



111142016001483



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

### Barcode Page

The following document has been received:

Receiving Officer/Encoder : Jojit Licudine  
Receiving Branch : SEC Head Office  
Receipt Date and Time : November 14, 2016 03:22:33 PM  
Received From : Head Office

### Company Representative

---

Doc Source

### Company Information

---

SEC Registration No. AS94008678  
Company Name WATERFRONT PHILS. INC.  
Industry Classification  
Company Type Stock Corporation

### Document Information

---

Document ID 111142016001483  
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered September 30, 2016  
No. of Days Late 0  
Department CFD  
Remarks

**COVER SHEET**

AS094 - 8678  
SEC Registration Number

WATERFRONT PHILIPPINES, INC.

(Company's Full Name)

NO. 1 WATERFRONT DRIVE  
OFF SALINAS DRIVE LAHUG  
CEBU CITY

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

MS. IRISH CHARA LAWAS  
Contact Person

(02) 559-0130  
Company Telephone Number

12 31  
Month Day

SEC 17 - Q3  
FORM TYPE

09 24  
Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

464  
Total No. of Stockholders

Total Amount of Borrowings

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION SEC  
FORM 17-Q**

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

1. For the quarterly period ended

September 30, 2016

2. SEC Identification Number

AS0948678

3. BIR Tax Identification No.

D80003978254NV

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

032-2326888

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 and Amount of Debt Outstanding
COMMON SHARES - P1.00 PAR VALUE	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:

THE PHILIPPINE STOCK EXCHANGE

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 period ended	September 30, 2016
Currency (indicate units, if applicable)	PESO

### Balance Sheet

	Period Ended	Calendar Year Ended (Audited)
	September 30, 2016	Dec 31, 2015
Current Assets	2,010,316,025	2,103,361,353
Total Assets	8,370,514,876	8,544,733,396

<b>Current Liabilities</b>	<b>1,925,737,165</b>	<b>2,443,353,478</b>
<b>Total Liabilities</b>	<b>3,088,695,402</b>	<b>3,682,104,404</b>
<b>Retained Earnings/(Deficit)</b>	<b>708,168,919</b>	<b>-1,097,460,906</b>
<b>Stockholders' Equity</b>	<b>5,281,819,474</b>	<b>4,862,628,992</b>
<b>Stockholders' Equity - Parent</b>	<b>4,475,484,867</b>	<b>4,086,192,880</b>
<b>Book Value per Share</b>	<b>1.79</b>	<b>1.64</b>

#### Income Statement

	<b>Current Year (3 Months)</b>	<b>Previous Year (3 Months)</b>	<b>Current Year-To-Date</b>	<b>Previous Year-To-Date</b>
<b>Operating Revenue</b>	<b>521,951,366</b>	<b>634,488,249</b>	<b>1,564,822,795</b>	<b>1569,045,095</b>
<b>Other Revenue</b>	<b>8,707,611</b>	<b>11,126,066</b>	<b>28,974,727</b>	<b>25,535,453</b>
<b>Gross Revenue</b>	<b>530,658,977</b>	<b>645,614,315</b>	<b>1,593,797,522</b>	<b>1,594,580,548</b>
<b>Operating Expense</b>	<b>343,246,573</b>	<b>393,466,295</b>	<b>983,971,133</b>	<b>1,040,141,115</b>
<b>Other Expense</b>	<b>51,604,769</b>	<b>86,850,657</b>	<b>220,534,403</b>	<b>317,688,202</b>
<b>Gross Expense</b>	<b>394,851,342</b>	<b>480,316,952</b>	<b>1,204,505,536</b>	<b>1,357,829,317</b>
<b>Net Income/(Loss) Before Tax</b>	<b>135,807,635</b>	<b>165,297,363</b>	<b>389,291,987</b>	<b>236,751,231</b>
<b>Income Tax Expense</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Income/(Loss) After Tax</b>	<b>135,807,635</b>	<b>165,297,363</b>	<b>389,291,987</b>	<b>236,751,231</b>
<b>Net Income Attributable to Parent Equity Holder</b>	<b>124,473,340</b>	<b>163,709,979</b>	<b>357,438,181</b>	<b>222,372,340</b>
<b>Earnings/(Loss) Per Share (Basic)</b>	<b>0.050</b>	<b>0.066</b>	<b>0.143</b>	<b>0.095</b>

<b>Earnings/(Loss) Per Share (Diluted)</b>	<b>0.050</b>	<b>0.066</b>	<b>0.143</b>	<b>0.095</b>
--	--------------	--------------	--------------	--------------

<b>Other Relevant Information</b>
--

**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 11/11/2016

Principal Financial/Accounting Officer/Controller Precilla O. Toriano

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

Date 11/11/2016



	CONSOLIDATED		
	Unaudited	Unaudited	Audited
	September 30, 2016	September 30, 2015	December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	156,234,259	194,820,558	173,168,220
Trade and Other Receivables-Net	315,646,159	358,050,873	213,701,952
Inventories	27,677,148	28,565,806	29,298,181
Due from related parties - current portion	1,435,230,401	1,796,580,462	1,610,210,794
Prepaid expenses and other current assets	75,528,058	60,106,355	76,982,206
<b>Total Current Assets</b>	<b>2,010,316,025</b>	<b>2,438,124,054</b>	<b>2,103,361,353</b>
<b>Noncurrent Assets</b>			
Due from related parties - noncurrent portion	332,797,180	-	332,797,180
Property and equipment - net	5,741,571,586	6,012,219,997	5,925,632,028
Available-for-sale (AFS) investments	18,209,100	22,978,150	18,209,100
Deferred tax assets	19,533,869	30,717,960	124,045,012
Other noncurrent assets	248,087,116	63,715,349	40,688,723
<b>Total Noncurrent Assets</b>	<b>6,360,198,851</b>	<b>6,129,631,456</b>	<b>6,441,372,043</b>
<b>Total Assets</b>	<b>8,370,514,876</b>	<b>8,567,755,510</b>	<b>8,544,733,396</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	1,309,932,739	1,315,486,956	1,372,580,534
Loans payable - current portion	375,000,000	375,000,000	496,030,050
Income tax payable	215,138	-	38,062,223
Provisions	54,939,038	-	-
Other current liabilities	185,650,250	370,350,448	536,680,671
<b>Total Current Liabilities</b>	<b>1,925,737,165</b>	<b>2,060,837,404</b>	<b>2,443,353,478</b>
<b>Noncurrent Liabilities</b>			
Loans payable - noncurrent portion	-	106,127,204	-
Deferred tax liabilities	1,005,330,718	819,724,753	1,109,968,314
Retirement benefits liability	121,949,799	-	117,435,509
Other noncurrent liabilities	35,677,720	842,606,947	11,347,103
<b>Total Noncurrent Liabilities</b>	<b>1,162,958,237</b>	<b>1,768,458,904</b>	<b>1,238,750,926</b>
<b>Total Liabilities</b>	<b>3,088,695,402</b>	<b>3,829,296,308</b>	<b>3,682,104,404</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 surplus in property and equipment	1,841,118,443	1,935,665,721	1,841,118,443
Unrealized valuation gain (loss) on AFS investments	-	6,222,054	-
Foreign currency translation adjustment	32,442,969	24,170,439	32,442,969
Fair value reserve	3,456,005	-	3,456,005
Retirement benefits reserve	101,280,259	89,250,289	101,280,259
Deficit:			
Appropriated	-	-	-
Unappropriated	(708,168,919)	(1,281,699,862)	(1,097,460,906)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>	<b>4,475,484,867</b>	<b>3,978,964,751</b>	<b>4,086,192,880</b>
<b>Non-controlling Interest</b>	<b>806,334,607</b>	<b>759,494,451</b>	<b>776,436,112</b>
	<b>8,370,514,876</b>	<b>8,567,755,510</b>	<b>8,544,733,396</b>

