COVER SHEET

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SEC 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

(Company's Full Name)

I P T B U I L D I N G , P R E - D E P A R T U R E

A R E A , M A C T A N C E B U

I N T E R N A T I O N A L A I R P O R T

L A P U - L A P U C I T Y , C E B U

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

MS. CONNIE FRANCISCO

Contact Person

(02) 687-0888

Company Telephone Number

1 2 — 3 1

Month *Day*

1 7 - A

FORM TYPE

0 8 — 0 5

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

717

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A

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

1. For the calendar year ended DECEMBER 31, 2006

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

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

5. PHILIPPINES
   Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
   Industry Classification Code:

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

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

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

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

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

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

    Yes [x] No [ ]

12. Check whether the registrant:

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

    Yes [x] No [ ]

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

    Yes [ ] No [x]

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

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

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

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

Marketing

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

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

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

Information Technology

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

	WCCCHI	WMCHI	DIHCI	Acesite	WMC
Micros-Fidelio Point-Of-Sale System	X	X	X	X	
Micros-Fidelio Engineering Management Sytem	X	X	X		
Micros-Fidelio Opera Sales and Catering System	X				
Micros-Fidelio Front Office System			X		
Opera Property Management System	X	X		X	X
SUN SYSTEM	X	X	X	X	
Human Resource Information System (ACLT)	X	X			
Actatek Biometric Fingerscan System	X	X	X	X	X
Micros-Fidelio Inventory System	X	X	X	X	X

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

Employees

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

By the end of the year 2006, the Company granted the employees a performance incentive. The basis of which is the employees' appraisal relative to their actual performance during whole year. This is to recognize the employees' hard work and dedication to their jobs.

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

Property	Training Index
WCCHI	72.87
WMCHI	73.71
DIHCI	106.47
APHC	70.92
WMC	230.75
Citigym	112.43

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

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

As of the end of the calendar year 2006, *WPI* Group has a total of **1,459** employees that were distributed as follows:

WPI

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	6	0	6
Total	7	0	7

WCCCHI:

	Filipinos	*Foreigners*	*Total*
Executive	30	4	34
Non-Executive	515	1	516
Total	545	5	550

WMCHI:

	Filipinos	*Foreigners*	*Total*
Executive	11	0	11
Non-Executive	160	0	160
Total	171	0	171

DIHCI:

	Filipinos	*Foreigners*	*Total*
Executive	9	0	9
Non-Executive	121	0	121
Total	130	0	130

WMC:

	Filipinos	*Foreigners*	*Total*
Executive	9	0	9
Non-Executive	45	0	45
Total	54	0	54

WCWI:

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	19	0	19
Total	20	0	20
Grand Total	927	5	**932**

There is no existing union under the Company except for Davao where the Collective Bargaining Agreement (CBA) covered **101** Rank & File employees and **31** Management staff. The renegotiation of the CBA is pending for the next few years, as Memorandum of Agreement dated May 8, 2001.

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

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

	Actual Manpower Count As of 31 December 2006	31 December 2005
Department Head	45	39
Managerial and Supervisors	125	80
Line Staff	357	399
Total	527	518

The Manila Pavilion Hotel has not experienced any strikes for the past five years. The Collective Bargaining Agreement (CBA) for the line employees would have expired last June 30, 2005 but was extended to June 30, 2007 as per Memorandum of Agreement (MOA) dated May 20,2005. The negotiation for the CBA for the supervisors was concluded on November 30, 2006 covering a period of five years (2006 – 2011).

Business of WPI and Its Subsidiaries

- ***WPI***

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

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

Subsidiaries

The Company has the following subsidiaries, which are briefly described in the next pages:
1. Waterfront Cebu City Casino Hotel, Inc. (WCCCHI)
2. Waterfront Mactan Casino Hotel, Inc. (WMCHI)
3. Waterfront Insular Hotel Davao, Inc.
4. Waterfront Promotions Limited
5. Waterfront Entertainment Corporation
6. Mayo Bonanza, Inc.

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

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

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

-*Cebu International Convention Center*

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

- *Entertainment Block*

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

- *Hotel Tower Block*

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

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

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

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

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

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

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

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

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

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

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

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

- ***Waterfront Promotions Limited***

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

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

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

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

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

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

Mayo Bonanza, Incorporated (MBI), a 100% owned subsidiary of *WPI* was incorporated on November 24, 1995 in the Philippines with principal activities in the operation and management of amusement, entertainment, and recreation businesses. MBI is to extend the gaming business of the Company.

- ***Waterfront Entertainment Corporation***

WPI has planned to dip into the show business world by opening up its newest subsidiary, *Waterfront Entertainment Corporation*. The prime purpose of this new company is to produce or co-produce shows for the three signature hotels. Aside from generating additional revenues for the WPI family of companies, it also ensures greater fulfillments among the guests' stay in the hotels.

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

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

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

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

The subsidiary has already catered most of the renowned coffee shops in the city of Cebu and even in places outside the city like Tagbilaran and Tacloban.

- ***Waterfront Management Corporation***

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

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

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

Business Development

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

Year 2004

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

Year 2005

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

Year 2006

WPI has progressed steadily in spite of the emergence of new competitors. The total consolidated revenue generated 1.91B or an increase of 109M compared to last year's operations. This year two of its properties in Cebu had completed its renovation of the rooms in preparation for the ASEAN Summit hosted by the city. Though the summit was re-scheduled on the following year, Waterfront hotels has been ready to welcome the delegates and face the challenge of competing with newly opened hotels in Cebu. During this year the company started operating its two subsidiaries, Waterfront Food Concepts and Waterfront Management Corporation. Waterfront Food Concepts has already been catering pastry products to a number of cafes in Cebu and close to the end of the year, Waterfront Management Corporation entered into managing contract, taking part in the newly opened G-Hotel by Waterfront in Malate, Manila. Another subsidiary has been incorporated and started its operations this year, W Citigyms & Wellness, has been open to health and fitness aficionados. These subsidiaries are expected to contribute to the revenue generation of WPI in the next years.

Strategies

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

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

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

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

Item 2. Properties

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

Location	27th Floor Wynsum Corporate Plaza, 22 Emerald Avenue, Ortigas Center Pasig City
Size	249.25 square meters with parking spaces
Terms of the Lease	From April 1, 2005 to March 31, 2008 (3 years); renewable within 90 days before the lease period expires permissible by the laws of the Philippines
Rental	On the office spaces: Php 350 per sq. m. per mo.; total of Php 101,937.50 291.25with

	escalation fee of ten % on the third year. On the parking spaces: Php 3, 181.82 per month for each parking space for a total monthly rental fee of Php 6, 363.64 subject to an escalation fee of 10% on the third year. These rentals are exclusive of VAT.
Development	Lease improvements are made for the office space and are being capitalized by the company according to generally accepted accounting principles.

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

WCCCHI Land Lease:

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

WMCHI Land Lease:

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

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

DIHCI Wholly Owned:

Location	Title	Area (In Sq. Meters)
▪ Lanang, Davao City	TCT 0-255*	2,997
	0-256*	304
	0-257*	113
	0-258*	50
	0-259*	404

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

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

ACESITE Land Lease

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

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

Item 3. Legal Proceedings

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

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

4.1 During the annual stockholders' meeting held last August 5, 2006, the stockholders approved and ratified the following matters:

a. Election of the members of the Board of Directors to serve for the term 2006-2007. Those elected regular members of the Board were:
   1. Mr. Renato B. Magadia
   2. Mr. Reno I. Magadia
   3. Mr. Kenneth T. Gatchalian
   4. Mr. Rexlon T. Gatchalian
   5. Mr. Arthur M. Lopez
   6. Mr. Dee Hua T. Gatchalian
   7. Ms. Elvira A. Ting
   8. Atty. Lamberto B. Mercado, Jr.
   9. Mr. Sergio R. Ortiz-Luis, Jr.

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

b. The designation of KPMG Laya Mananghaya & Co. as the Corporation's external auditor. KPMG was also the external auditor for the years 2004 and 2005.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

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

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

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

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

Peso	**High**	**Low**
2006		
January – March 2006	0.49	0.27
April- June 2006	0.68	0.44
July- September 2006	0.62	0.42
October- December 2006	0.68	0.42

The price of the stock is P 0.98 as of March 31, 2006.

5.1 The number of stockholders of record as of December 31, 2006 on the Register of Shareholders was 649 but the company is not able to identify the actual number of beneficial owners who are registered under the name of the member companies of the Philippine Stock Exchange (PSE). Common shares outstanding as of December 31, 2006 were 1,945,934,653. There are no sales for the last three years of unregistered securities.

5.2 The list of top 20 stockholders of record as of December 31, 2006 is as stated hereunder:

	Name of Stockholder of Record	No. of Shares	%
1	The Wellex Group, Inc.	1, 227, 254, 239	63.07
2	PCD Nominee Corporation (Filipino)	402, 278, 702	20.67
3	PCD Nominee Corporation (Non-Filipino)	88, 852, 350	4.56
4	Rexlon T. Gatchalian	44, 740, 000	2.29
5	Kenneth T. Gatchalian	30, 000, 100	1.54
6	Weslie T. Gatchalian	30, 000, 000	1.54
7	Forum Holdings Corporation	20, 526, 000	1.06
8	Primary Structures Corporation	16, 212, 500	0.83
9	Metro Alliance Holdings and Equities	14, 370, 000	0.74
10	Manuel H. Osmeña &/or Grelina O. Osmeña	12, 515, 800	0.64
11	Elvira A. Ting	10, 000, 009	0.51
12	Catalina Roxas Melendres	6, 246, 000	0.32
13	William T. Gatchalian	4, 683, 200	0.24
14	Renato Chua	2, 749, 000	0.14
15	William C. Liu	2, 010, 450	0.10
16	Renato Yao Chua	1, 704, 500	0.09
17	Manuel H. Osmeña & / or Manuel L. Osmeña II	1, 540, 000	0.08
18	Rolando M. Lim	1, 142, 500	0.06
19	Felipe A. Cruz	1, 100, 000	0.06
20	Maria Concepcion Cruz	876, 000	0.04

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

Below are the results of operations of the Parent Company and its subsidiaries, for the years ending December 31, 2006 and 2005 together with its financial conditions as of the same periods.

RESULTS OF OPERATIONS (Amounts in P '000)

	Dec 2006	Dec 2005
Revenues	1,913,740	1,804,209
Less: Costs and Expenses	1,455,414	1,305,382
Net Income (Loss) Before Fixed Financial And Other Charges	**458,326**	498,827
Fixed Financial and Other Charges (Dep'n and Amortization, and Interest)	464,541	419,693
Net Income (Loss) Before Income Tax	**6,215**	79,134
Provision for Income Tax	24,457	36,177
NET INCOME (LOSS)	**18,242**	42,957
Earnings (Loss) Per Share	**P0.017**	P0.023

FINANCIAL CONDITION (Amounts in P '000)

	Dec 2006	Dec 2005
ASSETS		
Current Assets	1,221,897	1,038,332
Total Assets	**7,374,313**	**7,341,428**
Current Liabilities	2,260,127	2,023,147
Total Liabilities	**4,038,236**	**4,089,499**
Total Stockholders' Equity	3,336,077	3,251,929
Total Liabilities & S/H Equity	**7,374,313**	**7,341,428**

Calendar Year ended December 31, 2006 as compared with Calendar Year ended December 31, 2005

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2006, was higher than the previous year. In actual performance, revenues from hotel operations for the year 2006, is P1.85B compared to 2005's P1.79B, approximately a 30% increase.

  Earnings per share for 2006 was 0.017 compared to last year's 0.023

Cost and expenses

- Cost and expenses increased by P150.03M or 11% basically due to increase in prices.

  Even though, there was an increase in cost and expenses, still WPI registered a consolidated net income of P 18.24M

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account decreased by P 12M or 17%. Short-term placements earn interest at 2% per annum and maturity of 30 days.

Receivables - Intensified sales efforts brought about the increase in receivables by 50%, from P133.83M to P200.94M. The company continues to counter the increased credit sales, at the same time increase the Manila accounts collection.

Inventories – Increase in inventories by 16%, from P34M to P39.45M, attributed mainly to increase in approximately P 2.58M in food & beverage inventory as well as increase in operating supplies inventory by P 1.94M

Prepaid expenses and other current assets – There is a decrease of P0.15M in this account, from P28.88M to P24.39M for the year 2006.

Due from related parties – This account increased by 127.62M or by 16%. This also represents interest bearing advances with MAHEC and TWGI at a rate of four percent (4%) per annum and non-interest bearing advances with FHI.

Property plant & equipment – This account decreased by P187.66M or 3%. In compliance with PAS 27, property and equipment (except operating and transportation equipments) were carried at revalued amounts effective 2005.

Other assets – The account increased by P11.08M or 1%. This account is mainly composed of unsecured receivables from Acesite Limited (BVI) amounting to P717.42M, which accounts for 90% of the total Other Assets.

Current Liabilities – This account consists of trade, income tax payables and accruals. Additional purchases with various suppliers brought about the increase in this account by 11% from P2.02B to P2.26B. This also represents the current portion of the loans payable.

Payable to affiliated companies – This account decreased by P.59M or by 13%. These are non-interest bearing and collateral-free advances from affiliates.

Loans Payable – There is a decrease of P245.18M or 30%, represents loan from the Social Security System, Philippine National Bank and from Industrial Commercial Bank of China – Singapore Branch.

