COVER SHEET

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S.E.C. Registration Number

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

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

(Company's Full Name)

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

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

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

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

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

Ms. Connie Francisco

Contact Person

(02) 687-0888

Company Telephone Number

1 2 | 3 1

Month *Day*

1 7 - A

FORM TYPE

1 1 | 2 1

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

5 4 1

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.

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, 2009

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

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

5. PHILIPPINES 6. [ ] (SEC Use Only)

   Province, Country or other jurisdiction of incorporation or organization

   Industry Classification Code:

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares - P1.00 par value	2,498,991,753

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

    Yes [√] No [ ]

12. Check whether the registrant:

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

    Yes [√] No [ ]

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

    Yes [ ] No [√]

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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 effort.

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				
Micros-Fidelio Opera Sales and Catering System	X				
Micros-Fidelio Front Office System	X				
Opera Property Management System	X	X	X	X	X
SUN SYSTEM	X	X	X	X	X
Human Resource Information System (ACLT)	X	X		X	
Actatek Biometric Fingerscan System	X	X	X	X	X
Mitech Payroll System			X		X
Lotus Email System	X	X	X	X	X
Micros-Fidelio Inventory System	X	X		X	

Employees

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

In the year 2009, the Company gave the usual 13th month pay in December. The Company firmly believes that it is appropriate to recognize the employees' hard work and dedication so the company grant the employees incentives based on their performance appraisal during the whole year.

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

Property	**Training Index**
WCCHI	70.30
WMCHI	74.31
DIHCI	117.48
APHC	63.03
WMC	62.05

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

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

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

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

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

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

As of the end of the calendar year 2009, *WPI* Group has a total of 854 employees that were distributed as follows:

WPI

	Filipinos	*Foreigners*	*Total*
Executive	3	0	3
Non-Executive	10	0	10
Total	13	0	13

***WCCCHI**:*

	Filipinos	*Foreigners*	*Total*
Executive	28	8	36
Non-Executive	451	0	451
Total	479	8	487

WMCHI:

	Filipinos	*Foreigners*	*Total*
Executive	8	1	9
Non-Executive	149	0	149
Total	157	1	158

DIHCI:

	Filipinos	*Foreigners*	*Total*
Executive	12	1	13
Non-Executive	103	0	103
Total	115	1	116

WMC:

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	42	0	42
Total	43	0	43

WCWI:

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	26	0	26
Total	27	0	27

WFCI:

	Filipinos	*Foreigners*	*Total*
Executive	1	0	1
Non-Executive	9	0	9
Total	10	0	10

Grand Total	**844**	**10**	**854**

There is no existing union under the Company except for Davao where the Collective Bargaining Agreement (CBA) covered **93** Rank & File employees and 28 Management staff. The renegotiation of the CBA is pending for the next few years, as Memorandum of Agreement dated May 8, 2001.

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

	Actual Manpower Count As of 31 December 2009	31 December 2008
Department Head	34	38
Managerial and Supervisors	119	123
Line Staff	290	318
Casual	104	100
Total	547	579

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

Business of WPI and Its Subsidiaries

- ***WPI***

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

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

The Company has the following subsidiaries, which are briefly described in the next pages:
1. Waterfront Cebu City Casino Hotel, Inc. (WCCCHI)
2. Waterfront Mactan Casino Hotel, Inc. (WMCHI)
3. Waterfront Insular Hotel Davao, Inc.
4. Waterfront Promotions Limited
5. Waterfront Entertainment Corporation
6. Mayo Bonanza, Inc.
7. Grand Ilocandia Resort Development Incorporated
8. ACESITE (Phils.) Hotel Corporation
9. Waterfront Food Concepts, Inc.
10. Waterfront Management Corporation
11. W Citigyms and Wellness, Inc.

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

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

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

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

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

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

- *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 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.

Year 2007

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

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

Year 2008

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

Year 2009

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

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

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

	company according to generally accepted accounting principles.

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

WCCCHI Land Lease:

Location	Former airport site at Lahug in Cebu City
Size	Approximately 4.6 hectares
Terms of lease	50 years with an option for renewal for another 25 years, permissible by the laws of the Philippines
Rental	Fixed rental per month of Php 11.00 per square meter or a total amount per annum of Php 6,072,000.00 + Percentage rental of 2% of the annual Gross Revenue as defined under the Land Lease Agreement
Development	Phase I, comprising of a 580-room Hotel Block, the *CICC* and an Entertainment Block. *CICC*, the International block, and 156 rooms of the Hotel Block commenced commercial operation on January 5, 1998.

