F Wynsum Corporate Plaza Francisco Ortigas Jr. Avenue Ortigas Center, Pasig City, after being sworn in accordance with law, hereby certify that:

1. I am the Treasurer of **Waterfront Philippines, Inc.,** (the "Company"), 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. ASO94-08678** with principal office address at No. 1 Salinas Drive Lahug Cebu City.

2. 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 14 APR 2011 ___ day of _____ 2011 at CEBU CITY ________.

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this 14 APR 2011 _____day of _______at __________. Affiant exhibited to me her Community Tax Certificate No./**Passport No**. 134250240 issued on December 3, 2003 and valid until December 3, 2013 .

ATTY. DELON RICHEL RAMON B. UROT
NOTARY PUBLIC
NOTARIAL COMMISSION No.211-06
UNTIL DECEMBER 31, 2011
PTR No. 8141067/1-4-11/CEBU PROV
IBP No. 821362/1-4-11/CEBU PROV.
ROLL OF ATTORNEY'S No.40563

Doc. No 337________.
Page No 68________.
Book No 58________.
Series of 2011_______.

WATERFRONT PHILIPPINES, INCORPORATED
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010, 2009 and 2008

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Branches · Subic · Cebu · Bacolod · Iloilo

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
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 financial statements of Waterfront Philippines, Incorporated and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Waterfront Philippines, Incorporated and Subsidiaries as at December 31, 2010 and 2009, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to the following matters disclosed in the notes to the consolidated financial statements:

- As discussed in Note 10 to the consolidated financial statements, Acesite Philippines Hotel Corporation (APHC), a subsidiary of Waterfront Philippines, Incorporated, has receivables from Acesite Limited (BVI) with the original amount of P717.43 million and carrying amount of P650.0 million, P667.28 million and P717.4 million as of December 31, 2010, 2009 and 2008, respectively, which have been the subject of collection efforts by APHC following a legal dispute raised by Acesite Limited (BVI) regarding the change in the ownership of APHC in 2003.

  As discussed also in Note 10 to the consolidated financial statements, although the said legal dispute has been dismissed with finality by the Supreme Court in favor of APHC, and that APHC will pursue legal means to effect collection of the receivables and any applicable interest, the ultimate amount and timing of collection of the receivables cannot presently be determined. As discussed in Note 24 to the consolidated financial statements, in September 2005, CIMA Realty Philippines, Inc. (CIMAR), an entity owned by Acesite Limited (BVI) and the lessor of the land under finance lease where APHC's hotel building is situated, filed a case in court ordering APHC to vacate the premises and to pay the unpaid rentals and the related interest. APHC has filed its answer in the court, claiming beneficial ownership and reconveyance of the land. The subject land and related liability amounting P585.0 million and P25.0 million, respectively, as of December 31, 2009, is recognized in the consolidated statements of financial position under the "Property and Equipment" and "Other noncurrent liabilities" accounts, respectively. The ultimate outcome of this matter and its effect on the Group's consolidated financial statements cannot presently be determined.

- As discussed in Note 9 to the consolidated financial statements, the Group has receivables from Metro Alliance Holdings and Equities Corp. (MAHEC) amounting to P355.5 million, P351.3 million and P337.8 million as of December 31, 2010, 2009 and 2008, respectively. The said receivables have been the subject of collection efforts by the Group's management but the ultimate amount and timing of collection of these receivables cannot presently be determined.

Except for the impairment losses amounting to P17.28 million and P50.14 million that have been recognized in 2010 and 2009, respectively, on the receivables from Acesite Limited (BVI), the consolidated financial statements do not include any other adjustments that may be necessary to reflect the effects of the ultimate outcome of these uncertainties on the carrying amount and classification of these receivables from Acesite Limited (BVI) and MAHEC and the finance lease obligations to CIMAR and the carrying value of the related land.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639620MB
Issued January 3, 2011 at Makati City

April 8, 2011
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2010	2009
ASSETS			
Current Assets			
Cash and cash equivalents	5	**P92,439,449**	P39,126,248
Receivables - net	6	**170,434,328**	167,035,370
Inventories	7	**33,337,638**	36,677,694
Due from related parties - current portion	9.a	**417,814,459**	581,849,767
Prepaid expenses and other current assets	8	**22,811,864**	13,417,253
Total Current Assets		**736,837,738**	838,106,332
Noncurrent Assets			
Receivables from Acesite Limited (BVI)	10	**650,000,000**	667,282,545
Due from related parties - noncurrent portion	9.a	**1,187,572,697**	1,099,306,413
Property and equipment - net	11, 15	**6,644,429,682**	6,876,922,699
Available-for-sale (AFS) investments	9.c	**6,156,410**	8,671,000
Deferred tax assets	21	**219,095,886**	171,862,719
Other noncurrent assets	12	**147,066,660**	71,474,888
Total Noncurrent Assets		**8,854,321,335**	8,895,520,264
		P9,591,159,073	P9,733,626,596
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	13, 15	**P1,192,141,009**	P1,104,999,740
Loans payable - current portion	15	**1,186,779,037**	1,618,236,156
Income tax payable	21	**24,837,109**	9,035,293
Due to related parties	9.d	**-**	3,191,588
Other current liabilities	14, 24	**72,647,915**	79,734,051
Total Current Liabilities		**2,476,405,070**	2,815,196,828
Noncurrent Liabilities			
Loans payable - noncurrent portion	15	**174,844,656**	-
Deferred tax liabilities	21	**1,236,820,490**	1,274,206,388
Other noncurrent liabilities	16, 20, 24	**852,849,791**	729,191,810
Total Noncurrent Liabilities		**2,264,514,937**	2,003,398,198
Total Liabilities		**4,740,920,007**	4,818,595,026
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	18, 25	**2,498,991,753**	2,498,991,753
Additional paid-in capital	25	**706,364,357**	706,364,357
Revaluation surplus in property and equipment		**2,157,127,747**	2,237,373,260
Unrealized valuation gain (loss) on AFS investments		**(4,204,901)**	(2,469,834)
Foreign currency translation adjustment		**38,915,992**	49,036,711
Deficit			
Appropriated		**130,000,000**	130,000,000
Unappropriated		**(1,365,618,717)**	(1,396,492,695)
Total Equity Attributable to Equity Holders of the Parent Company		**4,161,576,231**	4,222,803,552
Non-controlling Interest		**688,662,835**	692,228,018
		P9,591,159,073	P9,733,626,596

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2010**	2009	2008
REVENUES				
Hotel operations				
Rooms		**P646,697,823**	P646,699,329	P700,663,324
Rent and related income	*23, 24*	**634,913,085**	602,034,985	516,892,180
Food and beverage		**587,640,909**	566,424,429	627,539,459
Other operating departments		**24,323,718**	26,927,634	25,128,830
Others		**37,118,289**	31,518,837	33,720,700
		1,930,693,824	1,873,605,214	1,903,944,493
COSTS AND EXPENSES				
Cost of sales				
Food and beverages		**338,946,599**	365,877,738	425,901,618
Rooms		**85,067,128**	49,869,246	55,396,245
Other operating departments		**23,357,670**	18,522,564	16,410,425
Personnel cost	*9.e, 20*	**272,877,661**	258,046,220	246,880,212
Energy costs		**257,904,526**	215,239,996	234,539,699
Repairs and maintenance		**67,017,892**	78,323,923	74,557,848
Rent	*24*	**102,906,480**	78,833,238	61,938,850
Others	*19*	**393,598,694**	385,284,702	380,400,747
		1,541,676,650	1,449,997,627	1,496,025,644
		389,017,174	423,607,587	407,918,849
OTHER EXPENSES (INCOME)				
Depreciation and amortization	*11, 24*	**314,016,049**	323,277,763	260,426,324
Interest expense	*15*	**147,422,514**	161,531,485	120,059,866
Penalties and other charges	*13, 15*	**59,162,789**	60,593,323	60,042,105
Provision for impairment losses on receivables	*6, 9, 10*	**39,750,916**	83,165,306	1,688,875
Interest income	*9.a, b*	**(74,055,144)**	(36,208,481)	(41,817,882)
Foreign exchange losses (gains) - net		**(37,974,133)**	(3,605,376)	50,982,837
Others - net	*28*	**6,335,179**	1,670,787	35,943,044
		454,658,170	590,424,807	487,325,169
LOSS BEFORE INCOME TAX		**(65,640,996)**	(166,817,220)	(79,406,320)
INCOME TAX EXPENSE (BENEFIT)	*21*	**(13,483,801)**	202,473	2,064,104
NET LOSS		**(52,157,195)**	(167,019,693)	(81,470,424)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation differences for foreign operations		**(10,120,719)**	(4,666,317)	28,004,362
Appraisal increase in property and equipment for the year		**-**	1,889,325,575	-
Net change in fair value of AFS financial assets		**(2,514,590)**	(3,901,950)	(13,440,051)
Reduction of deferred tax liability relating to revaluation surplus		**-**	-	59,199,245
Income tax on other comprehensive income		**-**	(566,797,672)	-
		(12,635,309)	1,313,959,636	73,763,556
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P64,792,504)**	P1,146,939,943	(P7,706,868)

Forward

		Years Ended December 31		
	Note	**2010**	2009	2008
Net loss attributable to:				
Equity holders of the Parent Company		**(P49,371,535)**	(P159,223,379)	(P60,215,556)
Non-controlling interest		**(2,785,660)**	(7,796,314)	(21,254,868)
		(P52,157,195)	(P167,019,693)	(P81,470,424)
Total comprehensive income (loss) attributable to:				
Equity holders of the Parent Company		**(P65,572,027)**	P1,065,054,803	P17,657,194
Non-controlling interest		**779,523**	81,885,140	(25,364,062)
		(P64,792,504)	P1,146,939,943	(P7,706,868)
LOSS PER SHARE - Basic and Diluted	*22*	**(P0.020)**	(P0.064)	(P0.024)

See Notes to the Consolidated Financial Statements.

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

			Years Ended December 31	
	Note	**2010**	2009	2008
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital stock - P1 par value per share	*18, 25*	**P2,498,991,753**	P2,498,991,753	P2,498,991,753
Additional Paid-in Capital		**706,364,357**	706,364,357	706,364,357
Revaluation Surplus in Property and Equipment				
Balance at beginning of year		**2,237,373,260**	1,073,422,952	1,045,090,897
Effects of changes in tax rates		**-**	-	59,199,245
Appraisal increase for the year - net of income tax effect		**-**	1,231,636,845	-
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect		**(80,245,513)**	(67,686,537)	(30,867,190)
Balance at end of year		**2,157,127,747**	2,237,373,260	1,073,422,952
Unrealized Valuation Gain (Loss) on AFS Investments				
Balance at beginning of year		**(2,469,834)**	222,511	10,321,897
Valuation loss taken into equity during the year	*9.c*	**(1,735,067)**	(2,692,345)	(9,273,635)
Change in equity ownership of non-controlling interest in a subsidiary		**-**	-	(825,751)
Balance at end of year		**(4,204,901)**	(2,469,834)	222,511
Foreign Currency Translation Adjustment				
Balance at beginning of year		**49,036,711**	53,703,028	25,698,666
Translation adjustment during the year		**(10,120,719)**	(4,666,317)	28,004,362
Balance at end of year		**38,915,992**	49,036,711	53,703,028

Forward

		Years Ended December 31		
	Note	**2010**	2009	2008
Deficit				
Appropriation for renovation and business expansion	*29*	**P130,000,000**	P130,000,000	P -
Unappropriated				
Balance at beginning of year		**(1,396,492,695)**	(1,174,955,853)	(1,117,754,111)
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect		**80,245,513**	67,686,537	30,867,190
Appropriation for the year		**-**	(130,000,000)	-
Change in equity ownership of non-controlling interest in a subsidiary		**-**	-	(27,853,376)
Net loss for the year		**(49,371,535)**	(159,223,379)	(60,215,556)
Balance at end of year		**(1,365,618,717)**	(1,396,492,695)	(1,174,955,853)
Total deficit		**(1,235,618,717)**	(1,266,492,695)	(1,174,955,853)
		4,161,576,231	4,222,803,552	3,157,748,748
NON-CONTROLLING INTEREST				
Balance at beginning of year		**692,228,018**	610,342,879	569,051,186
Change in equity ownership of non-controlling interest in a subsidiary	*25*	**-**	-	66,712,977
Valuation loss on AFS investments taken into equity during the year	*9.c*	**(779,523)**	(1,209,605)	(4,166,416)
Reacquisition of APHC shares		**-**	-	-
Appraisal increase in property and equipment - net of income tax effect		**-**	90,891,058	-
Net loss for the year		**(2,785,660)**	(7,796,314)	(21,254,868)
Balance at end of year		**688,662,835**	692,228,018	610,342,879
		P4,850,239,066	P4,915,031,570	P3,768,091,627

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		**(P65,640,996)**	(P166,817,220)	(P79,406,320)
Adjustments for:				
Depreciation and amortization	*11*	**314,016,049**	323,277,763	260,426,324
Interest expense	*15*	**147,422,514**	161,531,485	120,059,866
Tax refund income	*28*	**-**	(29,690,348)	-
Retirement benefit costs	*20*	**46,066,870**	33,224,022	27,228,245
Provision for impairment losses on receivables	*6, 9,10*	**39,750,916**	83,165,306	1,688,875
Unrealized foreign exchange loss (gain)		**(38,432,056)**	(8,613,388)	82,048,473
Impairment loss on PPE		**216,936**	-	-
Interest income		**(74,055,144)**	(36,208,481)	(41,817,882)
Operating income before working capital changes		**369,345,089**	359,869,139	370,227,581
Decrease (increase) in:				
Receivables		**(32,180,259)**	(22,909,378)	5,994,529
Inventories		**3,340,055**	8,427,282	1,183,749
Prepaid expenses and other current assets		**(9,146,066)**	16,392,300	(15,275,263)
Increase (decrease) in:				
Accounts payable and accrued expenses		**67,173,624**	(3,482,475)	121,696,966
Other current liabilities		**173,628,545**	(31,513,254)	(1,234,191)
Cash generated from operations		**572,160,988**	326,783,614	482,593,371
Interest received		**427,993**	600,545	1,562,154
Income taxes paid		**(28,978,265)**	(41,882,179)	(17,605,104)
Retirement plan contributions paid	*20*	**(22,000,000)**	(4,000,000)	(154,195)
Interest paid		**(140,694,435)**	(150,327,364)	(105,371,276)
Net cash provided by operating activities		**380,916,281**	131,174,616	361,024,950
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	*11*	**(81,739,968)**	(51,811,442)	(66,801,921)
Due from related parties		**-**	(109,173,807)	(164,039,367)
Proceeds from sale of property and equipment		**-**	842,585	38,443
Increase in other noncurrent assets		**(75,676,770)**	(2,664,745)	(6,981,381)
Net cash used in investing activities		**(157,416,738)**	(162,807,409)	(237,784,226)

Forward

	Note	2010	2009	2008
		Years Ended December 31		
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in loans payable		**(P229,267,457)**	(P383,819,860)	(P137,491,538)
(Increase) Decrease in due from related parties		**108,792,450**	423,440,997	(52,563,882)
Increase (decrease) in other noncurrent liabilities		**(38,090,616)**	(9,293,075)	20,223,836
Payment of obligation under finance lease		**(1,500,000)**	(1,500,000)	(620,168)
Net cash provided by (used in) financing activities		**(160,065,623)**	28,828,062	(170,451,752)
INCREASE (DECREASE) IN TRANSLATION ADJUSTMENT FOR THE YEAR		**(10,120,719)**	(4,666,317)	28,004,362
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**53,313,201**	(7,471,048)	(19,206,666)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**39,126,248**	46,597,296	65,803,962
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P92,439,449**	P39,126,248	P46,597,296

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

Waterfront Philippines, Incorporated (the "Parent Company" or "WPI") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 23, 1994. WPI is 46%-owned by The Wellex Group, Inc. (TWGI) and is listed in the Philippine Stock Exchange (PSE). It holds equity interests in hotels and resorts, a fitness gym, entities engaged in the international marketing and promotion of casinos, manufacturing of pastries, hotel management and operations.

The Parent Company and the following subsidiaries (collectively referred to as the "Group") were incorporated in the Philippines, except for Waterfront Promotion Ltd. (WPL) and Club Waterfront International Limited (CWIL), which were registered in the Cayman Islands.

	Percentage of Ownership as of December 31, 2010, 2009 and 2008	
	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)	69	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
WPL	100	-
Mayo Bonanza, Inc. (MBI)	100	-
CWIL (through direct ownership in WPL)	-	100
Waterfront Entertainment Corporation (WEC)	100	-
Pastries manufacturing:		
Waterfront Food Concepts Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-

At present, WPL and CWIL have temporarily stopped operations. Management decided to temporarily cease the operations of WPL and CWIL on June 2003 and November 2001 respectively, due to unfavorable economic conditions. However, the management of WPI, the parent company, has given an undertaking to provide necessary support in order for WPL and CWIL to continue as a going concern.

On February 12, 2008, MBI started commercial operations.

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

2. Basis of Preparation

Statement of Compliance
The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements of the Group as at and for the year ended December 31, 2010, 2009 and 2008 were approved and authorized for issue by the Board of Directors (BOD) on April 8, 2011.

Basis of Measurement
The consolidated financial statements are prepared on the historical cost basis, except for certain property and equipment which have been measured at revalued amounts and available-for-sale (AFS) investments which have been measured at fair value.

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information presented in Philippine peso has been rounded to the nearest peso.

Use of Estimates and Judgments
The preparation of consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, 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.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in Note 4 to the consolidated financial statements.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group, except for the changes as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new or revised, amendments and improvements to standards and interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations] as part of PFRS.

Adopted Effective January 1, 2010

The following are the revised standard and improvements to standards and interpretation which are relevant to the Group, are effective for the year ended December 31, 2010, and have been applied in preparing these consolidated financial statements.

- Revised PFRS 3, *Business Combinations* (2008), effective for annual periods beginning on or after July 1, 2009, incorporates the following changes that are likely to be relevant to the Group's operations:

  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  The adoption of the above revised standard did not have material impact on the consolidated financial statements.

- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.

  The adoption of the above revised standard did not have material impact on the consolidated financial statements.

- Philippine Interpretation IFRIC - 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009.

  The adoption of the above interpretation did not have material impact on the consolidated financial statements.

- *Improvements to PFRSs 2009,* contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the improvements or amendments to PFRSs that are relevant to the Parent Company:

  - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

- PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

- PAS 17, *Leases*. The International Accounting Standards Board deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 - 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.

- PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.

- PAS 39, *Financial Instruments: Recognition and Measurement*. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

The adoption of the above improvements to standards did not have material impact on the consolidated financial statements.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

To be Adopted on January 1, 2011

- Philippine Interpretation IFRIC - 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures (2009),* amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010,* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRSs that are relevant to the Group. None of these is expected to have a significant effect on the consolidated financial statements of the Group

  - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.

  - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

  - PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted.

To be Adopted on January 1, 2012

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3, *Business Combinations* provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation SIC-21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC-21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments (2010)*, supersedes PFRS 9 (2009), the first phase of the PAS 39 replacement project. PFRS 9 (2010) was issued to include all the requirements of PFRS (2009) without amendment. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial assets. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

Under the prevailing circumstances, the adoption of the new standards, amendments and improvements to standards and interpretations in future periods as discussed above is not expected to have any material effect on the Group's consolidated financial statements. However, additional disclosures will be included when these are adopted in the future.

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 to the consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting for Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into considerations potential voting rights that currently are exercisable.

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

- the recognized amount of any non-controlling interests in the acquire; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less

- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

For acquisitions between January 1, 2004 and January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), a bargain purchase gain is recognized immediately in profit or loss after reassessing the reasonableness of the measurement bases of the fair values of the identifiable assets, liabilities and of the cost of the acquisition.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisition.

Following initial recognition, goodwill is measured at cost and subsequently reviewed for impairment at least annually or more frequently, if events or changes in circumstances indicate that its carrying value may be impaired.

Accounting for Non-controlling Interests (NCI)
NCI represents the portion of profit or loss, other comprehensive income and the net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the Parent Company's equity.

Acquisitions of NCI are accounted for as transaction with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to NCI, if any, are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill, if any, was recognized on the acquisition of NCI in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Loss of Control
Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Transactions Eliminated on Consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Segment Reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating results are reviewed regularly by the Group's BOD, the chief operating decision maker (CODM) of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's BOD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unacllocated items comprise mainly corporate assets, head office expenses and income tax assts and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment.

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. The following specific recognition criteria must be met before revenue is recognized:

Rooms
Room revenue is recognized based on actual occupancy.

Food and Beverage
Food and beverage revenue is recognized when orders are served.

Rent and Related Income
Rent and related income on leased areas of the Group is accounted for on a straight-line basis over the term of the lease, except for cancellable leases which are recognized at amount collected or collectible based on the contract provision.

Other Operating Departments
Revenue from other operating departments is recognized upon execution of service or as contracted.

Interest Income
Interest income is recognized as it accrues using the effective interest method.

<u>Financial Instruments</u>

Date of Recognition
A financial asset or liability is recognized when the Group becomes a party to the contractual provisions of the instrument. In the case of regular way purchase or sale of a financial asset, recognition and derecognition is on the settlement date. Derivatives are recognized on trade date basis.

Initial Recognition of Financial Instruments
All financial assets and liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. Financial liabilities are classified as FVPL and other liabilities carried at amortized cost. Financial liabilities at FVPL include financial liabilities held-for-trading and those designated upon recognition as at FVPL. Interest, dividends, gains and losses relating to a financial liability is reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

All regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, are recognized on the trade date, which is the date that the Group commits to purchase or dispose the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument, normally in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established.

Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at reporting date.

All loans, borrowings and other liabilities are initially recognized at the fair value of the consideration received less directly attributable transactions costs.

Determination of Fair Value
The fair value of instruments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business at the reporting date. For financial instruments 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 or other valuation models.