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME-UNAUDITED  
For the Quarter Ended September 30, 2016

\*Annex-A\*  
Page 2 of 5

	CONSOLIDATED		
	Unaudited	Unaudited	Audited
	July-September 2016	July-September 2015	December 31, 2015
<b>REVENUES</b>			
Hotel			
Nonhotel	509,851,884	616,836,740.00	2,019,858,698.00
Interest and other income	12,099,482	17,651,509.00	49,317,621.00
	8,707,611	11,126,066.00	31,731,471.00
	530,658,977	645,614,315.00	2,100,907,790
<b>COSTS AND EXPENSES</b>			
Hotel			
Nonhotel	323,226,371	358,690,288	1,053,309,615
	20,020,202	34,776,007	351,064,421
	343,246,573	393,466,295	1,404,374,036
<b>INCOME BEFOREFIXED, FINANCIAL AND OTHER CHARGES</b>	187,412,404	252,148,020	696,533,754
<b>FIXED, FINANCIAL AND OTHER CHARGES</b>			
Depreciation and amortization			
Interest expense	65,629,626	89,754,877	333,683,900
Penalties and other charges	15,000,000	(2,904,220)	136,933,256
Provision for impairment losses on receivables	-	-	-
Loss on sale on Acesite shares	-	-	2,587,635
Interest income	-	-	-
Foreign exchange losses (gains) - net	(27,889,222)	-	(33,711,906)
Others - net	(1,107,635)	-	18,318,204
	(28,000)	-	3,207,862
	51,604,769	86,850,657	461,018,951
<b>INCOME(LOSS) BEFORE INCOME TAX</b>	135,807,635	165,297,363	235,514,803
<b>INCOME TAX EXPENSE (BENEFIT)</b>	-	-	76,807,708
<b>NET INCOME (LOSS) BEFORE SHARE OF MINORITY INTEREST</b>	135,807,635	165,297,363	158,707,095
Share of Monority Interest	11,334,295	1,587,384	31,495,636
<b>NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	124,473,340	163,709,979	127,211,459
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation differences for foreign operations	-	-	8,272,530
Actuarial gains on defined benefit plan	-	-	19,796,982
Net change in fair value of AFS financial assets	-	-	(4,769,050)
Reduction of deferred tax liability relating to revaluation surplus	-	-	-
Deferred tax effect	-	-	(5,939,095)
	-	-	17,361,367
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	135,807,635	165,297,363	176,068,462
<b>EARNINGS PER SHARE - Basic and Diluted</b>	0.048	0.066	0.051

\*There are no dilutive potential shares as of September 30, 2016 and 2015.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME-UNAUDITED  
As of September 30, 2016

"Annex-A"  
Page 3 of 5

	CONSOLIDATED		
	Unaudited	Unaudited	Audited
	January-September 2016	January-September 2015	December 31, 2015
<b>REVENUES</b>			
Hotel	1,524,429,997	1,503,644,554	2,019,858,698
Nonhotel	40,392,799	65,400,541	49,317,621
Interest and other income	28,974,727	25,535,453	31,731,471
	<b>1,593,797,522</b>	<b>1,594,580,548</b>	<b>2,100,907,790</b>
<b>COSTS AND EXPENSES</b>			
Hotel	936,623,072	955,147,463	1,053,309,615
Nonhotel	47,348,061	84,993,652	351,064,421
	<b>983,971,133</b>	<b>1,040,141,115</b>	<b>1,404,374,036</b>
<b>INCOME BEFORE FIXED, FINANCIAL AND OTHER CHARGES</b>	<b>609,826,389</b>	<b>554,439,433</b>	<b>696,533,754</b>
<b>FIXED, FINANCIAL AND OTHER CHARGES</b>			
Depreciation and amortization	200,870,981	263,132,285	333,683,900
Interest expense	46,466,473	54,555,917	136,933,256
Penalties and other charges	-	-	-
Provision for impairment losses on receivables	-	-	2,587,635
Loss on sale on Acesite shares	-	-	-
Interest income	(27,889,222)	-	(33,711,906)
Foreign exchange losses (gains) - net	1,086,171	-	18,318,204
Others - net	-	-	3,207,862
	<b>220,534,403</b>	<b>317,688,202</b>	<b>461,018,951</b>
<b>INCOME(LOSS) BEFORE INCOME TAX</b>	<b>389,291,987</b>	<b>236,751,231</b>	<b>235,514,803</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<b>-</b>	<b>-</b>	<b>76,807,708</b>
<b>NET INCOME (LOSS) BEFORE SHARE OF MINORITY INTEREST</b>	<b>389,291,987</b>	<b>236,751,231</b>	<b>158,707,095</b>
Share of Minority Interest	31,853,806	14,378,891	31,495,636
<b>NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	<b>357,438,181</b>	<b>222,372,340</b>	<b>127,211,459</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation differences for foreign operations	-	-	8,272,530
Actuarial gains on defined benefit plan	-	-	19,796,982
Net change in fair value of AFS financial assets	-	-	(4,769,050)
Reduction of deferred tax liability relating to revaluation surplus	-	-	-
Deferred tax effect	-	-	(5,939,095)
	<b>-</b>	<b>-</b>	<b>17,361,367</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>389,291,987</b>	<b>236,751,231</b>	<b>176,068,462</b>
<b>EARNINGS PER SHARE - Basic and Diluted</b>	<b>0.143</b>	<b>0.095</b>	<b>0.051</b>

\*There are no dilutive potential shares as of September 30, 2016 and 2015.

