

# COVER SHEET

A S 0 9 4 - 8 6 7 8

S.E.C. Registration Number

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

(Company's Full Name)

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

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

Ms. Irish Chara Lawas

Contact Person

(02) 559-0130

Company Telephone Number

1 2      3 1

Month      Day

1 7 - Q 1

FORM TYPE

0 9      1 4

Month      Day  
 Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

4 8 3

Total No. of Stockholders

Domestic

Foreign

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

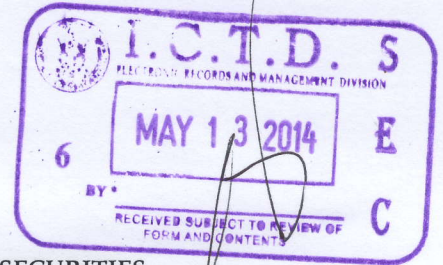
Cashier

STAMPS

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## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

- Please refer to Annex A.
1. For the quarterly period ended March 31, 2014
  2. Commission identification number AS 094-8678
  3. BIR Tax Identification No D80-003-978-254-NV
  4. Exact name of issuer as specified in its charter: WATERFRONT PHILIPPINES, INC.
  5. PHILIPPINES  
Province, country or other jurisdiction of incorporation or organization
  6. Industry Classification Code:  (SEC Use Only)
  7. No.1 Waterfront Drive, Off Salinas Drive, Lahug, Cebu City 6000  
Address of issuer's principal office Postal Code
  8. (032) 232- 6888  
Issuer'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 8 and 12 of the Code, or Sections 4 and 8 of the RSA  

|                                 |                                                                                |
|---------------------------------|--------------------------------------------------------------------------------|
| Title of each Class             | Number of shares of common stock outstanding<br>and amount of debt outstanding |
| Common Shares- P 1.00 par value | Issued- 2,498,991,753                                                          |
  11. Are any or all of the securities listed on a Stock Exchange?  
 Yes [  ] No [  ]  
 If yes, state the name of such Stock Exchange and the class/es of securities listed therein:  
Philippine Stock Exchange Common
  12. Indicate by check mark whether the registrant:
    - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 there under, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
 Yes [  ] No [  ]
    - (b) has been subject to such filing requirements for the past ninety (90) days.  
 Yes [  ] No [  ]

# SECURITIES AND EXCHANGE COMMISSION SEC FORM 17-Q

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

1. For the quarterly period ended  
March 31, 2014
2. SEC Identification Number  
AS 094-8678
3. BIR Tax Identification No.  
D80-003-978-254-NV
4. Exact name of issuer as specified in its charter  
WATERFRONT PHILIPPINES, INC.
5. Province, country or other jurisdiction of incorporation or organization  
PHILIPPINES
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
No.1 Waterfront Drive, Off Salinas Drive, Lahug, Cebu City Postal Code 6000
8. Issuer's telephone number, including area code  
(032) 232- 6888
9. Former name or former address, and former fiscal year, if changed since last report  
NOT APPLICABLE
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class             | Number of Shares of Common Stock Outstanding<br>and Amount of Debt Outstanding |
|---------------------------------|--------------------------------------------------------------------------------|
| Common Shares- P 1.00 par value | Issued- 2,498,991,753                                                          |

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes

No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange      Common

12. Indicate by check mark whether the registrant:

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

Yes

No

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

Yes

No

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

## Waterfront Philippines, Incorporated(WPI)

**PSE Disclosure Form 17-2 - Quarterly Report References: SRC Rule 17 and Sections 17.2 and 17.8 of the Revised Disclosure Rules**

**For the quarterly period ended**      March 31, 2014

**Currency (indicate units, if applicable)** Peso

|                                      | <b>Balance Sheet</b>                                        |                                |
|--------------------------------------|-------------------------------------------------------------|--------------------------------|
|                                      | <b>Quarterly Period Ended Calendar Year Ended (Audited)</b> |                                |
|                                      | <b>As of March 31, 2014</b>                                 | <b>As of December 31, 2013</b> |
| <b>Current Assets</b>                | 2,418,154,920                                               | 2,359,380,385                  |
| <b>Total Assets</b>                  | 9,041,586,612                                               | 9,203,897,269                  |
| <b>Current Liabilities</b>           | 2,035,057,493                                               | 2,224,979,328                  |
| <b>Total Liabilities</b>             | 4,437,941,475                                               | 4,606,061,804                  |
| <b>Retained Earnings/(Deficit)</b>   | -1,437,039,789                                              | -1,469,509,833                 |
| <b>Stockholders' Equity</b>          | 4,603,645,137                                               | 4,597,835,465                  |
| <b>Stockholders' Equity - Parent</b> | 3,867,920,722                                               | 3,872,866,239                  |
| <b>Book Value per Share</b>          | 1.842                                                       | 1.839                          |

### Income Statement

|                                                                        | Current Year-To-<br>Date | Previous Year-To-<br>Date | Current<br>Year<br>(3 Months) | Previous<br>Year<br>(3 Months) |
|------------------------------------------------------------------------|--------------------------|---------------------------|-------------------------------|--------------------------------|
| <b>Operating Revenue</b>                                               | 1,954,715,706            | 1,970,793,243             | 479,449,009                   | 483,527,608                    |
| <b>Other Revenue</b>                                                   | 24,376,009               | 28,472,703                | 7,971,320                     | 11,679,204                     |
| <b>Gross Revenue</b>                                                   | 1,979,091,715            | 1,999,265,946             | 487,420,329                   | 495,206,812                    |
| <b>Operating Expense</b>                                               | 1,461,490,841            | 1,523,203,524             | 335,585,464                   | 332,302,097                    |
| <b>Other Expense</b>                                                   | 578,980,279              | 428,306,676               | 108,609,632                   | 129,771,958                    |
| <b>Gross Expense</b>                                                   | 2,040,471,120            | 1,951,510,200             | 444,195,096                   | 462,074,055                    |
| <b>Net Income/(Loss)<br/>    Before Tax</b>                            | -61,379,405              | 47,755,746                | 43,225,233                    | 33,132,756                     |
| <b>Income Tax Expense</b>                                              | 3,952,111                | 38,746,192                | 0.00                          | 96,100                         |
| <b>Net Income/(Loss) After<br/>    Tax</b>                             | -65,331,516              | 9,009,554                 | 43,225,233                    | 33,036,656                     |
| <b>Net Income<br/>    Attributable to<br/>    Parent Equity Holder</b> | -69,813,828              | -5,922,606                | 32,470,043                    | 31,686,217                     |
| <b>Earnings/(Loss) Per<br/>    Share<br/>    (Basic)</b>               | -0.028                   | -0.002                    | 0.013                         | 0.013                          |
| <b>Earnings/(Loss) Per<br/>    Share<br/>    (Diluted)</b>             | -0.028                   | -0.002                    | 0.013                         | 0.013                          |

### Other Relevant Information

|   |   |   |
|---|---|---|
|   | ▲ |   |
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**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Please refer to Annex A.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Please refer to Annex B.