(a) Financial Assets or Financial Liabilities at FVPL

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in a mark-to-market (MTM) gain/loss account in profit or loss. As of December 31, 2010 and 2009, the Group has no financial assets and financial liabilities at FVPL.

(b) HTM Investments

HTM assets are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. If the Group would sell other than an insignificant amount of HTM assets, the entire category would be reclassified as AFS investments.

HTM assets are carried at amortized cost in the consolidated statements of financial position. Amortization is determined by using the effective interest method. Asset under this category are classified as current assets if maturity is within twelve months from the reporting date and noncurrent assets if maturity is more than a year.

As of December 31, 2010 and 2009, the Group has no HTM investments.

(c) AFS Investments

AFS investments are those which are designated as such or do not qualify to be classified as at FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. The unrealized gains and losses arising from the fair valuation of AFS investments are recognized in other comprehensive income and are presented as part of "Unrealized valuation gain (loss) on AFS investments" in the equity section of the consolidated statements of financial position.

When the security is disposed of, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Dividends earned on holding AFS investments are recognized in profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognized as "Provisions for impairment losses" in profit or loss.

As of December 31, 2010 and 2009, the Group's AFS investments amounted to P6.2 million and P8.7 million, respectively. The Group designated as AFS investments its investments in shares of stock of Wellex Industries, Incorporated (WII) (see Note 9.c).

(d) Loans and Receivables

Loans and receivable are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as held-for-trading, AFS or financial assets at FVPL. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in "Provision for impairment losses" account in profit or loss.

The Group has designated the following as loans and receivables: cash and cash equivalents, receivables, due from related parties, receivables from Acesite Limited (BVI), Manila Electric Company (MERALCO) refund and refundable deposits.

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.

<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 when:

- 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, 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 profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial Assets Carried at Amortized Cost
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the assets is reduced through use of an allowance account and the amount of loss is recognized in profit or loss. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account thereby increasing the carrying amount of the asset to its recoverable amount. The increased amount cannot exceed the amortized cost that would have been determined, net of provisions, if no impairment loss had been recognized for the asset in prior years. If a write-off is later recovered, any amounts formerly charged are credited to the "Provision for impairment losses" account in profit or loss.

Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial asset.

Quoted AFS Investments
For quoted AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial assets or group of financial asset is impaired.

In case of equity instruments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that has been recognized in other comprehensive income and presented in equity is transferred to profit or loss. Impairment losses in equity investments are not reversed through the profit or loss. Increases in fair value after impairment are recognized in other comprehensive income.

Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated statements of financial position.

Inventories

Inventories, which represent food and beverage, operating supplies and engineering and maintenance supplies, are stated at the lower of cost and net realizable value (NRV).

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.

NRV for saleable merchandise (food and beverage) represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the resale. NRV of operating supplies and engineering and maintenance supplies is the estimated current replacement cost. Inventories are periodically reviewed and evaluated for obsolescence. Obsolete inventories are scrapped or disposed of and the related costs are charged to operations.

Property and Equipment

Measurement at Initial Recognition

Upon initial recognition, items of property and equipment are measured at cost which comprises the purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use.

Measurement Subsequent to Initial Recognition

Property and equipment, except for leasehold improvements and operating equipment which are stated at cost, are carried at revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair values are determined through the appraisal of an independent firm of appraisers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The net appraisal surplus resulting from the revaluation is credited to “Revaluation surplus in property and equipment” account (net of corresponding deferred income tax effects) shown under the consolidated statements of changes in equity. Any increase in the revaluation amount is credited to the “Revaluation surplus in property and equipment” account unless it offsets a previous decrease in the value of the same asset recognized in profit or loss. A decrease in value is recognized in profit or loss 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” account 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” account (net of deferred income tax effect).

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

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.

Operating equipment 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 recognized in profit or loss.

Subsequent Costs
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.

Depreciation
Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

The estimated useful lives are as follows:

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

The estimated useful lives, as well as the depreciation and amortization method are reviewed at each reporting date to ensure that the period and method of depreciation and amortization 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 related 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 recognized in profit or loss.

Impairment of Non-financial Assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. 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 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 profit or loss.

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 profit or loss.

After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Borrowing Costs

Borrowing costs are generally recognized as expense in the period in which these costs are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of a qualifying asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

Retirement Benefits

The Group's net obligation in respect of defined retirement benefit 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 reporting date on treasury bonds that have maturity dates approximating 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 profit or loss 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 profit or loss.

In respect of actuarial gains and losses that arise in calculating the Group's obligation under the plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the Group (as lessor) are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the term of the lease, except for cancellable leases which are recognized at amount collected or collectible based on the contract provision.

Finance Leases

Finance leases, which transfers to the Group (as lessee) substantially all the risks 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 recognized in profit or loss.

Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to their Philippine peso equivalents using the rates of exchange prevailing at the reporting date.

The accounts of the foreign subsidiaries of the Parent Company are being maintained in U.S. dollar 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 other comprehensive income.

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 reporting date;
- income and expenses are translated at exchange rates at the date of the transaction; and
- all resulting exchange differences shall be recognized as a separate component of equity.

Income Taxes

Income tax recognized in profit or loss comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity and in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting 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. The deferred tax assets are reviewed at each reporting date and reduced, if appropriate.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or either tax assets and liabilities will be realized simultaneously.

Earnings (Loss) Per Share

Earnings (loss) per share (EPS) is determined by dividing net income or loss for the period by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared during the period. 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.

Provisions and Contingencies

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.

Contingent liabilities are recognized 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.

Contingent assets are not recognized but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is virtually certain.

Events After the Reporting Date

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

4. Accounting Estimates and Judgments

The preparation of the consolidated financial statements in accordance with PFRS requires 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 on 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:

Judgments

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 Notes 23 and 24).

Finance Leases

The Group has entered into lease agreements for the land and certain equipment as a lessee. The Group has determined that it has substantially acquired all the risks and benefits incidental to ownership of the land and the equipment and has accounted for these as finance leases. Accordingly, the Group capitalized the land and related liability equivalent to the purchase option price which is also the minimum lease payment and the equipment and related liability at present value of future minimum lease payments (see Note 24).

Receivables from Acesite Limited (BVI)

APHC has receivables from Acesite Limited (BVI) amounting to P650.0 million and P667.3 million in 2010 and 2009, respectively, which has been the subject of collection efforts by APHC management. The APHC management provided an allowance for impairment losses on receivables from Acesite Limited (BVI) amounting to nil and P50.1 million in 2010 and 2009, respectively. Moreover, in 2010, the APHC's BOD approved the write-off of the P67.42 portion of the receivables fully covered with allowance (see Note 10).

Tax Assessments and Legal Claims

The Group has received assessments from the Bureau of Internal Revenue (BIR) for deficiency taxes and is also a defendant in various legal cases which are still pending resolution. The Group's management and legal counsel have made a judgment that the position of the Group is sustainable and, accordingly, believe that the Group does not have a present obligation (legal or constructive) with respect to such assessment and claims (see Note 27).

Transactions with Philippine Amusement and Gaming Operations (PAGCOR)
The Group has significant transactions with PAGCOR. Under Presidential Decree (PD) No. 1869, otherwise known as the PAGCOR Charter, PAGCOR is exempt from payment of any form of taxes other than the 5% franchise tax imposed on the gross revenue or earnings derived by PAGCOR from its operations under the franchise. The amended Revenue Regulation (RR) No. 16-2005, which became effective in 2006, however, provides that gross receipts of PAGCOR shall be subject to the 12% value added tax (VAT). In February 2007, the Philippine Congress amended PD No. 1869 to extend the franchise term of PAGCOR for another 25 years but did not include the revocation of PAGCOR's tax exemption privileges as previously provided for in PD No. 1869. The Group's management and its legal counsel have made a judgment that the amended PD No. 1869 prevails over RR No. 16-2005 (see Notes 23 and 27.c).

Estimates

Estimating Allowance for Impairment Losses on Receivables and Due from Related Parties
The Group maintains an allowance for impairment losses on receivables and due from related parties 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 due from related parties, 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.

For due from related parties, the Group uses judgment based on the available facts and circumstances, including but not limited to, assessment of the related parties' operating activities, business viability and overall capacity to pay in providing reserve allowance against recorded receivable amounts.

Allowance for impairment losses on receivables and due from related parties as of December 31, 2010 and 2009 amounted to P103.2 million and P107.8 million, respectively. Total receivables and due from related parties, net of valuation allowance, amounted to P1.8 billion as of December 31, 2010 and 2009, respectively, (see Notes 6 and 9.a).

Financial Assets not in an Active Market
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Estimating Impairment of AFS Investments
The Group classifies certain assets as AFS and recognizes movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. No impairment losses have been recognized in 2010, 2009 and 2008. The carrying amount of AFS investments as of December 31, 2010 and 2009 amounted to P6.2 million and P8.7 million, respectively, (see Note 9.c).

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 and amortization expense and decrease noncurrent assets.

Appraisal Value of Certain Property and Equipment
The appraised value of the Group's property and equipment carried at revalued amounts is determined from market-based evidence by appraisal that was undertaken by an independent firm of appraisers in calculating such amounts. While management believes that the assumptions and market-based evidences used are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the valuation of the Group's property and equipment. However, management believes that the carrying amount of property and equipment as of December 31, 2010 and 2009 does not differ materially from that which would be determined using fair value at reporting date. As of December 31, 2010 and 2009, the aggregate carrying amounts of property and equipment carried at revalued amounts are P6.6 billion and P6.9 billion, respectively, (see Note 11).

Estimating Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that the carrying amount of a nonfinancial asset may be impaired. If such indication exists, the Group makes an estimate of the asset's 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.

PAS 36, *Impairment of Asset*, requires that an impairment review be performed when certain impairment indicators are present.

Determining the value in use of property and equipment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, likewise requires the Group to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Group to conclude that property and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the Group's consolidated financial position and financial performance.

The preparation of the estimated future cash flows involves significant judgments and estimates. While the Group believes that the assumptions are appropriate and reasonable, significant change in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

As of December 31, 2010 and 2009, the carrying amounts of property and equipment amounted to P6.6 billion and P6.9 billion, respectively, (see Notes 11 and 24).

Deferred Tax Assets and Liabilities
The Group reviews the carrying amounts of deferred tax assets and liabilities at each reporting date and reduces deferred tax assets and liabilities 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. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. The Group recognized deferred tax assets amounting to P219.1 million and P171.9 million as of December 31, 2010 and 2009, respectively. The Group has deferred tax liabilities amounting to P1.2 billion and P1.3 billion as of December 31, 2010 and 2009, respectively, (see Note 21).

Retirement Benefits
The determination of the Group's obligation and cost for retirement benefits is dependent on the Group's selection of certain assumptions used by an actuary in calculating such amounts. Actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore, generally affect the Group's recognized expense and recognized obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's retirement benefit obligations.

The expected rate of return on plan assets of 6% was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. Details of the assumptions used in the calculation are described in Note 20 to the consolidated financial statements.

Net retirement benefits cost amounted to P46.1 million, P33.2 million and P27.4 million in 2010, 2009 and 2008, respectively. Retirement benefits liability amounted to P202.3 million and P178.7 million as of December 31, 2010 and 2009, respectively, (see Note 20).

5. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	**P90,743,224**	P37,009,567
Short-term placements	**1,696,225**	2,116,681
	P92,439,449	P39,126,248

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

6. Receivables

This account consists of:

	Note	**2010**	2009
Trade		**P149,262,422**	P146,338,465
Advances to suppliers and employees		**9,139,226**	7,701,150
Current portion of Meralco refund	*28*	**-**	3,855,873
Others		**38,169,128**	39,844,678
		196,570,776	197,740,166
Less allowance for impairment losses		**26,136,448**	30,704,796
		P170,434,328	P167,035,370

Trade receivables are noninterest-bearing and are generally on a 30-day term.

Outstanding rental receivables from PAGCOR included under "Other receivables" account in the consolidated statements of financial position, amounted to P21.0 million and P20.5 million as of December 31, 2010 and 2009, respectively.

Movements in the allowance for impairment losses on receivables are as follows:

	2010	2009
Beginning balance	**P30,704,796**	P169,851,423
Impairment loss for the year	**2,237,936**	3,529,830
Write-off	**(6,806,284)**	(142,676,457)
Ending balance	**P26,136,448**	P30,704,796

7. Inventories

This account consists of the following inventories carried at cost:

	2010	2009
Food and beverage	**P14,920,980**	P17,234,095
Operating supplies	**16,220,918**	17,075,193
Engineering and maintenance supplies	**2,195,740**	2,368,406
	P33,337,638	P36,677,694

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2010	2009
Prepaid taxes	**P11,374,279**	P8,050,959
Prepaid expenses	**2,046,206**	1,014,566
Others	**9,391,379**	4,351,728
	P22,811,864	P13,417,253

Others pertain to prepaid expenses for trainings and seminars, insurance, advertising, association and subscription dues paid by the Group in advance.

9. Related Party Transactions

In the normal course of business, the Group transacts with companies who are considered related parties under PAS 24, *Related Party Disclosures*. These transactions consist of the following:

a. The "Due from related parties - current portion" account consists of:

	Relationship with the Group	***Note***	**2010**	2009
TWGI	Ultimate parent company	*25*	**P62,443,850**	P202,435,529
Metro Alliance Holdings and Equities Corp. (MAHEC)	Stockholder	*9.b*	**355,548,265**	351,319,527
Forum Holdings Corp. (FHC)	Stockholder		**15,356,229**	40,877,246
Others	Stockholder		**1,948,716**	4,700,066
			435,297,060	599,332,368
Less allowance for impairment losses			**17,482,601**	17,482,601
			P417,814,459	P581,849,767

The "Due from related parties - noncurrent portion" account consists of:

	Relationship with the Group	***Note***	**2010**	2009
TWGI	Ultimate parent company	*25*	**P1,189,530,435**	P1,088,815,367
FHC	Stockholder		**57,661,691**	70,110,475
			1,247,192,126	1,158,925,842
Less allowance for impairment losses			**59,619,429**	59,619,429
			P1,187,572,697	P1,099,306,413

Movements in the allowance for impairment losses on due from related parties - current portion are as follows:

	2010	2009
Beginning balance	**P17,482,601**	P47,628,507
Impairment loss for the year	**-**	17,252,607
Reclassification to noncurrent portion	**-**	(47,398,513)
Ending balance	**P17,482,601**	P17,482,601

Movements in the allowance for impairment losses on due from related parties - noncurrent portion are as follows:

	2010	2009
Beginning balance	**P59,619,429**	P -
Impairment loss for the year	**-**	12,220,916
Reclassification from current portion	**-**	47,398,513
Ending balance	**P59,619,429**	P59,619,429

In 2003, the Parent Company extended interest-bearing, collateral-free advances to TWGI which bear interest at 4% per annum. In 2006 and prior years, advances to FHC were interest-bearing and collateral-free which bear an annual interest of 4%.

In 2007, the Parent Company entered into revised agreements with TWGI, MAHEC and FHC whereby outstanding advances during the year are subjected to a revised interest of 7% per annum. The said agreement was amended in 2008 whereby outstanding advances during the year are subjected to a revised interest rate of 4% per annum.

In 2009, the Parent Company and its subsidiary, GIRDI, accepted an offer from TWGI and FHC whereby the latter parties would unconditionally settle their obligations by a series of term payments.

To reflect the agreement, P887.6 million of advances representing agreed term payments from 2011 to 2015 was transferred to noncurrent assets. Additional impairment was also recognized on the advances.

In 2010, the Parent Company and its subsidiary, GIRDI, received payments from TWGI and FHC amounting to P50 million and P41 million, respectively and in addition, accepted an offer from TWGI and FHC to restructure their obligations by a series of term payments.

The terms of payment for both of these receivables are as follows:

	TWGI	FHC
2011	P50,000,000	P15,356,229
2012	50,000,000	15,000,000
2013	50,000,000	15,000,000
2014	50,000,000	15,000,000
2015	1,051,974,285	12,661,691
	P1,251,974,285	P73,017,920

Interest income on these advances amounted to P25.4 million, P35.6 million and P40.2 million in 2010, 2009 and 2008, respectively which are recorded as part of interest income in the consolidated statements of comprehensive income.

b. In 2004, the Parent Company extended 4% interest-bearing, collateral free advances to MAHEC amounting to P221.2 million as an additional fund infusion used by the latter, through Polymax Worldwide Limited (Polymax), its special purpose entity, and NPC Alliance Corp. (NPCA) a wholly-owned subsidiary of Polymax, in acquiring the petrochemical plant of Bataan Polyethylene Corporation (BPC).

   In 2010, the Parent Company has been actively discussing the possible sale of the petrochemical plant with certain prospective buyers.

   The advances to MAHEC accumulated to P355.5 million, P351.3 million and P337.8 million as of December 31, 2010, 2009 and 2008, respectively, owing to subsequent advances and the accrual of interest. The Parent Company provided an allowance for impairment losses on receivables amounting to P17.2 million in 2009. The said receivable is subject to the collection efforts by the Parent Company but management believes that the ultimate amount and timing of collection cannot presently be determined.

The collectibility of the receivables from TWGI, MAHEC and FHC is unconditionally recognized and guaranteed by a certain stockholder of the Parent Company, representing the majority shareholders.

c. In July and August 2005, APHC's BOD approved the conversion of APHC's net receivables from MAHEC and East Asia Oil Company (EAOC) into 86,710,000 shares of stock of Wellex Industries, Incorporated (WII), an entity under common control, the shares of which are listed in the Philippine Stock Exchange. The net receivable at the time of conversion amounted to P43.3 million. The conversion resulted in a loss on exchange of assets of P31.1 million for APHC. In accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, APHC classified the investment in WII's shares of stocks as an AFS investment. The aggregate fair market values of WII shares based on its closing market price as of December 31, 2010, 2009 and 2008 are P6.2 million, P8.7 million and P12.6 million, respectively, resulting in a valuation loss of P2.5 million, P3.9 million , P13.4 million in 2010, 2009 and 2008, respectively.

d. The "Due to related parties" account primarily represents noninterest-bearing, collateral-free and due on demand cash advances from the following related parties.

	Relationship with the Parent Company	**2010**	2009
Philippine Estates Corp.	Under common control	**P -**	P1,734,887
WII	Under common control	**-**	1,349,442
Others	Under common control	**-**	107,259
		P -	P3,191,588

During the year, the balance of P3.2 million of due to related parties was paid by the Parent Company.

e. Total key management personnel compensation recognized in the consolidated statements of comprehensive income as part of "Personnel costs" account, amounted to P36.7 million, P28.4 million and P28.3 million in short-term employee benefits for 2010, 2009 and 2008, respectively. Post-employment benefits amounted to P1.5 million, P1.4 million and P1.2 million in 2010, 2009 and 2008, respectively.

10. Receivables from Acesite Limited (BVI)

As of December 31, 2010 and 2009, APHC has unsecured receivables from Acesite Limited (BVI) amounting to P650.0 million and P667.3 million, respectively. The components of the receivables from Acesite Limited (BVI) are as follows:

	2010	2009
Noninterest-bearing:		
Receivable from sale of investment in Listar Properties Limited (LPL)	**P327,587,500**	P327,587,500
Working capital advances	**322,412,500**	374,839,034
	650,000,000	702,426,534
Interest-bearing:		
Unsecured loan receivable - granted on August 8, 2002, which bears interest at 2% per annum	**-**	15,000,000
	650,000,000	717,426,534
Less allowance for impairment losses	**-**	50,143,989
	P650,000,000	P667,282,545

Receivable from Sale of Investment in LPL
On September 30, 1999, Sino-i.com Limited (Sino-I), APHC's ultimate holding company entered into a sale and purchase agreement with South Port Development, Limited (SPDL) for the sale of Sino-I's investments in APHC to SPDL. The sale and purchase agreement required, among others, the complete divestment of APHC's investment in LPL which was sold to Acesite Limited (BVI) at cost in the amount of P327.6 million (shown as receivable from sale of investment in LPL above) and the extension of the payment term of the loan from Industrial Commercial Bank of China - Singapore Branch (ICBC) (see Note 15).

The above receivables totaling P650.0 million, including any applicable interest, have been the subject of collection efforts by APHC following Acesite Limited (BVI)'s contest over the foreclosure and subsequent transfer to the Parent Company of its ownership in APHC in 2003 as more fully disclosed in Note 25 to the consolidated financial statements. The applicable interest receivable and income, however, are not recognized in the consolidated statements of financial position and profit or loss, respectively.

Although the motions for consideration filed by Acesite Limited (BVI) against Equitable-PCI Bank (EPCIB) and the Parent Company regarding the change in the ownership of APHC have been dismissed with finality by the Supreme Court as discussed also in Note 25 to the consolidated financial statements, the ultimate amount and timing of collection of these receivables cannot presently be determined.

In 2007, APHC initiated discussions with Acesite Limited (BVI) for the possible amicable settlement of this matter which is currently ongoing.

In 2009, APHC recognized an impairment loss amounting to P50.14 million on its receivables from Acesite Limited (BVI), representing the excess of the carrying amount of the said receivables reduced by APHC's total obligations under finance lease to CIMAR, an entity owned by Acesite Limited (BVI), over APHC's expected cash flows from APHC's use of the land subject to the said finance lease (see Note 24). The land held under a finance lease is legally owned by CIMAR and hence, by Acesite Limited (BVI).

In 2010, the APHC's management and BOD estimated the maximum recoverable amount of the receivables, based on the consultation with the legal counsels on the status of the discussions with Acesite Limited (BVI) for possible amicable settlement and considering the expected cash flows from the APHC's use of the land, to be not in excess of P650.0 million. Accordingly, in 2010, an additional allowance for impairment amounting to P17.28 million was recognized increasing the allowance to P67.42 million. Moreover, in 2010, the BOD approved the write-off of the P67.42 portion of the receivables fully covered with allowance as based on the consultation of the legal counsel it is highly improbable that these receivables can still be recovered.