WMCHI Land Lease:

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

DIHCI Wholly Owned:

Location	Title	Area (In Sq. Meters)
▪ Lanang, Davao City	TCT 0-255*	2,997
	0-256*	304
	0-257*	113
	0-258*	50
	0-259*	404
	T-10250*	44,511
	T-10250*	47,320
	T-10251*	2,091
	T-10251*	2,043
	T-10252*	643
	T-10252*	1,133
	T-10252*	300
	T-10252*	300

T-10252*	1,580
T-10252*	643
T-10254*	500
T-10254*	400
T-10303*	108
T-10303-A*	4,319
T-10303-A*	304
T-10379*	140
T-30874*	223
T-10264*	18959

ACESITE Land Lease

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

The building is mortgaged in favor of the Metropolitan Bank and Trust Company-Trust Department, as the trustee for the Singapore Branch of the Industrial and Commercial Bank of China (ICBC), a banking corporation organized under the laws of the People's Republic of China (PROC), to secure a loan in the original principal amount of Fifteen Million US Dollars (US$15,000,000.00).

Item 3. Legal Proceedings

3.1 SSS vs WPI. Et al civil case no. Q-04-52629 at regional trail court, Quezon City.
SSS claim for sum of money with damages filed against WPI, Wellex Industries, Inc. and the Wellex Group, Inc. for non payment of the Contract of Loan with Real Estate Mortgage and Assignment of Shares with option to Convert to shares of Stock in the amount of P375,000,000.00. The SSS applied for a preliminary attachment against the properties of WPI. The preliminary attachment was initially granted by the Regional Trial Court but was later on reversed by the Court of Appeals upon appropriate appeal by WPI, et al.
The case is now on trial proper. The case is pending trial. SSS presented its first witness Ms. Lilia S. Marquez, Assistant Vice President of the Institutional Loans Department of the SSS. WPI is to conduct the re-cross examination on April 20 2010.

3.2 WPI, et al. vs PNB, et al. civil case no. R-LLP-08-03632-CV at regional trial court, Lapu-Lapu City, Cebu Branch 54
This is ac action for preliminary injunction filed by WPI against the PNB, et al. to enjoin defendants from further proceeding with the extra-judicial foreclosure of the properties of WPI located in Mactan and Lahug, Province of Cebu.

A compromise agreement was executed by the parties which was approved by the Court last November. Thereafter, last February 19, 2009, the parties together with COSCO PRIME HOLDINGS agreed to substitute PNB as judgment creditor with COSCO thru a Deed of Assignment where PNB as assignor, consideration of the amount of P826,487,513, representing principal, interests, expenses and trust fees in consideration for the Assignee's acquisition of all rights, interests and participation of PNB in and to the settlement agreement, the extra-judicial foreclosure proceedings initiated and the corresponding right to foreclose, including any other rights thereto . On February 11, 2010, the Parent Company paid the agreed amount of the partial payment amounting to P400 million to COSCO.

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

4.1 During the annual stockholders' meeting held last November 21, 2009, the stockholders approved and ratified the following matters:

a. Election of the members of the Board of Directors to serve for the term 2009-2010. Those elected regular members of the Board were:
    1. Mr. Renato B. Magadia
    2. Mr. Reno I. Magadia
    3. Mr. Kenneth T. Gatchalian
    4. Mr. Arthur M. Lopez
    5. Mr. Dee Hua T. Gatchalian
    6. Ms. Elvira A. Ting
    7. Atty. Lamberto B. Mercado, Jr.
    8. Mr. Sergio R. Ortiz-Luis, Jr.
    9. Ruben Torres

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

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

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

Peso	High	Low
2008		
January – March 2008	1.02	0.61
April- June 2008	0.68	0.50
July- September 2008	0.55	0.45
October- December 2008	0.48	0.21

The price of the stock is P 0.35 and P 0.25 as of March 31, 2010.

5.1 The number of stockholders of record as of December 31, 2009 on the Register of Shareholders was 541 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, 2009 were 2,498,991,753. There are no sales for the last three years of unregistered securities.