	CONSOLIDATED		
	Unaudited	Unaudited	Audited
	January-September 2016	January-September 2015	December 31, 2015
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>			
Capital stock - P1 par value per share			
Additional Paid-in Capital	2,498,991,753	2,498,991,753	2,498,991,753
Revaluation Surplus in Property and Equipment	706,364,357	706,364,357	706,364,357
Balance at beginning of year			
Appraisal increase for the year - net of income tax effect	1,841,118,443	1,935,665,721	1,935,665,721
Derecognition of land held under finance lease due to acquisition of a subsidiary	-	-	-
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect	-	-	(94,547,278)
Balance at end of year	1,841,118,443	1,935,665,721	1,841,118,443
Unrealized Valuation Gain (Loss) on AFS Investments			
Balance at beginning of year			
Valuation loss taken into equity during the year	-	6,222,054	-
Change in equity ownership of non-controlling interest in a subsidiary	-	-	-
Balance at end of year	-	6,222,054	-
Foreign Currency Translation Adjustment			
Balance at beginning of year			
Translation adjustment during the year	32,442,969	24,170,439	24,170,439
Balance at end of year	32,442,969	24,170,439	32,442,969
Deficit			
Reversal of appropriated retained earnings			
Unappropriated	-	140,000,000	-
Balance at beginning of year			
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect	(1,097,460,906)	(1,319,219,643)	(1,319,219,643)
Derecognition of retirement benefits reserve	-	-	94,547,278
Net Incomeloss for the year	389,291,987	(102,480,219)	127,211,459
Balance at end of year	(708,168,919)	(1,281,699,862)	(1,097,460,906)
Total deficit	(708,168,919)	(1,281,699,862)	(1,097,460,906)
Fair value reserve, beginning of the year	4,370,748,603	3,889,714,462	3,981,456,616
Other comprehensive income-net tax effect	3,456,005	-	6,222,054
Total fair value reserve	3,456,005	-	(2,766,049)
Retirement benefits reserve, beginning of the year			
Other comprehensive income-net tax effect	101,280,259	89,250,289	89,250,289
Total retirement benefits reserve	101,280,259	89,250,289	101,280,259
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>	<b>4,475,484,867</b>	<b>3,978,964,751</b>	<b>4,086,192,880</b>

See Notes to the Consolidated Financial Statements.

	CONSOLIDATED		
	Unaudited	Unaudited	Audited
	January-June 2016	January-September 2016	December 31, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	389,291,987	236,751,231	235,514,803
Adjustments for:			
Depreciation and amortization	200,870,981	263,132,284	333,683,900
Interest expense	46,466,473	54,555,917	136,933,256
Loss on sale on acesite shares	-	-	-
Retirement benefit costs	4,514,290	-	40,342,055
Provisions	(54,939,038)	-	(45,575,012)
Unrealized foreign exchange loss (gain)	1,086,171	-	8,272,530
Penalties and other charges	-	-	-
Loss on sale on acesite shares	-	-	-
Impairment losses	-	-	2,587,635
Interest income	(27,889,222)	-	(33,711,906)
Operating income before working capital changes	559,401,642	554,439,432	678,047,261
Decrease (increase) in:			
Receivables	(101,944,207)	(169,507,288)	(16,328,580)
Inventories	1,621,033	(749,905)	(1,482,280)
Prepaid expenses and other current assets	1,454,148	8,804,813	(26,858,888)
Increase (decrease) in:			
Accounts payable and accrued expenses	61,561,624	7,033,536	64,127,114
Other current liabilities	30,074,883	302,282,640	468,612,863
Cash generated from operations	552,169,123	702,303,228	1,166,117,490
Interest received	27,889,222	-	3,456,946
Income taxes paid	(37,847,085)	(25,032,556)	(50,947,041)
Retirement plan contributions paid	-	-	(11,250,000)
Benefits paid	-	(45,575,012)	(8,945,198)
Interest paid	(46,466,473)	(54,555,917)	(96,477,022)
Net cash provided by operating activities	495,744,787	577,139,743	1,001,955,175
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment	(16,810,539)	(41,080,125)	(25,043,772)
Investment in a subsidiary	-	-	-
Due from related parties	-	-	-
Proceeds from sale of an equity interest in subsidiary	-	-	-
Proceeds from sale of property and equipment	-	-	-
Increase in other noncurrent assets	(102,887,250)	173,123,354	26,002,418
Net cash used in investing activities	(119,697,789)	132,043,229	958,646
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(Increase) Decrease in loans payable	121,030,050	(366,679,238)	(351,776,392)
(Increase) Decrease in due from related parties	174,980,393	187,521,068	30,892,282
Increase (decrease) in other noncurrent liabilities	(688,991,402)	(474,894,455)	(648,551,702)
Payment of obligation under finance lease	-	-	-
Net cash provided by (used in) financing activities	(392,980,959)	(654,052,625)	(969,435,812)
<b>INCREASE (DECREASE) IN TRANSLATION ADJUSTMENT FOR THE YEAR</b>			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,933,961)	55,130,347	33,478,009
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	173,168,220	139,690,211	139,690,211
CASH AND CASH EQUIVALENTS AT END OF YEAR	156,234,259	194,820,558	173,168,220

See Notes to the Consolidated Financial Statements.

**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. The Parent Company is 46%-owned by The Wellex Group, Inc. (TWGI), an entity registered and domiciled in the Philippines, which is listed in the Philippine Stock Exchange (PSE). The Parent Company holds equity interests in hotels and resorts, a fitness gym, entities engaged in the international marketing and promotion of casinos, manufacturing of pastries, and hotel management and operations.

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

	<u>Percentage of Ownership</u>	
	<u>Direct</u>	<u>Indirect</u>
<b>Hotels and Resorts</b>		
Waterfront Cebu City Casino Hotel, Incorporated (WCCCHI)	100	-
Waterfront Mactan Casino Hotel, Incorporated (WMCHI)	100	-
Davao Insular Hotel Company, Inc. (DIHCI)	98	-
Acesite (Phils.) Hotel Corporation (APHC)	58	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
<b>Real Estate</b>		
CIMA Realty Phil., Inc. (CIMAR)	-	58*
<b>Fitness Gym</b>		
Waterfront Wellness Group, Inc. (WWGI)	100	-
<b>International Marketing and Promotion of Casinos</b>		
WPL	100	-
Mayo Bonanza, Inc. (MBI)	100	-
CWIL (through direct ownership in WPL)	-	100
Waterfront Entertainment Corporation (WEC)	100	-
<b>Pastries Manufacturing</b>		
Waterfront Food Concepts Inc. (WFC)	100	-
<b>Hotel Management and Operation</b>		
Waterfront Hotel Management Corp. (WHMC)	100	-

**Hotels**

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

WCCCHI was incorporated on September 23, 1994 to manage and undertake operations of Waterfront Cebu City Hotel and Casino (WCCHC). WCCCHI achieved a milestone during the year by opening the doors of WCCHC on January 5, 1998, with 158 guest-rooms which has already grown to 561 by the last quarter of 1999, six-storey convention center known as the Waterfront Convention Center, previously known as Cebu International Convention Center and six-storey Entertainment Block. Located in this Entertainment Block is a 1,000-square meter 5-star restaurant, which completes

the Company's restaurants row. On February 5, 1998, PAGCOR commenced operations at the new purposely-built casino at the Entertainment Block.