**PART II--OTHER INFORMATION**


**NONE.**

**SIGNATURES**

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

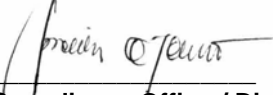
Registrant: ***Waterfront Philippines, Inc.***

Issuer ***Atty. Arthur R. Ponsaran***

Signature and Title   
***Corporate Secretary***

Date 05/12/2014

Principal Financial/Accounting Officer/Controller ***Precilla O. Toriano***

Signature and Title   
***Compliance Officer/ Director for Finance***

Date 05/12/2014

WATERFRONT PHILIPPINES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION-UNAUDITED  
As of March 31, 2014

"Annex-A"  
Page 1 of 4

|                                                                    | CONSOLIDATED   |                      |                |                      |                   |                      |
|--------------------------------------------------------------------|----------------|----------------------|----------------|----------------------|-------------------|----------------------|
|                                                                    | Unaudited      |                      | Unaudited      |                      | Audited           |                      |
|                                                                    | March 31, 2014 |                      | March 31, 2013 |                      | December 31, 2013 |                      |
| <b>ASSETS</b>                                                      |                |                      |                |                      |                   |                      |
| <b>CURRENT ASSETS</b>                                              |                |                      |                |                      |                   |                      |
| Cash and Cash Equivalents                                          | P              | 135,457,235          | P              | 100,354,224          | P                 | 71,807,950           |
| Trade and Other Receivables-net                                    |                | 470,154,019          |                | 405,140,490          |                   | 191,340,325          |
| Inventories                                                        |                | 25,293,871           |                | 34,427,235           |                   | 26,691,581           |
| Due from affiliated companies-current portion                      |                | 1,742,291,967        |                | 1,930,183,933        |                   | 2,001,628,340        |
| Prepaid Expenses and Other Current Assets                          |                | 44,957,828           |                | 9,672,897            |                   | 67,912,189           |
| <b>Total Current Assets</b>                                        |                | <b>2,418,154,920</b> |                | <b>2,479,778,779</b> |                   | <b>2,359,380,385</b> |
| <b>Noncurrent Assets</b>                                           |                |                      |                |                      |                   |                      |
| Property and equipment-net                                         |                | 6,442,351,265        |                | 5,921,902,228        |                   | 6,505,409,658        |
| Available-for-sale Investments                                     |                | 17,220,950           |                | 26,013,000           |                   | 16,908,450           |
| Deferred Tax Assets                                                |                | 43,389,306           |                | 95,192,804           |                   | 247,525,682          |
| Other noncurrent assets                                            |                | 120,470,171          |                | 32,970,688           |                   | 74,673,094           |
| <b>Total Noncurrent Assets</b>                                     |                | <b>6,623,431,692</b> |                | <b>6,076,078,720</b> |                   | <b>6,844,516,884</b> |
| <b>Total Assets</b>                                                | P              | <b>9,041,586,612</b> | P              | <b>8,555,857,499</b> | P                 | <b>9,203,897,269</b> |
| <b>LIABILITIES AND EQUITY</b>                                      |                |                      |                |                      |                   |                      |
| <b>Current Liabilities</b>                                         |                |                      |                |                      |                   |                      |
| Accounts payable and accrued expenses                              | P              | 1,460,265,990        | P              | 1,173,133,658        | P                 | 1,249,043,043        |
| Loans Payable-current portion                                      |                | 375,000,000          |                | 375,000,000          |                   | 847,184,455          |
| Income tax payable                                                 |                | 7,325,225            |                | 9,093,083            |                   | 17,970,786           |
| Mortgage Loan payable                                              |                | -                    |                | 299,798,636          |                   | -                    |
| Provisions                                                         |                | -                    |                | -                    |                   | 45,575,012           |
| Other current liabilities                                          |                | 192,466,278          |                | 305,876,917          |                   | 65,206,032           |
| <b>Total Current Liabilities</b>                                   |                | <b>2,035,057,493</b> |                | <b>2,162,902,294</b> |                   | <b>2,224,979,328</b> |
| <b>Noncurrent Liabilities</b>                                      |                |                      |                |                      |                   |                      |
| Loans Payable-noncurrent portion                                   |                | 691,794,547          |                | 603,125,000          |                   | 251,297,183          |
| Deferred tax liabilities                                           |                | 1,052,081,860        |                | 855,855,307          |                   | 1,252,615,432        |
| Other noncurrent liabilities                                       |                | 659,007,575          |                | 496,046,182          |                   | 877,169,861          |
| <b>Total Noncurrent Liabilities</b>                                |                | <b>2,402,883,982</b> |                | <b>1,955,026,489</b> |                   | <b>2,381,082,476</b> |
| <b>Total Liabilities</b>                                           |                | <b>4,437,941,475</b> |                | <b>4,117,928,783</b> |                   | <b>4,606,061,804</b> |
| <b>Equity Attributable to Equity Holders of the Parent Company</b> |                |                      |                |                      |                   |                      |
| Capital Stock                                                      |                | 2,498,991,753        |                | 2,498,991,753        |                   | 2,498,991,753        |
| Additional paid-in capital                                         |                | 706,364,357          |                | 706,364,357          |                   | 706,364,357          |
| Revaluation increment in property and equipment                    |                | 2,072,860,019        |                | 1,982,306,439        |                   | 2,072,860,019        |
| Unrealized valuation loss on AFS investments                       |                | 2,701,628            |                | 7,982,267            |                   | 2,701,628            |
| Foreign currency translation adjustment                            |                | 24,042,754           |                | 35,801,255           |                   | 24,042,754           |
| Deficit                                                            |                |                      |                |                      |                   |                      |
| Appropriated                                                       |                | 140,000,000          |                | 140,000,000          |                   | 140,000,000          |
| Unappropriated                                                     |                | (1,577,039,789)      |                | (1,620,944,568)      |                   | (1,609,509,833)      |
| Retirement Reserves                                                |                | -                    |                | -                    |                   | 37,415,561           |
| <b>Total Stockholders Equity</b>                                   |                | <b>3,867,920,722</b> |                | <b>3,750,501,503</b> |                   | <b>3,872,866,239</b> |
| <b>Non-controlling Interest</b>                                    |                | <b>735,724,415</b>   |                | <b>687,427,213</b>   |                   | <b>724,969,226</b>   |
| <b>Total Liabilities &amp; Stockholders Equity</b>                 | P              | <b>9,041,586,612</b> | P              | <b>8,555,857,499</b> | P                 | <b>9,203,897,269</b> |

WATERFRONT PHILIPPINES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME -UNAUDITED  
For the Quarter Ended March 31, 2014

"Annex-A"  
Page 2 of 4

|                                                                 | CONSOLIDATED |                    |              |                    |                   |                      |
|-----------------------------------------------------------------|--------------|--------------------|--------------|--------------------|-------------------|----------------------|
|                                                                 | Unaudited    |                    | Unaudited    |                    | Audited           |                      |
|                                                                 | Jan-Mar 2014 |                    | Jan-Mar 2013 |                    | December 31, 2013 |                      |
| <b>REVENUES</b>                                                 |              |                    |              |                    |                   |                      |
| Hotel                                                           | P            | 455,651,920        | P            | 453,427,854        | P                 | 1,930,763,056        |
| Nonhotel                                                        |              | 23,797,089         |              | 30,099,754         |                   | 23,952,650           |
| Interest and other income                                       |              | 7,971,320          |              | 11,679,204         |                   | 24,376,009           |
| <b>Subtotal</b>                                                 |              | <b>487,420,329</b> |              | <b>495,206,812</b> |                   | <b>1,979,091,715</b> |
| <b>OPERATING EXPENSES</b>                                       |              |                    |              |                    |                   |                      |
| Hotel                                                           |              | 281,171,148        |              | 303,288,583        |                   | 1,123,685,642        |
| Nonhotel                                                        |              | 54,414,316         |              | 29,013,514         |                   | 337,805,199          |
| <b>Subtotal</b>                                                 |              | <b>335,585,464</b> |              | <b>332,302,097</b> |                   | <b>1,461,490,841</b> |
| <b>INCOME BEFORE FIXED FINANCIAL AND OTHER CHARGES</b>          |              | <b>151,834,865</b> |              | <b>162,904,715</b> |                   | <b>517,600,874</b>   |
| <b>FIXED, FINANCIAL AND OTHER CHARGES</b>                       |              |                    |              |                    |                   |                      |
| Depreciation and amortization                                   |              | 80,210,609         |              | 81,670,440         |                   | 349,652,722          |
| Interest Expense                                                |              | 28,400,512         |              | 50,166,694         |                   | 163,830,581          |
| Interest Income                                                 |              | (1,488)            |              | (66)               |                   | (33,621,918)         |
| Casualty Loss                                                   |              | -                  |              | -                  |                   | 44,511,664           |
| Impairment losses, bad debts written off and provisions         |              | -                  |              | -                  |                   | 33,316,701           |
| Foreign exchange losses(gains) - net                            |              | -                  |              | -                  |                   | 12,851,819           |
| Others-net                                                      |              | -                  |              | (2,065,111)        |                   | 8,438,710            |
| <b>Subtotal</b>                                                 |              | <b>108,609,632</b> |              | <b>129,771,958</b> |                   | <b>578,980,279</b>   |
| <b>INCOME BEFORE INCOME TAX</b>                                 |              | <b>43,225,233</b>  |              | <b>33,132,756</b>  |                   | <b>(61,379,405)</b>  |
| <b>PROVISION FOR INCOME TAX</b>                                 |              |                    |              |                    |                   |                      |
| Current                                                         |              | -                  |              | 96,100             |                   | 3,952,111            |
| Deferred                                                        |              | -                  |              | -                  |                   | -                    |
| <b>INCOME (LOSS) BEFORE SHARE OF MINORITY INTEREST</b>          |              | <b>43,225,233</b>  |              | <b>33,036,656</b>  |                   | <b>(65,331,516)</b>  |
| <b>SHARE OF MINORITY INTEREST</b>                               |              | <b>10,755,189</b>  |              | <b>1,350,439</b>   |                   | <b>4,482,312</b>     |
| <b>NET INCOME(LOSS)</b>                                         |              | <b>32,470,044</b>  |              | <b>31,686,217</b>  |                   | <b>(69,813,828)</b>  |
| <b>OTHER COMPREHENSIVE INCOME</b>                               |              |                    |              |                    |                   |                      |
| Foreign currency translation differences for foreign operations |              | -                  |              | -                  |                   | (11,758,501)         |
| Net change in fair value of available-for-sale financial assets |              | -                  |              | -                  |                   | (9,104,550)          |
| Actuarial gains(losses) on defined benefit plan                 |              | -                  |              | -                  |                   | 72,086,443           |
| Appraisal increase on property and equipment                    |              | -                  |              | -                  |                   | 353,000,906          |
| Write-off of revaluation surplus resulting from casualty loss   |              | -                  |              | -                  |                   | (21,024,771)         |
| Deferred tax effect                                             |              | -                  |              | -                  |                   | (120,863,334)        |
| Total                                                           |              | -                  |              | -                  |                   | 262,336,193          |
| <b>TOTAL COMPREHENSIVE INCOME</b>                               | <b>P</b>     | <b>43,225,233</b>  | <b>P</b>     | <b>33,036,656</b>  | <b>P</b>          | <b>197,004,677</b>   |
| <b>EARNINGS (LOSS) PER SHARE</b>                                |              | <b>P0.013</b>      |              | <b>P0.013</b>      |                   | <b>(P0.028)</b>      |