11. Property and Equipment

Movements in this account are as follows:

	For the Year Ended December 31, 2010								
	Land	**Land Improvements**	**Leasehold Improvements**	**Hotel Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Operating Equipment**	**Transportation Equipment**	**Construction In Progress**	**Total**
Measurement Basis:	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***At Cost***	
Gross carrying amount:									
Beginning balance	P926,024,000	P13,406,000	P53,047,174	P8,739,050,513	P1,418,549,895	P234,025,920	P27,436,377	P1,568,412	P11,413,108,291
Additions	-	-	15,042,186	7,447,232	44,441,495	14,751,555	57,500	-	81,739,968
Adjustments due to revaluation	-	-	-	-	-	-	-	-	-
Disposals/reclassifications	-	-	-	-	(464,862)	-	-	-	(464,862)
Ending balance	**926,024,000**	**13,406,000**	**68,089,360**	**8,746,497,745**	**1,462,526,528**	**248,777,475**	**27,493,877**	**1,568,412**	**11,494,383,397**
Accumulated depreciation and amortization:									
Beginning balance	-	1,005,450	12,206,707	3,351,354,904	975,002,305	171,732,505	24,883,721	-	4,536,185,592
Provision	-	327,669	8,170,415	190,059,510	105,570,002	8,505,776	1,382,677	-	314,016,049
Adjustments due to revaluation	-	-	-	-	-	-	-	-	-
Disposals/reclassifications	-	-	-	-	(247,926)	-	-	-	(247,926)
Ending balance	**-**	**1,333,119**	**20,377,122**	**3,541,414,414**	**1,080,324,381**	**180,238,281**	**26,266,398**	**-**	**4,849,953,715**
Net carrying value:									
Beginning balance	P926,024,000	P12,400,550	P40,840,467	P5,387,695,609	P443,547,590	P62,293,415	P2,552,656	P1,568,412	P6,876,922,699
Ending balance	**P926,024,000**	**P12,072,881**	**P47,712,238**	**P5,205,083,331**	**P382,202,147**	**P68,539,194**	**P1,227,479**	**P1,568,412**	**P6,644,429,682**

For the Year Ended December 31, 2009

	Land	Land Improvements	Leasehold Improvements	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipment	Transportation Equipment	Construction In Progress	Total
Measurement Basis:	*Revalued*	*Revalued*	*At Cost*	*Revalued*	*Revalued*	*At Cost*	*Revalued*	*At Cost*	
Gross carrying amount:									
Beginning balance	P913,066,000	P21,691,596	P39,524,527	P6,123,789,124	P1,094,370,742	P232,930,105	P26,177,936	P2,781,636	P8,454,331,666
Additions	-	-	13,522,647	8,453,858	28,620,082	1,214,855	-	-	51,811,442
Adjustments due to revaluation	12,958,000	(8,285,596)	-	2,607,125,199	297,028,321	-	1,258,441	-	2,910,084,365
Disposals/reclassifications	-	-	-	(317,668)	(1,469,250)	(119,040)	-	(1,213,224)	(3,119,182)
Ending balance	926,024,000	13,406,000	53,047,174	8,739,050,513	1,418,549,895	234,025,920	27,436,377	1,568,412	11,413,108,291
Accumulated depreciation and amortization:									
Beginning balance	-	21,691,596	7,071,515	2,240,144,147	737,067,837	164,060,690	22,418,020	-	3,192,453,805
Provision	-	1,005,450	5,135,192	201,353,143	106,319,400	7,671,815	1,792,763	-	323,277,763
Adjustments due to revaluation	-	(21,691,596)	-	909,857,614	131,919,834	-	672,938	-	1,020,758,790
Disposals/reclassifications	-	-	-	-	(304,766)	-	-	-	(304,766)
Ending balance	-	1,005,450	12,206,707	3,351,354,904	975,002,305	171,732,505	24,883,721	-	4,536,185,592
Net carrying value:									
Beginning balance	P913,066,000	P -	P32,453,012	P3,883,644,977	P357,302,905	P68,869,415	P3,759,916	P2,781,636	P5,261,877,861
Ending balance	P926,024,000	P12,400,550	P40,840,467	P5,387,695,609	P443,547,590	P62,293,415	P2,552,656	P1,568,412	P6,876,922,699

The property and equipment of the four (4) hotel properties, WCCCHI, APHC, WMCHI, and DIHCI are carried at revalued amounts effective March 31, March 24, April 14, and April 6, 2009, respectively. The revaluation in 2009 resulted in the increase in the gross carrying amount of property and equipment amounting to P1.9 billion.

The Group engaged an independent firm of appraisers to determine the fair value of its property and equipment carried at revalued amounts. Fair value was determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

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:

	2010	2009
Hotel buildings and improvements	**P3,550,445,836**	P3,541,043,061
Furniture, fixtures and equipment	**899,573,241**	835,082,984
Land improvements	**10,129,315**	10,129,315
Transportation equipment	**3,296,905**	3,239,405
	4,463,445,297	4,389,494,765
Less accumulated depreciation and amortization	**2,009,413,137**	1,873,193,587
	2,454,032,160	2,516,301,178
Land	**25,515,909**	25,515,909
	P2,479,548,069	P2,541,817,087

The hotel buildings and improvements owned by WCCCHI and WMCHI, which have a total net carrying amount of about P4.0 billion and P4.1 billion as of December 31, 2010 and 2009, respectively, have been collateralized against the COSCO loan and PNB loan, respectively. Furthermore, the furniture, fixtures and equipment of WCCCHI and WMCHI, which have a total net carrying amount of about P358.1 million, were mortgaged in favor of Cosco Prime Holdings, Inc. in 2010 (see Note 15).

As discussed also in Note 15 to the consolidated financial statements, the hotel buildings and equipment and furniture, fixtures and equipment of APHC with a total carrying amount of P1.1 billion and P1.2 billion as of December 31, 2010 and 2009, respectively, are used as collateral for APHC's loan with ICBC.

12. Other Noncurrent Assets

This account consists of:

	2010	2009
Special project deposits	**P91,000,000**	P -
Refundable deposits	**24,429,765**	26,167,993
Accrued rent receivable - noncurrent	**-**	13,963,205
Others	**31,636,895**	31,343,690
	P147,066,660	P71,474,888

Special project deposits pertain to deposits made to contractors for the renovation of WCCCHI and APHC.

13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2010**	2009
Accrued interest and penalties	*15*	**P506,759,257**	P447,596,468
Trade		**320,935,272**	338,659,715
Accrued utilities		**88,410,247**	65,313,634
Local taxes and output value added tax		**47,209,837**	50,866,806
Accrued rent		**29,465,726**	32,370,170
Guest deposits		**26,288,340**	27,465,459
Accrued salaries and wages, and employee benefits		**25,670,348**	24,951,892
Withholding taxes payable		**9,551,061**	6,795,141
Due to contractors		**8,818,127**	8,947,628
Service charges withheld		**5,879,741**	7,430,551
Service charges		**5,172,580**	5,371,740
Unclaimed wages		**3,060,230**	3,200,954
Deferred income		**1,702,889**	519,031
Others		**113,217,354**	85,510,551
		P1,192,141,009	P1,104,999,740

Others include accruals for repairs and maintenance, insurance, professional fees, advertising and other statutory payables (SSS, HDMF, and Philhealth).

14. Other Current Liabilities

This account consists of:

	Note	**2010**	2009
Accrued interest on obligations under finance lease	*24*	**P63,117,920**	P57,282,545
Current portion of rentals received in advance - APHC		**-**	10,079,014
Current portion of obligations under finance lease	*24*	**4,723,572**	4,348,781
Others		**4,806,423**	8,023,711
		P72,647,915	P79,734,051

15. Loans Payable

This account consists of liabilities to the following:

	2010	2009
Current Portion:		
COSCO Prime Holdings, Inc.	**P217,500,000**	P826,487,513
ICBC	**367,136,180**	396,741,090
Social Security System (SSS)	**375,000,000**	375,000,000
PBB	**227,142,857**	-
PAGCOR	**-**	20,007,553
	P1,186,779,037	P1,618,236,156
Noncurrent Portion:		
COSCO Prime Holdings, Inc.	**P136,987,513**	P -
PBB	**37,857,143**	-
	P174,844,656	P -

COSCO Loan

The COSCO loan originally represents a US$30 million long-term debt from PNB availed 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 restructuring agreements which resulted to the following:

a. The first agreement converted the FCDU loan into Philippine peso in April 2001.

b. The second agreement, on December 28, 2001 restructured the loan, including the unpaid interest thereon of about P125 million. The loan was divided into two tranches totaling P1.194 billion. Tranche 1, amounting P1 billion, would be due December 2006 and Tranche 2, amounting P194 million, would be due December 2003.

c. The third agreement, on September 2, 2004, rescheduled the payment of the principal portion of the loan to December 31, 2008.

Assignment of PNB Loan to COSCO

On February 19, 2009, Cosco Prime Holdings, Inc. (the "Assignee") executed a deed of assignment with PNB, with the consent and conformity of the Borrowers, whereby the Assignee shall pay the total amount of P826,487,513, representing principal, interests, expenses and trust fees in consideration for the Assignee's acquisition of all the rights, interests and participation of PNB in and to the settlement agreement, the extra-judicial foreclosure proceedings initiated and the corresponding right to foreclose, including any other rights thereto.

On March 17, 2009, the Assignee and the Borrowers entered into an agreement to defer the enforcement of judgment in the settlement agreement in order to give the Borrowers the opportunity to pay their obligations. In consideration to the deferment of the judgment, the Borrowers agreed to the following:

a. Pledged the Parent Company's investment in shares of stock representing 60% of the outstanding shares of stock of WMCHI and 60% of the outstanding shares of stock of WCCCHI in favor of Cosco Prime Holdings, Inc. with irrevocable proxy in favor of the Assignee and/or its nominee to vote the said shares in any meeting of the stockholders or BOD of WMCHI and WCCCHI.

   However, while the Parent Company abides by the terms of the agreement, it still maintains full control over WMCHI and WCCCHI. All of the BOD and key management personnel of WMCHI and WCCCHI are controlled by the Parent Company, i.e., the Parent Company occupies all the positions in the BOD and officer/management positions of the two said hotels (WMCHI and WCCCHI).

b. Assignment of Leasehold Rights over the parcel of land on which the hotel building of WCCCHI and WMCHI at Cebu and Mactan, is located.

c. Executed chattel mortgage on the furniture, fixtures and equipment of WCCCHI and WMCHI in favor of Cosco Prime Holdings, Inc.

In consideration of the agreement, the Assignee agrees to defer the enforcement of the judgment dated November 24, 2008 for a period of one (1) year from February 19, 2009, or until February 18, 2010, subject to the following terms and conditions:

The corresponding amount paid by the Assignee on February 19, 2009 amounting to P826,487,513 was included under "Loans Payable" account in the consolidated statements of financial position.

On February 4, 2010, the Assignee and the Borrowers entered into an agreement to further defer the enforcement of judgment in the settlement agreement in order to give the Borrowers the opportunity to partially satisfy the judgment debt and to pay the balance on a deferred schedule. In consideration to the further deferment of the judgment, the Parties agreed to the following:

a. The Borrowers to partially satisfy the judgment debt by making a partial payment in the amount of P400 million, not later than February 18, 2010, in the following manner:

   i. The proceeds of a loan in the principal amount of P300 million, which Philippine Business Bank (PBB) had agreed to extend to WMCHI in accordance with a Bank Guarantee by PBB in favor of the assignee. The proceeds shall be remitted directly to the Assignee.

   ii. Immediately upon delivery to the Assignee of the signed original copy of the Bank Guarantee, the Assignee shall agree to: (1) the approval and ratification of the corporate authority of WMCHI to apply for and obtain the PBB Loan and as security thereof, constitute a second mortgage in favor of PBB on the hotel building, all improvements, furniture, fixtures and equipment of WMCHI; (2) authorize and instruct PNB as Mortgage Trustee under Mortgage Trust Indenture (MTI) covering the WMCHI property to allow the execution and annotation of a second mortgage on the said property in favor of PBB; (3) the assignment of the leasehold rights of WMCHI on the land on which the said property is located; and (4) the assignment of the lease rental receivables of WMCHI from PAGCOR.

iii. Simultaneously with the delivery by PBB of the P300 million directly to the Assignee, the Borrowers shall pay the Assignee the additional amount of P100 million to complete the total partial satisfaction of the Judgment in the amount of P400 million.

iv. Immediately after the checks for the P400 million have been encashed, the Assignee, shall agree to: (1) release and discharge of the first mortgage lien under the MTI over the WMCHI property as well as any Chattel Mortgage on furniture, equipment and other properties forming part of the said property; (2) release the assignment to it of the leasehold rights of WMCHI on the land on which the said property is located, and thereafter instruct PNB, as MTI Trustee, to sign, execute and deliver the release and discharge of the MTI mortgage with respect to the said property; (3) cancel the endorsement of the issuance proceeds on the said property; and (4) cause the withdrawal and dismissal of the foreclosure proceedings covering the WMCHI property with the RTC of Lapu-lapu City.

b. The balance of the principal in the sum of P426,487,513 plus compensation for the use of money and interests thereon, shall be paid in installments beginning March 19, 2010 ending February 19, 2012 in accordance with the payment schedule agreed by the parties.

   The Borrowers shall issue and deliver postdated checks in payment of the installments.

c. The Borrowers bind themselves that should the capital stock of WMCHI and WCCCHI be increased, so much of the increase number of the shares shall be pledged to the Assignee as to maintain the latter's security and proxy rights always at 60% of the outstanding capital stock as previously agreed.

On February 11, 2010, the Parent Company paid the agreed amount of the partial payment amounting P400 million to COSCO. The monthly installments were paid in accordance with the payment schedule agreed by the parties.

As of December 31, 2010, the outstanding principal COSCO loan amounted to P354.5 million.

<u>ICBC Loan</u>
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 referred to as the "Existing Facility Agreement"). The loan was restructured in 2000 with interest at prime rate plus 5% spread. The loan is guaranteed by a first legal mortgage over the parcel of land owned by CIMA Realty Philippines, Inc. (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.

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$14.3 million 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.

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 Amended 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 gave 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 will be prepared to discuss the arrangement with APHC on a strictly without prejudice basis; if payment was not received by then, ICBC will 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 ten percent (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.

APHC paid US$0.75 million in 2006. There were no principal payments made in 2009 2008 and 2007. However, there were no principal payments made in 2009 and 2008. In 2010, APHC made a partial loan payment amounting to US$50,000 or P2,259,904.

As of April 8, 2011, management is still negotiating with ICBC for the rescheduling of payments of APHC's overdue loan principal installments totaling US$8.38 million as of 2010 and US$8.43 million as of 2009 and 2008. In the absence of ICBC's formal agreement to the proposed restructuring, the entire balance of the loan has been classified as current liability in the Group's consolidated statements of financial position as of December 31, 2010, 2009 and 2008.

SSS Loan

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 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 (8) 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 a first mortgage over parcels of land owned by WII, a related party, and by the assignment of 200 million common shares of the Parent Company owned by 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 was 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. The SSS's 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 Parent Company, WII and TWGI were given the right to redeem the foreclosed property within one (1) year from October 17, 2003, the date of registration of the certificate of sale. The Parent Company recognized the proceeds of the foreclosure sale 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.

The remaining balance of the SSS loan is secured by the shares of stock of the Parent Company owned by TWGI and shares of stock of WII numbering 235 million and 80 million shares, respectively.

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation before the RTC of Quezon City. SSS likewise asked the RTC of Quezon City for the issuance of a writ of preliminary attachment on the collateral property.

On June 18, 2004, the RTC of Quezon City issued its first order granting SSS's request and the issuance of a writ of preliminary attachment based on the condition that SSS shall post an attachment bond in the amount of P452.8 million. After the lapse of three (3) months from the issuance of RTC order, no attachment bond has been posted. Thus on September 16, 2004 and September 17, 2004, the Parent Company filed a Motion to Set Aside Order of Attachment and Amended Motion to Set Aside Order of Attachment, respectively.

On January 10, 2005, the RTC of Quezon City issued its second order denying the Parent Company's petition after finding no compelling grounds to reverse or reconsider its initial findings dated June 18, 2004. In addition, since no writ of preliminary attachment was actually issued for failure of SSS to file a bond on the specified date, the RTC granted SSS an extension of fifteen (15) days from receipt of its second order to post the required attachment bond.

On February 10, 2005, SSS filed a Motion for Partial Reconsideration of the Order (Motion) dated January 10, 2005 requesting that it be allowed to post a real property bond in lieu of a cash/surety bond and asking for another extension of thirty (30) days within which to post the said property bond. On March 7, 2005, the Parent Company filed its opposition to the said Motion.

On July 18, 2005, the RTC of Quezon City issued its third order denying the Parent Company's petition and granted SSS the thirty (30) day extension to post the said attachment bond. Accordingly, on August 25, 2005, the Parent Company filed a Motion for Reconsideration.

On September 12, 2005, the RTC of Quezon City issued its fourth order approving SSS's property bond in the total amount of P452.8 million. Accordingly, the RTC ordered the corresponding issuance of the writ of preliminary attachment. On November 3, 2005, the Parent Company submitted a Petition for Certiorari before the Court of Appeals (CA) seeking the nullification of the orders of the RTC of Quezon City dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005.

In a Resolution dated February 22, 2006, the CA granted the Parent Company's petition for the issuance of the Temporary Restraining Order to enjoin the implementation of the orders of the RTC of Quezon City specifically on the issuance of the writ of preliminary attachment.

On March 28, 2006, the CA granted the Parent Company's petition for the issuance of a writ of preliminary injunction prohibiting the RTC of Quezon City from implementing the questioned orders.

On August 24, 2006, the CA issued a decision granting the Petition for Certiorari filed by the Parent Company on November 3, 2005 and nullifying the orders of the RTC of Quezon City dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005 and consequently making the writ of preliminary injunction permanent.

Accordingly, SSS filed a Petition for Review on Certiorari on the CA's decision before the Supreme Court (SC).

On November 15, 2006, the First Division of the SC issued a Resolution denying SSS's petition for failure of SSS to sufficiently show that the CA committed any reversible error in its decision which would warrant the exercise of the SC's discretionary appellate jurisdiction.

Starting 2006, the Parent Company has been charging WCCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. The proceeds of the loan were substantially used in the expansion and improvement of WCCCHI's operations. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS. As of December 31, 2010, total outstanding loan obligations to SSS amounted to P883 million consisting of the principal of P375 million and interest and penalties of P508 million (presented as part of "Accounts payable and accrued expenses" account).

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. However, with the change in management of SSS, the Parent Company plans to activate the proposed restructuring of the said loan which includes the condonation of interest and penalties. The Parent Company believes that it will be able to restructure the said loan.

In the absence of a formal restructuring agreement, the entire outstanding principal loan balance amounting P375 million and accrued interest and penalties amounting P506.8 million and P447.6 million as of December 31, 2010 and 2009, respectively, (presented as part of "Accounts payable and accrued expenses" account) have been classified as current in the consolidated statements of financial position.

PAGCOR Loan

During 2007, WCCCHI and WMCHI obtained a loan from PAGCOR amounting to P541.3 million for a period of thirty (30) days, renewable upon maturity. The loan bears interest at the rate of six percent (6%) per annum. The proceeds of the loan were subsequently advanced to TWGI, the ultimate parent company, thru WPI. Related interests and charges are also shouldered by TWGI.

On September 2, 2008, the Parent Company, together with WCCCHI and WMCHI, entered into an agreement with PAGCOR for the settlement of the outstanding loans. As stated in the agreement, the following rentals due to WCCCHI, WMCHI and APHC shall not be paid by PAGCOR but shall automatically be applied to the said loan:

a. Monthly rentals due to WCCCHI beginning after the application of the six (6) months advance rental or on the seventh month of lease renewal and every month thereafter.

b. Monthly rentals due to WMCHI beginning after the application of the six (6) months advance rental or on the seventh month of lease renewal and every month thereafter.

c. Monthly rentals due to APHC starting September 2008 while on the month-to-month renewal of the lease contract and pending the finalization of the Renewal Contract of Lease between PAGCOR and APHC.

d. Upon the renewal of the Contract of Lease between APHC and PAGCOR, the equivalent of three (3) months out of the six (6) months advance rental due to APHC.

e. Semi-annual rentals due to APHC beginning after the application of the six (6) months advance rental or on the seventh month of lease renewal and every six-month period thereafter until the expiration of the Renewal Contract of Lease.

As of December 31, 2010, the balance of PAGCOR loan amounting to P20.0 million was finally settled.

16. Other Noncurrent Liabilities

The account is broken down as follows:

	Note	**2010**	2009
Retirement benefits liability	*20*	**P202,336,216**	P178,686,543
PAGCOR security deposit - WCCCHI and WMCHI	*23*	**202,047,424**	232,600,000
Concessionaires and other deposits - APHC	*23*	**84,549,157**	132,536,209
Noncurrent portion of rentals received in advance - APHC	*23*	**318,149,251**	131,670,144
Noncurrent portion of obligations under finance lease	*24*	**37,008,589**	41,614,991
Others		**8,759,154**	12,083,923
		P852,849,791	P729,191,810

Retirement benefits liability pertains to the following:

	2010	2009
APHC	**P134,713,345**	P111,334,405
WCCCHI	**29,967,648**	36,647,881
DIHCI	**21,940,747**	19,776,733
WMCHI	**14,181,568**	10,927,524
WMC	**1,532,908**	-
	P202,336,216	P178,686,543

17. Segment Information

The Group'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 includes general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 3 to the consolidated financial statements.