**- Waterfront Convention Center-(WCC)**

Waterfront Convention Center previously known as Cebu International Convention Center is a six-storey building, especially-designed to adapt to any event size and purpose, with a total gross area of 40,587 square meters, and has been in operation since January 5, 1998. Major amenities of the center include ten (11) function rooms and two (2) Grand Ballrooms with a seating capacity of 4,000. WCC is the only convention and exhibition center of international standard in Cebu City.

**- Entertainment Block**

The Entertainment block is a six-storey building with a total gross area of 34,938 square meters. It is comprised of eleven (9) Food and Beverage entertainment outlets, an 11,000 square meters of public and international gaming area that includes the "Casino Filipino", and 62 hotel rooms and suites

**- Hotel Tower Block**

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

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

Waterfront Cebu City Hotel & Casino has 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 2nd 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 City Hotel and Casino operates 9 F&B outlets, including a hotel coffees shop, 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 newly renovated lobby was inspired 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.

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.**

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

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

This year 2016, the property extended the Annex parking to provide more slots for the guests and this year also marks the 20<sup>th</sup> anniversary of Waterfront Mactan Casino Hotel, Inc.

#### **Davao Insular Hotel Company, Inc. or Waterfront Insular Hotel Davao, Inc.**

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

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 159 guest rooms and suites, 5 function rooms and 6 F&B outlets. Every room opens to a lanai overlooking a lush garden the blue waters of the Davao Gulf or a scenic coconut grove. Features included in the newly re-opened hotel are the 5 Gazebos located along the beach area. 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.

On 2015, the property re-opens its gym with 48 square meters to continuously serve its guests and to ensure guests satisfaction.

#### **Acesite (Phils.) Hotel Corporation**

The principal property of the Company is a 22-storey building known as the Manila Pavilion Hotel located at the corner of United Nations Avenue and Maria Y. Orosa Street in Ermita, Manila. The Hotel has 337 guestrooms and suites that have individually controlled central air conditioning, private bathroom with bathtub and shower, multi-channel radio, color TV with cable channels and telecommunications facilities. It has 3 function rooms and one of this is Alcuaz which can accommodate 250-300 guests. The hotel has approximately 2,200 sq. meters of meeting/banquet/conference facilities, and also houses several restaurants, such as Seasons Café (coffee shop), the Rotisserie (grill room), the Peony Garden (Chinese restaurant), the Boulvar (bar & lounge) and the Patisserie (bakeshop and deli items). Other guest services and facilities include a chapel, swimming pool, gym, business center and a valet-service basement car park. Concessionaires and tenants include beauty salon, foot spa, photography services, transportation services, travel agency, flower shop and boutiques. In addition, Casino Filipino - Pavilion, owned and operated by PAGCOR, occupies part of the first, second, third, fourth and fifth floors (a total of 12,696.17 sq. m.) of the building.

The Company acquired 100% interest of CIMAR, a former subsidiary of Acesite Limited (BVI) or ALB, in October 2011. In July 2011, The Company and CIMAR executed a Memorandum of Agreement (MOA), which effectively settle all pending cases and controversies between the two parties. In fulfillment of all the terms and conditions of the MOA, CIMAR's stockholders including all their nominees, agreed to sign, sell, transfer and convey all existing shares of stocks of CIMAR to the Company.

Year 2015, Alcuaz function that can accommodate 250-300 guests was renovated and 111 rooms under superior room category were opened.

#### **Waterfront Hotel Management Corporation (previously Waterfront Management Corp.)**

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

On October 01, 2014, the BOD approved the cessation of the Company's business operations. Consequently, the Company's activities were confined mainly to the collection of receivables, settlement of liabilities, and other administrative matters, while maintaining its status as non-operating entity seeking for other business opportunities.

#### **Mayo Bonanza, Inc.**

Mayo Bonanza, Incorporated (MBI), a 100% owned subsidiary of WPI was incorporated on November 24, 1995 in the Philippines with principal activities in the operation and management of amusement, entertainment, and recreation businesses. MBI is to extend the gaming business of the Company. Its primary purpose is to establish, operate, and manage the business of amusement entertainment, and recreation facilities for the use of the paying public. The Company entered into an agreement with the Philippine Amusement and Gaming Corporation (PAGCOR) whereby the latter shall operate the former's slot machine outside of casinos in line with PAGCOR's slot machine arcade project.

#### **Waterfront Entertainment Corporation**

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

#### **Waterfront Food Concepts, Inc.**

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

#### **Waterfront Wellness Group, Inc.**

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

Citigym entices the public in 2015 by opening the newly renovated room-The Citigym Hit Zone. This is Citigym's "Do It Right" and smart solution to Cebu's growing interest in high intensity workout routines.

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

As of March 31, 2000, the Company carried its investments in GIRD1 at cost since it intended to dispose such investment in the near future. In November 2000, GIRD1 sold all of its property and equipment, inclusive of the hotel facilities and related operating assets and the investment in marketable securities.

#### **Waterfront Promotions Limited/Club Waterfront International Limited**

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

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

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

### **Basis 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 NCI in a subsidiary are allocated to the NCI even if doing so causes the NCI 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 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 revenue is recognized.

#### **Rooms**

Room revenue is recognized based on actual occupancy.

#### **Food and Beverage**

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

#### **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 Revenues**

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.

**1. Cash and Cash Equivalents**

Included in cash and cash equivalents as of September 30, 2016 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:

	September 2016	September 2015
Trade	154,634,313	185,687,996
Others	181,036,186	189,799,582
	<b>335,670,499</b>	<b>375,487,578</b>
Less allowance for doubtful accounts	-20,024,340	-17,436,705
<b>Total</b>	<b>315,646,159</b>	<b>358,050,873</b>

**3. Inventories**

This account consists of:

	September 2016	September 2015
Food and Beverage	15,094,772	10,166,743
Operating Supplies	11,267,077	16,640,245
Others	1,315,299	1,758,818
<b>Total</b>	<b>27,677,148</b>	<b>28,565,806</b>

**4. Related Party Transactions**

In 2016, the Parent Company extended interest-bearing, collateral free advances to TWGI, PRC and Crisanta Realty at a rate of two percent (2%) per annum. This also includes PHES which is due and demandable.