5.2 The list of top 20 stockholders of record as of December 31, 2009 is as stated hereunder:

	Name of Stockholder of Record	No. of Shares	%
1	The Wellex Group, Inc.	1, 143, 466, 800	45.757
2	PCD Nominee Corporation (Filipino)	338,680,741	13.553
3	PCD Nominee Corporation (Non-Filipino)	260,846,900	10.438
4	Silver Green Investment LTD	180,230,000	7.212
5	Chesa Holdings, Inc.	175, 924, 000	7.040
6	Tybalt Investment LTD	135,010,000	5.403
7	Pacific Wide Realty Development Corp.	36,445,000	1.458
8	Kenneth T. Gatchalian	30, 000, 100	1.200
9	Rexlon T. Gatchalian	30, 000, 000	1.200
10	Weslie T. Gatchalian	30, 000, 000	1.200
11	Forum Holdings Corporation	20, 626, 000	0.825
12	Primary Structures Corporation	16, 212, 500	0.649
13	Pacific Rehouse Corporation	15, 598, 900	0.624
14	Rexlon T. Gatchalian	14,740,000	0.590
15	Metro Alliance Holdings and Equities	14, 370, 000	0.575
16	Mispah Holdings, Inc.	10,489,200	0.420
17	Elvira A. Ting	10, 000, 009	0.400
18	Catalina Roxas Melendres	6, 246, 000	0.250
19	Renato Chua	2, 749, 000	0.110
20	William C. Liu	2, 010, 450	0.080

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

Below are the results of operations of the Parent Company and its subsidiaries, for the years ending December 31, 2009 and 2008 together with its financial conditions as of the same period.

RESULTS OF OPERATIONS (Amounts in P)

	2009	2008
Revenues	1,909,813,695	1,945,762,375
Less: Costs and Expenses	1,449,997,627	1,496,025,644
Gross Income	**459,816,068**	**449,736,731**
Other Expenses (Income)	626,633,288	529,143,051
Net Income (Loss) Before Income Tax	**(166,817,220)**	**(79,406,320)**
Income Tax Expense	202,473	2,064,104
NET INCOME (LOSS)	**(167,019,693)**	**(81,470,424)**
Earnings (Loss) Per Share	**(P0.064)**	**(P0.024)**

FINANCIAL CONDITION (Amounts in P)

	2009	2008
ASSETS		
Current Assets	838,106,332	2,175,089,467
Non Current Assets	8,895,520,264	6,250,318,645
Total Assets	**9,733,626,596**	**8,425,408,112**
LIABILITIES		
Current Liabilities	2,815,196,828	3,182,807,868
Non-current Liabilities	2,003,398,198	1,474,508,617
Total Liabilities	**4,818,595,026**	**4,657,316,485**
Total Stockholders' Equity	**4,222,803,552**	**3,157,748,748**
Minority Interest	692,228,018	610,342,879
Total Liabilities & S/H Equity	**9,773,626,596**	**8,425,408,112**

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

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2009, was lower than the previous year. In actual performance, revenues from hotel operations for the year 2009, is P1.909B compared to 2008's P1.945B. Decreased by P36M approximately 2% decreased.

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

Cost and expenses

- Cost and expenses decreased by P46M roughly 3%. For the year 2009, WPI hit by the low economic crisis, and resulted to revenue shortfalls amounting to negative P36M.

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account decreased by P6M more or less 14%. Short-term placements earn interest at 2% per annum and maturity of 30 days.

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

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

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

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

Property plant & equipment – This account was increased by P1.615B with a growth rate of 31%. In compliance with PAS 27, property and equipment (except operating and transportation equipments) were carried at revalued amounts effective 2005.

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

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

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

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

Calendar Year ended December 31, 2008 as compared with Calendar Year ended December 31, 2007

RESULTS OF OPERATION

Revenues and Earnings per share

- Total revenues for year ended Dec. 31, 2008, was lower than the previous year. In actual performance, revenues from hotel operations for the year 2008, is P1.945B compared to 2007's P1.963B. Decreased by 17M approximately 1% decreased.

  Earnings per share for 2008 was (P0.024) compared to last year's P0.070.

Cost and expenses

- Cost and expenses Increased by P43M roughly 3% .

For the year 2008, WPI hit by the low economic crisis, and resulted to revenue shortfalls amounting to negative17M.

FINANCIAL CONDITION

Current Assets

Cash and cash equivalents – This account decreased by P19M more or less 29%. Short-term placements earn interest at 2% per annum and maturity of 30 days.