The following table presents the revenue and profit information regarding industry segments for the years ended December 31, 2010, 2009 and 2008 and certain asset and liability information regarding industry segments as of December 31, 2010, 2009 and 2008 (in millions peso):

	Hotel Operations Years Ended			Marketing Operations Years Ended			Corporate and Others Years Ended			Eliminations Years Ended			Consolidated Years Ended		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
TOTAL REVENUES															
External sales	**1,806**	1,788	1,850	**-**	-	-	**125**	86	54	**-**	-	-	**1,931**	1,874	1,904
RESULTS															
Segment results	**75**	63	43	**(1)**	-	(30)	**(39)**	(42)	(22)	**-**	-	-	**35**	21	(9)
OTHER INCOME (LOSS)															
Interest expense	**(144)**	(151)	(118)	**(2)**	(2)	(2)	**(1)**	(8)	-	**-**	-	-	**(147)**	(161)	(120)
Interest income	**49**	-	-	**-**	-	-	**25**	36	50	**-**	-	-	**74**	36	50
Benefit from (provision for) income taxes	**20**	4	(2)	**-**	-	-	**(6)**	(5)	-	**-**	-	-	**14**	(1)	(2)
Others	**(39)**	(67)	-	**-**	5	-	**11**	-	-	**-**	-	-	**(28)**	(62)	-
Total Other income (loss)	**(114)**	(214)	(120)	**(2)**	3	(2)	**29**	23	50	**-**	-	-	**(87)**	(188)	(72)
Net income (loss)	**(39)**	(151)	(77)	**(3)**	3	(32)	**(10)**	(19)	28	**-**	-	-	**(52)**	(167)	(81)
OTHER INFORMATION															
Segment assets	**7,847**	8,289	6,870	**197**	220	220	**5,535**	5,671	5,817	**(4,207)**	(4,618)	(4,672)	**9,372**	9,562	8,235
Deferred tax asset	**213**	161	181	**-**	-	-	**6**	11	9	**-**	-	-	**219**	172	190
Consolidated total assets	**8,060**	8,450	7,051	**197**	220	220	**5,541**	5,682	5,826	**(4,207)**	(4,618)	(4,672)	**9,591**	9,734	8,425
Segment liabilities	**4,338**	3,510	3,756	**19**	40	38	**2,508**	2,636	1,391	**(3,362)**	(3,213)	(3,213)	**3,503**	2,973	1,972
Loans and interest payable	**-**	-	647	**-**	-	-	**-**	-	748	**-**	571	524	**-**	571	1,919
Deferred liability	**1,237**	1,274	766	**-**	-	-	**-**	-	-	**-**	-	-	**1,237**	1,274	766
Consolidated total liabilities	**5,575**	4,784	5,169	**19**	40	38	**2,508**	2,636	2,139	**(3,362)**	(2,642)	(2,689)	**4,740**	4,818	4,657
Other Segment Information															
Capital expenditures	**66**	37	48	**-**	-	-	**16**	15	19	**-**	-	-	**82**	52	67
Depreciation and amortization	**302**	315	254	**-**	-	-	**12**	8	6	**-**	-	-	**314**	323	260

18. Capital Stock

Details of capital stock at December 31, 2010, 2009 and 2008 follow:

	Number of Shares		
	2010	2009	2008
Authorized capital stock Common shares at P1 par value each	**5,000,000,000**	5,000,000,000	5,000,000,000
Issued and outstanding	**2,498,991,753**	2,498,991,753	2,498,991,753

In 2007, the Parent Company entered into various share swap transactions wherein it issued 553 million of its common shares at par value of P1 per share in exchange for 45.8 million APHC shares at varying market prices (see Note 25).

On July 20, 2007, the BOD resolved to increase the authorized capital stock of the Parent Company to P10 billion with 10 billion shares at par value of P1.00 per share. It was further resolved that the Articles of Incorporation be subsequently amended to reflect the increase in authorized capital. This resolution was ratified by the Parent Company's stockholders owning at least two-thirds of the outstanding capital stock during the annual stockholders' meeting held on August 25, 2007.

In 2009, the BOD passed a resolution holding the implementation of the proposed increase in the authorized capital stock of the Parent Company in abeyance.

19. Other Costs and Expenses

This account consists of:

	2010	2009	2008
Security and other services	**P31,965,278**	P44,065,596	P46,676,451
Representation and entertainment	**67,525,805**	36,890,143	19,106,111
Advertising	**49,012,303**	43,693,741	55,042,058
Taxes and licenses	**35,132,550**	41,745,829	38,931,087
Supplies	**25,759,708**	34,886,963	33,760,101
Insurance	**14,037,327**	14,407,340	13,273,585
Commissions	**13,668,918**	7,623,959	9,204,165
Professional fees	**13,220,108**	17,150,668	8,309,540
Fuel and oil	**9,963,025**	7,401,650	1,341,274
Communications	**8,362,726**	8,552,816	9,231,658
Miscellaneous	**124,950,946**	128,865,997	145,524,717
	P393,598,694	P385,284,702	P380,400,747

Miscellaneous includes expenses for uniforms, data processing, guest and laundry valet, transportation, banquet expenses, guest amenities, meeting expenses, reservation expense, decorations, corporate office expenses, medical expenses, recruitment and other services.

20. Retirement Benefits Costs

The Parent Company and certain subsidiaries have their non-contributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and percentage of the employee's final monthly salary during the last 5 years of continuous service. Retirement benefits costs recognized in profit or loss for the years ended December 31, 2010, 2009 and 2008 amounted to P46.1 million, P33.2 million and P27.4 million, respectively.

The plan is administered by independent trustees with assets held separately from those of the Group. The actuarial valuation is made on a regular basis.

The reconciliation of the retirement benefits liability included under "Other noncurrent liabilities" account in the consolidated statements of financial position is shown below:

	2010	2009
Present value of defined benefit obligation	**P269,660,310**	P236,017,645
Fair value of plan assets	**(83,502,229)**	(58,499,739)
Net present value of defined benefit obligation	**186,158,081**	177,517,906
Unrecognized actuarial gains	**16,178,135**	1,168,637
Retirement benefits liability at end of year	**P202,336,216**	P178,686,543

Movements in the present value of the defined benefits obligation are shown below:

	2010	2009
Present value of obligation, beginning of year	**P236,017,645**	P224,016,735
Interest cost	**25,474,163**	24,085,478
Current service cost	**24,786,583**	15,300,110
Benefits paid		
Paid directly from plan assets	**(7,674,024)**	(26,997,055)
Advanced by the Group	**(417,197)**	-
Actuarial gain	**(8,526,860)**	(387,623)
Present value of obligation, end of year	**P269,660,310**	P236,017,645

Movements in the fair value of plan assets are as follows:

	2010	2009
Fair value of plan assets, beginning of year	**P58,499,739**	P73,609,026
Expected return of plan assets	**4,389,586**	6,203,140
Contributions to the plan	**22,000,000**	4,000,000
Benefits paid	**(7,674,024)**	(26,997,055)
Actuarial gain	**6,286,928**	1,684,628
Fair value of plan assets, end of year	**P83,502,229**	P58,499,739

Major categories of plan assets as percentages of the fair value of plan assets are follows:

	2010	2009
Deposits in banks	**31%**	24%
Investments in equity securities	**26%**	33%
Investments in bonds and other debt securities	**26%**	24%
Commercial loans	**3%**	4%
Others	**14%**	15%

Net retirement benefits costs recognized in the consolidated statements of comprehensive income as part of "Personnel cost" account are as follows:

	2010	2009	2008
Current service costs	**P24,786,583**	P15,300,110	P14,002,394
Interest cost	**25,474,163**	24,085,478	21,525,846
Expected return on plan assets	**(4,389,586)**	(6,203,140)	(8,637,196)
Net actuarial loss recognized during the period	**195,710**	41,574	491,396
	P46,066,870	P33,224,022	P27,382,440

The historical information of the amounts for the current and previous four annual periods is as follows (in thousands):

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	**P269,660**	P236,018	P218,112	P241,072	P236,018
Fair value of plan assets	**83,502**	58,500	72,978	93,185	90,004
Net present value of defined benefit obligation	**P186,158**	P177,518	P145,134	P147,887	P146,014

The principal actuarial assumptions used at reporting date are as follows:

	2010	2009	2008
Discount rate	**8%**	11%	11%
Expected rate of return on plan assets	**6%**	9%	9%
Salary increase rate	**10%**	9%	10%

The Group expects to contribute P22 million to the plan for 2011.

21. Income Taxes

The components of the Group's income tax expense (benefit) are as follows:

	2010	2009	2008
Current	**P71,135,264**	P40,099,952	P48,937,824
Deferred	**(84,619,065)**	(39,897,479)	(46,873,720)
Provision for income tax	**(P13,483,801)**	P202,473	P2,064,104

The reconciliation of the income tax benefit computed at the statutory tax rate to the actual income tax benefit shown in the consolidated statements of comprehensive income is as follows:

	2010	2009	2008
Loss before income tax	**(P65,640,996)**	(P166,817,220)	(P79,406,320)
Income tax benefit at domestic corporate rate	**(P19,692,299)**	(P50,045,166)	(P27,792,212)
Additions to (reductions in) income tax resulting from the tax effects of:			
Unrecognized deferred tax from impairment losses on receivables	**68,334**	24,185,254	-
Unrecognized NOLCO and MCIT	**4,074,563**	18,782,119	-
Unrecognized income tax expense arising from reversal of accrued rent per PAS 17	**(142,267)**	-	-
Unrecognized income tax benefit arising from retirement liability	**459,873**	-	-
Nondeductible expenses	**21,922,377**	10,952,609	13,879,847
Derecognition of previously recognized DTA and DTL	**(9,863,749)**	8,199,505	4,192,452
Changes in unrecognized deferred tax assets	**-**	22,592	1,912,265
Income not subject to income tax	**(3,455,470)**	(11,894,440)	(3,629,318)
Deferred tax asset recognized	**-**	-	(6,263,250)
NOLCO applied	**-**	-	(10,788,712)
Expired NOLCO and MCIT	**246,664**	-	252,895
Reversal of accruals	**-**	-	(444,159)
Realization of previously unrecognized deferred tax on NOLCO	**(7,101,827)**	-	-
Changes in statutory tax rate	**-**	-	30,744,296
	(P13,483,801)	P202,473	P2,064,104

Republic Act (RA) No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005 are as follows:

i. Increase in the regular corporate income tax (RCIT) rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009; and

ii. Also, beginning January 1, 2009, due to the decrease in the corporate income tax rate, the allowable deduction for interest expense shall be reduced by an amount equal to 33% of the interest income subject to final tax.

Revenue Regulation (RR) 12-2007 was issued by the Bureau of Internal Revenue (BIR) on October 17, 2007, providing that the computation and payment of MCIT shall apply at the time of filing the quarterly corporate income tax. Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly RCIT, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT, which is 2% of the gross income as of the end of the taxable quarter. In the payment of said quarterly MCIT, excess MCIT from the previous taxable year(s) shall not be allowed to be credited. Expanded withholding tax, quarterly RCIT payments, and MCIT paid in the previous taxable quarter(s) are allowed to be applied against the quarterly MCIT due.

In 2007, RA 9480, the Tax Amnesty Program, was enacted to provide immunity to qualified taxpayers from paying taxes including civil, criminal, or administrative penalties arising from failure to pay and all internal revenue taxes except withholding tax liabilities for taxable year 2005 and prior years.

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**	
	2010	2009	**2010**	2009
Property and equipment	**P -**	P -	**P1,216,909,000**	P1,264,404,296
Rent receivable	**-**	-	**5,515,375**	8,645,330
MERALCO refund	**-**	-	**-**	1,156,762
Rent received in advance	**96,673,946**	43,670,311	**-**	-
Accrued retirement benefits	**60,240,992**	53,605,963	**-**	-
Unrealized foreign exchange loss	**45,476,935**	53,680,437	**-**	-
Allowance for impairment losses on receivables	**7,840,934**	9,211,438	**-**	-
NOLCO	**3,719,443**	7,378,048	**-**	-
Unamortized past service cost	**3,032,931**	1,710,215	**-**	-
MCIT	**1,676,368**	103,291	**-**	-
Accrued rent expense	**282,809**	2,503,016	**-**	-
Unearned revenues	**151,528**	-	**-**	-
Unamortized premium on security deposits	**-**	-	**14,396,115**	-
	P219,095,886	P171,862,719	**P1,236,820,490**	P1,274,206,388

The Group recognized income tax of P49 million and P567 million in 2010 and 2009, respectively, in other comprehensive income attributable to the appraisal increase of its property and equipment during the year.

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

	2010	2009
NOLCO	**P28,010,855**	P17,557,946
Allowance for impairment losses on receivables	**3,092,755**	32,566,277
Accrued rent expense	**7,579,490**	-
Retirement liability	**1,532,908**	-
MCIT	**124,994**	8,029,200
	P40,341,002	P58,153,423

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 therein.

As of December 31, 2010, the Group has consolidated NOLCO of P40.4 million, the details of which are as follows:

Taxable Period	Unapplied Balances	Valid Until
December 31, 2010	P14,819,821	December 31, 2013
December 31, 2009	16,880,455	December 31, 2012
December 31, 2008	8,708,722	December 31, 2011
	P40,408,998	

Certain subsidiaries were required to pay MCIT under existing tax regulations. The MCIT payments and the applicable years that these will be deductible from future RCIT payable are shown below:

Period Paid	Amount	Valid Until
December 31, 2010	P1,801,362	December 31, 2013

22. Loss Per Share (LPS)

The LPS are computed as follows:

	2010	2009	2008
Net loss attributable to equity holders of the Parent	**(P49,371,535)**	(P159,223,379)	(P60,215,556)
Weighted number of shares outstanding	**2,498,991,753**	2,498,991,753	2,498,991,753
Loss per share - basic and diluted	**(P0.020)**	(P0.064)	(P0.024)

There are no potentially dilutive shares as of December 31, 2010, 2009 and 2008. Accordingly, diluted LPS is the same as basic LPS.

23. Lease Agreements with 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 one year rental based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit, which amounted to P202 million and P232.6 million on December 31, 2010 and 2009, respectively, is recorded in the consolidated statements of financial position under the "Other noncurrent liabilities" account (see Note 16).

In 2007, WCCCHI also executed a contract of lease with PAGCOR, whereby the latter shall lease an area of 883.38 square meters, more or less, of air-conditioned space at the ground floor of WCCCHI's hotel. The contract shall commence on the date PAGCOR starts its slot machines operations and shall be valid until the expiration of the present charter of PAGCOR on July 11, 2008. PAGCOR shall pay a cash deposit equivalent to six months lease rental and shall pay a monthly rental of P729 per square meter, subject to 5% escalation rate starting on its second year. On March 15, 2008, the lease contract was amended stating that the contract of lease shall commence on the date PAGCOR started its commercial operations, which is on March 15, 2008, and shall be valid for two years.

On July 31, 2008, PAGCOR requested for a refund of security deposit from surrendered areas at WCCCHI amounting to P48.1 million, inclusive of interests and charges. The reconciliation of the final amount due will be based on the computation of interests and penalties and will be paid on the date of final payment of the PAGCOR loan.

On September 3, 2008, WCCCHI & WMCHI renewed the ACL with PAGCOR for two (2) years and six (6) months. Monthly rental shall be at P1,531.54 per square meter of the main area and P1,458.61 per square meter of the chip washing area at WMCHI, subject to a 5% annual escalation rate starting on its second year of the renewal of the contract of lease. In addition, PAGCOR shall pay an advance rental of six (6) months which shall be applied to the rentals due for the first six months of the lease period of the renewal of the contract of lease. Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of six (6) months and shall be paid upon the execution of the contract.

On February 12, 2009, the renewal contract was amended extending the lease period from two (2) years and six (6) months to three (3) years and six (6) months. The annual escalation rate was also amended to apply only on the second and third year of the lease period.

APHC also had a lease agreement with PAGCOR which was terminated 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.

On September 15, 2008, APHC renewed the contract of lease with PAGCOR for two (2) years and six (6) months. Monthly rental rate is subject to 5% annual escalation starting on the second year of the renewal of the contract of lease. Monthly rental shall be P2,378.03 per square meter of the main area and P1,132.40 per square meter of the expansion area, both covering a floor area totaling 9,234.37 square meters. PAGCOR shall also pay APHC an advance rental of six (6) months to be paid upon execution of the renewed contract of lease and shall be applied to the rentals due for the first six (6) months.

Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of three (3) months for the Main area and six (6) months for the expansion and shall be paid upon the execution of the contract.

On February 12, 2009, the renewal contract was amended extending the lease period from two (2) years and six (6) months to three (3) years and six (6) months. The annual escalation rate was also amended to apply only on the second and third year of the lease period.

On December 1, 2010, PAGCOR and APHC amended the lease contract, otherwise known as the Omnibus Amended Lease Contract (OALC) extending the lease term and expanding the lease area. The OALC shall cover the Main Area (7,093.05 sq. m.), Expansion Area A (2,130.36 sq. m.), Expansion Area B (3,069.92 sq. m.) and Air Handling Unit (AHU) Area (402.84 sq. m.) for a total lease area of 12,696.17 square meters. The lease period for the Main Area, Expansion Area A and AHU Area shall commence upon the signing of the lease agreement until December 16, 2016. While Expansion Area B shall commence ten (10) months after the turnover of the Expansion Area B to the lessee or the commencement of commercial gaming operations in the Expansion Area B, whichever comes earlier, and shall terminate on December 31, 2016. The OALC may be renewed at the option of the lessee under such terms and conditions as may be agreed upon by the parties.

The monthly rent to be applied on the leased areas are as follows: Main Area shall be P2,621.78 per square meter, Expansion Area A shall be P1,248.47 per square meter, Expansion Area B shall be P1,600 per square meter and the AHU Area shall be free of rent. Annual escalation rate of 5% shall be applied on the third and fourth year of the lease.

Upon the execution of the OALC, PAGCOR shall pay six (6) months advance rental or P127.54 million for the Main Area and Expansion Area A, which shall be applied to the rent due on the first six months of the last year of the lease term. Further, PAGCOR shall pay advance rental on Expansion Area B amounting to P58.94 million or equivalent to one (1) year rent.

Relative to the OALC, the existing refundable security deposits amounting to P131.89 million received by the APHC upon the execution of the prior contracts were retained by the APCH. These deposits were presented as part of “Other noncurrent liabilities” account in the consolidated statements of financial position and were carried at its present value of P84.55 million computed using an effective interest rate of 8% over the term of the OACL. Consequently, a day-one gain, net of the discount amortization, amounting to P47.99 million was recognized in 2010 as accretion income and was presented as part of “Rent and related income” account in the consolidated statements of comprehensive income. The amortized cost of the refundable security deposits was determined by calculating the present value of the cash flows anticipated until the end of the lease term using the interest rate of 8%. As the deposit does not have an active market, the underlying interest rate was determined by reference to market interest rates of comparable financial instruments.

Also in 2010, WCCCHI and PAGCOR agreed to reduced the area leased by the latter by 2,267 square meters thereby decreasing the security deposit accordingly.

Future rental receivables arising from non-cancellable operating lease agreements with PAGCOR by WCCCHI, APHC and WMCHI are as follows:

	2010	2009
Less than one year	**P522,396,228**	P494,730,114
Between one and five years	**1,808,464,304**	673,726,079
	P2,330,860,532	P1,168,456,193

24. Other Lease Agreements

Land under Operating Lease

On September 15, 1994, Waterfront Hotel and Resort Sdn. Bhd. (WHR), a former related party, executed a lease contract with Mactan Cebu International Airport Authority (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 and non-cancellable operating lease rentals are payable to MCIAA as follows:

	2010	2009
Less than one year	**P13,793,443**	P13,793,443
Between one and five years	**42,374,786**	48,774,279
More than five years	**391,453,785**	405,247,228
	P447,622,014	P467,814,950

Total annual rent expense recognized in profit or loss amounted to P102.9 million, P78.8 million and P61.9 million in 2010, 2009 and 2008, 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 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, the Group recognized the capitalized asset and related liability of P25 million (equivalent to the purchase option price and also the minimum lease payment) in the Group's consolidated statements of financial position under "Land under finance lease" and part of "Other noncurrent liabilities" accounts, respectively. Accruals of interest expense to CIMAR until the purchase option is exercised are recognized in profit or loss as part of "Interest expense" account.

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. In December 2006, the Manila Regional Trial Court denied CIMAR's motion to dismiss APHC's claims.

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 management and its legal counsel, the finance lease cannot be terminated unilaterally. As of December 31, 2010 and 2009, total unpaid liabilities and penalty interests due to CIMAR amounted to P63.1 million and P57.3 million, respectively, shown as part of "Other current liabilities" account in the consolidated statements of financial position. The Group continues to accrue for liabilities to CIMAR based on the existing contract pending the resolution of the reconveyance case.

In 2009, the land under finance lease was determined by an independent appraiser to have a market value of P585 million, which is taken up in the consolidated financial statements of the Group as part of appraisal increase.

As of the date of this report, APHC has filed a motion for issuance of temporary restraining order and/or writ of preliminary injunction seeking to enjoin the Metropolitan Trial Court from continuing with its hearing on the ejectment case filed by CIMAR. Moreover, APHC has initiated discussions with CIMAR for the possible amicable settlement of this matter. The ultimate outcome of this matter and its effect on the APHC's hotel operations and financial statements cannot presently be determined.

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.

At the inception of the lease, DIHCI capitalized the equipment and recognized the related lease liability equivalent to the present value of the total expected lease payments determined at P9,763,129. Depreciation expense recognized in the consolidated statements of comprehensive income for the each of the years ended December 31, 2010, 2009 and 2008 related to the leased equipment amounted to P976,319.

Reconciliations between the total of future minimum lease payments and their present value as of December 31, 2010 and 2009 are as follows:

		December 31, 2010		
	Note	**Future Minimum Lease Payments**	**Imputed Finance Charges**	**Present value of Future Minimum Lease Payments**
Less than one year	*14*	**P1,500,000**	**P497,316**	**P1,002,684**
Between one and five years	*16*	**5,750,000**	**924,379**	**4,825,621**
More than five years	*16*	**-**	**-**	**-**
		P7,250,000	**P1,421,695**	**P5,828,305**

		December 31, 2009		
	Note	Future Minimum Lease Payments	Imputed Finance Charges	Present value of Future Minimum Lease Payments
Less than one year	*14*	P1,500,000	P585,579	P914,421
Between one and five years	*16*	7,250,000	1,421,261	5,828,739
More than five years	*16*	-	-	-
		P8,750,000	P2,006,840	P6,743,160

The carrying amount of the leased asset amounted to P4,718,833 and P5,695,152 as of December 31, 2010 and 2009.