\*There are no dilutive potential shares as of March 31, 2014 and 2013



WATERFRONT PHILIPPINES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY-UNAUDITED  
As of March 31, 2014

"Annex-A"  
Page 3 of 4

|                                                                                                     | CONSOLIDATED   |                        |                |                        |                   |                        |
|-----------------------------------------------------------------------------------------------------|----------------|------------------------|----------------|------------------------|-------------------|------------------------|
|                                                                                                     | Unaudited      |                        | Unaudited      |                        | Audited           |                        |
|                                                                                                     | March 31, 2014 |                        | March 31, 2013 |                        | December 31, 2013 |                        |
| <b>CAPITAL STOCK</b>                                                                                |                |                        |                |                        |                   |                        |
| Balance, beginning of the period                                                                    | P              | 2,498,991,753          | P              | 2,498,991,753          | P                 | 2,498,991,753          |
| Issuance of shares                                                                                  |                | -                      |                | -                      |                   | -                      |
| <b>Balance, end of period</b>                                                                       |                | <b>2,498,991,753</b>   |                | <b>2,498,991,753</b>   |                   | <b>2,498,991,753</b>   |
| <b>Additional Paid-in Capital</b>                                                                   |                | <b>706,364,357</b>     |                | <b>706,364,357</b>     |                   | <b>706,364,357</b>     |
| <b>Revaluation Surplus in Property and Equipment</b>                                                |                |                        |                |                        |                   |                        |
| Balance, beginning of the period                                                                    |                | 2,072,860,019          |                | 1,982,306,439          |                   | 1,982,306,439          |
| Other comprehensive income, net of tax                                                              |                |                        |                |                        |                   |                        |
| Transfer of revaluation surplus absorbed through depreciation for the year-net of income tax effect |                | -                      |                | -                      |                   | 195,375,166            |
| <b>Balance, end of the period</b>                                                                   |                | <b>2,072,860,019</b>   |                | <b>1,982,306,439</b>   |                   | <b>2,072,860,019</b>   |
| <b>Unrealized Valuation Gain (Loss) on AFS Investment</b>                                           |                |                        |                |                        |                   |                        |
| Balance, beginning of the period                                                                    |                | 2,701,628              |                | 7,982,267              |                   | 7,982,267              |
| Valuation Loss taken into equity during the year                                                    |                | -                      |                | -                      |                   | (5,280,639)            |
| Effect of the increase in non-controlling interest due to sale of an interest in a subsidiary       |                | -                      |                | -                      |                   | -                      |
| <b>Balance, end of the period</b>                                                                   |                | <b>2,701,628</b>       |                | <b>7,982,267</b>       |                   | <b>2,701,628</b>       |
| <b>Foreign Currency Translation</b>                                                                 |                |                        |                |                        |                   |                        |
| Balance, beginning of the period                                                                    |                | 24,042,754             |                | 35,801,255             |                   | 35,801,255             |
| Translation adjustment during the year                                                              |                | -                      |                | -                      |                   | (11,758,501)           |
| <b>Balance, end of the period</b>                                                                   |                | <b>24,042,754</b>      |                | <b>35,801,255</b>      |                   | <b>24,042,754</b>      |
| <b>Deficit</b>                                                                                      |                |                        |                |                        |                   |                        |
| <b>Appropriation for renovation and business expansion</b>                                          |                | <b>140,000,000</b>     |                | <b>140,000,000</b>     |                   | <b>140,000,000</b>     |
| Unappropriated:                                                                                     |                |                        |                |                        |                   |                        |
| Balance beginning of the year                                                                       |                | (1,609,509,833)        |                | (1,652,630,785)        |                   | (1,652,630,785)        |
| Transfer of revaluation surplus absorbed through depreciation for the year net of tax effect        |                | -                      |                | -                      |                   | 122,934,780            |
| Appropriation for the year                                                                          |                | -                      |                | -                      |                   | (10,000,000)           |
| Net Income (Net Loss)                                                                               |                | 32,470,044             |                | 31,686,217             |                   | (69,813,828)           |
| <b>Balance, end of the period</b>                                                                   |                | <b>(1,577,039,789)</b> |                | <b>(1,620,944,568)</b> |                   | <b>(1,609,509,833)</b> |
| <b>Total deficit</b>                                                                                |                | <b>(1,437,039,789)</b> |                | <b>(1,480,944,568)</b> |                   | <b>(1,469,509,833)</b> |
| <b>Retirement benefits reserve</b>                                                                  |                | <b>-</b>               |                | <b>-</b>               |                   | <b>37,415,561</b>      |
| <b>Total Equity Attributable to Equity Holders of the Parent Company</b>                            | <b>P</b>       | <b>3,867,920,722</b>   | <b>P</b>       | <b>3,750,501,503</b>   | <b>P</b>          | <b>3,872,866,239</b>   |

WATERFRONT PHILIPPINES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS-UNAUDITED  
As of March 31, 2014