Receivables – receivables increased by 4%, from P152M to P154M. The company continues to counter the increased credit sales, at the same time increase the Manila accounts collection, generally on a 30 day term.

Inventories – decrease in inventories by roughly 3% from P46M to P45M

Prepaid expenses and other current assets – Their was an increased of P1.3M in this account approximately 5% from P28M to P30M for the year 2008.

Due from related parties – This account was increased by P162M or by 9% from 2008 financial operation. This also represents interest bearing advances with MAHEC, TWGI and FHI at a rate of four percent (4%) per annum for this year.

Property plant & equipment – This account was increased P228M or 5%. In compliance with PAS 27, property and equipment (except operating and transportation equipments) were carried at revalued amounts effective 2005.

Other non-current assets – The account was increased by P8.7M or 15% from P59M of 2007 going up to P68M of 2008.

Current Liabilities – This account consists of trade payable, income tax payable, accruals and loans payable. Their was a decreased by 2% from last year, P3.2M of 2007 going down to P3.1M of 2008

Due to related parties – This account decreased by P26T roughly 1%. These are non-interest bearing and collateral-free advances from affiliates.

Loans Payable – There was a decreased of P85M equivalent to 4% growth rate, represents loans from Cosco Prime Holdings, Social Security System, PAGCOR, Philippine National Bank and from Industrial Commercial Bank of China – Singapore Branch.

Item 7. Financial Statements

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

INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

1) External Audit Fees and Services

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

A) Audit and Audit-Related Fees

	FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2009	2008
Aggregate Fees Billed for the external audit of the Company's financial statements	2,337,000.00	2,295,000.00

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, 2008 are as follows:

Office	Name	Age	Position in Other Listed Companies
Chairman of the Board	Renato B. Magadia	72	Director-Phil. Estate Corporation, Metro Alliance Holdings, Interphil Laboratories
President	Kenneth T. Gatchalian	34	Director-Wellex Industries Inc.
Director	Arthur M.Lopez	63	Director-Philippine Estate Corp.
Director	Dee Hua T. Gatchalian	61	Director- Philippine Estates Corporation, Express Savings Bank, Acesite (Philippines) Hotel Corporation
Director	Reno I. Magadia	40	Managing Director- Misons Industrial & Development Corp., Serve Well Manpower Inc., Timecorde Ltd. & Firefly Enterprises Corp.
Director	Lamberto B. Mercado	45	Director-The Wellex Group, Inc.
Director	➢ *Sergio R. Otiz-Luis Jr.*	66	Director- Philippine Exporters Confederation, Inc. (PHILEXPORT), Philippine Foundation, Inc. (Team Philippines), Philippine Small & Medium Enterprises Development (PHILSMED Employers Confederation of the Philippines (ECOP) , Export and Industry Bank, One Mckinley Place, Inc., EIB Realty & Development Corporation, EIB Securities, Inc., EIB Condominium Corporation, Manila Exposition Complex, Inc. (World Trade Center), Valuelife Insurance, Inc., Valuelife Financial, Inc., International Chamber of Commerce of the Philippines (ICCP), GS1 (Formerly Philippine Article Numbering Councill), Universal LRT Corp., Holy Angel Memorial Park.

			With government affiliations withExport Development Council (EDC), Social Security System (SSS), Foundation for Crime Prevention (Patrol "117" Commission), Dept. of Trade & Industry - Phil. Quality Award Committee, Consulate of Romania in the Philippines, Consular Corps of the Philippines, Constitutional Consultative Commission. Civic Organizations: Rotary Club of Greenmeadows Quezon City RI District 3780, Philippine Jaycee Senate, Rotary Club of Valencia, Quezon City, League of Corporate Foundation, Philippine Coastguard Auxiliary, NCR PNP C.O.P.S. Foundation, Bestfriends Kontra Droga, International Association of Educators for World Peace, Council of Advisers Philippine National Police, Council of Advisers Eastern Police District
Director	➢ *Ruben D. Torres*	68	President –RUBENORI, Inc., Chairman & Chief Executive Officer –Universal Matrix Corporation, Senior Partner –Torres Clemencio Cabochan and Torres Law Offices, Chairman –EACOMM Corporation
Director and Treasurer	Elvira A. Ting	49	Director-Philippine Estates Corp., Wellex Industries, Inc., Palawan Estates Corporation, Forum Pacific, Inc.