On August 22, 2006, WCCCHI executed a lease-to-own contract with Philippine Long Distance Telephone Company (PLDT) for a PABX Nortel Option 81C for its telecommunications requirements with initial configuration of 50 trunks with 1022 local lines. WCCCHI made a down payment of P1.4 million in January 2007 upon acceptance of the PABX equipment and shall pay the remaining balance in a fixed minimum monthly lease payments of P370,000 for a period of 80 months. Upon full payment of the pre-termination penalty and all amounts due owing to PLDT under the executed contract, PLDT shall transfer ownership over the PABX Equipment and issue the documents necessary for ownership transfer to WCCCHI at the end of the term of lease agreement.

Reconciliation between the total of future minimum lease payments and their present value is as follows:

		December 31, 2010		
	Note	**Present Value of Future Minimum Lease Payments**	**Imputed Finance Charges**	**Future Minimum Lease Payments**
Less than one year	*14*	**P3,720,888**	**P719,112**	**P4,440,000**
Between one and five years	*16*	**6,921,797**	**495,964**	**7,417,761**
		P10,642,685	**P1,215,076**	**P11,857,761**

		December 31, 2009		
	Note	Present Value of Future Minimum Lease Payments	Imputed Finance Charges	Future Minimum Lease Payments
Less than one year	*14*	P3,434,360	P1,005,640	P4,440,000
Between one and five years	*16*	10,642,686	1,215,075	11,857,761
		P14,077,046	P2,220,715	P16,297,761

Net carrying amount of PABX equipment as of December 31, 2010 and 2009 is P12.8 million and P18.4 million, respectively (see Note 11).

Lease Agreements with Concessionaires
WCCCHI, WMCHI, DIHCI and APHC have lease agreements with concessionaires of the commercial spaces available in hotels. These agreements typically run for a period of less than one year, renewable upon the mutual agreement of the parties.

Total rent income amounted to P546.7 million, P549.8 million and P496.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Lease Agreements entered into by MBI

a. *Lease of Offices Spaces*
In May 2006, MBI entered into a contract of lease with TT&T Development, Inc. for the lease of the ground and second floors of its commercial building located at Rizal Avenue, Sta. Cruz, Manila. The covering lease agreement requires MBI to pay a fixed rental of P368,000 per month. The lease is for one (1) year and renewable every year thereafter with 5% annual increase in rent.

b. *Lease of Slot Machines to PAGCOR*
On January 31, 2007, Dynamo, a foreign corporation duly organized, existing and registered at the British Virgin Islands (represented by MBI), as lessor, entered into a contract of lease and variation agreement with PAGCOR, as lessee, for the lease of the slot machine VIP Club at the Universal Park Mall Building in Sta. Cruz, Manila. The covering lease agreement requires the lessee to pay the lessor a monthly variable rent equivalent to 40% of the slot machines' gross revenues after deducting the player's winnings/prizes and all applicable taxes. The lease agreement of Dynamo with PAGCOR was assigned by Dynamo to MBI on February 22, 2008.

c. *Lease of Slot Gaming Machines*
On November 13, 2007, Dynamo, represented by MBI, entered into a Memorandum of Agreement (MOA) with Elixir, for the 10-year lease of 240 new units of electronic gaming machines for installation and operation in Universal Park Mall Building located at Rizal Avenue, Sta. Cruz, Manila. The MOA requires Dynamo to pay rent amounting to 25% of monthly net winnings after 5% franchise tax for the first 36 months and 23% of monthly net winnings after 5% franchise tax for the succeeding months.

   On October 23, 2009, the parties amended the MOA, with retroactive effect to October 1, 2008 and until the termination or expiration of the same. The new share rate which replaces the original share rate is a progressive rate of sharing of the monthly net winnings which requires Dynamo to pay rent amounting to 18% of the first P15 million, 20% for any amount in excess of P15 million but up to P20 million, and 23.75% for any amount in excess of P20 million.

d. *Deed of Assignment*
On February 22, 2008, Dynamo executed a deed of assignment in favor of MBI whereby Dynamo has given complete authority to MBI to manage and operate the business operations in the Philippines, more specifically those pertaining to the casino-related operations with PAGCOR. Under the deed of assignment, Dynamo agrees to assign the revenues pertaining to dealings with PAGCOR and the lease of the electronic gaming machines to MBI. In exchange for this arrangement MBI agreed to have future joint international business cooperation with Dynamo.

25. Acquisition 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 effected through a cross-sale in the PSE. The shares were previously owned by Acesite Limited (BVI), non-resident stockholders of APHC, pledged in favor of Equitable PCI Bank (EPCIB), Inc., which was subsequently foreclosed by EPCIB and sold to the Parent Company in consideration 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 RTC of Makati City. On August 15, 2003, the RTC 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 RTC 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 stockholders' 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 stockholders' meeting. On July 2, 2004, a certain stockholder filed a motion for intervention for the annulment of both the said stockholders' meeting and the election of the new directors at the RTC of Manila. On August 16, 2004, the RTC 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.

In March 2006, Acesite Limited (BVI) commenced proceedings against EPCIB and WPI in Hong Kong with respect to the sale of APHC's shares.

In 2006, WPI sold its investments in APHC shares totaling 51 million shares at varying selling prices through the PSE. Majority of the sale transactions were made with parties that were relatively owned and/or have related party relationship with TWGI, the ultimate parent company. Total proceeds from the sale transactions, net of related expenses and taxes, amounted to P123.6 million. Gain on sale of APHC shares amounting to P36.6 million was recognized in the consolidated statements of comprehensive income as part of "Other revenues" account.

On November 4, 2006, the Parent Company purchased additional 1.55 million of APHC shares at a total cost of P7,770,925.

Total proceeds from the sale transactions less the total purchase cost of the additional shares amounting to P115.8 million, which was provided to TWGI as cash advance, was recorded as receivable from TWGI and part of "Due from related parties" account in the consolidated statements of financial position (see Note 9.a).

As of December 31, 2006, the Parent Company's equity interest in APHC decreased from 75% in 2005 to 24%.

In 2007, the Parent Company entered into various share swap transactions wherein it issued 553 million of its primary shares at par value of P1 per share in exchange for 45.8 million APHC shares at varying market prices (see Note 18). The transaction was taken up by the Parent Company as an increase in its investments in APHC at book value of net assets acquired amounting to P504 million. As a result, the Parent Company's equity interest in APHC increased to 75% from 24% in 2006.

In 2008, the Parent Company sold its investments in APHC totaling 4,900,000 shares at varying selling prices through the PSE. Total proceeds from the sale transactions, net of related expenses and taxes, amounted to P48.2 million. Gain on sale of APHC shares amounting to P10.1 million was recognized in profit or loss. The total proceeds from the sale transaction amounting to P48.2 million, which was provided to TWGI as cash advances was recorded as receivable from TWGI and part of the "Due from related parties" account in the consolidated statements of financial position (see Note 9).

As of December 31, 2010, the Parent Company's equity interest in APHC remained at 69%.

26. Financial Risk Management

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, due from related parties, AFS investments, receivables from Acesite Limited (BVI), accounts payable and accrued expenses, other current liabilities, due to related parties, loans payable, and other noncurrent liabilities. 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 Group are credit risk, liquidity risk and market risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized as follows:

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and nontrade receivables.

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 due from related parties and receivables 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) and certain receivables and due from related parties which were provided with an allowance for impairment losses, there is no other significant concentration of credit risk in the Group.

The aging analyses of the Group's financial assets (in thousands) as of December 31, 2010 and 2009 are as follows:

		Neither	Past due but not impaired					
December 31, 2010	**Total**	**Past Due nor Impaired**	**<30 Days**	**30 - 60 Days**	**61 - 90 Days**	**91 - 120 Days**	**> 120 Days**	**Impaired**
Receivables - net	P196,615	P117,181	P18,402	P6,227	P3,669	P12,073	P12,925	P26,138
Due from related parties - current portion	435,297	62,267	-	-	-	-	355,548	17,482
Due from related parties - net of current portion	1,247,192	1,187,573	-	-	-	-	-	59,619
AFS investments	6,156	6,156	-	-	-	-	-	-
Receivable from Acesite Limited (BVI)	650,000	-	-	-	-	-	650,000	-
Total	**P2,535,260**	**P1,373,177**	**P18,402**	**P6,227**	**P3,669**	**P12,073**	**P1,018,473**	**P103,239**

		Neither	Past due but not impaired					
December 31, 2009	Total	Past Due nor Impaired	<30 Days	30 - 60 Days	61 - 90 Days	91 - 120 Days	> 120 Days	Impaired
Receivables - net	P197,740	P91,417	P21,453	P18,055	P9,344	P15,006	P11,760	P30,705
Due from related parties - current portion	599,332	581,850	-	-	-	-	-	17,482
Due from related parties - net of current portion	1,158,926	1,099,307	-	-	-	-	-	59,619
AFS investments	8,671	8,671	-	-	-	-	-	-
Receivable from Acesite Limited (BVI)	717,427	-	-	-	-	-	667,283	50,144
Total	P2,682,096	P1,781,245	P21,453	P18,055	P9,344	P15,006	P679,043	P157,950

The credit quality of the Group's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses.

Information on the Group's receivables and due from related parties that are impaired as of December 31, 2010 and 2009 and the movement of the allowance used to record the impairment losses are disclosed in Notes 6 and 9 to the consolidated financial statements.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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

Ultimate responsibility for liquidity risk management rests with the BOD, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. For the Group's short-term funding, the Group's policy is to ensure that there is sufficient working capital inflows to match repayments of short-term debt.

The following table summarizes the maturity profile of the Group's financial liabilities (in thousands) as of December 31, 2010 and 2009 based on contractual undiscounted payments:

December 31, 2010	**Total carrying value**	**Contractual Undiscounted Payments** Total	On demand	Less than 1 year	1 to 5 years
Accounts payable and accrued expenses*	P1,133,677	P1,133,677	P883,717	P249,960	P -
Loans payable - current portion	1,186,779	1,316,992	969,279	347,713	-
Loans payable - noncurrent portion	174,845	197,524	37,857	22,679	136,988
Other current liabilities	72,648	72,648	72,648	-	-
Other noncurrent liabilities	650,514	650,514	-	-	650,514
	P3,218,463	**P3,371,355**	**P1,963,501**	**P620,352**	**P787,502**

**Excludes local taxes and output VAT, withholding taxes and deferred income*

December 31, 2009	Total carrying value	Contractual Undiscounted Payments Total	On demand	Less than 1 year	1 to 5 Years
Accounts payable and accrued expenses*	P1,046,819	P1,046,819	P822,369	P224,450	P -
Loans payable	1,618,236	1,770,235	791,748	978,487	-
Due to related parties	3,192	3,192	3,192	-	-
Other current liabilities	79,734	79,734	59,197	10,458	10,079
Other noncurrent liabilities	550,505	550,505	-	-	550,505
	P3,298,486	P3,450,485	P1,676,506	P1,213,395	P560,584

**Excludes local taxes and output VAT, withholding taxes and deferred income*

Market Risk

Market risk is the risk that the fair value or cash flows of a financial instrument of the Group will fluctuate due to change in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flow of the financial instruments will fluctuate because of the changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to the risk changes in market interest rates relates primarily to the interest-bearing loans from PNB, COSCO, SSS, PAGCOR and ICBC. The annual interest rates of these loans are as follows:

	Annual Interest Rate
PNB/	Prevailing 91-day treasury bill plus 4%
COSCO	16% per annum
SSS	Prevailing market rate plus 3%, or 14.5% per annum, whichever is higher
PAGCOR	6% per annum
ICBC	2% above SIBOR

The other financial instruments of the Group are either short-term, noninterest-bearing or with fixed rates and are therefore not subject to interest rate risk.

Cash flow interest rate risk exposure is managed within parameters approved by management. If the exposure exceeds the parameters, the Group enters into hedging transactions.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of ±50 basis points in 2010 and 2009. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's loan payable held at the reporting date. All other variables are held constant (in thousands).

Increase (decrease)	Income after income tax	
Change in interest rates (in basis points)	**2010**	2009
+50	**(P4,933)**	(P6,216)
-50	**4,933**	6,216

There are no other impact on the Group's equity other than those already affecting profit or loss in 2010 and 2009.

Foreign Currency Risk

Currency risk arises when transactions are denominated in foreign currencies.

As a result of loan payable from ICBC which is denominated in US dollar, the Group's consolidated statements of financial position can be affected by movements in this currency. Aside from this and certain cash, 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 foreign currencies. The Group manages its foreign currency risk by measuring the mismatch of the foreign currency sensitivity gap of assets and liabilities.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents are as follows:

December 31, 2010	**US Dollar**	**Philippine Peso**
Cash	**$109,977**	**P4,818,202**
Loan payable	**8,380,000**	**367,136,180**
Net foreign currency-denominated liability	**$8,270,023**	**P362,317,978**

December 31, 2009	US Dollar	Philippine Peso
Cash	$16,393	P771,500
Loan payable	8,430,000	396,741,090
Net foreign currency-denominated liability	$8,413,607	P395,969,590

The Group recognized foreign exchange gain (loss) amounting P38.0 million in 2010, P3.6 million in 2009, and (P51.0 million) in 2008, arising from the translation of these foreign-currency denominated financial instruments.

The following table demonstrates the sensitivity of the net income for the periods reported to a reasonably possible change in US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecasts for 2010, with all other variables held constant, of the Group's 2010, 2009 and 2008 income after income tax. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items. This analysis assumes a 2.68%, 1.72% and 10.56% strengthening as of December 31, 2010, 2009 and 2008, respectively, and 3.77%, 2.61% and 8.63% weakening as of December 31, 2010, 2009 and 2008, respectively, of the Philippine peso against the US dollar exchange rate:

	Strengthening			Weakening		
	+2.68%	+1.72%	+10.56%	**-3.77%**	-2.61%	-8.63%
	2010	2009	2008	**2010**	2009	2008
Net income	**P4,387,345**	P4,766,021	P29,461,334	**(P6,666,233)**	(P7,241,602)	(P24,069,664)

There is no other impact on the Group's equity other than those already affecting profit or loss.

Price Risk
The Group is exposed to equity securities price risk because of the investment in shares of stock of WII held by the Group which are classified as AFS investments in the consolidated statements of financial position. These securities are listed in the PSE.

The Group is not exposed to commodity price risk.

The Group monitors the changes in the price of shares of WII. To manage its price risk, the Group disposes existing or acquires additional shares based on the economic conditions.

The following table illustrates the sensitivity of the Group's equity to a reasonably possible change in equity price. These changes are considered to be reasonably possible based on past equity price performance of the Group's AFS investment and macroeconomic forecast for 2010. This analysis assumes a decrease of 27.19% for 2010, 28.86% for 2009 and 19.31% for 2008 and an increase of 21.47% for 2010, 19.46% 2009 and 20.46% for 2008 of the equity price of the Group's AFS investment. These percentages have been determined based on average market volatility in equity prices of the related investment in the previous 12-month periods ended December 31, 2010, 2009 and 2008, respectively. All other variables are held constant:

	Decrease			Increase		
	-27.19%	-28.86%	-19.31%	**+21.47%**	+19.46%	+20.46%
	2010	2009	2008	**2010**	2009	2008
Equity	**(P74,101)**	(P104,367)	(P151,332)	**P112,590**	P158,578	P229,938

The impact on the Group's equity already excludes the impact on transactions affecting profit or loss in the 2010 and 2009.

Fair Value of Financial Assets and Liabilities

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial assets and liabilities that are carried in the consolidated financial statements (in thousands) as of December 31, 2010 and 2009:

	2010		2009	
	Carrying amounts	**Fair values**	Carrying amounts	Fair values
Financial assets				
Cash and cash equivalents	**P92,439**	**P92,439**	P39,126	P39,126
Receivables - net	**170,434**	**170,434**	167,035	167,035
Due from related parties - current portion	**417,814**	**417,814**	581,850	581,850
Due from related parties - noncurrent portion	**1,187,573**	**1,187,573**	1,099,306	1,099,306
AFS investments	**6,156**	**6,156**	8,671	8,671
Receivables from Acesite Limited (BVI)	**650,000**	**650,000**	667,283	667,283
Financial liabilities				
Accounts payable and accrued expenses	**1,133,677**	**1,133,677**	1,046,819	1,046,819
Loans payable - current portion	**1,186,779**	**1,186,779**	1,618,236	1,618,236
Loans payable - noncurrent portion	**174,845**	**174,845**	-	-
Due to related parties	**-**	**-**	3,191	3,191
Other current liabilities	**72,648**	**72,648**	79,734	79,734
Other noncurrent liabilities	**650,514**	**650,514**	550,505	550,505

The carrying amounts of cash and cash equivalents, receivables, due from related parties - current portion, accounts payable and accrued expenses, loans payable - current and other current liabilities approximate their fair values as these have short-term maturities and are considered due and demandable.

The fair value of interest-bearing due from related parties - noncurrent and loans payable is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of the reporting date, thus, the carrying amount approximates fair value.

The fair value of AFS investments was determined using the closing market price of the investment as of December 31, 2010 and 2009.

The fair value of MERALCO refund was calculated by discounting expected future cash flows at prevailing market rates. Discount rates used ranged from 5.8% to 7.7% in 2010 and 2009.

The fair value of other noncurrent liabilities was calculated by discounting expected future cash flows at prevailing market rates. Discount rates used ranged from 5.8% to 7.7% in 2010 and 2009.

The fair value of the receivables from Acesite Limited (BVI) as of and December 31, 2010 and 2009 cannot be presently determined due to the uncertainty of the ultimate amount and timing of the collection of the receivables (see Note 10).

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
WII shares of stocks	**P6,156**	**P -**	**P -**	**P6,156**
	P6,156	**P -**	**P -**	**P6,156**

	2009			
	Level 1	Level 2	Level 3	Total
Financial Assets				
WII shares of stocks	P8,671	P -	P -	P8,671
	P8,671	P -	P -	P8,671

During the year, there were no transfers between levels on this financial asset.

Risk Management Structure

Board of Directors

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Risk Management Committee

Risk management committee is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits set by the BOD.

Capital Management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Capital is defined as the invested money or invested purchasing power, the net assets or equity of the entity. The Group's overall strategy remains unchanged from 2010, 2009 and 2008.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2010 and 2009. Capital includes equity less unrealized valuation gain on AFS investments.

The Group is not subject to externally-imposed capital requirements

27. Commitments and Contingencies

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

a. On April 10, 2007, the Parent Company received a demand letter with notice of assessment from the BIR for deficiency taxes for the taxable year 2003 totaling P18.67 million, inclusive of related interest and penalties. On May 9, 2007, the Parent Company sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of the Parent Company is sustainable, and accordingly believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On May 22, 2007, BIR answered in another letter that it maintains its position that the Parent Company has tax deficiencies. On October 10, 2007, the Parent Company again sent a letter to the BIR contesting the assessment. On February 13, 2009, the BIR sent a final demand letter requesting payment for the deficiency taxes.

   As of reporting date, the said assessment is pending final resolution by the Parent Company and BIR. Management and its legal counsel also believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment.

   The information usually required of contingent liabilities by PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the final assessment.

b. On November 10, 2008, the Parent Company received a preliminary assessment notice from the BIR for deficiency taxes for the taxable year 2006 totaling P305.9 million, inclusive of interest and penalties. On February 9, 2009, the Parent Company sent a protest letter to BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On February 18, 2009, the Regional Office of the BIR sent a letter to the Parent Company informing the latter that the docket was returned to Revenue District Office for reinvestigation and further verification.

On December 8, 2009, the Parent Company received BIR's Final Decision on Disputed Assessment for deficiency taxes for the 2006 taxable year. The final decision of the BIR seeks to collect deficiency assessments totaling to P3.2 million. However, on January 15, 2010, the Parent Company appealed the final decision of the BIR with the Court of Tax Appeals (CTA) on the grounds of lack of legal and factual bases in the issuance of the assessments.

The information usually required of contingent liabilities by PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the final assessment.

c. On July 13, 2007, APHC received a demand letter with notice of assessment from Manila's Treasurer's Office for deficiency business tax for the years 2004 to 2006 totaling P45.6 million, arising principally from alleged underdeclaration of revenues. On September 7, 2007, APHC sent a letter to the Manila City Treasurer indicating that the under declaration of revenue represents income derived from services provided by Hotel in connection with the operation of PAGCOR, thereby, subject to tax exemption

   On September 10, 2007, the Manila City Treasurer answered in another letter that it maintains its position that APHC has business tax deficiency on the basis that the tax exemption privileges extended to APHC under PD 1869 have been withdrawn by the passage of the Local Government Code. On October 15, 2007, APHC filed a new petition before the RTC of Manila contesting the local tax assessment.

   On December 4, 2007, APHC received the Sheriff's Return dated November 23, 2007 that the original copy of the Summons was duly served.

   On July 30, 2010, the parties were directed by the court to file their respective Memoranda considering that only questions of law were involved. On September 15, 2010, both parties filed their respective Memorandum.

   On a court decision dated December 7, 2010, the appeal filed by APHC was dismissed for lack of merit. Subsequently, the Company filed a motion for reconsideration.

   As of the date of the report, the said assessment is pending action of the court on the motion for reconsideration filed by APHC. The APHC's Management and its legal counsel also believe that the APHC does not have a present obligation (legal or constructive) with respect to such assessment.

   Also in 2010, APHC is a defendant in other legal cases which are still pending resolution. The APHC's Management and its legal counsel believe that the outcome of these cases will not have any material effect on the APHC's financial position and operating results.