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

RESULTS OF OPERATION

Revenues and Earnings per share

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

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

Cost and expenses

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

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

FINANCIAL CONDITION

Current Assets

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

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

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

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

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

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

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

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

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

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

Item 7. Financial Statements

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

INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

1) External Audit Fees and Services

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

A) Audit and Audit-Related Fees

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,	
	2006	**2005**
Aggregate Fees Billed for the external audit of the Company's financial statements	2,055,000.00	1,680,000.00

B) Tax Fees

None

C) All Other Fees

None

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

None

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

9.1 The names and ages of the Directors and Executive Officers as of December 31, 2006 are as follows:

Office	Name	Age	Position in Other Listed Companies
Chairman of the Board	Renato B. Magadia	68	Director-Phil. Estate Corporation, Metro Alliance Holdings, Interphil Laboratories
Director and President	Rexlon T. Gatchalian	27	-
Director	Kenneth T. Gatchalian	30	Director-Wellex Industries Inc.
Director	➢ *Arthur M.Lopez*	60	Director-Philippine Estate Corp.
Director	Dee Hua T. Gatchalian	58	Director- Philippine Estates Corporation, Express Savings Bank, Acesite (Philippines) Hotel Corporation
Director	Reno I. Magadia	36	Managing Director- Misons Industrial & Development Corp., Serve Well Manpower Inc., Timecorde Ltd. & Firefly Enterprises Corp.
Director	Lamberto B. Mercado	42	Director-The Wellex Group, Inc.
Director	➢ *Sergio R. Otiz-Luis Jr.* *(as nominee for this year)*	63	Director- Philippine Exporters Confederation, Inc. (PHILEXPORT), Philippine Foundation, Inc. (Team Philippines), Philippine Small & Medium Enterprises Development (PHILSMED Employers Confederation of the Philippines (ECOP), Export and Industry Bank, One Mckinley Place, Inc., EIB Realty & Development Corporation, EIB Securities, Inc., EIB Condominium Corporation, Manila Exposition Complex, Inc. (World Trade Center), Valuelife Insurance, Inc., Valuelife Financial, Inc., International Chamber of Commerce of the Philippines (ICCP), GS1 (Formerly Philippine Article Numbering Councill), Universal LRT Corp., Holy Angel Memorial Park. With government affiliations withExport Development Council (EDC), Social Security System (SSS), Foundation for Crime Prevention (Patrol "117" Commission), Dept. of Trade & Industry - Phil. Quality Award Committee, Consulate of Romania in the Philippines, Consular Corps of the Philippines, Constitutional Consultative Commission. Civic Organizations: Rotary Club of Greenmeadows Quezon City RI District 3780, Philippine Jaycee Senate, Rotary Club of Valencia, Quezon City, League of Corporate Foundation, Philippine Coastguard Auxiliary, NCR PNP C.O.P.S. Foundation, Bestfr. 0. 1iends Kontra Droga, International Association of Educators for World Peace, Council of Advisers

			Philippine National Police, Council of Advisers Eastern Police District
Director and Treasurer	Elvira A. Ting	46	Director-Philippine Estates Corp., Wellex Industries, Inc., Palawan Estates Corporation, Forum Pacific, Inc.

- Independent Directors – Mr. Arthur Lopez and Mr. Sergio R. Ortiz-Luis were nominated by Ms. Elvira Ting. Independent directors have no relationship with Ms. Elvira Ting.

  Mr. Sergio R. Ortiz-Luis replaced Ms. Alexandria Gonzales.

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

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

A graduate of the University of the Philippines Diliman with a degree in Business Administration, he is concurrently, the Chairman of the Board of ZetaMark, Inc., Mabuhay Vinyl Corporation, Consumer Products Distribution Services, Inc., Metro Alliance Holdings and Equities Corporation, Waterfront Philippines, Inc., Mercator Securities Corporation and Zeta Holdings & Management Corp. He is also the Vice-Chairman of Acesite (Phils) Hotel Corporation. He is a Director of various companies like Accette Insurance Brokers, Inc., Accette Life & Accident Insurance Brokers, Inc., All Ocean Maritime Agency, Inc., Cunningham Toplis Philippines, Inc., F.E. Zuellig (M), Inc., GAC Logistics, Inc., Golden Eight Holdings Ltd – BVI Company, Harbor Center I & II, Inc., Interphil Laboratories, Inc.,Misons Industrial & Dev't Corp., Phil. Accident Managers, Inc., Phil. Estates Corp., Time Concorde Ltd. Hongkong Company, WTC Club Int'l, ZCM Corp.,ZI-Techasia (Pilipinas). He is also a trustee in The Zuellig Foundation, Inc. He has been a director of Waterfront since 1999.

Reno I. Magadia

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

Rexlon T. Gatchalian – *President*

A graduate of Political Science from the George Washington University in 2001, Mr. Rexlon T. Gatchalian became a Director of Waterfront in November 2002. He is also a member of the Board of Directors of Express Savings Bank, Inc. He currently enjoys the position of being the Executive Vice-President for Hotel Operations of Waterfront Hotels & Casinos. He is only 27 years old.

Elvira A. Ting - *Treasurer*

Ms. Elvira A. Ting earned her Bachelor's Degree in Business Administration major in Management from the Philippine School of Business Administration. She's 46 years old and has been a Director of Waterfront since October 2000. She is also the President/Director of Philippine Estates Corp. and Wellex Industries, Inc. Also, she's a Chairperson/Director of Express Savings Bank, Treasurer of Palawan Estates Corp., Director/Treasurer of Forum Pacific Inc., Director of Mabuhay Vinyl Corp., and Director/CFO of Acesite Phils. Inc.

Arthur R. Ponsaran – *Corporate Secretary*

Mr. Arthur R. Ponsaran is the Managing Partner of Corporate Counsels, Philippines Law Offices and Director/Secretary of Forum Pacific Inc., Wellex Industries Inc., The Wellex Group Inc., and Express Savings Bank, Secretary of Reynolds Philippines and Director of Phil. Estates Corp. He is 63 years old and earned his Bachelor of Laws from the University of the Philippines. He is a CPA/Lawyer by profession.

Kenneth T. Gatchalian – *Director*

Mr. Kenneth T. Gatchalian holds a degree in Bachelor of Science in Architecture from the University of Texas in San Antonio, Texas, USA. He is only 30 years old and has been a Director of Waterfront since February 2001. He is also the Executive Vice President – Chief Operating Officer of the Phil. Estates Corp. and a member of the Board of Forum Pacific, Inc. and Wellex Industries, Inc.

Arthur M. Lopez – *Director*

Mr. Arthur M. Lopez is a Masters Degree holder in Business Administration from the University of Santo Tomas. He is 60 years old and has been a Director of Waterfront since October 2000. He is a Director of Phil. Estates Corp. and presently the President and CEO of CCA Phils. Corp.

Dee Hua T. Gatchalian – *Director*

A degree holder in Bachelor of Science in Medical Technology, Ms. Dee Hua T. Gatchalian is the EVP- Finance and Administration for both The Wellex Group, Inc. and Plastic City Corporation. She is also a Board of Director for Philippine Estates Corporation, Express Savings Bank and Acesite (Philippines) Hotel Corporation.

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

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

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

Mr. Sergio R. Ortiz-Luiz Jr. earned his Bachelor of Arts, Bachelor of Science in Business Administration, Masters Business Administration at the De La Salle College, Doctor of Humanities and Central Luzon State University. He is a director in Philippine Exporters Confederation, Inc. (PHILEXPORT), Philippine Foundation, Inc. (Team Philippines), Philippine Small & Medium Enterprises Development (PHILSMED Employers Confederation of the Philippines (ECOP) Export and Industry Bank, One Mckinley Place, Inc., EIB Realty & Development Corporation, EIB Securities, Inc., EIB Condominium Corporation, Manila Exposition Complex, Inc. (World Trade Center), Valuelife Insurance, Inc., Valuelife Financial, Inc., International Chamber of Commerce of the Philippines (ICCP), GS1 (Formerly Philippine Article Numbering Councill), Universal LRT Corp., Holy Angel Memorial Park Valuelife Insurance, Inc., and Valuelife Financial, Inc. to name a few. He is also affiliated with the government like the Export Development Council (EDC), Social Security System (SSS), Foundation for Crime Prevention (Patrol "117" Commission), Dept. of Trade & Industry - Phil. Quality Award Committee, Consulate of Romania in the Philippines, Consular Corps of the Philippines, and Constitutional

Consultative Commission. He is also active in civic organizations like the Rotary Club of Greenmeadows Quezon City RI District 3780, Philippine Jaycee Senate, Rotary Club of Valencia, Quezon City, League of Corporate Foundation, Philippine Coastguard Auxiliary, NCR PNP C.O.P.S. Foundation, Bestfriends Kontra Droga, International Association of Educators for World Peace, Council of Advisers Philippine National Police and Council of Advisers Eastern Police District.

9.2 The Directors of WPI are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified. **For the year 2005 the Board of Directors' meeting for the election of the Executive Officers was held on September 4, 2004. The Directors are to serve one year from then. The last annual stockholders' meeting was held at the Waterfront Cebu City Hotel last August 5, 2006.**

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

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

There are no other relationships among the officers listed.

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

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

Item 10. Executive Compensation

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

10.2 The aggregate compensation paid to the four.

	Fiscal Year Ending December 31 2006	2005	2004
a) Aggregate compensation paid to four most highly compensated executive officers: i) Rexlon T. Gatchalian ii) Nicholas Anderson iii) Marco Protacio iv) Gaye Maureen Cenabre	4,238,976	5,580,000	6,420,000
b) Aggregate compensation paid to other Officers as a group unnamed	3,049,029	2,194,494	2,891,280

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

10.4 There are no issuance of warrants or options for the year 2006 to the directors or executive officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management

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

As of December 31, 2006, WPI has no knowledge of any individual or any party who beneficially owns in excess of 10% of WPI's common stock except as set forth in the table below:

Title of Class	Name of Record/ Beneficial Owner	Amount & Nature of Record/Beneficial Ownership ("r" or "b")	Percent Of Class
Common	The Wellex Group, Inc.	1,227, 254, 239 **"r" ***	63.10
Common	PCD Nominee Corp.(Fil)	402, 278, 702 **"r" ****	20.67

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

PCD Nominee Corp. owns 20.67% of Waterfront Philippines, Inc., none of which owns at least 5% of Waterfront Philippines, Inc. stock. **Aside from those stated above there are no more persons or corporations owning at least 10% of PCD's stocks.

11.2 **Security Ownership of Management**

Title Of Class	Name of Owner	Amount and Nature of Ownership ("r" or "b")	Percent of Class
Common	Renato B. Magadia	2, 200 **r&b**	0.000
Common	Rexlon T. Gatchalian	44, 740, 000 **r&b**	2.299
Common	Kenneth T. Gatchalian	30, 000, 100 **r&b**	1.541
Common	Arthur M. Lopez	1 **r&b**	0.000

Common	Elvira A. Ting	10, 000, 009 **r&b**	0.513
Common	Donato C. Almeda	1 **r&b**	0.000
Common	Lamberto Mercado	100 **r&b**	0.000
Common	Arthur R. Ponsaran	110 **r&b**	0.000
Common	Dee Hua T. Gatchalian	350, 000 **r&b**	0.000
Common	Reno Magadia	10, 000 **r&b**	0.000
Common	Sergio R. Otiz-Luis Jr.	110 **r&b**	0.000

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

Item 12. Certain Relationships and Related Transactions

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

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

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

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

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

(a) Exhibits

(b) Reports on SEC Form 17-C

PART IV – CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. The External Auditor for the year 2004 and 2005 is KPMG Laya Mananghaya and was chosen by the Board and approved by the stockholders upon recommendations of the Audit Committee.

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

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

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

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

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

Other Matters

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

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

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

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

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

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

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

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned; thereunto duly authorized, in the City of ____________ on ________, 2007.

By:

REXLON T. GATCHALIAN
President / CEO/COO

ELVIRA A. TING
Treasurer/CFO

ARTHUR R. PONSARAN
Corporate Secretary

PRECILLA O. TORIANO
Director for Finance (Comptroller)

APR 16 2007

SUBSCRIBED AND SWORN to before me this _____ day of ________ 2007__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
REXLON T. GATCHALIAN	11017498	Jan 10, 2007	Valenzuela city
ARTHUR R. PONSARAN	ND 985N	Jan 3, 2007	Makati city
ELVIRA A. TING	11017497	Jan 10, 2007	Valenzuela city
PRECILLA O. TORIANO	04045256	1/24/07	Cebu City

NOTARY PUBLIC
ATTY. DELPIN R. AGLAUILI JR.
NOTARY PUBLIC
PTR NO. 8451939
IBP NO. 679914
TIN NO. 144-519-066
DATE ISSUED 1/2/07
ISSUED AT QUEZON CITY
VALID UNTIL DEC. 31, 2007

Doc. No. 475
Page No. 96
Book No. 238-C
Series of 2007

ANNEX A

CONSOLIDATED FINANCIAL STATEMENTS

COVER SHEET

AS094-008678

S.E.C. Registration Number

WATERFRONT PHILIPPINES,
INCORPORATED AND SUBSIDIARIES

(Company's Full Name)

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

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

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

12	31	AAFS		
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

Statement of Management's Responsibility

"The management of Waterfront Philippines Inc. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

Renato B. Magadia
Chairman of the Board

Reno T. Gatchalian
President

Precilla O. Toriano
Chief Financial Officer

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Waterfront Philippines, Incorporated

We have audited the accompanying consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries (the Group) which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Acesite (Phils.) Hotel Corporation (APHC), a 24-percent and 75-percent owned consolidated subsidiary as at December 31, 2006 and 2005, respectively, with total assets of P2.16 billion and P2.17 billion, equity of P1.011 billion, P1.030 billion and P1.032 billion as of December 31, 2006, 2005 and 2004, respectively, and total revenues of P678 million, P640 million and P433 million for the years ended December 31, 2006 and 2005 and the nine months ended December 31, 2004, respectively. Waterfront Philippines, Incorporated's investment to APHC as at December 31, 2006 and 2005 amounted to P47.6 million and P127 million, respectively. The financial statements of APHC as of December 31, 2006, 2005 and 2004 dated March 30, 2007, April 21, 2006 and May 27, 2005, respectively, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for APHC, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and 2005, and its financial performance and its cash flows for the three years ended December 31, 2006, in accordance with Philippine Financial Reporting Standards.

Without qualifying our opinion, based on our audits and the report of the other auditors, we draw attention to Note 22 to the consolidated financial statements, which indicates that APHC has receivables from Acesite Limited (BVI) amounting to P717.4 million as of December 31, 2006 and 2005. These receivables have not been provided with any impairment giving due course to the ongoing collection proceedings, as discussed in Note 22. The receivables were included in the net assets of APHC as of March 31, 2004, for purposes of deriving the negative goodwill amounting to P540 million as discussed in Note 23. The negative goodwill has been amortized to income over three years starting 2004 in compliance with the provisions of Statement of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) 22, *Business Combinations.* The balance of the negative goodwill, however, was derecognized in the beginning of 2005 as a retroactive adjustment to Deficit, in accordance with the provisions of the Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*. Similarly, as explained in Note 22, Acesite Limited (BVI) had a legal case against Equitable PCI Bank Hong Kong Branch (EPCIB) and Waterfront Philippines, Incorporated for the foreclosure of its 74,889,231 shareholding in APHC by EPCIB and the subsequent sale of the said shares to Waterfront Philippines, Incorporated. Although the legal case had been dismissed with finality by the Supreme Court on March 14, 2005, the ultimate collectibility of the receivables from Acesite Limited (BVI) cannot presently be determined because of the impracticability of arriving at a reasonable estimate of the amount to be collected as a result of the collection proceedings. Currently, APHC is pursuing the collection of the said receivables.

Also, without qualifying our opinion, based on our audits and the report of the other auditors, we draw attention to Note 21 to the consolidated financial statements which indicates that, in September 2005, CIMA Realty Philippines, Inc. (CIMAR), the owner of the land where APHC's hotel building is situated, filed a case in court ordering APHC to vacate the premises and to pay the unpaid rentals and the related interest. APHC has filed its answer in the court, claiming beneficial ownership and reconveyance of the land. The ultimate outcome of this matter and its effect on APHC's hotel operations cannot presently be determined.