➢ ***Independent Directors***

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

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

A graduate of the University of the Philippines Diliman with a degree in Business Administration, he is concurrently, the **Chairman of the Board of ZetaMark, Inc. – April 2002, Mabuhay Vinyl Corporation – April 2001, Consumer Products Distribution Services, Inc. – October 1999, Metro Alliance Holdings and Equities Corporation – October 1999, Waterfront Philippines, Inc. – April 1999, Mercator Securities Corporation – 1980 and Zeta Holdings & Management Corp. - 1977**. He is also the Vice-Chairman of Acesite (Phils) Hotel Corporation. He is a Director of various companies like Accette Insurance Brokers, Inc., Accette Life & Accident Insurance Brokers, Inc., All Ocean Maritime Agency, Inc., Cunningham Toplis Philippines, Inc., F.E. Zuellig (M), Inc., GAC Logistics, Inc., Golden Eight Holdings Ltd – BVI Company, Harbor Center I & II, Inc., Interphil Laboratories, Inc.,Misons Industrial & Dev't Corp., Phil. Accident Managers, Inc., Phil. Estates Corp., Time Concorde Ltd. Hongkong Company, WTC Club Int'l, ZCM Corp.,ZI-Techasia (Pilipinas). He is also a trustee in The Zuellig Foundation, Inc. He has been a director of Waterfront since 1999 and is a CPA by profession.

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

Mr. Kenneth T. Gatchalian is a Director of the Company. He is the Executive Vice President-Chief Operating Officer of Phil. Estates Corp. He is also a member of the Board of Forum Pacific, Inc. and Wellex Industries, Inc. He is 31 years old and holds a Degree in Bachelor of Science in Architecture from University of Texas in San Antonio, Texas, USA. He's been a director of Waterfront since February 2001.

Elvira A. Ting - ***Treasurer***

Ms. Elvira A. Ting earned her Bachelor's Degree in Business Administration major in Management from the Philippine School of Business Administration. She's 47 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. Treasurer of Palawan Estates Corp., Director/Treasurer of Forum Pacific Inc., Director of Mabuhay Vinyl Corp., and Director/CFO of Acesite Philippines, Inc.

Reno I. Magadia – ***Director***

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

Arthur M. Lopez – ***Director***

Arthur Lopez is a director of the company and currently a director of Phil. Estate Corp. He is at present the president and CEO of CCA Philippines Corporation. He is 61 years old and a Masters Degree holder in Business Administration from the University of Santo Tomas. He's been a director of Waterfront since October 2000.

Dee Hua T. Gatchalian – ***Director***

A degree holder in Bachelor of Science in Medical Technology, Ms. Dee Hua T. Gatchalian is the EVP- Finance and Administration for both The Wellex Group, Inc. and Plastic City Corporation. She is also a Board of Director for Philippine Estates Corporation, 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. He has been a director of Waterfront since 2003.

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 Council), 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.

Ruben Torres – *Director*

Mr. Ruben Torres graduated in the University of the Philippines with a degree of Bachelor of Arts (Political Science) after which he finished the degree of Bachelor of Laws at the same university. He is 66 years old. Presently he is also the President of RUBENORI, Inc., Chairman & Chief Executive Officer of Universal Matrix Corporation, Senior Partner of Torres Clemencio Cabochan and Torres Law Offices, and Chairman of EACOMM Corporation. He is associated with the Integrated Bar of the Philippines and Philippine Academy of Professional Arbitrators. His former positions include being a Member of the House of Representatives of the 2nd District of Zambales, E xecutive Secretary of the Office of the President in Malacañang, Secretary of the Department of Labor and Employment, Managing Partner of Yulo, Torres, Tarrieta and Bello, Director of the Philippine Long Distance Company, Director of Puerto Azul Beach and Country Club, Director of Center for Research and Special Studies, Commissioner of Social Security System, Director of Land Bank of the Philippines, Board Member of Philippine Crop Insurance Corporation, Board Member of Population Commission, Board Member of National Housing Authority, Trustee of Home Development Mutual Fund, Member of Presidential Agrarian Reform Council, Member of President's Committee on Bases, Vice Chairman of Public Sector Labor-Management Council, Chairman of National Manpower and Youth Council, Chairman of Overseas Workers Welfare Administration, Chairman of National Maritime Polytechnic, Chairman of Employees Compensation Commission and Publisher of DIWALIWAN.