"Annex-A"  
Page 4 of 4

|                                                            | CONSOLIDATED   |                      |                |                        |                   |                      |
|------------------------------------------------------------|----------------|----------------------|----------------|------------------------|-------------------|----------------------|
|                                                            | Unaudited      |                      | Unaudited      |                        | Audited           |                      |
|                                                            | March 31, 2014 |                      | March 31, 2013 |                        | December 31, 2013 |                      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                |                      |                |                        |                   |                      |
| Income before income tax                                   | P              | 43,225,233           | P              | 33,036,656             |                   | (61,379,405)         |
| Adjustments for:                                           |                |                      |                |                        |                   |                      |
| Depreciation and amortization                              |                | 80,210,609           |                | 81,670,440             |                   | 349,652,722          |
| Interest expense                                           |                | 28,400,512           |                | 50,166,694             |                   | 163,830,581          |
| Casualty loss                                              |                | -                    |                | -                      |                   | 44,511,664           |
| Retirement benefit costs                                   |                | -                    |                | -                      |                   | 36,478,197           |
| Provision for impairment losses on receivable              |                | -                    |                | -                      |                   | 33,316,701           |
| Unrealized foreign exchange loss(gain)                     |                | -                    |                | (2,065,111)            |                   | 12,756,646           |
| Loss on disposal of property and equipment                 |                | -                    |                | -                      |                   | -                    |
| Interest income                                            |                | (6,435,426)          |                | (9,994,661)            |                   | (33,621,918)         |
| <b>Operating income before working capital changes</b>     |                | <b>145,400,928</b>   |                | <b>152,814,018</b>     |                   | <b>545,545,188</b>   |
| Decrease (increase) in:                                    |                |                      |                |                        |                   |                      |
| Receivables                                                |                | (278,813,695)        |                | (240,020,929)          |                   | (39,216,160)         |
| Inventories                                                |                | 1,397,710            |                | (4,586,664)            |                   | 3,148,990            |
| Prepaid expenses and other current assets                  |                | 22,954,361           |                | 17,488,336             |                   | (31,005,197)         |
| Increase (decrease) in:                                    |                |                      |                |                        |                   |                      |
| Accounts payable and accrued expenses                      |                | 211,222,947          |                | (101,747,229)          |                   | (21,119,781)         |
| Other current liabilities                                  |                | 81,685,234           |                | 424,809,144            |                   | (7,819,639)          |
| Cash generated from operations                             |                | 183,847,485          |                | 248,756,676            |                   | 449,533,401          |
| Interest received                                          |                | 6,435,426            |                | 9,994,661              |                   | 123,427              |
| Income taxes paid                                          |                | (10,645,561)         |                | (5,316,983)            |                   | (49,681,341)         |
| Retirement plan contributions paid                         |                | -                    |                | -                      |                   | (14,875,658)         |
| Interest paid                                              |                | (28,400,512)         |                | (50,166,694)           |                   | (149,873,765)        |
| <b>Net cash provided by (used in) operations</b>           |                | <b>151,236,838</b>   |                | <b>203,267,660</b>     |                   | <b>235,226,064</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                |                      |                |                        |                   |                      |
| Acquisitions of property and equipment                     |                | (17,152,216)         |                | 457,651,353            |                   | (103,654,721)        |
| Investment in subsidiary                                   |                | -                    |                | 203,019,736            |                   | -                    |
| Payment of contract payable                                |                | 71,747,364           |                | -                      |                   | -                    |
| Decrease in due from related parties                       |                | 259,336,373          |                | -                      |                   | 208,241,182          |
| Proceeds from sale of an equity interest in subsidiary     |                | -                    |                | -                      |                   | -                    |
| Decrease (increase) in other non-current assets            |                | 120,611,239          |                | 280,781,012            |                   | 55,748,740           |
| <b>Net cash provided by (used in) investing activities</b> |                | <b>434,542,760</b>   |                | <b>941,452,101</b>     |                   | <b>160,335,201</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                |                      |                |                        |                   |                      |
| Increase(decrease) in loans payable                        |                | (103,434,455)        |                | (314,128,747)          |                   | (313,098,843)        |
| Decrease in due from related parties                       |                | -                    |                | 246,187,098            |                   | (87,377,652)         |
| Increase (decrease) in other non-current liabilities       |                | (418,695,858)        |                | (1,053,147,068)        |                   | -                    |
| Payment of obligation under finance lease                  |                | -                    |                | -                      |                   | -                    |
| <b>Net cash used in financing activities</b>               |                | <b>(522,130,313)</b> |                | <b>(1,121,088,717)</b> |                   | <b>(400,476,495)</b> |
| Decrease in translation adjustment for the year            |                | -                    |                | -                      |                   | -                    |
| Net increase (decrease) in cash and cash equivalents       |                | 63,649,285           |                | 23,631,044             |                   | (4,915,230)          |
| Cash and cash equivalents at beginning of year             |                | 71,807,950           |                | 76,723,180             |                   | 76,723,180           |
| <b>Cash and cash equivalents at end of year</b>            | P              | <b>135,457,235</b>   | P              | <b>100,354,224</b>     | P                 | <b>71,807,950</b>    |

**WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Organization and Status of the Business**

*Corporate Information*

Waterfront Philippines, Incorporated (“the Parent Company”) 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 interest 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 Limited (CWIL), which were registered in the Cayman Islands. The details of the equity interest of the Parent Company are shown below:

|                                                          | <u>Percentage of Ownership</u> |          |
|----------------------------------------------------------|--------------------------------|----------|
|                                                          | Direct                         | Indirect |
| <i>Hotels and resorts:</i>                               |                                |          |
| Waterfront Cebu City Casino Hotel, Inc. (WCCCHI)         | 100                            | -        |
| Waterfront Mactan Casino Hotel, Inc. (WMCHI)             | 100                            | -        |
| Davao Insular Hotel Company, Inc. (DIHCI)                | 98                             | -        |
| Acesite (Philis.) Hotel Corporation (APHC)               | 58                             | -        |
| Grand Ilocandia Resort and Development, Inc. (GIRDI)     | 54                             | -        |
| <i>Real Estate:</i>                                      |                                |          |
| CIMA Realty Phils. Inc.                                  |                                | 58       |
| <i>Fitness gym:</i>                                      |                                |          |
| W Citigyms & Wellness, Inc. (W Citigym)                  | 100                            | -        |
| <i>International marketing and promotion of casinos:</i> |                                |          |
| Waterfront Promotion Ltd. (WPL)                          | 100                            | -        |
| Mayo Bonanza, Inc. (MBI)                                 | 100                            | -        |
| Club Waterfront International Limited (CWIL)             | -                              | 100      |
| <i>Pastries manufacturing:</i>                           |                                |          |
| Waterfront Food Concepts, Inc. (WFC)                     | 100                            |          |
| <i>Hotel management and operation:</i>                   |                                |          |
| Waterfront Management Corporation (WMC)                  | 100                            | -        |

**Hotels**

**Waterfront Cebu City Casino Hotel Inc. (WCCCHI)** was incorporated on September 23, 1994. It started commercial operations in January 1998.

This hotel is conveniently located in the center of Cebu and is within easy reach from the financial district, shopping malls, golf courses and Mactan’s renowned beach resorts.

Waterfront Cebu City Hotel & Casino has 561 elegantly designed and well-appointed guest rooms and suites. The 18th Floor is the Waterfront Ambassador Club with a two floor Club Lounge exclusive for Ambassador Floor guests. Waterfront Ambassador Club guests enjoy butler service, complimentary business services and a business boardroom fit for a group of up to 8 people, equipped with a built-in LCD projector, a roll-up screen, PA and recording system, a local area network (LAN) and a poly communication system. The 2<sup>nd</sup> floor lounge is outfitted with 3 computer stations, where guests can avail of complimentary WIFI access, flat-screen television entertainment, an array of lifestyle and business magazines as well as newspapers and board games. The hotel offers a 10,000-square meter convention center, which is the largest convention center in the Visayas and Mindanao, and is designed to adapt to multiple types of events. The convention center is equipped with 10 function rooms, 2 executive board rooms, and 2 Grand Ballrooms, each seating 4,000 people. It has played host to a myriad of national as well as regional events, conventions and conferences.

Waterfront Cebu operates 10 F&B outlets, including a hotel coffees hop, a Japanese restaurant, an Italian restaurant and a poolside snack bar. The hotel has a fully functional business center paired with flat-screen computers, internet access and private boardrooms.

The cost of the renovation is around Php120 million. Designed by no less than Steven J. Leach, Jr. + Associates [Consultants] Incorporated (SL+A Manila), which is a part of the world-renowned Steven Leach Group, the inspiration for the lobby's new look is based on two main objectives; first, to transform the existing single dimension grand lobby into a multi-dimensional lifestyle-concept space that will enhance the guests' experience when dining and lounging in the lobby; and second, to improve traffic patterns, through the construction of larger check-in areas and through maximizing the Lobby's three entrances.

Waterfront Cebu City Hotel and Casino's massive, high-ceilinged lobby has always been its principal attraction in fact it is touted as the largest hotel lobby in Visayas-Mindanao area. Spanning 22 meters wide, 96 meters in long and 35 meters high and crisscrossed by hundreds of people each day, the hotel's grand lobby sets the whizzing pulse for the hotel and dictates its overall ambiance.