   Except for the provision recognized as part of "Accounts payable and accrued expenses" account amounting to P20.23 million in 2010 in the consolidated statements of financial position, in the opinion of the management of APHC and in consultation with the legal counsels, the ultimate disposition of these assessments and legal cases as discussed above, will not have a material adverse effect on the financial position or financial performance of the Group.

   The information usually required of contingent liabilities by PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the final assessment.

d. In October and November 2007, APHC entered into purchase commitments with aggregate amount of P5.1 million, principally relating to the hotel renovations scheduled in 2008. No major purchase commitments were entered into by the Group in 2008.

e. 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 that there is a possible obligation that may occur, but cannot determine presently the amount to be paid until the resolution of the case.

f. 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.

   Also, the Group is defendant in other legal cases which are still pending resolution. Management and legal counsel believe that the outcome of these cases will not have any material effect on the Group's financial position and financial performance.

28. Other Matters

Meralco Refund

As a customer of Meralco, APHC received a refund for some of Meralco's previous billings under Phase IV-B of Meralco's refund scheme. APHC opted to recover the refund through receipt of quarterly postdated checks of equal amount over 5 years, starting April 2005 up to December 2010. In 2005, APHC recognized a receivable from Meralco amounting to P15.9 million (net of unearned interest income of P6.2 million). Accretion income recognized amounted to P0.3 million, P0.8 million and P1.3 million in 2010, 2009 and 2008, respectively. The receivable was discounted using an effective interest rate of 14.0%.

Amounts to be recovered within one year that is included in the "Receivables" account, in the consolidated statements of financial position as of December 31, 2010 and 2009 are nil and P3,855,873, respectively, (see Note 6).

29. Appropriated Retained Earnings

On November 21, 2009, the BOD of WMCHI had approved the appropriation of the P130 million retained earnings for renovation and business expansion.

COVER SHEET

AS094-8678

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED

(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

12	31	AFS10	08	14
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

534		
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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Waterfront Philippines, Inc.** is responsible for all information and representations contained in the financial statements for the period ended December 31, 2010. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regards, 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the Stockholders of the Company.

Manabat Sanagustin & Co., the independent auditor and appointed by the Stockholders, has examined the financial statements of the Company in accordance with Philippines Standards on Auditing and has expressed its opinion in its report to the Board of Directors and Stockholders.

Signed under oath by the following:

Precilla O. Toriano
Corporate Finance Director

Elvira A. Ting
Treasurer

Kenneth T. Gatchalian
President

Renato B. Magadia
Chairman of the Board

SUBSCRIBED AND SWORN TO
BEFORE ME THIS 14 APR 2011
IN CEBU CITY, PHILIPPINES

ATTY. DELON RICHEL RAMON B. UROT
NOTARY PUBLIC
NOTARIAL COMMISSION No.211-06
UNTIL DECEMBER 31, 2011
PTR No. 8141067/1-4-11/CEBU PROV.
IBP No. 821362/1-4-11/CEBU PROV.
ROLL OF ATTORNEY'S No. 40563

DOC. NO. 312
PAGE NO. 69
BOOK NO. 38
SERIES OF 2011

Waterfront Philippines, Inc.
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Email: msro@waterfronthotels.net
Website: www.waterfronthotels.com.ph

REPUBLIC OF THE PHILIPPINES)
) S.S

TREASURER'S CERTIFICATION

I, **Elvira A. Ting** ,of legal age, Filipino and with office address at the 27F Wynsum Corporate Plaza Francisco Ortigas Jr. Avenue Ortigas Center, Pasig City, after being sworn in accordance with law, hereby certify that:

1. I am the Treasurer of **Waterfront Philippines, Inc.,** (the "Company"), 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. ASO94-08678** with principal office address at No. 1 Salinas Drive Lahug Cebu City.

2. 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 14 APR 2011 ____ day of ______ 2011 at CEBU CITY ____________________.

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this 14 APR 2011 ________day of ______________at ____________________. Affiant exhibited to me her Community Tax Certificate No./**Passport No**. 134250240 issued on December 3, 2003 and valid until December 3, 2013 .

ATTY. DELON RICHEL RAMON B. UROT
NOTARY PUBLIC
NOTARIAL COMMISSION No.211-06
UNTIL DECEMBER 31, 2011
PTR No. 8141067/1-4-11/CEBU PROV
IBP No. 821362/1-4-11/CEBU PROV.
ROLL OF ATTORNEY'S No.40563

Doc. No 337.
Page No 68.
Book No 58.
Series of 2011.

WATERFRONT PHILIPPINES, INCORPORATED

SEPARATE FINANCIAL STATEMENTS
December 31, 2010, 2009 and 2008

KPMG

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
BSP Accredited

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

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 separate financial statements of Waterfront Philippines, Incorporated as of and for the year ended December 31, 2010, on which we have rendered our report dated April 8, 2011.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639620MB
Issued January 3, 2011 at Makati City

April 8, 2011
Makati City, Metro Manila

KPMG

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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-2
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

Report on the Financial Statements

We have audited the accompanying separate financial statements of Waterfront Philippines, Incorporated, which comprise the separate statements of financial position as at December 31, 2010 and 2009, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for each of the three years in the period ended December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the unconsolidated financial position of Waterfront Philippines, Incorporated as at December 31, 2010 and 2009, and its unconsolidated financial performance and its unconsolidated cash flows for each of the three years in the period ended December 31, 2010, in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 6 to the separate financial statements which indicates that the Parent Company has receivables from Metro Alliance Holdings and Equities Corp. (MAHEC) amounting to P355.5 million and P351.3 million as of December 31, 2010 and 2009, respectively. The said receivables have been the subject of collection efforts by the management but the ultimate amount and timing of collection of these receivables cannot presently be determined. The separate financial statements do not include any adjustment that may be necessary to reflect the effects of the ultimate outcome of this uncertainty on the carrying amount and classification of these receivables.

Other Matter

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulations (RR) 15-2010 requiring companies to provide in the notes to separate financial statements information on taxes, duties and license fees paid or accrued during the taxable year. However, the Parent Company opted to present such information in a separate schedule to be attached to the separate financial statements for filing with the BIR. The supplementary information is not a required part of the basic financial statements under PFRSs and not a required disclosure by Securities and Exchange Commission. Our opinion on the basic financial statements is not affected by presenting such supplementary information in a separate schedule.

MANABAT SANAGUSTIN & CO., CPAs

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Partner
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BIR Accreditation No. 08-001987-11-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639620MB
Issued January 3, 2011 at Makati City

April 8, 2011
Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE
RECEIVED
29 APR 2011
DATE

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2010**	2009
ASSETS			
Current Assets			
Cash		**P7,069,895**	P1,929,553
Due from related parties - current portion	*6*	**380,370,609**	512,695,944
Total Current Assets		**387,440,504**	514,625,497
Noncurrent Assets			
Investments in and advances to subsidiaries	*5*	**3,677,052,466**	3,787,261,466
Due from related parties - noncurrent portion	*6*	**908,729,472**	828,014,404
Other noncurrent assets		**3,135,847**	5,295,017
Total Noncurrent Assets		**4,588,917,785**	4,620,570,887
		P4,976,358,289	P5,135,196,384
LIABILITIES AND EQUITY			
Current Liabilities			
Accured expenses and other payables	*7*	**P507,548,257**	P453,427,590
Due to related parties	*6*	**1,089,138,233**	811,076,123
Loans payable - current portion	*8*	**592,500,000**	1,201,487,513
Income tax payable	*9*	**3,937,604**	3,843,177
Total Current Liabilities		**2,193,124,094**	2,469,834,403
Noncurrent Liability			
Loans payable - net of current portion	*8*	**136,987,513**	-
Total Liabilities		**2,330,111,607**	2,469,834,403
Equity			
Capital stock	*5, 11*	**2,498,991,753**	2,498,991,753
Additional paid-in capital		**706,364,357**	706,364,357
Deficit		**(559,109,428)**	(539,994,129)
Total Equity		**2,646,246,682**	2,665,361,981
		P4,976,358,289	P5,135,196,384

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

	Note	2010	2009	2008
				Years Ended December 31
REVENUES				
Interest income	*6.a*	**P22,737,907**	P32,333,966	P36,871,798
Gain on sale of shares of stock	*5*	**-**	-	10,061,181
		22,737,907	32,333,966	46,932,979
GENERAL AND ADMINISTRATIVE EXPENSES				
Representation and entertainment		**28,592,533**	23,053,480	5,846,302
Commission expense		**5,864,203**	-	-
Professional fees		**1,363,000**	2,854,929	1,132,215
Transportation and travel		**611,518**	443,741	161,486
Taxes and licenses		**14,647**	9,120,732	3,307,476
Miscellaneous		**1,531,813**	524,071	1,681,090
		37,977,714	35,996,953	12,128,569
INCOME (LOSS) BEFORE INTEREST, PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES AND INCOME TAX		**(15,239,807)**	(3,662,987)	34,804,410
INTEREST AND PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES				
Provision for impairment losses on receivables	*6*	**-**	29,473,522	-
Interest income from bank deposits		**(62,112)**	(205,088)	(235,363)
Interest expense	*6.b*	**-**	8,565,721	-
		(62,112)	37,834,155	(235,363)
INCOME (LOSS) BEFORE INCOME TAX		**(15,177,695)**	(41,497,142)	35,039,773
INCOME TAX EXPENSE	*9*	**3,937,604**	5,817,148	252,895
NET INCOME (LOSS)		**(P19,115,299)**	(P47,314,290)	P34,786,878
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P19,115,299)**	(P47,314,290)	P34,786,878

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED

SEPARATE STATEMENTS OF CHANGES IN EQUITY

			Years Ended December 31	
	Note	**2010**	2009	2008
CAPITAL STOCK - P1 par value per share Authorized - 5 billion shares Issued - 2,498,991,753 shares	*5, 11*	**P2,498,991,753**	P2,498,991,753	P2,498,991,753
ADDITIONAL PAID-IN CAPITAL	*5*	**706,364,357**	706,364,357	706,364,357
DEFICIT				
Balance at beginning of year		**(539,994,129)**	(492,679,839)	(527,466,717)
Net income (loss) for the year		**(19,115,299)**	(47,314,290)	34,786,878
Balance at end of year		**(559,109,428)**	(539,994,129)	(492,679,839)
		P2,646,246,682	P2,665,361,981	P2,712,676,271

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2010**	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**(P15,177,695)**	(P41,497,142)	P35,039,773
Adjustments for:				
Interest income	*6.a*	**(22,800,019)**	(32,539,054)	(37,107,161)
Impairment losses on receivables	*6*	**-**	29,473,522	-
Interest expense	*6.b*	**-**	8,565,721	-
Operating loss before working capital changes		**(37,977,714)**	(35,996,953)	(2,067,388)
Decrease (increase) in other noncurrent assets		**2,159,170**	-	(669,642)
Increase in accrued expenses and other payables		**54,120,667**	61,820,571	60,226,104
Cash generated from operations		**18,302,123**	25,823,618	57,489,074
Interest received		**53,763**	205,087	-
Income tax paid		**(3,843,177)**	(742,144)	(993,669)
Net cash provided by operating activities		**14,512,709**	25,286,561	56,495,405
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loans payable		**(472,000,000)**	-	-
Advances to related parties	*5, 6*	**462,627,633**	(24,149,128)	(55,823,857)
Net cash used in financing activities		**(9,372,367)**	(24,149,128)	(55,823,857)
NET INCREASE IN CASH		**5,140,342**	1,137,433	671,548
CASH AT BEGINNING OF YEAR		**1,929,553**	792,120	120,572
CASH AT END OF YEAR		**P7,069,895**	P1,929,553	P792,120

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. Reporting Entity

Waterfront Philippines, Incorporated (the "Parent Company" or "WPI") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 23, 1994. WPI is 46%-owned by The Wellex Group, Inc. (TWGI) and is listed in the Philippine Stock Exchange (PSE). It holds equity interests in hotels and resorts, a fitness gym, entities engaged in the international marketing and promotion of casinos, manufacturing of pastries, hotel management and operations.

The Parent Company and the following subsidiaries were incorporated in the Philippines, except for Waterfront Promotion Ltd (WPL) and Club Waterfront International Limited (CWIL), which were registered in the Cayman Islands.

	Percentage of Ownership as of December 31, 2010	
	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)	69	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
WPL	100	-
Mayo Bonanza, Inc. (MBI)	100	-
CWIL (through direct ownership in WPL)	-	100
Pastries manufacturing:		
Waterfront Food Concepts Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-
Waterfront Entertainment Corporation (WEC)	100	-

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2010, 2009 and 2008, except for APHC wherein the percentage ownership decreased from 75% in 2007 to 69% in 2008.

<u>Office Address</u>
The registered office of the Parent Company is located at IPT Building, Pre-Departure Area, Mactan Cebu International Airport, Lapu-lapu City, Cebu.

2. Basis of Preparation

Statement of Compliance

The separate financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

In full compliance with PAS 27, *Consolidated and Separate Financial Statements*, the Parent Company has prepared consolidated financial statements for the same periods in which it consolidates all investments in subsidiaries in accordance with the said standard. Such consolidated financial statements provide information about the economic activities of the group of which WPI is the parent.

The separate financial statements of the Parent Company as at and for the years ended December 31, 2010, 2009 and 2008 were authorized for issue by the Board of Directors (BOD) on April 8, 2011.

Basis of Measurement

The separate financial statements have been prepared on the historical cost basis.

Functional and Presentation Currency

The separate financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information presented in Philippine peso has been rounded to the nearest peso.

Use of Estimates and Judgments

The preparation of separate financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the separate financial statements are described in Note 4 to the separate financial statements.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new or revised, amendments and improvements to standards and interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations] as part of PFRS.

Adopted Effective January 1, 2010

The following are the revised standard and improvements to standards and interpretation which are relevant to the Parent Company, are effective for the year ended December 31, 2010, and have been applied in preparing these separate financial statements.

- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.

  The adoption of the above revised standard did not have material impact on the separate financial statements.

- Philippine Interpretation IFRIC - 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009.

  The adoption of the above interpretation did not have material impact on the separate financial statements.

- *Improvements to PFRSs 2009,* contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the improvements or amendments to PFRSs that are relevant to the Parent Company:

  - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

  - PAS 17, *Leases*. The International Accounting Standards Board (IASB) deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.

The adoption of the above improvements to standards did not have material impact on the separate financial statements.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these separate financial statements. None of these is expected to have a significant effect on the separate financial statements of the Parent Company**,** except for PFRS 9 *Financial Instruments*, which becomes mandatory for the Parent Company's 2013 separate financial statements and could change the classification and measurement of financial assets. The Parent Company does not plan to adopt this standard early and the extent of the impact has not been determined.

The following are the new or revised standards, amendments to standards and interpretations that are relevant to the Parent Company and are to be adopted by the Parent Company in the respective effective dates:

To be Adopted on January 1, 2011

- Philippine Interpretation IFRIC - 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- Revised PAS 24, *Related Party Disclosures (2009),* amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010,* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRSs that are relevant to the Company. None of these is expected to have a significant effect on the separate financial statements of the Parent Company.

    - PAS 27, *Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28 *Investments in Associates* and PAS 31, *Interests in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.

    - PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted.

To be Adopted on January 1, 2012

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7),* require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40 *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 *Business Combinations* provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation SIC-21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC-21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments (2010)*, supersedes PFRS 9 (2009), the first phase of the PAS 39 replacement project. PFRS 9 (2010) was issued to include all the requirements of PFRS (2009) without amendment. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial assets. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

Segment Reporting

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

The Parent Company does not present segment information because, at present, the Parent Company has only one segment in operation (i.e., holding operations). Operating results of the Parent Company's only operating segment are reviewed by the BOD, the chief operating decision maker (CODM) of the Parent Company, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Management believes that segment reporting is more appropriate for enterprises offering group of products and services or operating in different geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects and risks that are relevant in assessing the risks and returns of a diversified or multinational entities.

Financial Assets

Financial assets are recognized in the separate financial statements when it becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets, except for investments classified as at fair value through profit or loss.

The Parent Company's category of financial assets includes loans and receivables only.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They arise when the Parent Company provides money, goods or services directly to a debtor with no intention of trading the receivables. These are included in current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as noncurrent assets.

Loans and receivables are initially recognized at fair value, representing the original invoice amount. They are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Parent Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Included under the Loans and Receivables category are cash, due from related parties and advances to subsidiaries.

Loans and receivables include due from related parties and advances to subsidiaries. Due from related parties represents advances made to The Wellex Group, Metro Alliance Holdings and Equities Corporation, Forum Holdings Corp. and others. Advances to subsidiaries represent advances made to subsidiaries primarily to finance the construction and completion of certain hotel projects.

Cash

Cash includes cash in banks and is stated at its face value.

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

- the rights to receive cash flows from the asset have expired;
- the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company'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 Parent Company could be required to repay.

Impairment of Financial Assets
At each reporting date, the Parent Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss (FVPL) are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Financial Assets at Amortized Cost
For financial assets carried at amortized cost, the Parent Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Parent Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses the group for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Parent Company on terms that it would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing the Parent Company's receivables, the Parent Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The level of this allowance is evaluated by the Parent Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Parent Company's relationship with the debtor, their payment behavior and known market factors.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of the estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

Financial Liabilities
Financial liabilities are recognized when the Parent Company becomes a party to the contractual provisions of the instrument, normally in the period in which the related money, goods or services are received or when a legally enforceable claim against the Parent Company is established.

The Parent Company's financial liabilities loans payable, accrued expenses and other payables and due to related parties.

Other Financial Liabilities
These include liabilities that are not carried at fair value through profit or loss (FVPL) and are recognized initially at fair value and carried at amortized cost with amortization determined using the effective interest method.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

Offsetting Financial Assets and Liabilities
Financial assets and financial liabilities are offset and the net amount reported in the separate statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the separate statements of financial position.

Interest Income
Interest income is recognized as it accrues, using the effective interest method.

Investments in Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account.

The Parent Company carries its investments in shares of stock of its subsidiaries under the cost method of accounting for investments. Under this method, investments are 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 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 using the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives, as well as the depreciation and amortization method are reviewed at each reporting date to ensure that the period and method of depreciation and amortization 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 and amortization 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 related 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 recognized in profit or loss.

As of December 31, 2007, the property and equipment of the Parent Company costing P3.9 million have been fully depreciated. No additions were made in the subsequent years.

Borrowing Costs

Borrowing costs are generally recognized as expense in the period in which these costs are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

Impairment of Nonfinancial Assets

The Parent Company’s noncurrent assets are subject to impairment testing. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

An impairment loss is recognized for the excess of the carrying amount of the asset or cash-generating unit's carrying amount over its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In assessing value in use, the following factors are considered: a) an estimate of the future cash flows the entity expects to derive from the asset; b) expectations about possible variations in the amount or timing of those future cash flows; c) the time value of money, represented by the current market risk-free rate of interest; d) the price for bearing the uncertainty inherent in the asset; and e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. Impairment loss is charged in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is 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, if no impairment loss had been recognized. Reversals of impairment, if any, are recognized in profit or loss.

Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is recognized respectively therein.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting 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. The deferred tax assets are reviewed at each reporting date and reduced, if appropriate.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or either tax assets and liabilities will be realized simultaneously.

Provisions and Contingencies

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 obligations 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.

Contingent assets are not recognized but disclosed in the notes to the separate financial statements when an inflow of economic benefits is virtually certain.

Events After the Reporting Date

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

4. Accounting Estimates and Judgments

The preparation of the separate financial statements in accordance with PFRS requires management to make estimates and assumptions that affect amounts reported in the separate financial statements and related disclosures. The estimates and assumptions used in the separate financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the separate financial statements. These estimates and judgments are as follows:

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company operates.

Estimating Allowance for Impairment Losses on Due from Related Parties
The Parent Company maintains an allowance for impairment losses on due from related parties at a level considered adequate to provide for potential uncollectible accounts. The level of this allowance is evaluated by the Parent Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Parent Company's relationship with its debtors, their payment behavior and known market factors. The Parent Company reviews the age and status of due from related parties, 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 Parent Company made different judgment or utilized different estimates. Allowance for impairment losses on due from related parties as of December 31, 2010 and 2009 amounted to P77.1 million, (see Note 6).

Estimating Impairment of Nonfinancial Assets
The Parent Company assesses at each reporting date whether there is an indication that carrying amount of an asset may be impaired. If such indication exists, the Parent Company makes an estimate of the asset's recoverable amount. At the reporting date, the Parent Company 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, 2010 and 2009, there is no indication of impairment of the Parent Company's nonfinancial assets.

Recognition of Deferred Tax Assets
The Parent Company reviews the carrying amounts of deferred tax assets at each reporting 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. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Parent Company will utilize all or part of the deferred tax assets. Deferred tax assets as of December 31, 2010 and 2009 amounted to nil, (see Note 9).

5. Investments in and Advances to Subsidiaries

"Investments in and Advances to Subsidiaries" is comprised of the following (amounts in thousands):

	2010			2009		
	Acquisition Costs	**Advances to Subsidiaries**	**Total**	Acquisition Costs	Advances to Subsidiaries	Total
WCCCHI	**P13,800**	**P2,115,511**	**P2,129,311**	P13,800	P2,205,210	P2,219,010
DIHCI	**584,363**	**30,031**	**614,394**	584,363	32,318	616,681
APHC	**538,620**	**-**	**538,620**	538,620	-	538,620
GIRDI	**253,666**	**-**	**253,666**	253,666	-	253,666
MBI	**25**	**44,427**	**44,452**	25	53,164	53,189
WMCHI	**13,800**	**-**	**13,800**	13,800	41,862	55,662
WCitigym	**625**	**12,581**	**13,206**	625	12,426	13,051
WFC	**125**	**5,327**	**5,452**	125	5,143	5,268
WMC	**125**	**63,505**	**63,630**	125	31,608	31,733
WEC	**125**	**396**	**521**	125	256	381
	P1,405,274	**P2,271,778**	**P3,677,052**	P1,405,274	P2,381,987	P3,787,261

Advances to Subsidiaries
Advances to subsidiaries mainly represent funds provided to subsidiaries primarily to finance the construction and completion of certain hotel projects. As discussed in Note 8 to the separate financial statements, these include interest charges and foreign exchange gains or losses incurred on loans obtained from the Philippine National Bank (PNB) and the Social Security System (SSS).