**5. Accounts Payable and Accrued Expenses**

This account consists of:

	September 2016	September 2015
Trade	512,507,442	466,203,743
Accrued Expenses	688,875,188	528,228,183
Others	108,550,109	321,055,030
<b>Total</b>	<b>1,309,932,739</b>	<b>1,315,486,956</b>

**6. Loans Payable**

This account consists of:

**SSS Loan**

SSS vs WPI. Et al civil case no. Q-04-52629 at regional trial court, Quezon City. On October 28, 1999, the Parent Company obtained a five-year term loan from SSS amounting to P375.00 million originally

due on October 29, 2004. The SSS loan bears interest at the prevailing market rate plus 3% or 14.5% per annum, whichever is higher. Interest is repriced annually and is payable semi-annually. Initial interest payments are due 180 days from the date of the release of the proceeds of the loan. The repayment of the principal shall be based on eight (8) semi-annual payments, after a one-year grace period.

The SSS loan was availed to finance the completion of the facilities of WCCCHI. It was secured by a first mortgage over parcels of land owned by WII and by the assignment of 200 million common shares of the Parent Company owned by TWGI. The common shares assigned were placed in escrow in the possession of an independent custodian mutually agreed upon by both parties.

On August 7, 2003, when the total loan obligation to SSS, including penalties and interest, amounted to P605.00 million, the Parent Company was considered in default with the payments of the loan obligations, thus, on the same date, SSS executed a foreclosure proceeding on the mortgaged parcels of land. The SSS's winning bid on the foreclosure sale amounting to P198.00 million was applied to penalties and interest amounting to P74.00 million and P124.00 million, respectively. In addition, the Parent Company accrued penalties charged by SSS amounting to P30.50 million covering the month of August until December 2003, and unpaid interest expense of P32.00 million.

The Parent Company, WII and TWGI were given the right to redeem the foreclosed property within one (1) year from October 17, 2003, the date of registration of the certificate of sale. The Parent Company recognized the proceeds of the foreclosure sale as its liability to WII and TWGI. The Parent Company, however, agreed with TWGI to offset this directly against its receivable from the latter. In August 2004, the redemption period for the Parent Company, WII and TWGI expired.

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

The Parent Company, at various instances, initiated negotiations with the SSS for restructuring of the loan but was not able to conclude a formal restructuring agreement.

In the absence of a formal restructuring agreement, the entire outstanding loan balance amounted to P375.00 million based on principal amount plus accrued interest and penalties amounted to P806.31 million and P746.44 million as at December 31, 2015 and 2014, respectively, presented as part of "Accrued interest and penalties" account under "Accounts payable and accrued expenses" (see Note 11).

On January 13, 2015, the RTC of Quezon City issued a decision declaring null and void the contract of loan and the related mortgages entered into by the Parent Company with SSS on the ground that the officers and the SSS are not authorized to enter the subject loan agreement. In the decision, the RTC of Quezon City directed the Company to return to SSS the principal amount of loan amounting to P375.00 million and directed the SSS to return to the Company and to its related parties titles and documents held by SSS as collaterals.

As at December 31, 2015, SSS has not yet appealed or filed a motion for reconsideration (see Note 25c).

#### **ICBC Loan**

The Company had committed an event of default with respect to the payment of its US\$15 million loan with the ICBC - Singapore Branch, which matured on 31 March 1998. On 03 June 2003, the loan was restructured by ICBC which stipulated six semi-annual installments payment of principal and interest until April 2006. In July 2004, the new management of the Company requested for a reprieve on loan principal payments due for the period, which the Company suggested to be placed at the end of the term of the Amended Agreement.

On the 1<sup>st</sup> quarter of 2016, the Company fully settled its loan obligation.

**PBB**

On June 10, 2011 and December 19, 2011, WCCCHI and WMCHI, respectively entered into a loan agreement with PBB amounting to Php300 million each with interest fixed at 12% per annum.

As of June 2016, the Company has no more loan obligations to PBB.

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

	September 2016	September 2015
Net Income (Loss)	357,438,181	222,372,340
Weighted Average Number of Shares Outstanding	2,498,991,753	2,498,991,753
Earnings (Loss) per share	0.143	0.095

There are no dilutive potential shares as of March 31, 2016 and 2015

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

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

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

PAGCOR also agreed to pay WCCCHI and WMCHI security deposits equivalent to one year rental based on monthly rentals, which amount shall be maintained at all times.

The lease agreement with WCCCHI is long-term, noncancellable, renewable and is subject to rent escalation. The lease agreements underwent various amendments and renewals. The latest renewal contract was executed by WMCHI and PAGCOR on March 21, 2011 for the Main Area, Slot Machine Expansion Area, Mezzanine and 5th Floor Junket Area. The lease period for the Main Area and Slot Machine Expansion Area shall be for five (5) years and five (months) and five (5) years and four (4) months, respectively. The leases shall commence on March 3, 2011 and March 16, 2011, for the Main Area and Slot Machine Expansion Area, respectively. Both leases shall end on August 2, 2016. The lease for the Mezzanine shall commence within ten (10) months after the execution of this contract, or simultaneously with the commencement of commercial gaming operations in the said Area. The lease for the 5th Floor Junket Area shall commence upon the execution of this lease contract for an initial period of one (1) year and within the said period, the lessee shall inform the lessor in writing whether the lessee will continue the lease over the said area or terminate the same.

The lease agreement with WMCHI is long-term, noncancellable, renewable and is subject to rent escalation. The lease agreements underwent various renewals. The latest renewal contract executed by WMCHI and PAGCOR was on March 21, 2011. The lease commenced on March 3, 2011 until August 2, 2016 or an extended period of five (5) years and five (5) months. Monthly rental is at P1,772.96 per square meter for the total area of 4,076.24 square meters of the main area and P1,688.53 per square meter for the total area of 1,076 square meters of the chip washing area, all subject to a 5%

escalation rate starting on January 3, 2013 and every year thereafter. In addition, PAGCOR shall pay six (6) months advance rental for the main casino area and six (6) months advance rental payment, for the chip washing area, upon execution of the lease contract. The advance rental payments shall be applied respectively to the rent due on the main casino area and chip washing area for the first six (6) months of the last year of the lease.

APHC also has a lease agreement with PAGCOR which is long-term, noncancellable, renewable and is subject to rent escalation. The lease agreement underwent various renewals. The latest renewal contract, known as the Omnibus Amended Lease Contract (OALC), was executed by APHC and PAGCOR on December 1, 2010.