Apart from improvements to the general structure of the lobby, the Lobby Lounge itself will offer an all-new dining and lounging experience, with newly-installed glass panels, semi-closing each side of the lounge. Fully-equipped bar areas have also been installed in the middle of each of the lounge's two sections, ensuring diners of more efficient and prompt service. To enhance the overall guest experience, the hotel has put together additional features such as nightly entertainment from the city's top performers, and soulful afternoon music by soloists.

Among the hotel's newest pride comes in the form of delectable treats, introducing Lobby Lounge's new service concepts.

#### Afternoon.Tea

Guests can now relive the splendor and grace of the old English days with the Lobby Lounge's Afternoon Tea offering. It is a tea and dessert concept created to give guests a whole new tea experience by giving emphasis on unique ways to enjoy a cup of tea. Guests can expect an array of snack choices to complement their tea selection. The Afternoon Tea comes with a choice of Traditional Afternoon Tea with a Local Twist or Chocolate Temptations. For each selection, guests may opt for tea, coffee or hot chocolate. Each selection also comes with a variety of snack options to go along with their choice of beverage.

#### Wine.Dispenser

Guests can now take a sip of Lobby Lounge's extensive selection of wine. The wine dispenser is an innovative addition to the wining and dining experience at the hotel. It serves the purpose of allowing guests to select among an array of bottles, through tasting by the glass. This concept intends to give guests an opportunity to sample different wines in small amounts before deciding to order a full glass or bottle. Guests may test wines from the dispenser in three different amounts. This way, guests can choose the perfect wine fit for their palate. To enjoy the wine dispenser service, guests must avail of the Wine Card which comes in prepaid or postpaid.

#### Hot Chocolate

Delight your senses with our variety of sweets! Lobby Lounge serves hot chocolate using only the finest local chocolate and hot milk. Choose from a selection of Orange, Vanilla, Plain or Spiced Chocolate.

Waterfront's patrons can definitely expect even more grandeur with the addition of other facilities. To complement the Hotel's main lobby, a group check-in counter is constructed, dedicated solely to corporate and travel groups; a larger Duty Free shopping is also provided; and an additional Casino Filipino gaming space of 2,350 square meters is launched together with it. This will not only enhance the current lobby, but will also increase operational efficiency and add more exciting features for the hotel's customers.

**Waterfront Mactan Casino Hotel, Inc. (WMCHI)** was incorporated on September 23, 1994. Located right across the Mactan Cebu International Airport, it features 164 rooms and suites, 4 food-and-beverage outlets and a Casino Filipino facility. It has the advantage of proximity to the Mactan International Airport. It has the largest number of rooms among airport hotels. WMCHI has made Cebu the only city in Southeast Asia that offers casino facilities to transients while waiting for their flights.

It is just a 3-minute drive to the industrial zone of Cebu, and a 15-minute drive to the beaches of Mactan Island. This hotel is just a short 30-minute drive from Cebu City's shopping and financial districts. The hotel has 164 well-appointed guest rooms and suites. The hotel has an Ambassador Club floor which consists of 14 Ambassador Rooms and 6 Ambassador Suites. The suites are designed with the business travelers in mind and are equipped with a work desk, dual telephone lines for broadband internet access. The business center is equipped with secretarial services and board rooms that cater to business meetings. Its computer area is outfitted with flat screen computers subdivided with modular partitions.

The hotel operates 4 F&B outlets including Uno, the Lobby Lounge, and Café Fortuna. The hotel's convention center consists of three function rooms and a boardroom. Both are equipped with audio-visual equipment. Function rooms can accommodate groups of up to 200 in banquet style. For guests who wish to hold events outdoors, the Veranda is a spacious open area that can accommodate as much as 250 people.

**DIHCI** was incorporated on July 3, 1959 and is currently operating under its trade name "Waterfront Insular Hotel Davao".

Waterfront Insular Hotel is a resort hotel overlooking the Davao Gulf. It is 20 minutes away from downtown Davao City. The hotel holds a superior position over other hotels in the city in terms of space and location.

With a greater area than any other hotel facility in the city, it is unmatched in servicing large business meetings, conventions, and exhibit groups. The hotel consists of four low-rise buildings of 158 guest rooms and suites. Every room opens to a lanai overlooking a lush garden, the blue waters of the Davao Gulf or a scenic coconut grove. The hotel has 5 restaurants. The hotel's function rooms suit different event requirements: 1 Grand Ballroom that can accommodate up to 400 persons, 3 boardrooms that can accommodate 30 persons each, and the Kalaw function room that can accommodate groups of up to 150 persons. The pavilion in the hotel's garden is also popular for bigger celebrations.

The hotel is every guest's gateway to the diverse, colorful and rich cultural heritage of Davao City. Discover the rich cultural heritage of Davao which stems from the different groups and tribes that populated the area throughout its history and be astonished of artworks in the hotel lobby where it showcases pieces of artifacts featuring the various object d'art from the different tribes and historical periods. These range from tribal handicrafts, instruments, pottery, jars and vases. Most of the sculptures and carvings dated from the ancient times.

**Acesite (Phils.) Hotel Corporation (APHC)** was incorporated on October 10, 1952 and commenced commercial operations in March 1968. It is currently operating under its trade name Manila Pavilion

Hotel. Situated in the heart of Manila, this property is opposite the Rizal National Park and is close to the historic walled city of Intramuros. It was acquired by WPI in June 24, 2004. This property is a few minutes away from the Philippine International Convention Center, World Trade Center and the Cultural Center of the Philippines. The Ninoy Aquino International Airport is 11 kilometers away while the Makati Central Business District is only 6 kilometers away.

The hotel has 534 rooms and suites. All rooms have individually controlled central air conditioning, private bathroom with bath tub and shower, multi-channel radio, color TV with cable channels and internet connections.

The hotel has 5 food and beverage outlets that serve an international selection of culinary cuisines from European, to Chinese, Malaysian, and Cantonese. The hotel also has a music lounge and a lobby café that serves light meals and has an extensive pastry and deli counter.

Other guest services and facilities include a chapel, swimming pool, gym, business center, and a valet-service basement car park. Concessionaires and tenants include a spa, photography services, transportation services, travel agency and flower shop.

In addition, Casino Filipino -Pavilion, owned and operated by PAGCOR, occupies parts of the first five floors of the building. PAGCOR covers approximately 13,000 square meters of gaming and administrative area within the hotel structure. Casino Filipino - Pavilion is the highest earning location of PAGCOR in the country and accounts for a large percentage of PAGCOR's total gaming revenue.

It recently completed the second phase of its renovation covering 223 upper floor rooms and suites. Aside from its two-category Deluxe Rooms, Executive Rooms and Premier Suites, the hotel introduced a new set of Ambassador Club rooms and two new Presidential Suites to enhance the hotel's position in the corporate market. The redevelopment will continue for 250 Superior Rooms and Suites at the lower floors, as well as for the upgrade of function rooms and food and beverage facilities. The room themes were developed to maximize guest satisfaction to generate repeat bookings and keep room maintenance costs to minimum levels.

A landmark in Manila, the Manila Pavilion is situated close to a mix of historic sites, major ports and various entertainment hubs. It also houses the Casino Filipino Pavilion on the first three floors of the hotel.

**GIRDI** was incorporated on December 18, 1990 to engage in the hotel and resort business.

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

Mayo Bonanza, Inc. (MBI), a wholly-owned subsidiary of Waterfront Philippines, Incorporated (WPI) was registered with the Securities and Exchange Commission on November 24, 1995. Its primary purpose is to establish, operate, and manage the business of amusement entertainment, and recreation facilities for the use of the paying public.

MBI has been appointed by Atlantic Dynamo of the British Virgin Islands as its agent in the Philippines. Atlantic Dynamo has a contract with PAGCOR under which it will lease space and slot machines to PAGCOR for the operation of VIP slot machine arcades. MBI shall provide space and machines to PAGCOR, while PAGCOR operates the slot machine arcade.

WPI's entry into the VIP slot machine arcade market space is in line with PAGCOR's growth strategy. The first such VIP slot machine arcade was opened by MBI in Sta. Cruz, Manila. The 1,200 square

meter area is located at the Universal Mall along Rizal Avenue.