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

Mr. Arthur R. Ponsaran is the Managing Partner of Corporate Counsels, Philippines Law Offices and Director/Secretary of Forum Pacific Inc., Wellex Industries Inc., The Wellex Group Inc., and Secretary of Reynolds Philippines and Director of Phil. Estates Corp. He is 64 years old and earned his Bachelor of Laws from the University of the Philippines. He is a CPA/Lawyer by profession.

Precilla O. Toriano-*Compliance Officer*

Precy Toriano graduated in the University of the East with a degree of Bachelor of Science in Business Administration major in Accounting. She is a CPA by profession. She took up MBA units in the Polytechnic University of the Philippines. She had several trainings in the following fields: managerial leadership and decision making skills, the basics of management audit, accounting and BIR Regulation, accounting and bookkeeping audit, and accounting and administrative control. Before joining the Waterfront Group, she has been employed as accounting staff in Liberty Corrugated Boxes Manufacturing, Inc. and Control Management Inc. (Seiko Group of Companies) after which became Accounting Manager in Philippine Remnants Corporation. Then, she handled audit work in Air

Philippines Corporation. After this, she was hired in The Wellex Group as Corporate Audit Manager, which paved the way for her coming in the Waterfront Group of Hotels. She joined in Waterfront in 2002. In 2005 she acquired a Certification in Financial Management for Hotels at Cornell University School of Hotel Administration, in New York USA, and she attended the CFO Congress 2007 at Malaysia, in 2008 she was sent to Singapore to attend the Strategic & Sustainable Cost Control Training.

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

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

9.2 The Directors of WPI are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified. For the year 2009 the Board of Directors' meeting for the election of the Executive Officers was held on November 21, 2009. The Directors are to serve one year from then. The last annual stockholders' meeting was held at the Waterfront Cebu City Hotel last November 21, 2009.

9.3 Mr. Kenneth T. Gatchalian is a child of Ms. Dee Hua T. Gatchalian. Ms. Elvira A. Ting is a sister of Ms. Dee Hua T. Gatchalian and an aunt of Mr. Kenneth T. Gatchalian.

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

There are no other relationships among the officers listed.

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

9.5 There is no significant employee to the Company who is not an executive officer but who is expected by the Company to make a significant contribution to the business except for the

Training Consultant and Legal Consultants, the organic pool of trainors as of the moment. In order to protect the long-term viability of the firm with regard to these people, the Company has included in their contracts a provision for conflict of interest, provision for lock in period and non-duplication of documents and developments with WPI copyrights.

Item 10. Executive Compensation

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

10.2 The aggregate compensation paid to the four.

	Fiscal Year Ending December 31 2009	2008	2007
a) Aggregate compensation paid to four most highly compensated executive officers: i) Marco Protacio ii) Gaye Maureen Cenabre iii) Maria Socorro Cotelo iv) Precilla O. Toriano	4,675,507	4,778,976	5,580,000
b) Aggregate compensation paid to other Officers as a group unnamed	3,715,563	2,826,000	3,049,029

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

10.4 There is no issuance of warrants or options for the year 2009 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, 2009, WPI has no knowledge of any individual or any party who beneficially owns in excess of 10% of WPI's common stock except as set forth in the table below:

Title of Class	Name of Record/ Beneficial Owner	Amount & Nature of Record/Beneficial Ownership ("r" or "b")	Percent Of Class
Common	The Wellex Group, Inc.	1,143, 466, 800 **"r" ***	45.757
Common	PCD Nominee Corp.(Fil)	338,680,741 **"r" ****	13.553
Common	PCDNomineeCorp.(Non Fil)	260,846,900 **"r" ****	10.438

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

11.2 **Security Ownership of Management**

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

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

Item 12. Certain Relationships and Related Transactions

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

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 Manabat Sanagustin and was chosen by the Board and approved by the stockholders upon recommendations of the Audit Committee.

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

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

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

22. All material information that could potentially affect shares 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 __________, 2010.