Acquisition 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 effected through a cross-sale in the Philippine Stock Exchange.

In 2006, the Parent Company sold its investments in APHC totaling 51 million shares at varying selling prices through the PSE. Majority of the sale transactions were made with parties that were relatively owned and/or have related party relationship with TWGI, a stockholder of the Parent Company. Total proceeds from the sale transaction, net of related expenses and taxes, amounted to P123.6 million. Gain on sale of APHC shares amounting to P36.6 million was recognized in the December 31, 2006 separate statement of comprehensive income.

On November 4, 2006, the Parent Company purchased additional 1.55 million of APHC shares at a total cost of P7,770,925.

Total proceeds from the sale transaction less the total purchase cost of the additional shares amounting to P115.8 million was recorded as receivable from TWGI and part of "Due from related parties" account in the separate statements of financial position, (see Note 6).

As of December 31, 2006, the Parent Company's percentage of ownership of the issued and outstanding capital stock of APHC decreased from 75% in 2005 to 24%.

In 2007, the Parent Company entered into various share swap transactions wherein it issued 553 million of its primary shares at par value of P1 per share in exchange for 45.8 million APHC shares at varying market prices (see Note 11). The transaction was taken up by the Parent Company as an increase in its investments in APHC at book value of net assets acquired amounting to P504 million, thereby resulting to the reduction in the paid-in capital by P49 million. As a result, the Parent Company's equity interest in APHC increased to 75% from 24% in 2006.

In 2008, the Parent Company sold to TWGI its investments in APHC totaling 4,900,000 shares at varying selling prices through the PSE. Total proceeds from the sale transactions, net of related expenses and taxes, amounted to P48.2 million. Gain on sale of APHC shares amounting to P10.1 million was recognized in the December 31, 2008 separate statements of comprehensive income. The total proceeds from the sale transaction amounting to P40 million was recorded as receivable from TWGI and part of the "Due from related parties" account in the separate statements of financial position, (see Note 6).

As of December 31, 2010, the Parent Company's equity interest in APHC remained at 69%.

Status of WPL and MBI
In June 2003, management decided to temporarily stop the operations of WPL and MBI until such time that the economic conditions become favorable for the resumption of its operations. In early 2008, MBI has resumed its commercial operations.

6. Related Party Transactions

The "Due from related parties - current portion" account consists of:

	Relationship with the Parent Company	*Note*	**2010**	2009
TWGI	Stockholder	*6.a, 6.b*	**P40,000,000**	P150,000,000
Metro Alliance Holdings and Equities Corp. (MAHEC)	Stockholder	*6.a, 6.c*	**355,548,265**	351,319,527
Forum Holdings Corp. (FHC)	Stockholder	*6.a*	**356,229**	25,877,246
Others	Stockholder		**1,948,716**	2,981,772
			397,853,210	530,178,545
Less allowance for impairment losses			**17,482,601**	17,482,601
			P380,370,609	P512,695,944

The "Due from related parties - noncurrent portion" account consists of:

	Relationship with the Parent Company	*Note*	**2010**	2009
TWGI	Stockholder	*6.a, 6.b*	**P968,348,900**	P887,633,832
Less allowance for impairment losses			**59,619,428**	59,619,428
			P908,729,472	P828,014,404

Movements in the allowance for impairment losses on due from related parties - current portion are as follows:

	2010	2009
Beginning balance	**P17,482,601**	P47,628,507
Impairment loss for the year	**-**	17,252,607
Reclassification to noncurrent portion	**-**	(47,398,513)
Ending balance	**P17,482,601**	P17,482,601

Movements in the allowance for impairment losses on due from related parties - noncurrent portion are as follows:

	2010	2009
Beginning balance	**P59,619,428**	P -
Impairment loss for the year	**-**	12,220,915
Reclassification from current portion	**-**	47,398,513
Ending balance	**P59,619,428**	P59,619,428

a. In 2003, the Parent Company extended interest-bearing, collateral-free advances to TWGI which bear an annual interest of 4%. In 2006 and prior years, advances to FHC were interest-bearing and collateral-free which bear an annual interest of 4%.

In 2007, the Parent Company entered into revised agreements with TWGI, MAHEC and FHC whereby outstanding advances during the year are subjected to a revised interest of 7% per annum. The said agreement was amended in 2008 whereby outstanding advances during the year are subjected to a revised interest rate of 4% per annum.

In 2009, the Parent Company accepted an offer from TWGI and FHC whereby the latter parties would settle their obligations by a series of term payments.

To reflect the agreement, P887.6 million of advances representing agreed term payments from 2011 to 2015 was transferred to noncurrent assets. Additional impairment was also recognized on the advances.

In 2010, the Parent Company received payments from TWGI and FHC amounting to P40 million and P26 million, respectively.

The Parent Company accepted an offer from TWGI for the restructuring of the latter's obligations by a series of term payments as follows:

	TWGI
2011	P40,000,000
2012	40,000,000
2013	40,000,000
2014	40,000,000
2015	848,348,900
	P1,008,348,900

Also, the Parent Company entered into revised agreements with TWGI, MAHEC and FHC whereby outstanding advances during the year are subjected to a revised interest of 2% per annum.

Interest income on these advances amounted to P22.7 million, P32.3 million and P36.9 million in 2010, 2009 and 2008, respectively.

b. In 2007, WCCCHI and WMCHI obtained a loan from PAGCOR amounting to P541.3 million for a period of sixty (60) days, renewable upon maturity. The loan bears interest at the rate of 6% per annum. The proceeds of the loan were subsequently advanced to TWGI, the ultimate parent company, thru WPI. Related interests and charges are also shouldered by TWGI. In 2009, the Parent Company recognized the related interests and charges from PAGCOR loan amounting to P8.6 million.

c. In 2004, the Parent Company extended a 4% interest-bearing, collateral free advances to MAHEC amounting to P221.2 million as an additional fund infusion used by the latter, through Polymax Worldwide Limited (Polymax), its special purpose entity, and NPC Alliance Corp. (NPCA) a wholly-owned subsidiary of Polymax, in acquiring the petrochemical plant of Bataan Polyethylene Corporation (BPC).

In 2010, the Parent Company has been actively discussing the possible sale of the petrochemical plant with certain prospective buyers.

The advances to MAHEC accumulated to P355.5 million in 2010 owing to subsequent advances and the accrual of interest. The Parent Company provided an allowance for impairment losses on receivables amounting to P17.2 million in 2009. The said receivable is subject to the collection efforts by the Parent Company but management believes that the ultimate amount and timing of collection cannot presently be determined.

The Parent Company also has outstanding receivables from FHC amounting P25.9 million as of December 31, 2009. The Parent Company collected principal and interest amounting to P26 million and P49.5 million in 2010 and 2009, respectively. As of December 31, 2010, the outstanding receivables from FHC amounted to P356 thousand.

The collectibility of the receivables from TWGI, MAHEC and FHC is unconditionally recognized and guaranteed by a certain stockholder of the Parent Company, representing the majority shareholders.

d. The "Due to related parties" account primarily represents noninterest-bearing collateral-free and due on demand cash advances from the following related parties:

	Relationship with the Parent Company	**2010**	2009
WMCHI	Subsidiary	**P146,635,146**	P -
APHC	Subsidiary	**577,796,487**	465,654,300
WPL	Subsidiary	**196,763,538**	197,007,248
GIRDI	Subsidiary	**167,943,062**	145,230,787
Others	Related parties	**-**	3,183,788
		P1,089,138,233	P811,076,123

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. The above advances are due and demandable at anytime.

The Parent Company's operating, accounting and administrative functions are handled by its subsidiaries.

7. Accrued Expenses and Other Payables

This account is broken down as follows:

	Note	**2010**	2009
Accrued interest and penalties - SSS loan	*8*	**P506,759,257**	P447,596,468
Others		**789,000**	5,831,122
		P507,548,257	P453,427,590

8. Loans Payable

These long-term liabilities arise to partly finance the construction of the Cebu City Hotel Project and completion of the facilities of WCCCHI is initially recognized at present value of all future payments.

The “Loans payable - current” account consists of:

	2010	2009
COSCO	**P217,500,000**	P826,487,513
SSS	**375,000,000**	375,000,000
	P592,500,000	P1,201,487,513

The “Loans payable - net of current portion” consists of loans from COSCO, which amounts to P136,987,513 and nil as of December 31, 2010 and 2009, respectively.

COSCO Loan

The COSCO loan originally represents a US$30 million long-term debt from PNB availed 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 restructuring agreements which had the following results:

a. The first agreement converted the FCDU loan into Philippine peso in April 2001.

b. The second agreement, on December 28, 2001 restructured the loan, including the unpaid interest thereon of about P125 million. The loan was divided into two tranches totaling P1.194 billion. Tranche 1, amounting P1 billion, would be due December 2006 and Tranche 2, amounting P194 million, would be due December 2003.

c. The third agreement, on September 2, 2004, rescheduled the payment of the principal portion of the loan to December 31, 2008.

Assignment of PNB Loan to COSCO

On February 19, 2009, Cosco Prime Holdings, Inc. (the “Assignee”) executed a deed of assignment with PNB, with the consent and conformity of the Borrowers, whereby the Assignee shall pay the total amount of P826,487,513, representing principal, interests, expenses and trust fees in consideration for the Assignee’s acquisition of all the rights, interests and participation of PNB in and to the settlement agreement, the extra-judicial foreclosure proceedings initiated and the corresponding right to foreclose, including any other rights thereto.

On March 17, 2009, the Assignee and the Borrowers entered into an agreement to defer the enforcement of judgment in the settlement agreement in order to give the Borrowers the opportunity to pay their obligations. In consideration to the deferment of the judgment, the Borrowers agreed to the following:

a. Pledged the Parent Company’s investment in shares of stock representing 60% of the outstanding shares of stock of WMCHI and 60% of the outstanding shares of stock of WCCCHI in favor of Cosco Prime Holdings, Inc. with irrevocable proxy in favor of the Assignee and/or its nominee to vote the said shares in any meeting of the stockholders or BOD of WMCHI and WCCCHI.

However, while the Parent Company abides by the terms of the agreement, it still maintains full control over WMCHI and WCCCHI. All of the BOD and key management personnel of WMCHI and WCCCHI are controlled by the Parent Company, i.e., the Parent Company occupies all the positions in the BOD and officer/management positions of the two said hotels (WMCHI and WCCCHI).

b. Assignment of Leasehold Rights over the parcel of land on which the hotel building of WCCCHI and WMCHI at Cebu and Mactan, is standing.

c. Executed chattel mortgage on the furniture, fixtures and equipment of WCCCHI and WMCHI in favor of Cosco Prime Holdings, Inc.

In consideration of the agreement, the Assignee agrees to defer the enforcement of the judgment dated November 24, 2008 for a period of one (1) year from February 19, 2009, or until February 18, 2010, subject to terms and conditions agreed by the parties.

The corresponding amount paid by the Assignee on February 19, 2009 amounting to P826,487,513 was included under "Loans Payable" account in the separate statements of financial position.

On February 4, 2010, the Assignee and the Borrowers entered into an agreement to further defer the enforcement of judgment in the settlement agreement in order to give the Borrowers the opportunity to partially satisfy the judgment debt and to pay the balance on a deferred schedule. In consideration to the further deferment of the judgment, the Parties agreed to the following:

a. The Borrowers to partially satisfy the judgment debt by making a partial payment in the amount of P400 million, not later than February 18, 2010, in the following manner:

   i. The proceeds of a loan in the principal amount of P300 million, which Philippine Business Bank (PBB) had agreed to extend to WMCHI in accordance with a Bank Guarantee by PBB in favor of the assignee. The proceeds shall be remitted directly to the Assignee.

   ii. Immediately upon delivery to the Assignee of the signed original copy of the Bank Guarantee, the Assignee shall agree to: (1) the approval and ratification of the corporate authority of WMCHI to apply for and obtain the PBB Loan and as security thereof, constitute a second mortgage in favor of PBB on the hotel building, all improvements, furniture, fixtures and equipment of WMCHI; (2) authorize and instruct PNB as Mortgage Trustee under MTI covering the WMCHI property to allow the execution and annotation of a second mortgage on the said property in favor of PBB; (3) the assignment of the leasehold rights of WMCHI on the land on which the said property is located; and (4) the assignment of the lease rental receivables of WMCHI from PAGCOR

   iii. Simultaneous with the delivery by PBB of the P300 million directly to the Assignee, the Borrowers shall pay the Assignee the additional amount of P100 million to complete the total partial satisfaction of the judgment in the amount of P400 million.

iv. Immediately after the checks for the P400 million have been encashed, the Assignee, shall agree to: (1) release and discharge of the first mortgage lien under the MTI over the WMCHI property as well as any Chattel Mortgage on furniture, equipment and other properties forming part of the said property; (2) release the assignment to it of the leasehold rights of WMCHI on the land on which the said property is located, and thereafter instruct PNB, as MTI Trustee, to sign, execute and deliver the release and discharge of the MTI mortgage with respect to the said property; (3) cancel the endorsement of the issuance proceeds on the said property; and (4) cause the withdrawal and dismissal of the foreclosure proceedings covering the WMCHI property with the RTC of Lapu-lapu City.

b. The balance of the principal in the sum of P426,487,513 plus compensation for the use of money and interests thereon, shall be paid in installments beginning March 19, 2010 ending February 19, 2012 in accordance with the payment schedule agreed by the parties.

   The Borrowers shall issue and deliver postdated checks in payment of the installments.

c. The Borrowers bind themselves that should the capital stock of WMCHI and WCCCHI be increased, so much of the increase number of the shares shall be pledged to the Assignee as to maintain the latter's security and proxy rights always at 60% of the outstanding capital stock as previously agreed.

On February 11, 2010, the Parent Company paid the agreed amount of the partial payment amounting P400 million to COSCO. The monthly installments were paid in accordance with the payment schedule agreed by the parties.

As of December 31, 2010, the outstanding principal COSCO loan amounted to P354.5 million.

<u>SSS Loan</u>
On October 28, 1999, the Parent Company obtained a five-year term loan from SSS amounting to P375 million originally 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 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 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 was 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. The SSS's 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 Parent Company, WII and TWGI were given the right to redeem the foreclosed property within one year from October 17, 2003, the date of registration of the certificate of sale. The Parent Company recognized the proceeds of the foreclosure sale 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.

The remaining balance of the SSS loan is secured by the shares of stocks of the Parent Company owned by TWGI and WII numbering 235 million shares and 80 million shares, respectively.

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation before the RTC of Quezon City. SSS likewise asked the RTC of Quezon City for the issuance of a writ of preliminary attachment on the collateral property.

On June 18, 2004, the RTC of Quezon City issued its first order granting SSS's request and the issuance of a writ of preliminary attachment based on the condition that SSS shall post an attachment bond in the amount of P452.8 million. After the lapse of three (3) months from the issuance of RTC order, no attachment bond has been posted. Thus on September 16, 2004 and September 17, 2004, the Parent Company filed a Motion to Set Aside Order of Attachment and Amended Motion to Set Aside Order of Attachment, respectively.

On January 10, 2005, the RTC of Quezon City issued its second order denying the Parent Company's petition after finding no compelling grounds to reverse or reconsider its initial findings dated June 18, 2004. In addition, since no writ of preliminary attachment was actually issued for failure of SSS to file a bond on the specified date, the RTC granted SSS an extension of fifteen (15) days from receipt of its second order to post the required attachment bond.

On February 10, 2005, SSS filed a Motion for Partial Reconsideration of the Order (Motion) dated January 10, 2005 requesting that it be allowed to post a real property bond in lieu of a cash/surety bond and asking for another extension of thirty (30) days within which to post the said property bond. On March 7, 2005, the Parent Company filed its opposition to the said Motion.

On July 18, 2005, the RTC of Quezon City issued its third order denying the Parent Company's petition and granted SSS the thirty (30) day extension to post the said attachment bond. Accordingly, on August 25, 2005, the Parent Company filed a Motion for Reconsideration.

On September 12, 2005, the RTC of Quezon City issued its fourth order approving SSS's property bond in the total amount of P452.8 million. Accordingly, the RTC ordered the corresponding issuance of the writ of preliminary attachment. On November 3, 2005, the Parent Company submitted a Petition for Certiorari before the Court of Appeal (CA) seeking the nullification of the orders of RTC of Quezon City dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005.

In a Resolution dated February 22, 2006, the CA granted the Parent Company's petition for the issuance of the Temporary Restraining Order to enjoin the implementation of the orders of the RTC of Quezon City specifically on the issuance of the writ of preliminary attachment.

On March 28, 2006, the CA granted the Parent Company's petition for the issuance of a writ of preliminary injunction prohibiting the RTC of Quezon City from implementing the questioned orders.

On August 24, 2006, the CA issued a decision granting the Petition for Certiorari filed by the Parent Company on November 3, 2005 and nullifying the orders of the RTC of Quezon City dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005 and consequently making the writ of preliminary injunction permanent.

Accordingly, SSS filed a Petition for Review on Certiorari on the CA's decision before the Supreme Court (SC).

On November 15, 2006, the First Division of the SC issued a Resolution denying SSS's petition for failure of SSS to sufficiently show that the CA committed any reversible error in its decision which would warrant the exercise of the SC's discretionary appellate jurisdiction.

Starting 2006, the Parent Company is charging WCCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. 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 proceeds of the loan were substantially used in the expansion and improvement of WCCCHI's operations.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. However, with the change in management of SSS, the Parent Company plans to activate the proposed restructuring of the said loan which includes the condonation of interest and penalties. The Parent Company believes that it will be able to restructure the said loan.

In the absence of a formal restructuring agreement, the entire outstanding principal loan balance amounting P375 million and accrued interest and penalties amounting P506.8 million and P447.6 million as of December 31, 2010 and 2009, respectively, (presented as part of "Accrued expenses and other payables" account) have been classified as current in the separate statements of financial position.

9. Income Taxes

The components of the Parent Company's income tax expense are as follows:

	2010	2009	2008
Current	**P3,937,604**	P3,843,177	P742,143
Deferred	**-**	1,973,971	(489,248)
Income tax expense	**P3,937,604**	P5,817,148	P252,895

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

	2010	2009	2008
Income (loss) before income tax	**(P15,177,695)**	(P41,497,142)	P35,039,773
Provision for (benefit from) income tax at 30% in 2010 and 2009 and 35% in 2008	**(P4,553,309)**	(P12,449,143)	P12,263,920
Tax effects of:			
Income not subject to income tax	**(18,633)**	(61,526)	(3,521,414)
Nondeductible expenses	**8,509,546**	9,485,760	2,046,206
Unrecognized deferred tax from impairment losses on receivables	**-**	8,842,057	-
NOLCO applied	**-**	-	(10,788,712)
MCIT expired	**-**	-	252,895
	P3,937,604	P5,817,148	P252,895

In 2009, all of the MCIT payments amounting P1,973,971 from previous years were deducted from regular income tax.

Deferred tax assets have not been recognized in respect of the allowance for impairment losses on receivables amounting to P77.1 million in 2010 and 2009, and P47.6 million in 2008.

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

The Parent Company has NOLCO of P64.3 million which expired in December 31, 2008.

On May 24, 2005, Republic Act No. 9337 entitled "An Act Amending the National Internal Revenue Code, as Amended, with Salient Features" (Act), was passed into a law effective November 1, 2005. Among others, the Act includes the following significant revisions to the rules of taxation:

a. Change in the corporate income tax rates from 32% to 35% starting November 1, 2005 and 30% starting January 1, 2009 and onwards; and

b. Change in interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 42% starting November 1, 2005 and 33% starting January 1, 2009 and onwards.

On October 10, 2007, the BIR issued Revenue Regulations No. 12-2007, which amended the timing of the calculation and payment of MCIT from an annual basis to a quarterly basis, (i.e. excess MCIT from a previous quarter during the current taxable year may be applied against subsequent quarterly or current annual income tax due, whether MCIT or RCIT). However, excess MCIT from the previous taxable year/s are not creditable against MCIT due for a subsequent quarter and are only creditable against quarterly and annual RCIT.

10. Lease Agreements with 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, 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 one year rental based on monthly rentals for 2004, which amount shall be maintained at all times. During 2010, PAGCOR reduced the area it leased from WCCCHI by 2,267 square meters thereby decreasing the security deposit accordingly. The security deposit amounted to P202 million and P232.6 million as of December 31, 2010 and 2009, respectively.

In 2007, WCCCHI also executed a contract of lease with PAGCOR, whereby the latter shall lease an area of 883.38 square meters, more or less, of air-conditioned space at the ground floor of WCCCHI's hotel. The contract shall commence on the date PAGCOR starts its slot machines operations and shall be valid until the expiration of the present charter of PAGCOR on July 11, 2008. PAGCOR shall pay a cash deposit equivalent to six months lease rental and shall pay a monthly rental of P729 per square meter, subject to 5% escalation rate starting on its second year. On March 15, 2008, the lease contract was amended stating that the contract of lease shall commence on the date PAGCOR started its commercial operations, which is on March 15, 2008, and shall be valid for two years.

On September 3, 2008, WCCCHI and WMCHI renewed the ACL with PAGCOR for two (2) years and six (6) months. Monthly rental shall be at P1,531.54 per square meter of the main area and P1,458.61 per square meter of the chip washing area at WMCHI, subject to a 5% annual escalation rate starting on its second year of the renewal of the contract of lease. In addition, PAGCOR shall pay an advance rental of six (6) months which shall be applied to the rentals due for the first six (6) months of the lease period of the renewal of the contract of lease. Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of six (6) months and shall be paid upon the execution of the contract.

APHC also has an existing lease agreement with PAGCOR terminating on 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.