The slot machines are supplied by Elixir Gaming Technologies, which is part of the Melco Group of Hong Kong. This partnership is both strategic and operational in nature. It is strategic because they are a big operator in Macau. Operationally, WPI is at an advantage because the Melco Group creates its own slot machines and does their own game programming.

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

**Waterfront Wellness Group, Inc. (formerly W Citigyms and Wellness Corp.)** was incorporated and registered with the Securities and Exchange Commission on January 26, 2006, to engage in, conduct and carry on the general business of sporting and other recreational activities. The facilities of W Citigym include a fitness gym with the top-of-the line equipments and amenities. The Company also offers in-house massage for guests staying in Waterfront Cebu City Casino Hotel, Inc.

**Waterfront Food Concepts** was incorporated and registered with the Securities and Exchange Commission on January 26, 2004, to engage in the operation of restaurants and food outlets, manufacture, baked and unbaked desserts, breads and pastries supplies to in-store bakeries, coffee shops and food service channels. WFC supplies the pastries and desserts offered by WCCHI and WMCHI food outlets, as well as its local customers.

**Waterfront Hotel Management Corp.** was registered with the Securities and Exchange Commission on March 31, 2003 to engage in the management and operation of hotels, except management of funds, portfolios, securities, and other similar assets of the managed entity. In November 2006, WHMC started its commercial operations by managing the hotel operations of G-hotel Manila by Waterfront.

The G-Hotel Manila is a boutique hotel located at the heart of Manila fronting Roxas Boulevard. It is easily accessible from major thoroughfares. The hotel is approximately a twenty-minute drive from the Ninoy Aquino International Airport and is minutes away from the Makati Central Business District. With its residential chic appeal, G-Hotel Manila provides a comfortable backdrop for both business and pleasure in the metropolis. Combining both world-class services with posh modern minimalism, G-Hotel Manila serves a unique balance of substance and style in a trendy boutique hotel.

The hotel has 50 rooms consisting of 10 suites rooms and 40 deluxe rooms, which offer 24-hour personalized butler service. The hotel operates two outlets namely, the Café Noir which is the hotel's coffee shop which offers Asian fusion menu and the Mirage, the hotel's pool bar. Its function room, the Promenade, can cater to 250 people banquet style offering a marvelous view of the Manila Bay.

The hotel's business center is equipped with flat screen computers, fax machines, telecommunications facilities and travel booking assistance.

**WEC**, was registered with the Securities and Exchange Commission on August 13, 2003 and 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 last October 2009. 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.

### **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. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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 when control commences until the date when control ceases.

The accounting policies of subsidiaries are being aligned 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.

### **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. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets 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 operations, Marketing operations and Corporate and Other 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. Income is measured at the fair value of the consideration received, net of trade discounts, rebates, and other sales taxes or duties. The following specific criteria must also be met before income is recognized:

#### **Rooms**

Room revenue is recognized based on actual occupancy.

#### **Food and Beverages**

Food and beverage revenue is recognized when orders are served.

#### **Rent and Related Income**

Rent and related income on leased areas of the Group's properties 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 and Other Revenues**

Revenue from other operating departments and other revenues are recognized upon execution of



service or as contracted.

### Interest Income

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

### Other Income

Other income is recognized when earned.

### Cost and Expense Recognition

Costs and expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred. Interest expense is recognized in profit or loss in the period in which they are incurred using the effective interest method.

### Earnings (Loss) Per Share

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

### 1. Cash and Cash Equivalents

Included in cash and cash equivalents as of March 31, 2014 are composed mainly of cash deposited in various banks and short-term placements that earn an annual interest of 2% with an average maturity date of 30 days.

### 2. Receivables

This account consists:

|                                      | March 2014         | March 2013         |
|--------------------------------------|--------------------|--------------------|
| Trade                                | 206,009,536        | 123,634,066        |
| Others                               | 286,698,380        | 301,754,603        |
|                                      | <b>492,707,916</b> | <b>425,388,670</b> |
| Less allowance for doubtful accounts | -22,553,897        | -20,248,180        |
| <b>Total</b>                         | <b>470,154,019</b> | <b>405,140,490</b> |

### 3. Inventories

This account consists of:

|                    | March 2014        | March 2013        |
|--------------------|-------------------|-------------------|
| Food and Beverage  | 10,232,700        | 17,864,824        |
| Operating Supplies | 13,704,030        | 13,847,278        |
| Others             | 1,357,141         | 2,715,133         |
| <b>Total</b>       | <b>25,293,871</b> | <b>34,427,235</b> |

### 4. Related Party Transactions

These are interest bearing advances to MAHEC, TWIGI, PRC and FORUM subject for re-pricing and yearly renewal.

## 5. Accounts Payable and Accrued Expenses

This account consists of:

|                  | March 2014           | March 2013           |
|------------------|----------------------|----------------------|
| Trade            | 206,285,265          | 233,642,963          |
| Accrued Expenses | 893,048,764          | 621,560,424          |
| Others           | 360,931,961          | 317,930,270          |
| <b>Total</b>     | <b>1,460,265,990</b> | <b>1,173,133,658</b> |

## 6. Loans Payable

This account consists of:

### 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 was availed of 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 of an independent custodian mutually agreed upon by both parties.

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 believes that it will be able to restructure the said loan.

### ICBC Loan

This represents the balance of the US\$15 million loan obtained from ICBC under the terms and conditions of a Facility Agreement issued on March 27, 1995 which was amended on September 17, 1997 (collectively, the "Existing Facility Agreement"). The loan underwent several restructurings. The latest restructuring was approved by ICBC on November 12, 2013 after the Group made partial payment of US\$700,000.

### PBB

On June 10, 2011, WCCCHI entered into a term loan agreement with PBB amounting to P300 million for the purpose of taking out the remaining balance of the loan with COSCO Holdings, Inc. The loan matures in two (3) years, inclusive of a one-year grace period on principal payments. The loan bears interest at 12% per annum and is secured by a Mutual Trust Indenture (MTI) covering the Hotel at a minimum of 200% cover, an assignment of PAGCOR rentals and assignment of leasehold rights. Subsequently, all the proceeds of the loan were advanced to WPI for the payment of the COSCO loan

In 2012, WCCCHI entered into another term loan agreement with PBB amounting to P250 million. The loan matures in three years and shall bear an interest rate of 10% per annum to be reprised every month payable in arrears. WCCCHI, however, is allowed to fully or partially pre-terminate the loan. The loan is secured by the assignment of rental payments from PAGCOR on the leases of hotels, plus real estate mortgage on the hotel building and other improvements.

On January 9, 2013, WMCHI entered into another term loan agreement with PBB amounting to P300 million. The loan had been released in four (4) installments starting on January 9, 2013 for P80 million, on February 4, 2013 for P120 million, on March 11, 2013 for P50 million and on April 4, 2013 for P50 million with a stated interest rate fixed at 10% per annum from the date the loan was released to be reprised every month and payable in arrears. The loan will mature in two (2) years and is not secured by any assets or properties. The proceeds of the loan shall be used exclusively for the Phase II renovation costs of APHC. The loan proceeds were subsequently advanced to WPI who ultimately advance the same to APHC.

**7. The earnings (loss) per share is computed as follows:**

|                                               | <b>March 2014</b> | <b>March 2013</b> |
|-----------------------------------------------|-------------------|-------------------|
| Net Income (Loss)                             | 32,470,044        | 31,686,217        |
| Weighted Average Number of Shares Outstanding | 2,498,991,753     | 2,498,991,753     |
| Earnings (Loss) per share                     | <b>0.013</b>      | <b>0.013</b>      |

There are no dilutive potential shares as of March 31, 2014 and 2013.

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

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 agreement is until December 16, 2016.

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. The Amended Lease Contract is until December 30, 2016, and may be renewed, in accordance with the law, at the option of the Lessee under such terms and conditions as may be agreed upon by the parties.