The OALC covers the Main Area (7,093.05 sq. m.), Expansion Area A (2,130.36 sq. m.), Expansion Area B (3,069.92 sq. m.) and Air Handling Unit (AHU) Area (402.84 sq. m.) for a total lease area of 12,696.17 square meters. The lease period for the Main Area, Expansion Area A and AHU Area shall commence upon the signing of the lease agreement until December 16, 2016. While Expansion Area B commences ten (10) months after the turnover of the Expansion Area B to the lessee or the commencement of commercial gaming operations in the Expansion Area B, whichever comes earlier, and shall terminate on December 31, 2016. The OALC may be renewed at the option of the lessee under such terms and conditions as may be agreed upon by the parties. Annual escalation rate of 5% shall be applied on the third and fourth year of the lease.

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

Relative to the renewal of the contracts, the existing security deposits received by WCCCHI, WMCHI and APHC upon execution of the prior contracts were retained by the aforementioned entities. The amortized cost of the refundable security deposits were determined by calculating the present value of the cash flows anticipated until the end of the lease term using the respective interest rates. The change in the present value and the amortization of the discount is recognized as part of "Interest expense" account in profit or loss and amounted to P20.26 million, P18.95 million and P17.73 million in 2015, 2014 and 2013, respectively. As the deposits do not have an active market, the underlying interest rates were determined by reference to market interest rates of comparable financial instruments.

On October 16, 2014, PAGCOR requested WCCCHI, WMCHI and APHC to apply the outstanding advanced rentals and the security deposits held against its rental payments up to December 31, 2016, the end of the lease contracts.

As at December 31, 2015, negotiations between PAGCOR, WCCCHI, WMCHI and APHC for the renewal or extension of the leases are still on-going.

## **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 under 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.

### **Equipment under Finance Lease**

DIHCI leased equipment for a monthly fee of P125,000 starting November 2005 for 10 years from EMPI. At the end of the 10-year lease period, EMPI shall transfer to DIHCI, free from any lien or

encumbrance created by EMPI and without any payment of any compensation, all its rights, title and interest in and to the equipment.

At the inception of the lease, DIHCI capitalized the equipment and recognized the related lease liability equivalent to the present value of the total expected lease payments. Depreciation expense recognized in profit or loss related to the leased equipment amounted to P0.81 million in 2015 and P0.98 million in 2014 and 2013.

#### Lease Agreements with Concessionaires

WCCCHI, WMCHI, DIHCI and APHC have lease agreements with concessionaires of the commercial spaces available in hotels. These agreements typically run for a period of less than one year, renewable upon the mutual agreement of the parties (see Note 21).

#### Lease Agreements Entered into by MBI

##### a. Lease of Office Spaces

In May 2006, MBI entered into a contract of lease with TT&T Development, Inc. for the lease of the ground and second floors of its commercial building located at Rizal Avenue, Sta. Cruz, Manila. The covering lease agreement requires MBI to pay a monthly fixed rental of P368,000 with 5% annual increase starting on the second year of the lease term. The lease is for ten (10) years, subject to renewal upon such terms and conditions mutually acceptable to both parties.

##### b. Lease of Slot Machines to PAGCOR

On January 31, 2007, Dynamo Atlantic Limited (Dynamo), a foreign corporation duly organized, existing and registered at the British Virgin Islands (represented by the Company), as lessor, entered into a contract of lease with PAGCOR, as lessee, for the lease of the slot machine VIP Club at the Universal Park Mall Building in Sta. Cruz, Manila. Subsequently, Dynamo executed a deed of assignment in favor of MBI for the full authority and rights over the contract.

The lease was renewed several times, the latest of which was on June 30, 2014. The lease retroactively commenced on May 26, 2014 until June 30, 2016 and may be renewed upon mutual agreement by both parties. The lease agreement requires the lessee to pay the lessor a variable monthly rent equivalent to 35% of the slot machines' gross revenues after deducting the player's winnings/prizes and all applicable taxes. The contract specifies that the rental revenues earned from the lease are considered zero-rated transactions and therefore not subject to output VAT.

##### c. Lease of Slot Gaming Machines

On November 13, 2007, Dynamo, represented by MBI, entered into a Memorandum of Agreement (MOA) with Entertainment Gaming (Philippines), Inc. (EGP), for the 10-year lease of electronic gaming machines for installation and operation in Universal Park Mall Building located at Rizal Avenue, Sta. Cruz, Manila. The MOA requires Dynamo to pay rent amounting to 25% of monthly net winnings after 5% franchise tax for the first 36 months and 23% of monthly net winnings after 5% franchise tax for the succeeding months. Subsequently, Dynamo executed a deed of assignment in favor of MBI for the full authority and rights over the contract.

On October 27, 2014, the MOA was renewed by both parties. The lease retroactively commenced on February 18, 2013 until June 30, 2016 and may be renewed for up to five (5) years upon mutual agreement by both parties. The MOA requires MBI to pay rent amounting to 18% of the first P15.00 million, 20% for any amount in excess of P15.00 million but up to P20.00 million, and 23.75% for any amount in excess of P20.00 million. The amended MOA also requires the payment of 9% interest on past due accounts



## 10. Commitments and Contingencies

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

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. The CTA En Banc decision promulgated on December 4, 2014 affirmed the VAT and EWT assessments. The EWT assessment was paid on March 3, 2013.

The CTA En Banc decision was appealed to the SC on February 5, 2015 covering the VAT assessment only. As at December 31, 2015, the Parent Company is still awaiting SC's decision.

Management and its legal counsel believe that the position of the Parent Company is sustainable, and accordingly, believe that the Parent Company does not anymore have a present obligation (legal or constructive) with respect to the assessment.

**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 September 30, 2016 and 2015 together with its financial conditions as of the same period.