April 2, 2007
Makati City, Metro Manila

Manabat Sanagustin & Co.
Certified Public Accountants
(Formerly Laya Mananghaya & Co.)
22/F, Philamlife Tower, 8767 Paseo de Roxas
Makati City 1226, Metro Manila, Philippines

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e-Mail manila@kpmg.com.ph

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries (the Group) which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Acesite (Phils.) Hotel Corporation (APHC), a 24-percent and 75-percent owned consolidated subsidiary as at December 31, 2006 and 2005, respectively, with total assets of P2.16 billion and P2.17 billion, equity of P1.011 billion, P1.030 billion and P1.032 billion as of December 31, 2006, 2005 and 2004, respectively, and total revenues of P678 million, P640 million and P433 million for the years ended December 31, 2006 and 2005 and the nine months ended December 31, 2004, respectively. Waterfront Philippines, Incorporated's investment to APHC as at December 31, 2006 and 2005 amounted to P47.6 million and P127 million, respectively. The financial statements of APHC as of December 31, 2006, 2005 and 2004 dated March 30, 2007, April 21, 2006 and May 27, 2005, respectively, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for APHC, is based solely on the reports of the other auditors.

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006 and 2005, and its financial performance and its cash flows for the three years ended December 31, 2006, in accordance with Philippine Financial Reporting Standards.

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KPMG

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MANABAT SANAGUSTIN & CO.

VIRGILIO L. MANGUIBIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-1
Tax Identification No. 112-071-561
BIR Accreditation No. 08-002218-1-2005
Issued April 18, 2005; Valid until April 17, 2008
PTR No. 0325115J
Issued January 18, 2007 at Makati City

April 2, 2007
Makati City, Metro Manila

Manabat Sanagustin & Co.
Certified Public Accountants
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PRC-BOA Registration No. 0003
SEC Accreditation No. 0004-FR-1
BSP Accredited

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

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

We have audited the accompanying consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries (the Group) as of and for the year ended December 31, 2006, on which we have rendered our report dated April 2, 2007.

In compliance with SRC Rule 68, we are stating that the said Company has a total number of 643 stockholders owning one hundred (100) or more shares each.

MANABAT SANAGUSTIN & CO.

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-1
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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries included in this Form 17-A and we have issued our report thereon dated April 2, 2007. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purposes of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO.

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-1
Tax Identification No. 112-071-561
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Issued on January 18, 2007 at Makati City

April 2, 2007
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		December 31	
	Note	**2006**	2005
ASSETS			
Current Assets			
Cash and cash equivalents	*4*	**P56,829,848**	P68,944,690
Receivables - net	*5*	**200,938,608**	133,832,034
Inventories	*6*	**39,453,237**	34,003,594
Due from related parties - net	*8*	**900,286,097**	772,667,173
Prepaid expenses and other current assets	*7*	**24,388,912**	28,884,060
Total Current Assets		**1,221,896,702**	1,038,331,551
Non-current Assets			
Property and equipment - net	*9, 13*	**5,133,573,454**	5,321,235,280
Land under finance lease	*21*	**25,000,000**	25,000,000
Available-for-sale (AFS) investment	*8.c*	**11,272,300**	10,405,200
Deferred tax asset	*18*	**175,949,061**	150,911,550
Other non-current assets	*10*	**806,621,804**	795,544,158
Total Non-current Assets		**6,152,416,619**	6,303,096,188
		P7,374,313,321	P7,341,427,739
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*11*	**P919,837,615**	P802,720,786
Current portion of loans payable	*13*	**1,104,836,222**	1,101,200,403
Income tax payable	*18*	**6,954,091**	2,028,030
Due to related parties	*8*	**3,557,490**	4,116,294
Other current liabilities	*12*	**224,941,449**	113,081,541
Total Current Liabilities		**2,260,126,867**	2,023,147,054
Non-current Liabilities			
Loans payable - net of current portion	*13*	**571,486,679**	816,665,798
Deferred tax liabilities	*18*	**778,793,152**	838,582,065
Other non-current liabilities	*14*	**427,829,506**	411,104,113
Total Non-current Liabilities		**1,778,109,337**	2,066,351,976
Total Liabilities		**4,038,236,204**	4,089,499,030
Equity Attributable to Equity Holders of the Parent			
Capital stock		**1,945,934,653**	1,945,934,653
Additional paid-in capital		**755,435,050**	755,435,050
Revaluation surplus in property and equipment		**907,005,860**	967,678,678
Unrealized valuation loss on AFS investment		**(234,761)**	(1,383,953)
Foreign currency translation adjustment		**42,090,142**	56,194,821
Deficit		**(1,289,246,153)**	(935,526,818)
Total Equity Attributable to Equity Holders of the Parent		**2,360,984,791**	2,788,332,431
Minority Interest		**975,092,326**	463,596,278
		P7,374,313,321	P7,341,427,739

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

		Years Ended December 31		
	Note	**2006**	2005	2004
REVENUES				
Hotel operations		**P1,851,293,811**	P1,788,026,954	P1,408,923,163
Others	*22, 23*	**62,446,839**	16,182,097	570,224,009
		1,913,740,650	1,804,209,051	1,979,147,172
COSTS AND EXPENSES	*16*			
Hotel operations		**1,249,035,888**	1,229,487,282	996,664,189
Others		**206,378,470**	75,894,891	93,997,976
		1,455,414,358	1,305,382,173	1,090,662,165
INCOME BEFORE INTEREST, DEPRECIATION AND AMORTIZATION, PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES, AND INCOME TAX		**458,326,292**	498,826,878	888,485,007
INTEREST, DEPRECIATION AND AMORTIZATION, AND PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES				
Depreciation and amortization	*9*	**317,092,196**	240,059,478	206,808,181
Interest	*13*	**160,703,931**	172,760,231	184,559,766
Provision for impairment losses on receivables		**1,562,787**	1,709,674	71,049,944
Others expenses (income)		**(14,817,656)**	5,163,898	659,059
		464,541,258	419,693,281	463,076,950
INCOME (LOSS) BEFORE INCOME TAX		**(6,214,966)**	79,133,597	425,408,057
BENEFIT FROM (PROVISION FOR) INCOME TAX	*18*	**24,456,870**	(36,177,075)	(17,649,761)
NET INCOME		**P18,241,904**	P42,956,522	P407,758,296
Attributable to:				
Equity holders of the Parent		**P32,592,567**	P45,074,189	P412,196,530
Minority interest		**(14,350,663)**	(2,117,667)	(4,438,234)
		P18,241,904	P42,956,522	P407,758,296
EARNINGS PER SHARE	*19*	**P0.017**	P0.023	P0.212

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	Note	**2006**	2005	2004
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Capital stock - P1 par value Authorized - 5 billion shares Issued - 1,945,934,653 shares		**P1,945,934,653**	P1,945,934,653	P1,945,934,653
Additional Paid-in Capital		**755,435,050**	755,435,050	755,435,050
Revaluation Surplus in Property and Equipment				
Balance at beginning of year		**967,678,678**	528,022,319	-
Adjustment to revaluation for the year		**-**	483,155,461	558,445,201
Transfer of revaluation surplus absorbed through depreciation for the year		**(60,672,818)**	(51,157,951)	(30,422,882)
Change in corporate tax rate		**-**	7,658,849	-
Balance at end of year		**907,005,860**	967,678,678	528,022,319
Unrealized Valuation Loss on AFS Investment		**(234,761)**	(1,383,953)	-
Foreign Currency Translation Adjustment		**42,090,142**	56,194,821	56,194,821
Deficit				
Balance at beginning of year		**(935,526,818)**	(1,031,758,958)	(1,474,378,370)
Transfer of revaluation surplus absorbed through depreciation for the year		**60,672,818**	51,157,951	30,422,882
Change in Acesite's minority interest percentage	*22*	**(446,984,720)**	-	-
Net income for the year		**32,592,567**	45,074,189	412,196,530
Balance at end of year		**(1,289,246,153)**	(935,526,818)	(1,031,758,958)
		2,360,984,791	2,788,332,431	2,253,827,885
MINORITY INTEREST				
Balance at beginning of year		**463,596,278**	465,713,945	470,152,179
Change in Acesite's minority interest percentage	*22*	**525,846,711**	-	-
Net loss for the year		**(14,350,663)**	(2,117,667)	(4,438,234)
Balance at end of year		**975,092,326**	463,596,278	465,713,945
		P3,336,077,117	P3,251,928,709	P2,719,541,830

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

			Years Ended December 31	
	Note	**2006**	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**(P6,214,966)**	P79,133,597	P425,408,057
Adjustments for:				
Depreciation and amortization	*9*	**317,092,196**	240,059,478	206,808,181
Interest expense	*13*	**160,703,931**	172,760,231	184,559,766
Retirement costs	*17*	**19,326,823**	17,698,929	17,179,334
Provision for impairment losses on receivables		**1,562,787**	1,709,674	71,049,944
Unrealized foreign exchange loss (gain)		**(49,213,659)**	(29,284,200)	383,441
Interest income		**(16,573,254)**	(17,899,122)	(22,665,449)
Loss on sale and disposal of property and equipment		**-**	357,743	71,618
Loss on exchange of assets	*8.c*	**-**	31,104,530	-
Write-off of negative goodwill	*23*	**-**	-	(540,160,243)
Operating income before working capital changes		**426,683,858**	495,640,860	342,634,649
Decrease (increase) in:				
Receivables - net		**(67,106,574)**	(50,923,232)	38,334,889
Inventories		**(5,449,643)**	(10,067,212)	(2,853,008)
Prepaid expenses and other current assets		**4,495,148**	(23,863,973)	(1,968,161)
Accounts payable and accrued expenses		**117,116,829**	135,506,503	(108,309,883)
Other current liabilities		**111,859,908**	51,424,302	(37,918,231)
Cash generated from operations		**587,599,526**	597,717,248	229,920,255
Interest received		**951,158**	1,717,025	2,014,556
Income taxes paid		**(32,803,717)**	(10,760,362)	(27,152,800)
Retirement plan contributions paid	*17*	**(1,871,858)**	(2,033,737)	-
Interest paid		**(153,405,248)**	(205,987,384)	(134,897,510)
Net cash provided by operating activities		**400,469,861**	380,652,790	69,884,501
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	*9*	**(126,905,658)**	(154,432,187)	(44,443,308)
Advances from (to) related parties		**(19,195,900)**	12,772,439	(175,176,966)
Increase in other non-current assets		**(11,077,646)**	(18,313,558)	(8,808,831)
Proceeds from sale of property and equipment		**-**	220,000	-
Net cash used in investing activities		**(157,179,204)**	(159,753,306)	(228,429,105)

Forward

	Note	2006	2005	2004
		Years Ended December 31		
CASH FLOWS FROM FINANCING ACTIVITIES				
Investments from incorporators		**P875,000**	P -	P -
Payments of loans payable		**(241,543,300)**	(214,900,242)	(64,648,400)
Increase in other non-current liabilities		**-**	-	257,644,720
Payment of obligation under finance lease		**(632,518)**	-	-
Net cash provided (used in) financing activities		**(241,300,818)**	(214,900,242)	192,996,320
DECREASE IN TRANSLATION ADJUSTMENT FOR THE YEAR		**(14,104,681)**	-	(8,937)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(12,114,842)**	5,999,242	34,442,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**68,944,690**	62,945,448	28,502,669
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P56,829,848**	P68,944,690	P62,945,448

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Corporate Information
Waterfront Philippines, Incorporated (the Parent Company) was incorporated in the Philippines on September 23, 1994, and is 63%-owned by The Wellex Group, Inc. (TWGI). It holds equity interests in hotels and resorts, fitness gym, as well as in entities engaged in the international marketing and promotion of casinos, pastries manufacturing, hotel management and operation. The details of the equity interest of the Parent Company are shown below:

	Percentage of Ownership	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated (WCCCHI)	100	-
Waterfront Mactan Casino Hotel, Incorporated (WMCHI)	100	-
Davao Insular Hotel Company, Inc. (DIHCI)	98	-
Acesite (Phils.) Hotel Corporation (APHC)	24	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
Waterfront Promotion Ltd (WPL)	100	-
Mayo Bonanza, Inc. (MBI)	100	-
Club Waterfront International Limited (CWIL)	-	100
Pastries manufacturing:		
Waterfront Food Concepts, Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-

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

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

WMCHI

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

DIHCI

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

APHC

APHC was incorporated on October 10, 1952 and commenced commercial operations on March 1968. On February 17, 2003, the Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. APHC owns and operates the Manila Pavilion Hotel, a 590-room hotel with casino located in Ermita, Manila (Note 22).

GIRDI

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

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

WPL, CWIL and MBI

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

W Citigym

W Citigym 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. W Citigym started commercial operations on May 1, 2006.

WFC

WFC 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 supplied to in-store bakeries, coffeeshops and food service channels. WFC supplies the pastries and desserts offered by WCCHI and WMCHI food outlets, as well as its local customers. WFC started commercial operations on May 1, 2006.

WMC

WMC 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, WMC started its commercial operations by managing the hotel operations of G-hotel, a 50-room, 800-square "boutique" hotel in Manila in a bid to win a big chunk of the high-end travellers market.

Office Address

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements as of December 31, 2006 and 2005, and for the three years then ended December 31, 2006 were authorized for issue by the Board of Directors on April 2, 2007.

Basis of Measurement

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

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency under PFRS. All financial information presented in Philippine Peso has been rounded to the nearest peso.

Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

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

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

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

Receivables from Acesite Limited (BVI)
The Group has receivables from Acesite Limited (BVI) totaling P717.4 million which has been the subject of collection efforts by management. Management has made a judgment that the ultimate amount and timing of collection of the said receivables cannot presently be determined (Notes 10 and 22).

Estimating Allowance for Impairment Losses on Receivables
The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with its customers, their payment behavior and known market factors. The Group reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. Allowance for impairment losses on receivables as of December 31, 2006 and 2005 amounted to P176.4 million and P178.6 million, respectively. Receivables, net of valuation allowance, amounted to P200.9 million and P133.8 million as of December 31, 2006 and 2005, respectively (Note 5).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation and amortization expense and decrease non-current assets. As of December 31, 2006 and 2005, the aggregate net book values of property and equipment at revalued amounts amounted to P5.1 billion and P5.3 billion, respectively (Note 9).

Estimating Impairment of Assets
The Group assesses at each reporting date whether there is an indication that carrying amount of an asset may be impaired. If any such indication exists, the Group makes an estimate of the assets recoverable amount. At the reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. As of December 31, 2006 and 2005, the carrying amounts of property and equipment at revalued amounts and other non-current assets amounted to P5.9 billion and P6.1 billion, respectively (Notes 9 and 10).

Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred tax assets. As of December 31, 2006 and 2005, the gross deferred tax assets amounted to P175.9 million and P150.9 million, respectively (Note 18).

Retirement Costs
The determination of the Group's obligation and cost for retirement benefits is dependent on the Group's selection of certain assumptions used by actuaries in calculating such amounts. In accordance with PAS 19, actual results that differ from the Group's assumptions are accumulated and amortized over the future periods and therefore, generally affect the Group's recognized expense and recognized obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's retirement obligations.

The expected rate of return on plan assets of 9-10% was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of balance sheet dates. Details of the assumptions used in the calculation are described in Note 17.

As of December 31, 2006 and 2005, the net retirement benefit plan obligation and net retirement cost amounted P103.41 million and P19.3 million and P85.95 million and P17.7 million, respectively (Note 17).

3. Significant Accounting Policies

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

Adoption of New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council, or FRSC, (the successor body to the Accounting Standards Council) approved the adoption as part of PFRSs a number of new standards, amendments to standards, and interpretations.

Amendments to Standards and Interpretation Adopted in 2006
Effective January 1, 2006, the Company adopted the following applicable amendments to standards and interpretation:

- Amendment to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* provides an option for recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires entities to give additional disclosures.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions* permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - The Fair Value Option* limits the fair value option to only those financial instruments that meet certain conditions. The conditions that are required to be met under the amendment are: where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivative that meets particular conditions.

- IFRIC 4, *Determining Whether an Arrangement Contains a Lease* provides guidance for determining whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is or contains, a lease that should be accounted for in accordance with PAS 17, *Leases*.

The adoption of the above amendments to standards and interpretation did not have a material effect on the consolidated financial statements.

New Standard, Amendment to Standard and Interpretation Not Yet Adopted
The following are the new applicable standard, amendment to standard and interpretation which are not yet effective for the year ended December 31, 2006, and have not been applied in preparing the consolidated financial statements:

- PFRS 7, *Financial Instruments: Disclosures* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks.

- Amendment to PAS 1, *Presentation of Financial Statements - Capital Disclosures* adds requirements to disclose the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

- IFRIC 10, *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost.

Under the prevailing circumstances, the adoption of the above standard, amendment to standard and interpretation in 2007 is not expected to have any material effect on the Group's consolidated financial statements.

Principles of Consolidation

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

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

Segment Reporting

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Room

Room revenue is recognized based on actual occupancy.

Food and Beverage

Food and beverage revenue is recognized when orders are served.

Rent and Related Income

Rental income on leased areas of the Group is accounted for on a straight-line basis over the term of the lease, except for cancellable lease.

Other Operating Departments

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

Interest

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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of Recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis.

Initial Recognition of Financial Instruments

All financial assets are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: securities at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified as financial liabilities at fair value through profit or loss and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

(a) Financial assets or financial liabilities at fair value through profit or loss (FVPL)

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

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

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

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

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. As of December 31, 2006 and 2005, the Group has no financial assets and financial liabilities as FVPL.

(b) HTM investments

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

As of December 31, 2006 and 2005, the Group has no held-to-maturity investments.

(c) AFS investments

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported as "Unrealized valuation gains on AFS investments" in the equity section of the balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as "Gain on Sale of AFS investments" in the consolidated statements of operations. Dividends earned on holding AFS investments are recognized in the consolidated statements of operations as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognized as provisions on impairment losses in the consolidated statements of operations.

As of December 31, 2006 and 2005, the Groups' AFS investments amounted to P11.3 million and P10.4 million, respectively. The Group designated as AFS investments its investments in shares of stock of Wellex Industries, Incorporated (Note 8.c).

(d) Loans and receivable

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

The Group has designated as loans and receivables its receivables - net, amounts due from (to) related parties, receivables from Acesite Limited (BVI) and receivables from Manila Electric Company (MERALCO).

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of operations.

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the assets is reduced through use of an allowance account and the amount of loss is recognized to the consolidated statements of operations. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future impairment is later recovered, any amounts formerly recognized are recognized to the "Provision for Impairment Losses on Receivables" account in the consolidated statements of operations.

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

AFS Financial Asset
For AFS investment, the Group assess at each balance sheet date whether there is objective evidence that a financial assets or group of financial asset is impaired.

In case of equity instruments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset recognized in the consolidated statements of operations - is removed from equity and recognized in the consolidated statements of operations. Impairment losses in equity investments are not reversed through the consolidated statements of operations. Increases in fair value after impairment are recognized directly in the equity

Offsetting Financial Instruments

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

Inventories

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

Property and Equipment

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

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

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

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

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

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

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

Operating equipments consisting of chinaware, glassware, silverware and linen are stated at cost less accumulated amortization and adjustments based on periodic inventory method. Under this method, the recorded costs of operating equipment are amortized using various rates and adjusted based on periodic inventory count. The amortization and adjustments are recognized in the consolidated statements of operations.

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

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

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

Construction in progress, included in property and equipment, represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Impairment of Non-current Assets (other than Financial Assets)

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

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

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

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

Borrowing Costs

Borrowing costs are generally recognized as expense in the period in which these costs are incurred, except for those borrowing costs directly attributable to the acquisition, development, improvement and construction of WCCHI, which were capitalized.

The capitalization of borrowing costs as part of the cost of WCCHI's hotel project commenced when the expenditures and borrowing costs were being incurred and activities that were necessary to prepare the hotel project for their intended used were in progress. It ceased when substantially all the activities necessary to prepare the hotel project for its intended used were completed.

Retirement Costs

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

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

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

Provisions and Contingent Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

Earnings (Loss) Per Share

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c, or d above, and at the date of renewal or extension period for scenario b.

For arrangement entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation IFRIC 4.

Operating Leases

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

Finance Leases

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

Events after the Balance Sheet

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

4. Cash and Cash Equivalents

This account consists of:

	2006	2005
Cash on hand and in banks	**P56,329,848**	P56,169,258
Short-term placements	**500,000**	12,775,432
	P56,829,848	P68,944,690

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

5. Receivables

This account consists of:

	2006	2005
Trade	**P281,581,506**	P279,821,359
Others	**95,740,466**	32,636,774
	377,321,972	312,458,133
Less allowance for impairment losses	**176,383,364**	178,626,099
	P200,938,608	P133,832,034

6. Inventories

This account consists of:

	2006	2005
Food and beverage	**P20,562,888**	P17,982,978
Operating supplies	**17,207,398**	15,267,088
Others	**1,682,951**	753,528
	P39,453,237	P34,003,594

7. Prepaid Expenses and Other Current Assets

This account consists of:

	2006	2005
Prepaid taxes	**P12,794,027**	P23,511,097
Prepaid expenses	**4,408,664**	1,308,698
Others	**7,186,221**	4,064,265
	P24,388,912	P28,884,060

8. Related Party Transactions

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

The "Due from Related Parties - net" account consists of:

	Notes	**2006**	2005
The Wellex Group, Inc. (TWGI)	*8.a*	**P490,998,026**	P389,410,719
Metro Alliance Holdings and Equities Corp. (MAHEC)	*8.a*	**301,727,199**	282,518,612
Forum Holdings Corp. (FHC)	*8.b*	**141,672,513**	145,315,423
Polymax Worldwide	*8.b*	**4,810,320**	-
Pacific Wide	*8.b*	**4,441,000**	-
Others		**4,265,546**	3,050,926
		947,914,604	820,295,680
Less allowance for impairment losses		**47,628,507**	47,628,507
		P900,286,097	P772,667,173

a. In 2006 and 2005, the Parent Company and APHC extended interest-bearing, collateral free advances to MAHEC at a rate of four percent (4%) per annum. The Parent Company also extended interest-bearing, collateral-free advances to TWGI at a rate of four percent (4%) in 2003. Interest income on the advances to TWGI and MAHEC amounted to P11.9 million, P12.6 million and P16.8 million in 2006, 2005 and 2004, respectively.

b. Advances to FHC, Polymax Worldwide and Pacific Wide are non-interest bearing and collateral-free.

c. In July and August 2005, APHC's Board of Directors approved the conversion of APHC's net receivables from MAHEC and East Asia Oil Company (EAOC) into 86,710,000 shares of stock of Wellex Industries, Incorporated (WII), a related party, the shares of which are listed in the Philippine Stock Exchange. The net receivables at the time of conversion is P43.3 million. The conversion resulted in a loss on exchange of assets of P31.1 million. In accordance with PAS 39, the Group classified the investment in WII's shares of stocks as an AFS investment. The aggregate fair market value of WII shares based on its closing market price as of December 31, 2006 and 2005 is P11.3 million and P10.4 million, respectively, resulting in an unrealized valuation loss of P1.0 million and P1.8 million, respectively.

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

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

	2006	2005
Philippine Estates Corp.	**P1,734,887**	P1,734,887
WII	**1,349,442**	2,038,246
Others	**473,161**	343,161
	P3,557,490	P4,116,294

Total key management personnel compensation amounted to P23.56 million and P22.14 million in 2006 and 2005, respectively.

9. Property and Equipment

The movements in this account are as follows:

	For the Year Ended December 31, 2006								
	Land	Land Improvements	Leasehold and Leasehold Improvement	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipment	Transportation Equipment	Construction - in Progress	Total
Measurement Basis:	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***Revalued***	***At Cost***	***At Cost***	***At Cost***	
Gross carrying amount:									
Beginning balance	**P490,566,000**	**P21,320,096**	**P2,691,789**	**P6,017,258,296**	**P930,154,943**	**P184,344,824**	**P17,976,147**	**P13,202,248**	**P7,677,514,343**
Additions	**-**	**371,500**	**4,626,964**	**9,042,447**	**53,356,258**	**28,748,020**	**3,473,393**	**27,287,076**	**126,905,658**
Reclassifications	**-**	**-**	**-**	**27,094,670**	**6,425,291**	**-**	**-**	**(28,660,003)**	**4,859,958**
Ending balance	**490,566,000**	**21,691,596**	**7,318,753**	**6,053,395,413**	**989,936,492**	**213,092,844**	**21,449,540**	**11,829,321**	**7,809,279,959**
Accumulated depreciation and amortization:									
Beginning balance	**-**	**9,499,096**	**2,018,802**	**1,718,271,335**	**477,319,216**	**133,554,004**	**15,616,610**	**-**	**2,356,279,063**
Provision	**-**	**12,192,500**	**1,130,532**	**201,811,799**	**77,296,744**	**22,373,578**	**2,287,043**	**-**	**317,092,196**
Reclassifications	**-**	**-**	**-**	**(232,363)**	**5,655,356**	**(3,087,747)**	**-**	**-**	**2,335,246**
Ending balance	**-**	**21,691,596**	**3,149,334**	**1,919,850,771**	**560,271,316**	**152,839,835**	**17,903,653**	**-**	**2,675,706,505**
Net carrying value:									
Beginning Balance	**P490,566,000**	**P11,821,000**	**P672,987**	**P4,298,986,961**	**P452,835,727**	**P50,790,820**	**P2,359,537**	**P13,202,248**	**P5,321,235,280**
Ending balance	**P490,566,000**	**P -**	**P4,169,419**	**P4,133,544,642**	**P429,665,176**	**P60,253,009**	**P3,545,887**	**P11,829,321**	**P5,133,573,454**

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

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

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

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

	2006	2005
Hotel buildings and improvements	**P3,477,155,388**	P3,409,165,148
Furniture, fixtures and equipment	**763,104,828**	697,097,260
Land improvements	**10,129,315**	9,757,815
Transportation equipment	**1,132,029**	17,444,563
Leasehold improvements	**7,318,753**	2,691,789
Construction in progress	**899,766**	13,202,248
	4,259,740,079	4,149,358,823
Less accumulated depreciation and amortization	**1,529,976,059**	1,348,388,056
	2,729,764,020	2,800,970,767
Land	**515,909**	515,909
	P2,730,279,929	P2,801,486,676

As of December 31, 2006 and 2005, the gross carrying value of hotel buildings and improvements include capitalized borrowing costs amounting to about P154 million.

The hotel building and improvements owned by WCCCHI and WMCHI, which have a total net carrying value of about P2.81 billion and P2.88 billion as of December 31, 2006 and 2005, respectively, have been collateralized against the PNB loan (Note 13).

10. Other Non-current Assets

This account consists of:

	Note	**2006**	2005
Receivables from Acesite Limited (BVI)	*22*	**P717,426,534**	P717,426,534
Refundable deposits		**20,696,364**	8,211,104
Rent receivable	*20*	**18,176,748**	30,513,510
MERALCO refund	*27*	**10,146,251**	12,699,676
Others		**40,175,907**	26,693,334
		P806,621,804	P795,544,158

As of December 31, 2006 and 2005, APHC also has unsecured receivables from Acesite Limited (BVI) amounting to P717.4 million. Currently, APHC is pursuing the collection of the receivables from Acesite Limited (BVI). The component of the receivables from Acesite Limited (BVI) follows:

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

11. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2006**	2005
Trade		**P317,049,026**	P306,607,997
Accrued interest and penalties	*13*	**270,063,787**	209,209,273
Accrued expenses		**158,319,140**	138,175,637
Withholding taxes payable		**30,900,464**	32,243,538
Local taxes and output VAT		**21,831,145**	14,659,101
Due to contractors		**8,633,655**	6,513,204
Service charges withheld		**7,767,748**	7,459,093
Guest deposits		**4,370,513**	1,389,091
Deferred income		**3,536,986**	2,972,719
Unclaimed wages		**1,268,279**	1,182,051
Others		**96,096,422**	82,309,082
		P919,837,615	P802,720,786

12. Other Current Liabilities

This account consists of:

	Note	**2006**	2005
Rentals received in advance	*21*	**P158,723,337**	P61,329,757
Accrued interest on obligations under finance lease	*21*	**37,893,082**	30,896,775
Tenants' deposits		**12,488,892**	11,267,629
Customers' deposits		**12,019,870**	5,850,056
Others		**3,816,268**	3,737,324
		P224,941,449	P113,081,541

13. Loans Payable

This account consists of:

	2006	2005
Philippine National Bank (PNB)	**P888,000,001**	P1,055,500,001
Industrial Commercial Bank of China - Singapore Branch (ICBC)	**413,322,900**	487,366,200
Social Security System (SSS)	**375,000,000**	375,000,000
	1,676,322,901	1,917,866,201
Less current portion	**1,104,836,222**	1,101,200,403
	P571,486,679	P816,665,798

PNB Loan

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

First Restructuring Agreement

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

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

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

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

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

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

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

The restructured loan had the following terms:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SSS Loan

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

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

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

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

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

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation pending before the Regional Trial Court of Quezon City (RTC), docketed as Civil Case No. Q-04-52629. SSS likewise asked the RTC for the issuance of a writ of preliminary attachment on the collateral property.