On March 21, 2011, WCCCHI and WMCHI renewed their respective Lease Contracts with PAGCOR, in order to consolidate, simplify, reconcile and update the terms and conditions of the contract of lease and its amendments. The Lease Contract shall cover a total area of 13,677.08 sq. m., for WCCCHI, particularly described as follows: Main Area 8,123 sq. m., Slot Machine Expansion Area 883.38 sq. m., Mezzanine 2,335 sq. m., 5<sup>th</sup> Floor Junket Area 2,336 sq. m. The monthly rent for each area is P1, 772.96 per sq. m., and for the 5<sup>th</sup> Floor Junket Area the rent is free for a period of one (1) year from the execution of the Lease Contract. In the event that the lease over the 5<sup>th</sup> Floor Junket Area is continued by the Lessee, the parties shall agree on the monthly rent and the duration of the lease for the said area.

For WMCHI the Lease Contract shall cover a total area of 5,152.24 sq. m consisting of Main Casino Area of 4,076.24 sq. m., and a Chip Washing Area of 1,076 sq. m. The monthly rent for the Main Casino Area is P 1,772.96 per sq. m. and for the Chip Washing Area is P1, 688.53 per sq. m.

The monthly rent for the Leased Premises is Value Added Tax (Vat) exclusive, zero-rated transactions. Starting on January 3, 2013 and every year thereafter, the monthly rent for the Main Area, Slot Machine Expansion Area, Mezzanine, Main Casino Area and the Chip Washing Area for both WCCCHI and WMCHI, shall be adjusted by five (5%) on year after the lease thereon is continued by the Lessee and every year thereafter. The Lease Contracts for both WCCCHI and WMCHI is until August 2, 2016, and may be renewed, in accordance with the law, at the option of the Lessee under such terms and conditions as may be agreed upon by the parties.

**9. 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.

#### **Land under Finance Lease**

In the period prior to October 2011, APHC and CIMAR entered into a finance lease agreement. Accordingly, APHC recognized the lease asset, "Land under finance lease," and lease liability, "Obligations under finance lease."

Series of disputes ensued between ALB (former parent company of CIMAR) whereby CIMAR filed an ejectment case and demanded possession of land plus interest.

As disclosed in Note 11, APHC executed a MOA with CIMAR to amicably settle all pending cases and controversies between the two parties. As part of the amicable settlement with ALB and CIMAR, the existing accrued interest on the lease liability of APHC to CIMAR prior to acquisition date formed part of (netted from) the total net consideration when the APHC acquired CIMAR (see Note 11). Moreover, the land and the corresponding lease liability were derecognized in 2011 as the consequence of the acquisition of CIMAR and the cancellation of the finance lease liability. This resulted to the reduction of the "Revaluation surplus in property and equipment" and of the "Non-controlling interest."

In July 2011, the RTC of Manila issued an order granting the joint motion to dismiss the ejectment case filed by APHC and CIMAR.

#### **Equipment under Finance Lease**

DIHCI leased 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.

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.

### **10. Commitments and Contingencies**

On November 10, 2008, the Parent Company received a preliminary assessment notice from the BIR for deficiency taxes for the taxable year 2006. On February 9, 2009, the Parent Company sent a protest letter to BIR contesting the said 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 P3.3 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.

In its decision promulgated on November 13, 2012, the CTA upheld the expanded withholding tax (EWT) assessment and cancelled the VAT and compromise penalty assessments. WPI decided not to contest the EWT assessment. The BIR filed its motion for reconsideration (MR) on December 4, 2012 and on April 24, 2013, the Court issued its amended decision reinstating the VAT assessment. The Parent Company filed its MR on the amended decision that was denied by the CTA in its resolution promulgated on September 13, 2013.

The Parent Company appealed the case to the CTA sitting En Banc on October 21, 2013 docketed as CTA EB No. 1070 where it is awaiting decision by the CTA.

**MANAGEMENT DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

Below are the results of operations of the Parent Company and its subsidiaries, for the period ending March 31, 2014 and 2013 together with its financial conditions as of the same period.

**RESULTS OF OPERATIONS**

|                                                                           | <b>Jan-March 2014</b> | <b>Jan-March 2013</b> |
|---------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Revenues</b>                                                           | <b>487,420,329</b>    | <b>495,206,812</b>    |
| Less: Costs and Expenses                                                  | 335,585,464           | 332,302,097           |
| <b>Net Income (Loss) Before Fixed Financial and Other Charges</b>         | <b>151,834,865</b>    | <b>162,904,715</b>    |
| Less: Fixed Financial and Other Charges (Dep'n and Amort'n, and Interest) | 108,609,632           | 129,771,958           |
| <b>Income (Loss) before Income Tax</b>                                    | <b>43,225,233</b>     | <b>33,132,756</b>     |
| Income Tax Expense ( Benefit)                                             | 0.00                  | 96,100                |
| <b>Income (Loss) before Share in Minority Interest</b>                    | <b>43,225,233</b>     | <b>33,036,656</b>     |
| Share of Minority Interest                                                | 10,755,189            | 1,350,439             |
| <b>Net Income (Loss)</b>                                                  | <b>32,470,044</b>     | <b>31,686,217</b>     |
| Earnings (loss) Per share                                                 | <b>0.013</b>          | <b>0.013</b>          |

**FINANCIAL CONDITION**

|                                                   | <b>March 2014</b>    | <b>March 2013</b>    |
|---------------------------------------------------|----------------------|----------------------|
| <b>Assets</b>                                     |                      |                      |
| Current assets                                    | 2,418,154,920        | 2,479,778,779        |
| Non-current Assets                                | 6,623,431,692        | 6,076,078,720        |
| <b>Total Assets</b>                               | <b>9,041,586,612</b> | <b>8,555,857,499</b> |
| <b>Liabilities and Stockholders' Equity</b>       |                      |                      |
| Current Liabilities                               | 2,035,057,493        | 2,162,902,294        |
| Non-current Liabilities                           | 2,402,883,982        | 1,955,026,489        |
| Total Stockholders' Equity                        | 3,867,920,722        | 3,750,501,503        |
| Minority Interest                                 | 735,724,415          | 687,427,213          |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>9,041,586,612</b> | <b>8,555,857,499</b> |

## RESULTS OF OPERATIONS

**Period ended March 31, 2014 compared to Period Ended March 31, 2013.**

### Income Statement

Hotel and other subsidiaries gross revenues for the 1<sup>st</sup> quarter is Php487 million compared the 1<sup>st</sup> quarter last year of Php495 million; a decrease of 1.57%. The reason of the decrease in revenue is due to the rapid rising of city hotels.

### *Seasonality or Cyclicity of Interim Operations*

#### 1<sup>ST</sup> QUARTER

The occupancy for the two (2) hotels, WCCCHI and WMCHI, are high during the months of January and February because of the celebration of the Feast of Sto. Niño better, renowned as the “Sinulog” as well as the celebration of the Chinese New Year. Many visitors come to Cebu during this time just to witness and participate in the festivities. Sinulog is one of the city’s main pull for tourists as well as other locals. The celebration of the Chinese New Year also added to the Company’s revenues. As we all know, the country’s full of Chinese nationalities and businessmen that celebrating their new year would really be an advantage to the hotels in terms of revenues. The month of March tends to be a slow one for all the hotels. The occupancy percentage depends on the bookings of rooms and functions scheduled by convention organizers, government agencies and tour-group bookings.

Despite the vindictive economic condition of the country especially in hotel industry, the company still survives to continue to serve and give world class facilities, diverse and absolute entertainment system that brings attraction to the Province of Cebu which attracts local, regional and international visitors, to a highly competitive market

Steering through these unfavorable circumstances is a challenge, yet our organization continues to thrive; determined to look beyond the negative and to accentuate the constructive.

### TOP FIVE (5) PERFORMANCE INDICATORS

|                      | Jan-Mar 2014 | Jan-Mar 2013 |
|----------------------|--------------|--------------|
| Occupancy Percentage | 63.81%       | 65.70%       |
| Average Room Rates   | 2,395.00     | 2,234.62     |
| Food Covers          | 58,669.00    | 62,243.60    |
| Average Food Checks  | 343.14       | 352.16       |
| Average Food Costs   | 34%          | 37%          |

#### **Occupancy Percentage**

The occupancy percentage grew down by 1.9% as compared to 1<sup>st</sup> quarter last year. Occupancy percentage is computed by dividing the total number of rooms sold over the total number of rooms available for sale.

#### **Average Room Rate**

Average room rate is 7.2% higher compared to 1<sup>st</sup> quarter last year; this mainly due to room promotions offered by WCCCHI and WMCHI to compete with the newly open hotels in Cebu that offered promo rates. Average room rate is computed by dividing the net rooms revenue over the total number of rooms sold.