**RESULTS OF OPERATIONS**

	September 2016	September 2015
<b>Revenues</b>	1,593,797,522	1,594,580,548
<b>Less: Costs and Expenses</b>	983,971,133	1,040,141,115
<b>Net Income (Loss) Before Fixed Financial and Other Charges</b>	609,826,389	554,439,433
<b>Less: Fixed Financial and Other Charges (Dep'n and Amort'n, and Interest)</b>	220,534,403	317,688,202
<b>Income (Loss) before Income Tax</b>	389,291,987	236,751,231
<b>Income Tax Expense ( Benefit)</b>	0.00	0.00
<b>Income (Loss) before Share in Minority Interest</b>	389,291,987	236,751,231
<b>Share of Minority Interest</b>	31,853,806	14,378,891
<b>Net Income (Loss)</b>	357,438,181	222,372,340
<b>Earnings (loss) Per share</b>	0.143	0.095

**FINANCIAL CONDITION**

	September 2016	September 2015
<b>Assets</b>		
<b>Current assets</b>	2,010,316,025	2,438,124,054
<b>Non-current Assets</b>	6,360,198,851	6,129,631,456
<b>Total Assets</b>	8,370,514,876	8,567,755,510
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>	1,925,737,165	2,060,837,404
<b>Non-current Liabilities</b>	1,162,958,237	1,768,458,904
<b>Total Stockholders' Equity</b>	4,475,484,867	3,978,964,751
<b>Minority Interest</b>	806,334,607	759,494,451
<b>Total Liabilities and Stockholders' Equity</b>	8,370,514,876	8,567,755,510

## RESULTS OF OPERATIONS

Period ended September 30, 2016 compared to Period Ended September 30, 2015

### Income Statement

Hotels and other subsidiaries gross revenues for the 3rd quarter of 2016 and 2015 are Php 1.593 billion and Php 1.594 billion respectively, a slight decrease of 0.00049%. Effective cost control was demonstrated yet again as consolidated cost and expenses for all properties decreased by 5%, from Php 1.04 billion in 2015 to Php 0.98 billion in 2016. These figures indicate the blanket effect of comprehensive institutional measures that have been implemented across all our properties, resulting in company-wide gains and strong overall performance.

### *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 is full of Chinese nationalities and businessmen and 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.

The company and the management itself continue to navigate to a position of incontestable strength and market leadership. To go beyond outside traditional markets and develop new revenue streams. And further enhance measures to decrease its operating cost without sacrificing the need and satisfaction of its guest/clients.

#### 2<sup>ND</sup> QUARTER

The MICE market has been a particularly strong driving force in the year. Our ability to reach out to our existing client base to facilitate further business and enhance brand loyalty has been highly rewarding, with MICE-generated banquet and functions contributing significantly to overall growth in sales.

Overall, reflects a keen interest by both local and international markets, with the local market as a uniquely consistent driving force in our hotels—showing that the Waterfront brand has gained significant loyalty among local customers and provides an important revenue stream that can be harnessed further as it creates resilience in the business. The increase in foreign bookings among different demographics indicates the overall upward trend in global travel, yet also demonstrates our ability to capture different markets through effective distribution across our selected channels.

#### 3<sup>RD</sup> QUARTER

At Waterfront, we emphasize service that brings people back, and we reinforce this service through site training, among other programs. We are known for our signature warmth, attention to detail and approachability, qualities that our guests of all nationalities cherish during every stay. Whoever encounters the Waterfront experience will be assured of a reliable, consistent and satisfying brand familiarity that leads to loyalty thus, keeping us afloat amidst the aggressive competition amongst hotels.

**TOP FIVE (5) PERFORMANCE INDICATORS**

	September 2016	September 2015
Occupancy Percentage	68%	65%
Average Room Rates	2,358	2,287
Food Covers	244,322	237,679
Average Food Checks	367	368
Average Food Costs	36%	33%

**Occupancy Percentage**

The occupancy percentage increased by 3% as compared to 3rd quarter of 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 3% higher compared to 3rd quarter of last year. This is one of the alternative strategies of the marketing operations to bend the room rate to take advantage after a global economic recovery. Average room rate is computed by dividing the net rooms revenue over the total number of rooms sold.

**Food Covers**

Food covers this quarter increased by 3% compared to the 3rd quarter of 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 decreased by 0.27% compared to 3rd quarter of 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 increased by 3% from previous year of the same quarter. 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 0.00049% or Php 0.78 million for the 3rd quarter of 2016 as compared to previous year of the same quarter while operating expenses decreased by 5%. Such decreased in revenues and decreased in operating expenses and other charges resulted to a net income of Php 357.44 million, which is 11% higher compared to last year same quarter.

Earnings per share this quarter is a P0.143 while same quarter last year was P0.095.

**Fixed Financial and Other Charges**

Total fixed financial and other charges for this quarter is 31% lower compared to same quarter last year. This account includes the depreciation and interest expense from bank loans.

Interest Expense this quarter is lower by 15% compared to the 3rd quarter last year.

**FINANCIAL CONDITION****Cash and Cash Equivalent**

Cash and cash equivalents as of the 3rd quarter of this year is Php 156.23 million compared to 3rd quarter of Php194.82 million; a decreased of 20%.

**Receivables**

Receivables for the period decreased by 12% from Php 358.05 million 3rd quarter last year to

Php 315.65 million 3rd quarter this year.

#### **Inventories**

Inventory for this quarter is lower than that of last year's—Php 27.68 million this year while last year was Php 28.57 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 20% from last year's first quarter. This also represents interest bearing advances with TWGI, PRC and Crisanta Realty at a rate of two percent (2%) per annum and PHES which is due on demand.

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

There is a decrease of 5% on this account. This is mainly due to depreciation.

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

This account has decreased by Php 5.55 million from last year.

#### **Loans Payable**

There is a decreased of Php 106.13 million on this account. For this 3rd quarter 2016, the company had settled its full obligations to ICBC and PBB.

#### **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. There are no material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures.
- 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 that did not arise from the issuer's continuing operations other than those already affecting profit or loss.

#### **Financial Risk and Capital Management Objectives and Policies**

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, due from related parties, AFS investment, accounts payable and accrued expenses (except for local taxes and output VAT, withholding taxes and deferred income), other current liabilities, 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. There has been no change to the Group's exposure to risks or the manner in which it manages and measures the risks in prior financial year. 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.

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

Information on the Group's receivables and due from related parties that are impaired as of December 31, 2015 and 2014 and the movement of the allowance used to record the impairment losses are disclosed in Notes 5 and 8 to the consolidated financial statements.

#### **Liquidity Risk**

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

The Group monitors and maintains a level of cash deemed adequate by the management to finance

the Group's operation and mitigate the effects of fluctuations in cash flows. Additional short-term funding is obtained thru related party advances and from bank loans, when necessary.

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

#### **Market Risk**

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

#### **Interest Rate Risk**

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

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

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

#### **Cash Flow Interest Rate Risk**

The following table illustrates the sensitivity of net income and equity for 2015 and 2014 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 sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax by P523,152 and P1,540,515 in 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market

conditions in those periods. There is no impact on the Group's other comprehensive income.

The other financial instruments of the Group are noninterest-bearing and are therefore not subject to interest rate risk.

#### Fair Value Interest Rate Risk

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of  $\pm 50$  basis points in 2015 and 2014. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based

on the Group's loan payable held at the reporting date. All other variables are held constant (in thousands).