On June 18, 2004, RTC issued its first order granting SSS's request and the issuance of a writ of preliminary attachment based on the condition that SSS shall post an attachment bond in the amount of P452,750,886.28. After the lapse of three (3) months from the issuance of RTC order, no attachment bond has been posted. Thus on September 16, 2004 and September 17, 2004, the Parent Company filed a Motion to Set Aside Order of Attachment and Amended Motion to Set Aside Order of Attachment, respectively.

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

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

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

On September 12, 2005, the RTC issued its fourth order approving SSS's property bond in the total amount of P452,750,886.78. Accordingly, the RTC ordered the corresponding issuance of the writ of preliminary attachment. On November 3, 2005, the Parent Company submitted a Petition for Certiorari before the Court of Appeal (CA) seeking the nullification of RTC's orders dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005.

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

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

On August 24, 2006, the CA issued a decision (CA-G.R. SP No. 91928) granting the Petition for Certiorari filed by the Parent Company on November 3, 2005 and nullifying RTC's orders dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005 and consequently making the writ of preliminary injunction permanent.

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

On November 15, 2006, the First Division of the SC issued a Resolution (G.R. No 174313) denying SSS's petition for failure of SSS to sufficiently show that the CA committed any reversible error in its decision (CA-G.R. SP No. 91928) which would warrant the exercise of the SC's discretionary appellate jurisdiction.

As of December 31, 2006, total outstanding loan obligations to SSS amounted to P642 million consisting of the principal of P375 million and interest and penalties of P267 million. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS. Starting 2006, the Parent Company is charging WCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. The proceeds of the loan were substantially used for the expansion and improvement of WCCHI's operations. Total interest and penalties in 2006 amounted to P60 million.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. The Parent Company believes that it will be able to restructure the said loan. In the absence yet of a formal restructuring agreement, the entire outstanding principal loan balance amounting to P375 million and accrued interest and penalties of P267 million has been classified as current in the December 31, 2006 and 2005 balance sheets.

ICBC Loan

This represents the balance of US$15 million loan obtained by APHC from ICBC under the terms and conditions of a Facility Agreement issued on March 27, 1995, which was amended on September 17, 1997 (collectively, the Existing Facility Agreement). The loan restructured in 2000 with interest at prime rate plus 5% spread. The loan is guaranteed by a first legal mortgage over the parcel of land owned by CIMAR where Manila Pavilion Hotel is situated, hotel building and equipment, and furniture, fixtures and all other items thereon which belong to APHC. The loan is also covered by corporate guarantees from Sino-i and CIM Co. Ltd., Hong Kong (former owner of CIMAR) and a personal guarantee from Mr. Yu Pun Hoi, Chairman of Sino-i.

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

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

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

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

APHC paid US$0.75 million and US$1.35 million in 2006 and 2005, respectively.

Management is still currently negotiating with ICBC for the rescheduling of payments of APHC's overdue loan principal installments totaling US$8.43 million as of December 31, 2006.

14. Other Non-current Liabilities

The account is broken down as follows:

	Note	**2006**	2005
PAGCOR Security Deposit - WCCCHI	*20*	**P157,098,312**	P157,098,312
PAGCOR Security Deposit - WMCHI	*20*	**75,600,000**	75,600,000
Retirement liability	*17*	**103,405,741**	85,950,776
Concessionaires and other deposit - APHC	*20, 21*	**58,388,283**	58,424,283
Obligations under finance lease	*21*	**33,337,170**	34,030,742
		P427,829,506	P411,104,113

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

	2006	2005
APHC	**P60,838,159**	P48,889,874
WCCHI	**21,246,425**	16,715,511
DIHCI	**14,855,774**	14,921,051
WMCHI	**6,465,383**	5,424,340
	P103,405,741	P85,950,776

15. Segment Information

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

The following table present revenue and profit information regarding industry segments for the years ended December 31, 2006, 2005 and 2004 and certain asset and liability information regarding industry segments as of December 31, 2006, 2005 and 2004 (in millions):

	Hotel Operations 31-Dec			Marketing Operations 31-Dec			Corporate and Others 31-Dec			Eliminations 31-Dec			Consolidated 31-Dec		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
TOTAL REVENUES															
External sales	**1,851**	1,788	1,409	**-**	-	9	**-**	-	-	**-**	-	-	**1,851**	1,788	1,408
RESULTS															
Segment results	**114**	311	196	**14**	(5)	(3)	**(26)**	(70)	(146)	**-**	-	-	**102**	236	47
OPERATING INCOME (LOSS)															
Interest expense	**-**	-	-	**(2)**	2	-	**(159)**	(173)	(185)	**-**	-	-	**(161)**	(173)	(185)
Interest income	**-**	-	-	**-**	-	-	**16**	16	23	**-**	-	-	**16**	16	23
Gain on sale of shares	**-**	-	-	**-**	-		**37**	-	-	**-**	-	-	**37**	-	-
Amortization of negative goodwill	**-**	-	-	**-**	-	-	**-**	-	540	**-**	-	-	**-**	-	540
Benefit from (provision for) Income taxes	**-**	-	-	**-**	-	-	**24**	(36)	(17)	**-**	-	-	**24**	(36)	(17)
Total operating income (loss)	**-**	-	-	**(2)**	2	-	**(82)**	(193)	361	**-**	-	-	**(84)**	(193)	361
Net Income	**114**	311	196	**12**	(7)	(3)	**(108)**	(263)	215	**-**	-	-	**18**	43	408
OTHER INFORMATION															
Segment assets	**6,367**	6,438	6,083	**198**	199	401	**4,647**	4,958	5,027	**(4,014)**	(4,405)	(4,851)	**7,198**	7,190	6,660
Deferred tax asset	**173**	150	172	**-**	-	-	**3**	1	-	**-**	-	-	**176**	151	172
Consolidated total assets	**6,540**	6,588	6,255	**198**	199	401	**4,650**	4,959	5,027	**(4,014)**	(4,405)	(4,851)	**7,374**	7,341	6,832
Segment liabilities	**4,657**	4,568	4,598	**12**	11	207	**480**	424	702	**(3,058)**	(3,039)	(3,882)	**2,091**	1,964	1,625
Loans and interest payable	**-**	-	-	**-**	-	-	**1,947**	2,125	2,342	**-**	-	-	**1,947**	2,125	2,342
Deferred credits	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
Consolidated total liabilities	**4,657**	4,568	4,598	**12**	11	207	**2,427**	2,549	3,044	**(3,058)**	(3,039)	(3,882)	**4,038**	4,089	3,967
Other segment information															
Capital expenditures	**127**	154	44	**-**	-	-	**-**	-	-	**-**	-	-	**127**	154	44
Depreciation and amortization	**317**	240	207	**-**	-	-	**-**	-	-	**-**	-	-	**317**	240	207

16. Costs and Expenses

These accounts consist of:

	Note	**2006**	2005	2004
Cost of sales		**P503,642,714**	P364,803,692	P291,668,932
Energy costs		**234,084,015**	248,689,886	185,420,903
Payroll-related expenses	*17*	**182,323,538**	331,691,081	254,668,551
Repairs and maintenance		**142,579,908**	42,134,049	21,991,034
Penalties and other charges	*11, 13*	**60,042,210**	70,836,006	87,576,995
Advertising		**47,591,298**	11,613,648	13,628,053
Rent (	*21*	**45,802,019**	27,912,615	25,793,302
Taxes and licenses		**31,067,235**	16,861,368	22,818,482
Supplies		**26,845,633**	18,617,083	23,635,980
Representation and entertainment		**23,440,504**	5,024,362	11,522,703
Security and other services		**21,948,760**	9,968,005	9,512,654
Professional fees		**18,059,938**	3,417,302	1,747,814
Insurance		**12,525,817**	7,802,260	8,660,500
Communications		**10,341,547**	3,406,988	3,808,008
Commissions		**7,456,005**	6,685,032	4,892,175
Fuel and oil		**1,809,437**	1,410,333	794,420
Management fees		**-**	-	3,248,315
Miscellaneous		**85,853,780**	134,508,463	119,273,344
		P1,455,414,358	P1,305,382,173	P1,090,662,165

17. Retirement Costs

The Group has a non-contributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and percentage of the employee's final monthly salary during the last 5 years of continuous service. Retirement costs recognized in the consolidated statements of operations in 2006, 2005 and 2004 amounted to about P19.3 million, P17.7 million and P17.2 million, respectively.

As of December 31, 2006, the actuarial present value of defined benefit obligation amounted to P236 million and the fair value of plan assets amounted to P90 million. The plan is administered by independent trustees with assets held separately from those of the Group. The actuarial valuation is made on a regular basis.

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

	2006	2005
Present value of defined benefit obligation	**P236,017,840**	P147,483,666
Fair value of plan assets	**(90,004,409)**	(86,238,921)
Net present value of defined benefit obligation	**146,013,431**	61,244,745
Unrecognized actuarial gains	**(42,607,690)**	24,706,031
Retirement liability at December 31	**P103,405,741**	P85,950,776

The movements in liability for defined benefit obligation are shown below:

	2006	2005
Present value of obligation, beginning	**P147,483,666**	P129,342,336
Interest cost	**17,714,287**	18,107,930
Current service cost	**10,831,134**	8,321,653
Benefits paid	**(15,659,487)**	(12,949,675)
Actuarial (loss) gain on plan obligation	**75,648,240**	4,661,422
Present value of obligation, ending	**P236,017,840**	P147,483,666

Movements in fair value of plan assets are as follows:

	2006	2005
Fair value of plan assets, beginning	**P86,238,921**	P88,653,828
Expected return of plan assets	**8,623,892**	7,978,845
Contributions	**508,749**	2,033,737
Benefits paid	**(14,296,378)**	(12,949,675)
Actuarial gain	**8,929,225**	522,186
Fair value of plan assets, ending	**P90,004,409**	P86,238,921

Actual rate of return on assets in 2006 and 2005 is 19.5% and 9.9%, respectively.

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

	2006	2005
Bonds	**53%**	70%
Stocks	**37%**	20%
Others	**10%**	10%

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

	2006	2005
Retirement liability at January 1	**P85,950,776**	P70,285,584
Expenses recognized in the consolidated statements of operations	**19,326,823**	17,698,929
Contributions paid	**(1,871,858)**	(2,033,737)
Retirement liability at December 31	**P103,405,741**	P85,950,776

Expenses recognized in the consolidated statements of operations are follows:

	2006	2005
Current service costs	**P10,831,134**	P8,321,653
Interest cost	**17,714,287**	18,107,930
Expected return on plan assets	**(8,623,892)**	(7,978,845)
Net actuarial gains recognized during the year	**(594,706)**	(751,809)
	P19,326,823	P17,698,929

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

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

	2006	2005	2004
Present value of defined benefit obligation	**P236,018**	P147,484	P129,342
Fair value of plan assets	**90,004**	86,239	88,654
Net present value of defined benefit obligation	**P146,014**	P61,245	P40,688

Expected retirement contribution for 2007 amounted to P508,749. This is actuarially determined based on certain assumptions.

The principal actuarial assumptions at the balance sheet date:

	2006	2005
Discount rate	**11%**	12%
Expected rate of return on plan assets	**9%**	10%
Salary increase rate	**10%**	10%

18. Income Taxes

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

	2006	2005	2004
Current	**P59,596,720**	P63,997,196	P19,409,498
Deferred	**(84,053,590)**	(27,820,121)	(1,759,737)
Provision for income tax	**(P24,456,870)**	P36,177,075	P17,649,761

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

	2006	2005	2004
Income (loss) before income tax and minority interest	**(P6,214,966)**	P79,133,597	P425,408,057
Provision for (benefit from) income tax at 35% in 2006, 32.5% in 2005 and 32% in 2004	**(P2,175,238)**	P25,718,419	P136,130,578
Additions to (reductions in) income tax resulting from the tax effects of:			
Non-deductible representation expense	**4,402,765**	1,486,466	-
Non-deductible operating expenses	**230,904**	399,832	-
Expired MCIT	**208,984**	-	-
Non-deductible interest expense	**139,364**	1,200,805	1,320,548
Income already subjected to final tax	**(329,766)**	(558,033)	(463,250)
NOLCO applied	**(3,426,460)**	-	-
Non-taxable gain on sale of shares	**(12,823,395)**	10,108,972	-
Loss from impairment of investment	**-**	1,378,905	-
Impairment of negative goodwill	**-**	-	(172,851,278)
	(13,772,842)	39,735,366	(35,863,402)

Forward

	2006	2005	2004
Expiration of NOLCO	**P55,138,343**	P13,029,671	P67,506,623
Changes in other valuation allowance	**(5,468,318)**	-	-
Changes in unrecognized deferred tax assets	**(59,829,053)**	19,691,005	(13,746,023)
Changes in statutory tax rate	**-**	(35,609,932)	-
Others	**(525,000)**	(669,035)	(247,437)
	(P24,456,870)	P36,177,075	P17,649,761

Republic Act (RA) 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005 are as follows:

i. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009. For 2005 income tax computation purposes, the taxable income shall be computed without regard to the specific date when the specific sales, purchases and other transactions occur. Income and expenses for the fiscal year shall be deemed to have been earned equally for each month of the year. The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve;

ii. Grant authority of the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;

iii. Revised invoicing and reporting requirements for VAT;

iv. Expanded scope of transactions subject to VAT; and,

v. Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

On January 31, 2006, the Bureau of Internal Revenue issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12% effective February 1, 2006.

In the last quarter of 2006, RA no. 9361 was enacted, repealing the 70% cap in the input tax.

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2006	2005	**2006**	2005	**2006**	2005
Property and equipment	**P -**	P -	**P769,813,927**	P822,221,716	**P769,813,927**	P822,221,716
Rent receivable	**-**	-	**5,261,210**	10,805,489	**5,261,210**	10,805,489
MERALCO refund	**-**	-	**3,718,015**	5,554,860	**3,718,015**	5,554,860
Accrued Rent Expense	**(3,894,234)**	-	**-**	-	**(3,894,234)**	-
Unamortized past service cost	**(3,438,294)**	(4,357,051)	**-**	-	**(3,438,294)**	(4,357,051)
Rent received in advance	**(48,222,101)**	(21,465,415)	**-**	-	**(48,222,101)**	(21,465,415)
Unrealized FOREX loss	**(68,510,488)**	(87,200,820)	**-**	-	**(68,510,488)**	(87,200,820)
Allowance for impairment losses on receivables	**(13,040,129)**	(11,158,124)	**-**	-	**(13,040,129)**	(11,158,124)
Accrued retirement benefits	**(31,066,694)**	(24,860,404)	**-**	-	**(31,966,694)**	(24,860,404)
NOLCO	**(5,134,551)**	-	**-**	-	**(5,134,551)**	-
MCIT	**(2,642,570)**	(1,869,736)	**-**	-	**(2,642,570)**	(1,869,736)
Net tax (assets)/liabilities	**(P175,949,061)**	(P150,911,550)	**P778,793,152**	P838,582,065	**P602,844,091**	P687,670,515

As of December 31, 2006 and 2005, deferred tax liability recognized directly in equity relating to the revaluation of property and equipment amounted to P770 million and P822 million, respectively.