### **Food Covers**

Food covers this quarter decreased by 5.7% compared to the 1<sup>st</sup> quarter last year. This is mainly because there were fewer functions and conventions this time. Food covers pertains to the number of guests that availed of the restaurants services.

### **Average Food Check**

The average food check or average consumption per guest this quarter grew down by 2.6% compared to 1<sup>st</sup> quarter last year. Average Food Check is derived by dividing the total food and beverage revenue by total food covers.

### **Average Food Cost**

The average food cost decreased by 3% from previous year of the same quarter. This is mainly due to the fewer functions and conventions this quarter compared to the same quarter last year. Average Food Cost is computed by dividing the total food and beverage revenue by total food cost.

### **Revenues and Earnings per Share**

Revenues decreased by 1.57% for the first quarter of 2013 as compared to previous year of the same quarter while operating expenses increased by 0.99%. The whole operation resulted to a net income of P32.4 million, which is 2.47% higher compared to last year same quarter.

Earnings per share this quarter is (P0.013) while same quarter last year was also (P0.013).

### **Fixed Financial and Other Charges**

Total fixed financial and other charges for this quarter is 16% lower compared to same quarter last year. This account includes the depreciation and interest expenses from the loans from the banks.

Interest Expense this quarter is lower by 43% as compared to the 1<sup>st</sup> quarter last year.

## **FINANCIAL CONDITION**

### **Cash and Cash Equivalents**

Cash and cash equivalents as of the 1<sup>st</sup> quarter of this year is Php135 million compared to 1<sup>st</sup> quarter of Php100 million; an increased of 35%. The reason for this is that the company has tried to avail of the prompt payment discount offered by some suppliers whenever there is an excess fund and prompt collection of receivables from corporate clients.

### **Receivables**

Receivables for the period increased by 16% from P405 million 1<sup>st</sup> quarter last year to P470 million 1<sup>st</sup> quarter this year. The increase was attributable to the higher sales volume but on account basis. The company continues to monitor the credit sales and strictly followed the 30 days credit term.

### **Inventories**

Inventory for this quarter is P25million this year while last year was P34 million. Best effort was exerted to maintain the inventories on a very reasonable level. The company was nimble enough to react quickly to changes in customer demand and do it with little inventory to prevent a long lead times in-order to minimize cost.

### **Due from related parties-current portion**

This account has decreased by 10% from last year's first quarter. This also represents interest bearing advances with MAHEC, TWGI, PRC and FHI at a rate of two percent (2%) per annum. Advances to TWGI, PRC MAHEC and FHI are subject for annual re-pricing and renewal.

### **Property, Plant and Equipment**

There is a increased of 9% on this account. This is mainly due to depreciation.

### **Other Non-current assets**

This is composed of rent receivables, refundable deposits and others.

Special project deposits pertain to deposits granted to contractors in connection with the renovation

work at of WCCCHI and APHC. Others represent input VAT, advances to officers and employees, and deposits to service providers such as security and janitorial services.

#### **Accounts Payable and Accrued Expenses**

This account has increased by 24%. Despite the increase, the company has tried to avail of the prompt payment discount offered by some suppliers whenever there is an excess fund.

#### **Loans Payable – current and non-current**

There is an increase of 9% or Php89 million on this account. This comprises loans from Phil. Business Bank, Social Security System and Industrial Commercial Bank of China. Series of payments were made to fulfill its obligation to settle the account.

#### **Other Non-current Liabilities**

There is an increase of 33% of this account from 496 million to 659 million in 2014. The account compiles rent received in advance< PAGCOR and retirement benefits.

#### **Deferred Tax Assets and Deferred Tax Liabilities**

Deferred income 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 income 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 income 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 at the reporting date.

A deferred tax asset (DTA) is recognized only to the extent that it is probable that future taxable profits will be available against which the DTA can be utilized. DTA is reduced to the extent that it is no longer probable that the related tax benefit will be realized. The items comprising the DTA are reviewed at each reporting date and adjustments are made, if appropriate.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and if 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.

#### **Key Variable and Other Qualitative and Quantitative Factors:**

a. Any known Trends, Events or Uncertainties-(material impact on liquidity)-NONE

b. There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

c. There are no material off-balance sheet transactions, arrangements, obligations (including, contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

d. The Group is not subject to externally-imposed capital requirements.

e. From continuing operations, the Company is not exposed to any significant elements of income or loss except for those already affecting profit or loss.

f. There are no significant elements of income or loss or any events that did not arise from the issuer's



continuing operations other than those already affecting profit or loss.

g. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have material effect in the current interim period. – NONE

f. There were no dividends paid aggregate or per share separately for ordinary shares and other shares.

The interim financial statements as of March 31 , 2014 shall contain the following disclosure:

i. Separate Financial Statements

PAS 27 (2011) supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

Investment Entities (Amendments to PFRS 10, PFRS 12, and PAS 27 (2011)). These amendments provide consolidation exception for investment funds and require qualifying investment entities to recognize their investments in controlled entities, as well as investments in associates and joint ventures, in a single line item in the statement of financial position, measured at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. However, the parent of an investment entity (that is not itself an investment entity) is still required to consolidate all subsidiaries. This consolidation exception is mandatory.

ii. Investments In Associate and Joint Ventures – Not Applicable

iii. Government Loans – Not Applicable

iv. Disclosure –Offsetting Financial Assets and Financial Liabilities – Applicable

Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7).

These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:

\*\*\*offset in the statement of financial position; or

\*\*\*subject to enforceable master netting arrangements or similar agreements

They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position.

v. Consolidated Financial Statements

The amendments simplify the process of adopting PFRSs 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its invitees. These amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

### **Financial Risk Management**

The Group's principal financial instruments comprise of cash and cash equivalents, receivables,

due from related parties, AFS investments, 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, 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.

There is no other significant concentration of credit risk in the Group.

#### **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.

#### **Market risk**

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, SSS, PAGCOR and ICBC. 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.

#### **Cash flow interest rate risk**

The following table illustrates the sensitivity of net income and equity for 2013, and 2012 to a reasonably possible change in interest rates based on the historical volatility of SIBOR rates in the immediately preceding 12-month period. 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 as at the reporting date.

#### **Fair value interest rate risk**

There are no other impact on the Group's equity other than those already affecting profit or loss in 2014 and 2013.

### **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.

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.

### **Fair Value of Financial Assets and Liabilities**

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.

### **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 2014, 2013 and 2012.

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 2013, 2012 and 2011. For purposes of the Group's capital management, capital includes all equity items that are presented in the consolidated statements of changes in equity.

The Group is not subject to externally-imposed capital requirements.

WATERFRONT PHILIPPINES, INCORPORATED & SUBSIDIARIES  
SCHEDULE OF AGING OF ACCOUNTS RECEIVABLE FOR SEC REPORTING  
As of March 31, 2014

| Trade Receivables                   | 0-30 days            | 31-60 days          | 61-90 days          | 91-120 days         | 121 days over        | TOTAL                |
|-------------------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Waterfront Cebu City Hotel & Casino | 10,456,135.90        | 3,197,544.55        | 576,743.26          | 423,179.85          | 2,245,732.39         | 16,899,335.95        |
| Waterfront Airport Hotel & Casino   | 6,197,979.82         | -                   | 22,400.00           | -                   | 49,595.20            | 6,269,975.02         |
| Waterfront Insular Hotel Davao      | 7,230,577.72         | 29,892.89           | 10,984.45           | 6,600.00            | 1,644,586.05         | 8,922,641.11         |
| Manila Pavilion Hotel               | 13,526,114.80        | 4,512,953.67        | 3,649,590.70        | 1,733,484.98        | 8,866,265.44         | 32,288,409.59        |
| G-Hotel                             | 507,728.05           | 225,165.00          | -                   | 1,062,550.00        | 887,419.15           | 2,682,862.20         |
| <b>Total</b>                        | <b>37,918,536.29</b> | <b>7,965,556.11</b> | <b>4,259,718.41</b> | <b>3,225,814.83</b> | <b>13,693,598.23</b> | <b>67,063,223.87</b> |