Increase (Decrease) Change in interest rates (in basis points)	Income after Income Tax	
	2015	2014
+50	(P3,404)	(P3,139)
-50	3,404	3,139

There is no other impact on the Group's equity other than those already affecting profit or loss in 2015 and 2014.

#### Foreign Currency Risk

Currency risk arises when transactions are denominated in foreign currencies.

As a result of the loan payable from ICBC which is denominated in U.S. Dollar, the Group's consolidated statement of financial position can be affected by movements in this currency. Other than that, the Group does not have any material transactions denominated in foreign currencies as its revenues and costs are substantially denominated in Philippine peso.

The Group monitors and assesses cash flows from anticipated transactions and financing agreements denominated in U.S. Dollar. The Group manages its foreign currency risk by measuring the mismatch of the foreign currency sensitivity gap of assets and liabilities.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine peso equivalents as at December 31 are as follows:

	2015	
	U.S. Dollar	Philippine Peso
Cash	\$9,423	P443,427
Loan payable	(1,595,900)	(75,272,219)
Net foreign currency-denominated liability	(\$1,586,477)	(P74,828,792)
	2014	
	U.S. Dollar	Philippine Peso
Cash	\$7,411	P330,646
Loan payable	(4,967,900)	(221,652,794)
Net foreign currency-denominated liability	(\$4,960,489)	(P221,322,148)

The following are the significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2015	2014	2015	2014
U.S. dollar	P47.12	P44.39	P47.06	P44.69

The Group recognized an unrealized foreign currency exchange loss amounting to P8.16 million, P1.53 million and P22.55 million in 2015, 2014 and 2013, respectively, arising from the translation of these foreign currency-denominated financial instruments.

The following table demonstrates the sensitivity of the net income for the periods reported to a reasonably possible change in U.S. dollar exchange rate based on past rates and macroeconomic forecasts for 2015 and 2014, with all other variables held constant, of the Group's 2015 and 2014 income after income tax. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items.

The analysis assumes a 10% strengthening and weakening as at December 31, 2015 and 2014, respectively of the Philippine peso against the US dollar exchange rate:

	Strengthening		Weakening	
	10%	10%	-10%	-10%
	2015	2014	2015	2014
Net income	P5,226,174	P15,492,550	(P5,226,174)	(P15,492,551)

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

#### Equity Price Risk

Equity price risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk because of its investment in shares of stock of WII which are listed in the PSE totaling to 86,710,000 shares as at December 31, 2015 and 2014.

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

The following table illustrates the sensitivity of the Group's equity to a reasonably possible change in equity price. These changes are considered to be reasonably possible based on past equity price performance of the Group's AFS investment and macroeconomic forecast for 2015 and 2014. This analysis assumes an increase of 10% for 2015 and 2014 and a decrease of 10% for 2015 and 2014 of the equity price of the Group's AFS investment. All other variables are held constant:

	Increase		Decrease	
	10%	10%	-10%	-10%
	2015	2014	2015	2014
Equity	(P1,274,637)	P1,608,471	(P1,274,637)	(P1,608,471)

#### Fair Value of Financial Assets and Liabilities

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term maturity of these instruments.

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

The fair value of AFS investments was determined using the closing market price of the investment listed on the PSE.



The fair value of other noncurrent liabilities was calculated by discounting expected future cash flows at prevailing market rates.

### **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 2016 and 2015.

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 2016 and 2015. For purposes of the Group's capital management, capital includes all equity items that are presented in the consolidated statement of changes in equity.

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

**Financial Ratios**

	<b>Formula</b>	<b>Calendar Year Ended</b>	<b>Previous Calendar Year</b>
		<b>September 30, 2016</b>	<b>September 30, 2015</b>
<b>Liquidity Analysis Ratios:</b>			
<b>Current Ratio or Working Capital Ratio</b>	<b>Current Assets / Current Liabilities</b>	<b>1.04</b>	<b>1.18</b>
<b>Quick Ratio</b>	<b>(Current Assets - Inventory - Prepayments) / Current Liabilities</b>	<b>0.99</b>	<b>1.14</b>
<b>Solvency Ratio</b>	<b>Total Assets / Total Liabilities</b>	<b>4.35</b>	<b>4.16</b>
<b>Financial Leverage Ratios</b>			
<b>Debt Ratio</b>	<b>Total Debt / Total Assets</b>	<b>0.37</b>	<b>0.45</b>
<b>Debt-to-Equity Ratio</b>	<b>Total Debt / Total Stockholders' Equity</b>	<b>0.58</b>	<b>0.81</b>
<b>Interest Coverage</b>	<b>Earnings Before Interest and Taxes (EBIT) / Interest Charges</b>	<b>6.69</b>	<b>3.08</b>
<b>Asset to Equity Ratio</b>	<b>Total Assets / Total Stockholders' Equity</b>	<b>1.58</b>	<b>1.81</b>
<b>Profitability Ratios</b>			
<b>Gross Profit Margin</b>	<b>Sales - Cost of Goods Sold or Cost of service / Sales</b>	<b>0.38</b>	<b>0.35</b>
<b>Net Profit Margin</b>	<b>Net Profit / Sales</b>	<b>0.24</b>	<b>0.15</b>
<b>Return on Assets</b>	<b>Net Income / Total Assets</b>	<b>0.05</b>	<b>0.03</b>
<b>Return on Equity</b>	<b>Net Income / Total Stockholders' Equity</b>	<b>0.07</b>	<b>0.05</b>
<b>Price / Earnings Ratio</b>	<b>Price Per Share / Earnings Per Common Share</b>	<b>0.143</b>	<b>0.095</b>

**WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES**  
**SCHEDULE OF AGING OF ACCOUNTS RECEIVABLE FOR SEC REPORTING**  
**As of September 30, 2016**

<b>Trade Receivables</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>121 days over</b>	<b>Total</b>
Waterfront Cebu City Casino Hotel Inc.	7,415,298.02	7,168,823.99	5,105,550.37	6,205,642.66	34,504,784.08	60,400,099.12
Waterfront Airport Hotel and Casino	20,438,012.68	94,313.46	25,658.41	30,120.28	531,242.51	21,119,347.34
Waterfront Insular Hotel Davao	13,432,654.06	21,456.72	-	215,081.88	1,660,918.34	15,330,111.00
Manila Pavilion Hotel	6,644,913.85	3,889,953.00	1,234,982.09	1,194,544.96	13,617,602.92	26,581,996.82
<b>Total</b>	<b>47,930,878.61</b>	<b>11,174,547.17</b>	<b>6,366,190.87</b>	<b>7,645,389.78</b>	<b>50,314,547.85</b>	<b>123,431,554.28</b>