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

	2006	2005
NOLCO	**P50,596,963**	P114,232,513
Provision for impairment losses on receivables	**17,172,545**	17,172,545
Provision for retirement benefits	**5,602,405**	5,222,368
	P73,371,913	P136,627,426

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

As of December 31, 2006, the Group has consolidated NOLCO of about P156.9 million, the details of which are as follows:

Taxable Period	Unapplied Balances	Valid Until
December 31, 2006	P12,377,880	December 31, 2009
December 31, 2005	72,602,977	December 31, 2008
December 31, 2004	71,959,775	December 31, 2007
	P156,940,632	

From 2004 to 2006, certain subsidiaries were required to pay MCIT under existing tax regulations. The MCIT payments and the applicable years that these will be deductible from regular taxable income are shown below:

Period Paid	Valid Until	Amount
December 31, 2006	December 31, 2009	P1,056,785
December 31, 2005	December 31, 2008	800,685
December 31, 2004	December 31, 2007	785,100
		P2,642,570

19. Earnings Per Share

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

	2006	2005	2004
Net income attributable to equity holders of the Parent	**P32,592,567**	P45,074,189	P412,196,530
Weighted number of shares outstanding	**1,945,934,653**	1,945,934,653	1,945,934,653
Earnings per share	**P0.017**	P0.023	P0.212

There are no potential dilutive shares as of December 31, 2006, 2005 and 2004.

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

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

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

PAGCOR also agreed to pay WCCCHI and WMCHI security deposit equivalent to the rentals for one year based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit, which amounted to P232.7 million, is recorded in the December 31, 2006 consolidated balance sheet under the "Other Non-current Liabilities" account.

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

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

	2006	20005
Less than one year	**P457,049,020**	P447,800,407
Between one and five years	**314,790,462**	756,335,899
	P771,839,482	P1,204,136,306

21. Other Lease Agreements

Lands Under Operating Lease

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

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

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

	2006	2005
Less than one year	**P13,793,443**	P13,793,443
Between one and five years	**55,173,772**	55,173,772
More than five years	**262,086,889**	275,880,332
	P331,054,104	P344,847,547

Total annual rent expense recognized in the consolidated statements of operations amounted to P28.35 million, P27.9 million and P25.5 million in 2006, 2005 and 2004, respectively.

Land Under Finance Lease

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

In view of the nature of the lease and related contracts, the lease has been classified as a finance lease as repurchase of the land can be exercised anytime during the period of the lease. Accordingly, APHC recognized the capitalized asset and related liability of P25 million (equivalent to the purchase option price and also the minimum lease payment) in APHC's balance sheets which was presented in the December 31, 2006 and 2005 consolidated balance sheets as "Land under Finance Lease" and part of "Other Non-current Liabilities", respectively. Payments and accruals of payables to CIMAR until the purchase option is exercised are treated as part of "Interests - net" account in the consolidated statements of operations.

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

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

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

As of February 2007, APHC is filing a motion for issuance of temporary restraining order and/or writ of preliminary injunction seeking to enjoin the Metropolitan Trial Court from continuing with its hearing on the ejectment case filed by CIMAR.

The contract of lease between APHC and CIMAR stipulates that the said contract shall remain in full force and effect unless otherwise revoked or amended in writing by both parties, and, accordingly, in the opinion of APHC's legal counsel, the finance lease cannot be terminated unilaterally. As of December 31, 2006 and 2005, total unpaid liabilities and penalty interests due to CIMAR amounted to P37.8 million and P30.9 million, respectively, shown as part of "Other Current Liabilities" account in the consolidated balance sheets. APHC continues to accrue for liabilities to CIMAR based on the existing contract pending the resolution of the reconveyance case filed by APHC. The related liabilities will be derecognized upon favorable resolution of the reconveyance case.

The ultimate outcome of this matter and its effect on APHC's hotel operation cannot presently be determined.

As of December 31, 2006, the land under finance lease was determined by an independent appraiser to have a market value of P422.5 million, which is not taken up in the financial statements of APHC.

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

Also, APHC has entered into commercial property leases on certain commercial spaces located in APHC. These non-cancellable leases have remaining lease terms of between two (2) to three (3) years with renewal terms included in the contracts. Certain leases are subject to annual escalation ranging from 5% to 10%. In relation to these lease contracts, APHC received in advance rentals amounting to P158.7 million and P61.3 million as of December 31, 2006 and 2005, respectively.

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

The present value of the total expected lease payments is determined at P9,763,129. Depreciation expense recognized in the consolidated statements of operations for the years ended December 31, 2006 and 2005 amounted to P976,313 and P162,719, respectively.

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

	December 31, 2006		
	Future Minimum Lease Payments	Imputed Finance Charges	Present Value of Future Minimum Lease Payments
Less than one year	P1,500,000	P806,428	P693,572
Between one and five years	6,000,000	2,488,450	3,511,550
More than five years	5,750,000	924,380	4,825,620
	P13,250,000	P4,219,258	P9,030,742

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

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

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

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

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

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

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

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

As of December 31, 2006 and 2005, APHC also has unsecured receivables from Acesite Limited (BVI) amounting to P717.4 million. Currently, APHC, through its lawyers in Hong Kong, is in the process of filing a case in Hong Kong against Acesite Limited (BVI) and all other parties involved for the collection of the said receivables.

In 2006, the WPI sold its investments in APHC shares totaling 51 million shares at varying selling prices thru sale transactions in the Philippine Stock Exchange (PSE). Majority of the sale transactions were made with parties that were relatively owned and/or have related party relationship with TWGI, the Ultimate Parent Company. Total proceeds from the sale transactions net of related expenses and taxes amounted to P123.6 million. Gain on sale of APHC shares amounting to P36.6 million was recognized as "Other Revenues" in the December 31, 2006 consolidated statements of operations.

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

Total proceeds from the sale transactions less the total purchase cost of the additional shares amounting to P115.8 million was recorded as receivable from TWGI and part of "Due from Related Parties - net" account in the consolidated balance sheets.

As of December 31, 2006, the Parent Company's percentage of ownership of the issued and outstanding capital stock of APHC decreased to 24% from 75% in 2005. However, despite the decrease in holdings, the Parent Company, thru its Board of Directors, still holds control over APHC as demonstrated by its: (a) power to govern the financial and operating policies of APHC, (b) power to appoint or remove the majority of the members of APHC's board of directors, and (c) power to cast the majority of votes at meetings of APHC's board of directors.

23. Deferred Credit

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

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

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

24. Financial Risk Management

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

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

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

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

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

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

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

<u>Foreign Currency Risk</u>
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.

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

<u>Foreign Exchange Risk and Interest Risk</u>
The Group's financial instrument that is exposed to foreign exchange risk and interest risk is its loan from ICBC. The loan bears interest at annual rate of 2% above SIBOR. Carrying value of the loan as of December 31, 2006 is US$8.43 million.

Fair Value of Financial Instruments
Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements (in thousands) as of December 31, 2006 and 2005:

	2006		2005	
	Carrying Amounts	**Fair Value**	Carrying Amounts	Fair Value
Financial assets				
Cash and cash equivalents	**P56,830**	**P56,830**	P68,945	P68,945
Receivables - net	**200,939**	**200,939**	133,832	133,832
Due from related parties - net	**900,286**	**984,286**	772,667	772,667
AFS investment	**11,272**	**11,272**	10,405	10,405
Financial liabilities				
Accounts payable and accrued expenses	**P919,838**	**P919,838**	P802,721	P802,721
Loans Payable	**1,676,323**	**1,676,323**	1,917,866	1,917,866
Due to related parties	**3,557**	**3,557**	4,116	4,116
Other current liabilities	**224,941**	**224,941**	113,082	113,082

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

The fair value of AFS investment was determined using the closing market price of the investment as of December 31, 2006 and 2005.

The fair value of the receivables from Acesite Limited (BVI) as of December 31, 2006 and 2005 cannot be presently determined due to the uncertainty of the ultimate amount and timing of the collection of the receivables (Note 22).

25. Commitments and Contingencies

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

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

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

b. As of December 31, 2006, APHC had capital expenditures and purchase commitments of P19.3 million, principally relating to the hotel renovations schedules in early 2007.

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

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

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

26. Event After Balance Sheet Date

In February 2007, the Supreme Court (SC) ordered BIR to refund, to APHC without unreasonable delay, the amount of P30.1 million representing refund of value added tax (VAT) erroneously paid by APHC to the BIR from 1996 to 1997 on its sales of food and services, as well as rentals, to PAGCOR.

In May 1998, APHC filed the petition for the said refund with the Court of Tax Appeals (CTA) which granted APHC's petition and ordered the BIR to refund the said amount. The decision was affirmed by the Court of Appeals (CA) in November 2000. Thereafter, the BIR appealed the decision of the CA before the SC.

27. Other Matter

As a customer of MERALCO, APHC received a refund for some of MERALCO's previous billings under Phase IV-B of MERALCO's refund scheme. Under the refund scheme, the refund may be received through postdated checks or as a fixed monthly credit bills with cash option. APHC opted to recover the refund through receipt of quarterly postdated checks of equal amount over 5 years, starting April 2005 up to December 2010. In 2005, APHC recognized a receivable from MERALCO amounting to P15.9 million (net of unearned interest income of P6.2 million), which was also recognized as accretion income from the refund (included in "Revenues - Others" in the 2005 consolidated statements of operations). The receivable was discounted using an effective interest rate of 14%.

Amounts to be recovered within one year and beyond one year that are included in the "Receivables - net" and "Other Non-current Assets" accounts, respectively, in the consolidated balance sheets as of December 31, 2006 and 2005 as follows:

	2006	2005
Within one year	**P2,553,425**	P3,171,349
After one year but not more than five years	**10,146,251**	12,699,676
	P12,699,676	P15,871,025

REPUBLIC OF THE PHILIPPINES)
) S.S
QUEZON CITY

TREASURER'S CERTIFICATION

I, **ELVIRA A. TING**, of legal age, Filipino and with office address at the 27^{TH} floor Wynsum Plaza , Emerald Avenue , Ortigas Center Pasig City, after being sworn in accordance with law, hereby certify that:

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

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

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

WITNESS MY HAND on this ________ day of APR 12 2007 ________ 2007 at ____________ QUEZON CITY

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this APR 12 2007 day of ________ at QUEZON CITY. Affiant exhibited to me his Community Tax Certificate No./Passport No. 11017496 issued on Januaary 10, 2007 at Valenzuela City.

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Page No. 22
Book No. 237-C
Series of 07

ATTY. DELFIN R. AGCAOILI JR.
NOTARY PUBLIC
PTR NO. 8451939
IBP NO. 679914
TIN NO. 144-519-066
DATE ISSUED: 1/2/07
ISSUED AT QUEZON CITY
VALID UNTIL DEC 31, 2007

COVER SHEET

S.E.C. Registration Number

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

(Company's Full Name)

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

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

MS. ELVIRA A. TING

Contact Person

(02) 687-0888

Company Telephone Number

1 2 3 1

Month *Day*

A A F S

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.

WATERFRONT PHILIPPINES, INCORPORATED

PARENT COMPANY FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

KPMG

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying parent company financial statements of Waterfront Philippines, Incorporated which comprise the parent company balance sheets as at December 31, 2006 and 2005, and the parent company statements of operations, statements of changes in equity and statements of cash flows for each of the years in the three-period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Manabat Sanagustin & Co. certified public accountants, a professional partnership established under Philippine law, is a member of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Waterfront Philippines, Incorporated as of December 31, 2006 and 2005, and its financial performance and its cash flows for the three years ended December 31, 2006, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO.

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-1
Tax Identification No. 112-071-561
BIR Accreditation No. 08-002218-1-2005
Issued April 18, 2005; Valid until April 17, 2008
PTR No. 0325115 J
Issued January 18, 2007 at Makati City

April 2, 2007
Makati City, Metro Manila

KPMG

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

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

We have audited the accompanying consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries (the Group) as of and for the year ended December 31, 2006, on which we have rendered our report dated April 2, 2007.

In compliance with SRC Rule 68, we are stating that the said Company has a total number of 643 stockholders owning one hundred (100) or more shares each.

MANABAT SANAGUSTIN & CO.