On September 15, 2008, APHC renewed the contract of lease with PAGCOR for two (2) years and six (6) months. Monthly rental rate is subject to 5% annual escalation starting on the second year of the renewal of the contract of lease and every year thereafter. Monthly rental shall be P2,378.03 per square meter of the main area and P1,132.40 per square meter of the expansion area, both covering a floor area totaling 9,234.37 square meters. PAGCOR shall also pay APHC an advance rental of six (6) months to be paid upon execution of the renewed contract of lease and shall be applied to the rentals due for the first six (6) months. Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of three (3) months for the Main area and six (6) months for the expansion and shall be paid upon the execution of the contract.

On February 12, 2009, the renewal contract was amended extending the lease period from two (2) years and six (6) months to three (3) years and six (6) months. The annual escalation rate was also amended to apply only on the second and third year of the lease period.

On December 1, 2010, PAGCOR and APHC amended the lease contract, otherwise known as the Omnibus Amended Lease Contract (OALC) extending the lease term and expanding the lease area. The OALC shall cover the Main Area (7,093.05 sq. m.), Expansion Area A (2,130.36 sq. m.), Expansion Area B (3,069.92 sq. m.) and Air Handling Unit (AHU) Area (402.84 sq. m.) for a total lease area of 12,696.17 square meters. The lease period for the Main Area, Expansion Area A and AHU Area shall commence upon the signing of the lease agreement until December 16, 2016. While Expansion Area B shall commence ten (10) months after the turnover of the Expansion Area B to the lessee or the commencement of commercial gaming operations in the Expansion Area B, whichever comes earlier, and shall terminate on December 31, 2016. The OALC may be renewed at the option of the lessee under such terms and conditions as may be agreed upon by the parties.

The monthly rent to be applied on the leased areas are as follows: Main Area shall be P2,621.78 per square meter, Expansion Area A shall be P1,248.47 per square meter, Expansion Area B shall be P1,600 per square meter and the AHU Area shall be free of rent. Annual escalation rate of 5% shall be applied on the third and fourth year of the lease.

Upon the execution of the OALC, PAGCOR shall pay six (6) months advance rental or P127.54 million for the Main Area and Expansion Area A, which shall be applied to the rent due on the first six months of the last year of the lease term. Further, PAGCOR shall pay advance rental on Expansion Area B amounting to P58.94 million or equivalent to one (1) year rent.

Relative to the OALC, the existing refundable security deposits amounting to P131.89 million received by APHC upon the execution of the prior contracts were retained by APHC. These deposits were presented as part of "Concessionaires and deposits" account in the statements of financial position of APHC and were carried at its present value of P83.90 million computed using an effective interest rate of 8% over the term of the OACL. Consequently, a day-one gain, net of the discount amortization, amounting to P47.99 million was recognized in 2010 by APHC as accretion income and was presented as part of "Financing Costs (Income) - net" account in the statements of comprehensive income of APHC. The amortized cost of the refundable security deposits was determined by calculating the present value of the cash flows anticipated until the end of the lease term using the interest rate of 8%. As the deposit does not have an active market, the underlying interest rate was determined by reference to market interest rates of comparable financial instruments.

Future rental receivables arising from non-cancellable operating lease agreements with PAGCOR by WCCCHI, APHC and WMCHI are as follows:

	2010	2009
Less than one year	**P522,396,228**	P494,730,114
Between one and five years	**1,808,464,304**	673,726,079
	P2,330,860,532	P1,168,456,193

11. Equity

Capital Stock
Details of capital stock at December 31, 2010, 2009 and 2008 follow:

	2010		2009		2008	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Authorized capital stock Common shares at P1 par value each	**5,000,000,000**	**P5,000,000,000**	5,000,000,000	P5,000,000,000	5,000,000,000	P5,000,000,000
Issued and outstanding	**2,498,991,753**	**P2,498,991,753**	2,498,991,753	P2,498,991,753	2,498,991,753	P2,498,991,753

During 2007, the Parent Company entered into various share swap transactions wherein it issued 553 million of its primary shares at par value of P1 per share in exchange for 45.8 million APHC shares at varying market prices (see Note 5).

On July 20, 2007, the BOD resolved to increase the authorized capital stock of the Parent Company to P10 billion with 10 billion shares at par value of P1.00 per share. It was further resolved that the Articles of Incorporation be subsequently amended to reflect the increase in authorized capital. This resolution was ratified by the Parent Company's stockholders owning at least two-thirds of the outstanding capital stock during the annual stockholders' meeting held on August 25, 2007.

In 2009, the BOD passed a resolution holding the implementation of the proposed increase in the authorized capital stock of the Parent Company in abeyance.

Capital Management
The Parent Company's capital consists of capital stock (common stock), additional paid-in capital and deficit as shown in the separate statements of changes in equity.

The primary objective of the Parent Company's capital management is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital is defined as the invested money or invested purchasing power, the net assets or equity of the entity. The Parent Company's overall strategy remains unchanged for 2010, 2009 and 2008.

The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to its shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2010 and 2009.

The Parent Company is not subject to externally-imposed capital requirements.

12. Financial Risk Management

The Parent Company's financial instruments comprise of cash, due from and to related parties, advances to subsidiaries, trade and other payables, and loans payable to COSCO and SSS. The main purpose of these financial instruments is to raise finances for the Parent Company's operations.

The main risks arising from the financial instruments of the Parent Company are credit risk and liquidity risk. The Parent Company's management reviews and approves policies for managing each of these risks. These are summarized below.

<u>Credit Risk</u>
The Parent Company's credit risk is primarily attributable to its cash, due from related parties - current and noncurrent portion, and advances to subsidiaries. Exposure to credit risk arises from defaulting third parties, with a maximum exposure equal to carrying amount of the financial assets. The Parent Company has adopted stringent procedure in extending credit terms to customers and in monitoring its credit risk.

As of December 31, the Parent Company's maximum exposure to credit risk, without considering the effects of any collateral, credit enhancements and other credit risk mitigation techniques are as follows:

	Note	**2010**	2009
Cash		**P7,069,895**	P1,929,553
Due from related parties - current portion	*6*	**380,370,609**	512,695,944
Due from related parties - noncurrent portion	*6*	**908,729,472**	828,014,404
Advances to subsidiaries	*5*	**2,271,778,088**	2,381,987,088
		P3,567,948,064	P3,724,626,989

a. Except for the impaired due from related parties - current and noncurrent portion amounting to P17.5 million and P59.6 million, respectively, which is fully covered by allowance for impairment, the management believes that all its financial assets are of standard grade and of good credit quality. Standard grade financial assets are those past due but not impaired receivables and with fair collection status. This category includes credit grades 4-5. The standard grade category includes those for which collections are probable due to the reputation and the financial ability to pay of the counterparty but have been outstanding for a considerable length of time.

As of December 31, 2010 and 2009, the aging analyses of the Parent Company's financial assets are as follows (in thousands):

December 31, 2010	Total	Neither past due nor impaired	Past due but not impaired <30 days	31-60 days	61-90 days	>90 days	>90 days	Impaired
Due from related parties - current portion	**P397,853**	**P24,823**	**P -**	**P -**	**P -**	**P -**	**P355,548**	**P17,482**
Due from related parties -noncurrent portion	**968,348**	**908,729**	**-**	**-**	**-**	**-**	**-**	**59,619**
Advances to subsidiaries	**2,212,615**	**2,212,615**	**-**	**-**	**-**	**-**	**-**	**-**
	P3,578,816	**P3,146,167**	**P -**	**P -**	**P -**	**P -**	**P355,548**	**P77,101**

December 31, 2009	Total	Neither past due nor impaired	Past due but not impaired <30 days	31-60 days	61-90 days	>90 days	>90 days	Impaired
Due from related parties - current portion	P530,178	P174,880	P -	P -	P -	P -	P337,816	P17,482
Due from related parties -noncurrent portion	887,633	828,014	-	-	-	-	-	59,619
Advances to subsidiaries	2,381,987	2,381,987	-	-	-	-	-	-
	P3,799,798	P3,384,881	P -	P -	P -	P -	P337,816	P77,101

Liquidity Risk

Liquidity risk is the risk that the Parent Company will not be able to meet its financial obligations as they fall due.

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

The Parent Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Parent Company's reputation.

The following table summarizes the maturity profile of the Parent Company's financial liabilities (in thousands) as of December 31, 2010 and 2009 based on contractual undiscounted payments:

December 31, 2010	Total carrying amount	Contractual undiscounted payments Total	On demand	Less than 1 year	1 to 5 years	> 5 years
Trade and other payables	**P507,548**	**P507,548**	**P507,548**	**P -**	**P -**	**P -**
Loans payable	**729,488**	**729,488**	**375,000**	**217,500**	**136,988**	**-**
Due to related parties	**1,089,138**	**1,089,138**	**1,089,138**	**-**	**-**	**-**
	P2,326,174	**P2,326,174**	**P1,971,686**	**P217,500**	**P136,988**	**P -**

December 31, 2009	Total carrying amount	Contractual undiscounted payments Total	On demand	Less than 1 year	1 to 5 years	> 5 years
Trade and other payables	P453,428	P453,428	P453,428	P -	P -	P -
Loans payable	1,201,488	1,201,488	375,000	826,488	-	-
Due to related parties	811,076	811,076	811,076	-	-	-
	P2,465,992	P2,465,992	P1,639,504	P826,488	P -	P -

Fair Value of Financial Assets and Liabilities

Due to the relatively short-term maturities of due from related parties - current, advances to subsidiaries, trade and other receivables, loans payable - current, and due to related parties, the carrying amounts recognized in the separate statements of financial position are a reasonable approximation of their fair values.

The fair value of interest-bearing due from related parties - noncurrent and loans payable is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of the reporting date, thus, the carrying amount approximates fair value.

As of December 31, 2010 and 2009, the Parent Company has no financial instruments carried at fair value.

13. Other Matters

BIR Assessment

On April 10, 2007, the Parent Company received a demand letter with notice of assessment from the Bureau of Internal Revenue (BIR) for deficiency taxes for the 2003 taxable year totaling P18.67 million, inclusive of related interest and penalties. On May 9, 2007, the Parent Company sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On May 22, 2007, BIR answered in another letter that it maintains its position that the Parent Company has tax deficiencies. On October 10, 2007, the Parent Company again sent a letter to the BIR contesting the assessment. On February 13, 2009, the BIR sent a final demand letter requesting payment for the deficiency taxes. On November 9, 2009, the BIR issued Final Demand Letter (Preparatory to Court Action) on deficiency income tax, documentary stamp tax, expanded withholding tax, and compromise penalties for the 2003 taxable year in the total amount of P27.2 million.

On November 10, 2008, the Parent Company received a preliminary assessment notice from the BIR for deficiency taxes for the 2006 taxable year totaling P305.9 million, inclusive of interest and penalties. On February 9, 2009, the Parent Company sent a protest letter to BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On February 18, 2009, the Regional Office of the BIR sent a letter to the Parent Company informing the latter that the docket was returned to Revenue District Office for reinvestigation and further verification.

On December 8, 2009, the Parent Company received BIR's Final Decision on Disputed Assessment for deficiency taxes for the 2006 taxable year. The final decision of the BIR seeks to collect deficiency assessments totaling to P3.2 million. However, on January 15, 2010, the Parent Company appealed the final decision of the BIR with the Court of Tax Appeals (CTA) on the grounds of lack of legal and factual bases in the issuance of the assessments.

The information usually required of contingent liabilities by PAS 37, *Provisions, Contingent Liabilities, and Contingent Assets,* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the final assessment.

Lease, Development, Operation and Management of Mimosa

On June 6, 2008, the Parent Company submitted a bid to Clark Development Corporation (CDC) for the lease, development, operation and management of the Mimosa Leisure Estate (the "Project"). On July 4, 2008, the CDC Board approved the award of the Project to the Parent Company. Pursuant to the bidding documents, the parties agreed to execute a Memorandum of Understanding preparatory to the Lease Agreement in order to ensure compliance by the Parent Company of its deliverables as provided in its bid.

On October 20, 2008, CDC sent a letter to the Parent Company informing the latter that the CDC Board decided to cancel the bidding process and return the bid security, amounting to P54,377,778, due to a supervening event that materially affected the terms of the Project.

14. Supplementary Information Required Under RR 15-2010 of the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulations (RR) 15-2010, *Amending Certain Provisions of Revenue Regulations No. 21-2002, as Amended, Implementing Section 6 (H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying Income Tax Returns*. Under the said RR, companies are required to provide, in addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year. However, the Parent Company opted to present such information in a separate schedule to be attached
to the separate financial statements for filing with the BIR. The supplementary information is not a required part of the basic financial statements under PFRSs and not a required disclosure by the Securities and Exchange Commission.

KPMG

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SEC Accreditation No. 0004-FR-2
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 in accordance with Philippine Standards on Auditing, the separate financial statements of Waterfront Philippines, Incorporated (the "Company") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 8, 2011.

Our audit was made for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The accompanying Annex A, *Schedule of Reconciliation of Deficit*, is the responsibility of the Company's management. This schedule is presented for purposes of complying with the Securities and Exchange Commission's Memorandum Circular No. 11, Series of 2008, *Guidelines on the Determination of Surplus Available for Dividend Declaration*, and is not part of the basic separate financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the separate financial statements of the Company and, in our opinion, fairly state in all material respects, the financial statements data required to be set forth therein in relation to the basic separate financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

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Partner
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Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639620MB
Issued January 3, 2011 at Makati City

April 8, 2011
Makati City, Metro Manila

ANNEX A

WATERFRONT PHILIPPINES, INCORPORATED

IPT BUILDING, PRE-DEPARTURE AREA
MACTAN CEBU INTERNATIONAL AIRPORT
LAPU-LAPU CITY, CEBU

SCHEDULE OF RECONCILIATION OF DEFICIT

DECEMBER 31, 2010

DEFICIT AS ADJUSTED, BEGINNING OF YEAR	**(P539,994,129)**
Add Net loss during the year closed to deficit	**(19,115,299)**
DEFICIT AS ADJUSTED, END OF YEAR	**(P559,109,428)**

Figures are based on functional currency audited separate financial statements.

Note

There is no amount available for divided declaration as the adjusted amount is a deficit.

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippines Standards on Auditing, the consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries as of and for the year ended December 31, 2010 included in this Form 17-A and have issued our report thereon dated April 8, 2011.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
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WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

Supplementary Schedules
Required by the Securities and Exchange Commission
As of December 31, 2010 and for the Year Then Ended

		Page
A.	Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)	NA
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates).	3
C.	Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments	4
D.	Indebtedness of Unconsolidated Subsidiaries and Affiliates	NA
E.	Property, Plant and Equipment (1)	6
F.	Accumulated Depreciation	7
G.	Intangible Assets - Other Assets	NA
H.	Long Term Debt	9
I.	Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)	10
J.	Guarantees of Securities of Other Issuers(1)	NA
K.	Capital Stock (1)	12

NA : **Not applicable**

SEC/PSE ANNUAL FILING REQUIREMENT CHECKLIST
PUBLIC COMPANIES
FORM AND CONTENT OF SCHEDULES

Schedule A. **Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)**

Name of Issuing entity and association of each issue (1)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (2)	Valued based on market quotation at balance sheet date (3)	Income received and accrued
		Not applicable		

1) Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.

(2) State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.

(3) This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

Schedule B. **Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)**

Name and Designation of debtor (1)	Balance at beginning of period	Additions	Amounts collected (2)	Amounts written off (3)	Current	Not Current	Balance at end of period
The Wellex Group, Inc. (parent Company)	P1,291,250,896	P -	P39,276,611	P -	P62,443,850	P1,189,530,435	P1,251,974,285
Metro Alliance Holdings and Equities Corp (stockholder and related party)	351,319,527	-	4,228,738	-	355,548,265	-	355,548,265
Forum Holdings Corp (stockholder and related party)	110,987,721	-	37,969,801	-	15,356,229	57,661,691	73,017,920
Polymax Worldwide (related party)				-	-	-	-
Pacific Wide (related party)					-	-	-

Refer also to Note 9 of the consolidated financial statements

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1) Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.
2) If collection was other than in cash, explain.
3) Give reasons for write off.

Schedule C. **Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments**

Name of Issuing entity and description of Investment (1)	Number of shares (2) or principal amount of bonds and notes	Amount in Pesos	Equity in earnings (losses of investees (3) for the period	Other (4)	Distribution of earnings by investees (5)	Other (6)	Number of shares (2) or principal amounts of bonds and notes	Amount in Pesos (7)	Dividends received from investments not accounted for by the equity method
Wellex Industries, Incorporated	86,710,000	P6,156,410	P -	P -	P -	P -	P -	P6,156,410	P -

Refer also to Note 9.c of the consolidated financial statements

1) Group separately securities of (a) unconsolidated subsidiaries and (b) other affiliates and (c) other companies, the investment in which is accounted for by the equity method. State separately investments in individual affiliates which, when considered with related advances, exceed two per cent of total assets.

2) Disclose the percentage of ownership interest represented by the shares if material.

3) The total of this column shall correspond to the amount of the related income statement caption.

4) Briefly describe each item. Explain if the cost represents other than a cash expenditure.

5) As to any dividends other than in cash, state the basis on which they have been taken up in the accounts, and the justification for such treatment. If any such dividends received from affiliates have been credited in an amount different from that charged to retained earnings by the disbursing company, state the amount of differences and explain.

6) Briefly describe each item and state:

   a) Cost of securities sold and how determined;

   b) Amount received (if other than cash explain); and

   c) Disposition of resulting profit or loss.

7) The totals in this column shall correspond to the related balance sheet captions.

Schedule D. **Indebtedness of Unconsolidated Subsidiaries and Affiliates**

Not applicable

Name of Affiliates (1)	Balance at beginning of period	Balance at end of period (2)

1) The affiliates named shall be grouped as in Schedule C. The information called for shall be shown separately for each affiliate whose investment was shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase.

Schedule E. **Property, Plant and Equipment (1)**

Classification (2)	Beginning balance	Additions at cost (3)	Retirements / Disposals (4)	Other charges - additions (deductions) (5)	Ending balance
Land	P926,024,000	P -	P -	P -	P926,024,000
Land Improvements	13,406,000	-	-	-	13,406,000
Leasehold and leasehold improvements	53,047,174	15,042,186	-	-	68,089,360
Hotel buildings and improvements	8,739,050,513	7,447,232	-	-	8,746,497,745
Furniture, fixture and equipment	1,418,549,895	44,441,495	(464,862)	-	1,462,526,528
Operating equipment	234,025,920	14,751,555	-	-	248,777,475
Transportation equipment	27,436,377	57,500	-	-	27,493,877
Construction in-progress	1,568,412	-	-	-	1,568,412

Refer also to Note 11 of the consolidated financial statements

1) Briefly comment on any significant and unusual additions, abandonments, or retirements, or any significant and unusual changes in the general character and location, of principal plants and other important units which may have occurred during the period.

2) Show by major classifications, as indicated in Part IV-(b)(14). If property, plant and equipment abandoned is carried at other than a nominal amount, indicate, if practicable, the amount thereof and state the reasons for such treatment, insignificant or minor items may be shown under a miscellaneous caption.

3) For each change that represents anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

4) Explain, if practicable, changes stated at other than cost.

5) Clearly describe the nature of the changes and the other accounts affected.

Schedule E. Accumulated Depreciation

Description (1)	Beginning Balance	Additions charged to costs and expenses	Retirements/ Disposals	Other charges - Add (deduct) describe	Ending balances
Land	P -	P -	P -	P -	P -
Land Improvements	1,005,450	327,669	-	-	1,333,119
Leasehold and leasehold improvements	12,206,707	8,170,415	-	-	20,377,122
Hotel buildings and improvements	3,351,354,904	190,059,510	-	-	3,541,414,414
Furniture, fixture and equipment	975,002,305	105,570,002	(247,926)	-	1,080,324,381
Operating equipment	171,732,505	8,505,776	-	-	180,238,281
Transportation equipment	24,883,721	1,382,677	-	-	26,266,398

Refer also to Note 11 of the consolidated financial statements

1) If practicable, accumulated depreciation shall be shown to correspond with the classification of property set forth in the related schedule of property, plant and equipment, separating especially depreciation, depletion, amortization and provision for retirement.

Schedule G. **Intangible Assets - Other Assets**

			Deduction (3)			
Description (1)	Beginning balance	Additions at cost (2)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance

Not applicable

1) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications as indicated in Parts IV-(b)(16).

2) For each change representing anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

3) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Schedule H. **Long Term Debt**

Title of Issue and type of obligation(1)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (2)	Amount shown under caption "Long-Term Debt" in related balance sheet (3)
COSCO Prime Holdings, Inc.	P354,487,513	P217,500,000	P136,987,513
ICBC Loans Payable	367,136,180	367,136,180	-
SSS Loans Payable	375,000,000	375,000,000	-
PAGCOR Provident	-	-	-
PBB Loans Payable	265,000,000	227,142,857	37,857,143

Refer also to Note 15 of the consolidated financial statements

1) Include in this column each type of obligation authorized.

2) This column is to be totaled to correspond to the related balance sheet caption.

3) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

Schedule I. **Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)**

Name of affiliate (1)	Balance at beginning of period	Balance at end of period (2)
Philippine Estates Corp.	P1,734,887	P -
Wellex Industries Incorporated	1,349,442	-

Refer also to Note 9.d of the consolidated financial statements

1) The affiliates named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Schedule J. Guarantees of Securities of Other Issuers (1)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (2)	Amount owned by person for which statement is filed	Nature of guarantee (3)

Not applicable

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1) Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

2) There need be made only a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Schedule K. Capital Stock (1)

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common stock	5,000,000,000	2,498,991,753	-	-	40,363,630	2,458,628,123

Refer also to Note 18 of the consolidated financial statements

1) Indicate in a note any significant changes since the date of the last balance sheet filed.

2) Include in this column each type of issue authorized.

3) Affiliates referred to include affiliates for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.