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
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April 2, 2007
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY BALANCE SHEETS

		December 31	
	Note	**2006**	2005
ASSETS			
Current Assets			
Cash		**P220,570**	P535,724
Due from related parties - net	*5, 13*	**570,447,795**	445,850,815
Total Current Assets		**570,668,365**	446,386,539
Non-current Assets			
Investments in and advances to subsidiaries	*4, 13*	**3,578,937,148**	3,721,975,910
Property and equipment - net	*6*	**251,099**	773,306
Deferred tax asset	*9*	**834,545**	692,245
Other non-current assets	*13*	**6,705,730**	4,017,734
Total Non-current Assets		**3,586,728,522**	3,727,459,195
		P4,157,396,887	P4,173,845,734
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	*7*	**P271,129,118**	P208,382,418
Current portion of loans payable	*8*	**691,513,322**	613,834,203
Due to related parties	*5*	**438,315,115**	369,804,937
Income tax payable	*9*	**238,158**	252,896
Total Current Liabilities		**1,401,195,713**	1,192,274,454
Loans Payable - net of current portion	*8*	**571,486,679**	816,665,798
Equity			
Capital stock		**1,945,934,653**	1,945,934,653
Additional paid-in capital		**755,435,050**	755,435,050
Deficit		**(558,745,350)**	(592,659,044)
Foreign currency translation adjustment		**42,090,142**	56,194,823
Total Equity		**2,184,714,495**	2,164,905,482
		P4,157,396,887	P4,173,845,734

See Notes to the Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY STATEMENTS OF OPERATIONS

	Note	2006	2005	2004
			Years Ended December 31	
REVENUES				
Interest income	*5*	**P11,907,902**	P12,644,770	P16,828,752
Others	*4*	**36,638,272**	-	453,258
		48,546,174	12,644,770	17,282,010
GENERAL AND ADMINISTRATIVE EXPENSES				
Representation and entertainment		**12,418,605**	1,780,000	1,911,661
Taxes and licenses		**726,521**	325,080	57,914
Professional fees		**570,000**	537,220	345,702
Depreciation and amortization	*6*	**522,207**	550,482	569,990
Transportation and travel		**125,502**	79,614	3,747
Penalties and other charges	*7, 8*	**-**	64,636,603	87,576,995
Provision for impairment losses on receivables	*5*	-	229,993	58,233,956
Salaries		**-**	-	97,804
Miscellaneous		**173,787**	13,217	482,194
		14,536,622	68,152,209	149,279,963
INCOME (LOSS) BEFORE INCOME TAX		**P34,009,552**	(55,507,439)	(131,997,953)
PROVISION FOR INCOME TAX	*9*	**(95,858)**	-	-
NET INCOME (LOSS)		**P33,913,694**	(P55,507,439)	(P131,997,953)
EARNINGS (LOSS) PER SHARE	*10*	P0.017	(P0.029)	(P0.068)

See Notes to the Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2006	2005	2004
CAPITAL STOCK - P1 par value Authorized - 5 billion shares Issued - 1,945,934,653 shares	**P1,945,934,653**	P1,945,934,653	P1,945,934,653
ADDITIONAL PAID-IN CAPITAL	**755,435,050**	755,435,050	755,435,050
DEFICIT			
Balance at beginning of year	**(592,659,044)**	(537,151,605)	(405,153,652)
Net income (loss) for the year	**33,913,694**	(55,507,439)	(131,997,953)
Balance at end of year	**(558,745,350)**	(592,659,044)	(537,151,605)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**42,090,142**	56,194,823	56,194,823
	P2,184,714,495	P2,164,905,482	P2,220,412,921

See Notes to the Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
PARENT COMPANY STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2006**	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**P34,009,552**	(P55,507,439)	(P131,997,953)
Adjustments for:				
Depreciation and amortization	*6*	**522,207**	550,482	569,990
Provision for impairment losses on receivables	*5*	**-**	229,993	58,233,956
Interest income	*5*	**(11,907,902)**	(12,644,770)	(16,828,752)
Operating income (loss) before working capital changes		**22,623,857**	(67,371,734)	(90,022,759)
Decrease (increase) in other non-current assets		**(2,687,996)**	(827,124)	388,170
Increase in trade and other payables		**62,746,700**	28,097,011	124,133,416
Cash generated from (used in) operations		**82,682,561**	(40,101,847)	34,498,827
Income tax paid		**(252,896)**	(343,491)	(95,858)
Net cash provided by (used in) operating activities		**82,429,665**	(40,445,338)	34,402,969
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of loans payable	*8*	**(167,500,000)**	(138,922,242)	-
Advances from (to) related parties		**98,859,862**	179,800,487	(35,175,814)
Net cash provided by (used in) financing activities		**(68,640,138)**	40,878,245	(35,175,814)
DECREASE IN TRANSLATION ADJUSTMENT FOR THE YEAR		**(14,104,681)**	-	(8,937)
NET INCREASE (DECREASE) IN CASH		**(315,154)**	432,907	(781,782)
CASH AT BEGINNING OF YEAR		**535,724**	102,817	884,599
CASH AT END OF YEAR		**P220,570**	P535,724	P102,817

See Notes to the Parent Company Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Reporting Entity

Corporate Information
Waterfront Philippines, Incorporated (the Parent Company) was incorporated in the Philippines on September 23, 1994, and is 63%-owned by The Wellex Group, Inc. (TWGI). It holds equity interests in hotels and resorts, fitness gym, as well as in entities engaged in the international marketing and promotion of casinos, pastries manufacturing, hotel management and operation. The details of the equity interest of the Parent Company are shown below:

	Percentage of Ownership	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated (WCCCHI)	100	-
Waterfront Mactan Casino Hotel, Incorporated (WMCHI)	100	-
Davao Insular Hotel Company, Inc. (DIHCI)	98	-
Acesite (Phils.) Hotel Corporation (APHC)	24	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
Waterfront Promotion Ltd (WPL)	100	-
Mayo Bonanza, Inc. (MBI)	100	-
Club Waterfront International Limited (CWIL)	-	100
Pastries manufacturing:		
Waterfront Food Concepts, Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-

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

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

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

DIHCI

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

APHC

APHC was incorporated on October 10, 1952 and commenced commercial operations on March 1968. On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC. APHC owns and operates the Manila Pavilion Hotel, a 590-room hotel with casino located in Ermita, Manila (Note 4).

GIRDI

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

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

WPL, CWIL and MBI

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

W Citigym

W Citigym 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 Parent Company also offers in-house massage for guests staying in Waterfront Cebu City Casino Hotel, Inc. W Citigym started commercial operations on May 1, 2006.

WFC

WFC 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, bread and pastries supplied to in-store bakeries, coffeeshops and food service channels. WFC supplies the pastries and desserts offered by WCCHI and WMCHI food outlets, as well as its local customers. WFC started commercial operations on May 1, 2006.

WMC

WMC 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, WMC started its commercial operations by managing the hotel operations of G-hotel, a 50-room, 800-square "boutique" hotel in Manila, in a bid to win a big chunk of the high-end travellers market.

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

2. Basis of Preparation

Statement of Compliance
The Parent Company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), applicable for the preparation of separate financial statements.

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

The Parent Company financial statements as of December 31, 2006 and 2005, and for each of the three years period ended December 31, 2006 were authorized for issue by the Board of Directors, on April 2, 2007.

Basis of Measurement
The Parent Company financial statements have been prepared on the historical cost basis.

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

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

Estimating Allowance for Impairment Losses on Receivables
The Parent Company maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Parent Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Parent Company's relationship with its debtors, their payment behavior and known market factors. The Parent Company reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Parent Company made different judgment or utilized different estimates. Allowance for impairment losses on receivables as of December 31, 2006 and 2005 amounted to P47.6 million, respectively (Note 5).

Estimating Useful Lives of Property and Equipment
The Parent Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Parent Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation and amortization expense and decrease non-current assets. As of December 31, 2006 and 2005, property and equipment amounted to P251 thousand and P773 thousand, respectively, net of accumulated depreciation and amortization (Note 6).

Estimating Impairment of Assets
The Parent Company assesses at each reporting date whether there is an indication that carrying amount of an asset may be impaired. If such indication exists, the Parent Company makes an estimate of the assets' recoverable amount. At the reporting date, the Parent Company assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Recognition of Deferred Tax Asset
The Parent Company reviews the carrying amounts of deferred tax at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. As of December 31, 2006 and 2005, the Parent Company has deferred tax asset of P834,545 and P692,245, respectively (Note 9).

3. Significant Accounting Policies

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

Adoption of New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council, or FRSC, (the successor body to the Accounting Standards Council) approved the adoption as part of PFRSs a number of new standards, amendments to standards, and interpretations.

Amendments to Standards and Interpretation Adopted in 2006
Effective January 1, 2006, the Parent Company adopted the following applicable amendments to standards and interpretation:

- Amendment to PAS 19, *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures* provides an option for recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires entities to give additional disclosures.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions* permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – The Fair Value Option* limits the fair value option to only those financial instruments that meet certain conditions. The conditions that are required to be met under the amendment are: where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivatives that meets particular conditions.

- IFRIC 4, *Determining Whether an Arrangement Contains a Lease* provides guidance for determining whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is or contains, a lease that should be accounted for in accordance with PAS 17, *Leases*.

The adoption of the above amendments to standards and interpretation did not have a material effect on the Parent Company financial statements.

New Standard, Amendment to Standard and Interpretation Not Yet Adopted
The following are the applicable new standard, amendment to standard and interpretation which are not yet effective for the year ended December 31, 2006, and have not been applied in preparing the Parent Company financial statements:

- PFRS 7, *Financial Instruments: Disclosures* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks.

- Amendment to PAS 1, *Presentation of Financial Statements – Capital Disclosures* adds requirements to disclose the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

- IFRIC 10, *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost.

Under the prevailing circumstances, the adoption of the above standard, amendment to standard and interpretation in 2007 is not expected to have any material effect on the Parent Company's financial statements.

Revenue Recognition

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

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

Cash

Cash includes cash on hand and with banks.

Investments in Subsidiaries

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

Property and Equipment

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

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

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

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

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

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

Borrowing Costs

Borrowing costs are generally recognized as expense in the period in which these costs are incurred, except for those borrowing costs directly attributable to the acquisition, development, improvement and construction of WCCHI, which were capitalized.

The capitalization of borrowing costs as part of the cost of WCCHI's hotel project commenced when the expenditures and borrowing costs were being incurred and activities that were necessary to prepare the hotel project for their intended used were in progress. It ceased when substantially all the activities necessary to prepare the hotel project for its intended used were completed.

Asset Impairment

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

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

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recognized in the Parent Company statements of operations.

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

Foreign Currency Transactions and Translation to the Presentation Currency

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

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

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

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

Income Taxes

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

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

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

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

Provisions and Contingent Liabilities

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

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

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.

Events after the Balance Sheet Date

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

4. Investments in and Advances to Subsidiaries

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

	2006				2005			
	Acquisition Costs	**Advances to Subsidiaries**	**Equity in Foreign Currency Translation Adjustment**	**Total**	Acquisition Costs	Advances to Subsidiaries	Equity in Foreign Currency Translation Adjustment	Total
WCCCHI	**P13,800**	**P2,248,484**	**P -**	**P2,262,284**	P13,800	P2,331,409	P -	P2,345,209
WMCHI	**13,800**	**272,396**	**-**	**286,196**	13,800	293,580	-	307,380
DIHCI	**584,363**	**46,458**	**-**	**630,821**	584,363	36,840	-	621,203
APHC	**47,634**	**-**	**-**	**47,634**	126,778	-	-	126,778
GIRDI	**253,667**	**-**	**-**	**253,667**	253,667	-	-	253,667
WPL	**-**	**-**	**42,090**	**42,090**	-	-	56,195	56,195
MBI	**25**	**13,898**	**-**	**13,923**	25	10,593	-	10,618
WCitigym	**625**	**12,120**	**-**	**12,745**	625	37	-	662
WFC	**125**	**4,809**	**-**	**4,934**	129	6	-	135
WMC	**125**	**24,518**	**-**	**24,643**	129	-	-	129
	P914,164	**P2,622,683**	**P42,090**	**P3,578,937**	P993,316	P2,672,465	P56,195	P3,721,976

Advances to Subsidiaries

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

Acquisition of DIHCI and GIRDI

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

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

Acquisition and Status of APHC Shares

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

APHC shares at that time (P1.66 per share). Subsequently, the Parent Company incurred additional legal costs to complete the acquisition amounting to P14.5 million, which formed part of the cost of investment. The acquisition was made pursuant to the Parent Company's plans to expand its operations, which are currently in Cebu City, to the Metro Manila area.

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

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

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

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

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

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

In 2006, the Parent Company sold its investments in APHC shares totaling 51 million shares at varying selling prices thru sale transactions in the Philippine Stock Exchange (PSE). Majority of the sale transactions were made with parties that were relatively owned and/or have related party relationship with TWGI, the Ultimate Parent Company. Total proceeds from the sales transactions, net of related expenses and taxes amounted to P123.6 million. Gain on sale of APHC shares amounting to P36.6 million was recognized in the statements of operations.

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

Total proceeds from the sale transactions less the total purchase cost of the additional shares amounting to P115.8 million was recorded as receivable from TWGI and part of "Due from Related Parties - net" account in the balance sheets (Note 5).

As of December 31, 2006, the Parent Company's percentage of ownership of the issued and outstanding capital stock of APHC decreased to 24% from 75% in 2005. However, despite the decrease in holdings, the Parent Company, thru its Board of Directors, still holds control over APHC as demonstrated by its: (a) power to govern the financial and operating policies of APHC, (b) power to appoint or remove the majority of the members of APHC's board of directors, and (c) power to cast the majority of votes at meetings of APHC's board of directors.

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

5. Related Party Transactions

The "Due from Related Parties - net" account consists of:

	Note	**2006**	2005
Metro Alliance Holdings and Equities Corp. (MAHEC)		**P301,727,199**	P282,518,612
The Wellex Group Inc.	*4*	**237,245,296**	134,969,185
Forum Holdings Corp. (FHC)		**66,882,998**	74,240,102
Polymax Worldwide		**4,810,320**	-
Pacific Wide		**4,441,000**	-
Others		**2,969,489**	1,751,423
		618,076,302	493,479,322
Less allowance for impairment losses		**47,628,507**	47,628,507
		P570,447,795	P445,850,815

In 2006 and 2005, the Parent Company and APHC extended interest-bearing, collateral free advances to MAHEC at a rate of four percent (4%) per annum. The Parent Company also extended interest-bearing, collateral free advances to TWGI at a rate of four percent (4%) per annum in 2003. Interest income on these advances amounted to P11.9 million, P12.6 million and P16.8 million in 2006, 2005, and 2004 respectively.

Advances to FHC, Polymax Worldwide and Pacific Wide are non-interest bearing and collateral-free.

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

The “Due to Related Parties” account consists of:

	2006	2005
WPL	**P197,973,129**	P198,077,023
GIRDI	**153,379,651**	155,439,046
APHC	**83,604,845**	13,061,378
Others	**3,357,490**	3,227,490
	P438,315,115	P369,804,937

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

6. Property and Equipment

Movements in this account are as follows:

	For the Year Ended December 31, 2006		
	Leasehold Improvements	**Furniture, Fixtures and Equipment**	**Total**
Gross carrying values:			
Beginning balance	**P2,691,789**	**P1,267,926**	**P3,959,715**
Additions	-	-	-
Ending balance	**2,691,789**	**1,267,926**	**3,959,715**
Accumulated depreciation and amortization:			
Beginning balance	**2,018,802**	**1,167,607**	**3,186,409**
Provisions for the year	**448,657**	**73,550**	**522,207**
Ending balance	**2,467,459**	**1,241,157**	**3,708,616**
Net carrying values:			
Beginning balance	**P672,987**	**P100,319**	**P773,306**
Ending balance	**P224,330**	**P26,769**	**P251,099**

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

7. Trade and Other Payables

This account is broken down as follows:

	Note	**2006**	2005
Accrued interest and penalties - SSS loan	*8*	**P267,082,983**	P207,040,878
Others		**4,046,135**	1,341,540
		P271,129,118	P208,382,418

8. Loans Payable

This account consists of:

	2006	2005
Philippine National Bank (PNB)	**P888,000,001**	P1,055,500,001
Social Security System (SSS)	**375,000,000**	375,000,000
	1,263,000,001	1,430,500,001
Less current portion	**691,513,322**	613,834,203
	P571,486,679	P816,665,798

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

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

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

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

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

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

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

Second Restructuring Agreement

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

The restructured loan had the following terms:

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

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

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

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

Third Restructuring Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 13, 2004, SSS filed a civil suit against the Parent Company for the collection of the total outstanding loan obligation pending before the Regional Trial Court of Quezon City (RTC), docketed as Civil Case No. Q-04-52629. SSS likewise asked the RTC for the issuance of a writ of preliminary attachment on the collateral property.

On June 18, 2004, the RTC issued its first order granting SSS's request and the issuance of a writ of preliminary attachment based on the condition that SSS shall post an attachment bond in the amount of P452,750,886.28. After the lapse of three (3) months from the issuance of RTC order, no attachment bond has been posted. Thus on September 16, 2004 and September 17, 2004, the Parent Company filed a Motion to Set Aside Order of Attachment and Amended Motion to Set Aside Order of Attachment, respectively.

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

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

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

On September 12, 2005, the RTC issued its fourth order approving SSS's property bond in the total amount of P452,750,886.78. Accordingly, the RTC ordered the corresponding issuance of the writ of preliminary attachment. On November 3, 2005, the Parent Company submitted a Petition for Certiorari before the Court of Appeal (CA) seeking the nullification of RTC's orders dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005.

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

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

On August 24, 2006, the CA issued a decision (CA-G.R. SP No. 91928) granting the Petition for Certiorari filed by the Parent Company on November 3, 2005 and nullifying RTC's orders dated June 18, 2004, January 10, 2005, July 18, 2005 and September 12, 2005 and consequently making the writ of preliminary injunction permanent.

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

On November 15, 2006, the First Division of the SC issued a Resolution (G.R. No 174313) denying SSS's petition for failure of SSS to sufficiently show that the CA committed any reversible error in its decision (CA-G.R. SP No. 91928) which would warrant the exercise of the SC's discretionary appellate jurisdiction.

As of December 31, 2006, total outstanding loan obligations to SSS amounted to P642 million consisting of the principal of P375 million and interest and penalties of P267 million. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS. Starting 2006, the Parent Company is charging WCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. The proceeds of the loan were substantially used for the expansion and improvement of WCCHI's operations. Total interest and penalties in 2006 amounted to P60 million.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. The Parent Company believes that it will be able to restructure the said loan. In the absence of a formal restructuring agreement, the entire outstanding principal loan balance amounting to P375 million and accrued interest and penalties of P267 million has been classified as current in the December 31, 2006 and 2005 balance sheets.

9. Income Taxes

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

	2006	2005	2004
Income (loss) before income tax	**P34,009,552**	(P55,507,439)	(P131,997,953)
Benefit from (provision for) income tax at 35%, 32.5%, and 32% in 2006, 2005 and 2004, respectively	**(P11,903,343)**	P18,039,918	P42,239,345
Tax effects of:			
Non-taxable gain on sale of shares	**12,823,395**		
NOLCO applied	**3,426,460**	-	-
MCIT expired	**(95,858)**	-	-
Nondeductible representation expense	**(4,346,512)**	(578,500)	(611,732)
Expiration of NOLCO	**(54,835,757)**	(4,800,303)	-
Interest income subjected to final tax	-	-	34,381
	(54,931,615)	12,661,115	41,661,994
Changes in statutory tax rates	-	10,308,879	-
Changes in unrecognized deferred tax assets	**54,835,757**	(22,969,994)	(41,661,994)
	(P95,858)	P -	P -

Republic Act (RA) 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005 are as follows:

i. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009. For 2005 income tax computation purposes, the taxable income shall be computed without regard to the specific date when the specific sales, purchases and other transactions occur. Income and expenses for the fiscal year shall be deemed to have been earned equally for each month of the year. The corporate income tax rate shall be applied on the amount computed by multiplying the number of months covered by the new rate within the fiscal year by the taxable income of the corporation for the period, divided by twelve;

ii. Grant authority of the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;

iii. Revised invoicing and reporting requirements for VAT;

iv. Expanded scope of transactions subject to VAT; and,

v. Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

On January 31, 2006, the Bureau of Internal Revenue issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12% effective February 1, 2006.

In the last quarter of 2006, RA no. 9361 was enacted, repealing the 70% cap in the input tax.

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

As of December 31, 2006, the Parent Company has NOLCO of P136 million. The amounts of NOLCO and the applicable years these are deductible from taxable income are shown below:

Taxable Year	Unapplied Amounts	Valid Until
December 31, 2005	P64,332,894	December 31, 2008
December 31, 2004	71,959,775	December 31, 2007
	P136,292,669	

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

	2006	2005
NOLCO	**P47,702,434**	P123,357,727
Allowance for impairment losses on receivables	**16,669,978**	16,669,978
	P64,372,412	P140,027,705

From 2004 to 2006, the Parent Company paid MCIT equivalent to 2% of gross income, in compliance with existing tax regulations. The MCIT payments are presented as part of "Deferred Tax Asset" in the balance sheets. The MCIT payments and the applicable years that these will be deductible from regular corporate income tax follows:

Period Paid	Amount	Valid Until
December 2006	P238,158	December 2009
December 2005	252,896	December 2008
December 2004	343,491	December 2007
	P834,545	

10. Earnings (Loss) Per Share

The earnings (loss) per share for the years ended December 31 is computed follows:

	2006	2005	2004
Net income (loss)	**P33,913,694**	(P55,507,439)	(P131,997,953)
Weighted number of shares outstanding	**1,945,934,653**	1,945,934,653	1,945,934,653
Earnings (loss) per share	**P0.017**	(P0.029)	(P0.068)

There are no potential dilutive shares as of December 31, 2006, 2005 and 2004.

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

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

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

In addition, PAGCOR agreed to pay WCCCHI and WMCHI security deposit equivalent to the rentals for one year based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit amounted to P232.7 million as of December 31, 2006 and 2005.

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

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

	2006	2005
Less than one year	**P457,049,020**	P447,800,407
Between one and five years	**314,790,462**	756,335,899
	P771,839,482	P1,204,136,306

12. Financial Risk Management

The Parent Company's financial instruments comprise of cash, due from and to related parties, trade and other payables, and interest-bearing loan from PNB and SSS. The main purpose of these financial instruments is to raise finances for the Company's operations.

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

Interest Rate Risk

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

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

Credit Risk

The Parent Company trades only with recognized, creditworthy third parties. It is the Parent Company's policy that all third parties who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Parent Company's exposure to bad debts is not significant.

With respect to credit risk from other financial assets of the Parent Company, 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.

Foreign Currency Risk

The Parent Company does not have any material transactional foreign exchange risks as its revenues and costs are substantially denominated in Philippine Peso. The Parent Company monitors and assesses cash flows from anticipated transactions and financing agreements denominated in foreign currencies.

Liquidity Risk

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Parent Company's financial instruments that are carried in the financial statements (in thousands) as of December 31, 2006 and 2005:

	2006		2005	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash	**P221**	**P221**	P536	P536
Due from related parties - net	**570,448**	**570,448**	445,851	445,851
Financial liabilities				
Trade and other payables	**P271,129**	**P271,129**	P208,382	P208,382
Current portion of loans payable	**691,513**	**691,513**	613,834	613,834
Due to related parties	**438,315**	**438,315**	369,805	369,805
Loans payable - net current portion	**571,487**	**571,487**	816,666	816,666

The carrying values of these financial instruments approximate their fair values as these have short-term maturities and are considered due and demandable.

13. Reclassifications

The following reclassifications of 2005 account balances were made to conform to the 2006 presentation:

a. "Due from Related Parties - net" amounting to P42,627 were transferred to "Investments in and Advances to Subsidiaries" in the balance sheet,
b. "Other Non-current Assets" amounting to P883,647 were transferred to "Investments in and Advances to Subsidiaries" in the balance sheet, and

The reclassifications did not result to adjustments in the 2005 net income and retained earnings.

ANNEX B

SUPPLEMENTARY SCHEDULES

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Supplementary Schedules
Required by the Securities and Exchange Commission
As of December 31, 2006 and for the Year Then Ended

NA : Not applicable

SEC/PSE ANNUAL FILING REQUIREMENT CHECKLIST
PUBLIC COMPANIES
FORM AND CONTENT OF SCHEDULES

Schedule A. **Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)**

Name of Issuing entity and association of each issue (1)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (2)	Valued based on market quotation at balance sheet date (3)	Income received and accrued
		Not applicable		

1) Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.

(2) State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.

(3) This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)

Name and Designation of debtor (1)	Balance at beginning of period	Additions	Amounts collected (2)	Amounts written off (3)	Current	Not Current	Balance at end of period
The Wellex Group, Inc. (parent Company)	P389,410,719	P101,577,307	P -	P -	P490,998,026	P -	P490,998,026
Metro Alliance Holdings and Equities Corp (stockholder and related party)	282,518,612	19,208,587	-	-	301,727,199	-	301,727,199
Forum Holdings Corp (stockholder and related party)	145,315,423	-	3,642,910	-	141,672,513	-	141,672,513
Polymax Worldwide (related party)	-	4,810,320	-	-	4,810,320	-	4,810,320
Pacific Wide (related party)	-	4,441,000	-	-	4,441,000	-	4,441,000

Refer also to Note 8 of the consolidated financial

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1) Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.

2) If collection was other than in cash, explain.

3) Give reasons for write off.

Schedule C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments

Name of Issuing entity and description of Investment (1)	Number of shares (2) or principal amount of bonds and notes	Amount in Pesos	Equity in earnings (losses of investees (3) for the period	Other (4)	Distribution of earnings by investees (5)	Other (6)	Number of shares (2) or principal amounts of bonds and notes	Amount in Pesos (7)	Dividends received from investments not accounted for by the equity method
Wellex Industries, Incorporated	86,710,000	P11,272,300	-	-	-	-	-	-	-

Refer also to Note 8.c of the consolidated financial

1) Group separately securities of (a) unconsolidated subsidiaries and (b) other affiliates and (c) other companies, the investment in which is accounted for by the equity method. State separately investments in individual affiliates which, when considered with related advances, exceed two per cent of total assets.

2) Disclose the percentage of ownership interest represented by the shares if material.

3) The total of this column shall correspond to the amount of the related income statement caption.

4) Briefly describe each item. Explain if the cost represents other than a cash expenditure.

5) As to any dividends other than in cash, state the basis on which they have been taken up in the accounts, and the justification for such treatment. If any such dividends received from affiliates have been credited in an amount different from that charged to retained earnings by the disbursing company, state the amount of differences and explain.

6) Briefly describe each item and state:

   a) Cost of securities sold and how determined;

   b) Amount received (if other than cash explain); and

   c) Disposition of resulting profit or loss.

7) The totals in this column shall correspond to the related balance sheet captions.

Schedule D. Indebtedness of Unconsolidated Subsidiaries and Affiliates

Name of Affiliates (1)	Balance at beginning of period	Balance at end of period (2)
	Not applicable	

1) The affiliates named shall be grouped as in Schedule C. The information called for shall be shown separately for each affiliate whose investment was shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase.

Schedule E. Property, Plant and Equipment (1)

Classification (2)	Beginning balance	Additions at cost (3)	Retirements (4)	Other charges - additions (deductions) (5)	Ending balance
Land	P490,566,000	P -	P -	P -	P490,566,000
Land Improvements	21,320,096	371,500	-	-	21,691,596
Leasehold and leasehold improvements	2,691,789	4,626,964	-	-	7,318,753
Hotel buildings and improvements	6,017,258,296	9,042,447	-	27,094,670	6,053,395,413
Furniture, fixture and equipment	930,154,943	53,356,258	-	6,425,291	989,936,492
Operating equipment	184,344,824	28,748,020	-	-	213,092,844
Transportation equipment	17,976,147	3,473,393	-	-	21,449,540
Construction in-progress	13,202,248	27,2876,076	-	(28,660,003)	4,859,958

Refer also to Note 9 of the consolidated financial statements

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1) Briefly comment on any significant and unusual additions, abandonments, or retirements, or any significant and unusual changes in the general character and location, of principal plants and other important units which may have occurred during the period.

2) Show by major classifications, as indicated in Part IV-(b)(14). If property, plant and equipment abandoned is carried at other than a nominal amount, indicate, if practicable, the amount thereof and state the reasons for such treatment, insignificant or minor items may be shown under a miscellaneous caption.

3) For each change that represents anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

4) Explain, if practicable, changes stated at other than cost.

5) Clearly describe the nature of the changes and the other accounts affected.

Schedule E. Accumulated Depreciation

Description (1)	Beginning Balance	Additions charged to costs and expenses	Retirements	Other charges - Add (deduct) describe	Ending balances
Land Improvements	P9,499,096	P12,192,500	P -	P -	P21,691,596
Leasehold and leasehold improvements	2,018,802	1,130,532	-	-	3,149,334
Hotel buildings and improvements	1,718,271,335	201,811,799	-	(232,363)	1,919,850,771
Furniture, fixture and equipment	477,319,216	77,296,744	-	5,655,356	560,271,316
Operating equipment	133,554,004	22,373,578	-	(3,087,747)	152,839,835
Transportation equipment	15,616,610	2,287,043	-	-	17,903,653

Refer also to Note 9 of the consolidated financial statements

1) If practicable, accumulated depreciation shall be shown to correspond with the classification of property set forth in the related schedule of property, plant and equipment, separating especially depreciation, depletion, amortization and provision for retirement.

Schedule G. Intangible Assets - Other Assets

Description (1)	Beginning balance	Additions at cost (2)	Deduction (3) Charged to cost and expenses	Deduction (3) Charged to other accounts	Other changes additions (deductions)	Ending balance
			Not applicable			

1) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications as indicated in Parts IV-(b)(16).

2) For each change representing anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

3) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Schedule H. Long Term Debt

Title of Issue and type of obligation(1)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (2)	Amount shown under caption "Long-Term Debt" in related balance sheet (3)
PNB Loans Payable	P888,000,001	P316,513,322	P571,486,679
ICBC Loans Payable	413,322,900	413,322,900	-
SSS Loans Payable	375,000,000	375,000,000	-

Refer also to Note 13 of the consolidated financial statements

1) Include in this column each type of obligation authorized.

2) This column is to be totaled to correspond to the related balance sheet caption.

3) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

Schedule I. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)

Name of affiliate (1)	Balance at beginning of period	Balance at end of period (2)
Philippine Estates Corp.	P1,734,887	P1,734,887
Wellex Industries Incorporated	2,038,246	1,349,442

Refer also to Note 8 of the consolidated financial statements

1) The affiliates named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Schedule J. Guarantees of Securities of Other Issuers (1)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (2)	Amount owned by person for which statement is filed	Nature of guarantee (3)

Not applicable

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1) Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

2) There need be made only a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Schedule K. Capital Stock (1)

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common stock	5,000,000,000	1,945,934,653		1,262,150,239	85,090,109	598,694,305

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1) Indicate in a note any significant changes since the date of the last balance sheet filed.

2) Include in this column each type of issue authorized.

3) Affiliates referred to include affiliates for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.