By:

KENNETH T. GATCHALIAN
President / CEO/COO

ELVIRA A. TING
Treasurer/CFO

ARTHUR R. PONSARAN
Corporate Secretary

PRECILLA O. TORIANO
Director for Finance (Comptroller)

SUBSCRIBED AND SWORN to before me this 22nd day of April 2010 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
KENNETH T. GATCHALIAN	09269199	Jan. 8, 2010	Valenzuela City
ARTHUR R. PONSARAN	15611740	Jan 18, 2010	Pasig City
ELVIRA A. TING	09269200	Jan. 8, 2010	Valenzuela City
PRECILLA O. TORIANO	23702234	Jan. 11, 2010	Marilao Bulacan

NOTARY PUBLIC

MARIEL L. FRANCISCO
APPOINTMENT NO. [illegible] UNTIL 2011
ROLL NO. [illegible]
IPB NO. [illegible] 2/ [illegible]/10
PTR NO.3017[illegible] 2/3/10 PASIG CITY
3104 ANTEL GLOBAL CORPORATE CENTER
#3 DOÑA VARGAS AVENUE
ORTIGAS CENTER, PASIG CITY

Doc. No. 90
Page No. 19
Book No. 1
Series of 2010

REPUBLIC OF THE PHILIPPINES)
CITY OF) S.S

TREASURER'S CERTIFICATION

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

1. I am the Treasurer of **WATERFRONT PHILIPPINES, INC.,** (the "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. AS094-08678, with principal office address at No. 1 Salinas Drive :Lahug Cebu City.

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

WITNESS MY HAND on this 13th day of April 2010 at Cebu City.

ELVIRA A. TING
Treasurer

SUSBCRIBED AND SWORN to before me on this 13th day of April 2010 at Cebu City. Affiant exhibited to me her Community Tax Certificate No./**Passport No**. 134250240 issued on December 3, 2003 and valid until December 3, 2013 .

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Page No 87.
Book No 9.
Series of 10.

ATTY. DARIO D. RAMA JR.
NOTARY PUBLIC CEBU CITY
UNTIL DEC. 31 2010
PTR NO. 9665203 1-4-10 C.C.
ROLL NO. 24276 CEBU CITY

COVER SHEET

AS094-8678

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED

(Company's Full Name)

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

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

Ms. Elvira A. Ting

Contact Person

(02) 687-0888

Company Telephone Number

12 *Month* 31 *Day*

AFS09

FORM TYPE

11 *Month* 21 *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

541

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

WATERFRONT
PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Waterfront Philippines, Inc.** is responsible for all information and representations contained in the consolidated financial statements for the period ended December 31, 2009. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regards, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

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

Signed under oath by the following:

Precilla O. Toriano
Corporate Finance Director

Kenneth T. Gatchalian
President

Renato B. Magadia
Chairman of the Board

Elvira A. Ting
Treasurer

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PAGE NO. 87
BOOK NO. 9
SERIES OF 2010

ATTY. DARIO D. RAMA JR.
NOTARY PUBLIC CEBU CITY
UNTIL DEC. 31, 2010
PTR NO. 9665203-1-4-10 C.C.
ROLL NO. 24276 CEBU CITY

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

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009, 2008 and 2007

KPMG

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

Branches · Subic · Cebu · Bacolod · Iloilo

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the period ended December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information. We did not audit the financial statements of Acesite (Phils.) Hotel Corporation (APHC), a 75%-owned consolidated subsidiary as at December 31, 2007, which statements reflect total assets of P2.3 billion as at December 31, 2007 and total revenues of P706 million for the year ended December 31, 2007, after elimination of intercompany balances. The financial statements of APHC as of and for the year ended December 31, 2007 were audited by other auditors whose report, dated April 3, 2008, expressed an unqualified opinion on those statements, and our opinion, insofar as it relates to the amounts included for APHC for the year ended December 31, 2007 is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 report of the other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Waterfront Philippines, Incorporated and Subsidiaries as of December 31, 2009 and 2008, and their consolidated financial performance and their consolidated cash flows for each of the years in the three-year period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

Emphasis of Matters

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

- As discussed in Note 10 to the consolidated financial statements, APHC, a subsidiary of Waterfront Philippines, Incorporated, has receivables from Acesite Limited (BVI) amounting to P667.3 million and P717.4 million as of December 31, 2009 and 2008, respectively, which have been the subject of collection efforts by APHC following a legal dispute raised by Acesite Limited (BVI) regarding the change in the ownership of APHC in 2003.

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

KPMG

- As discussed in Note 9 to the consolidated financial statements, the Group has receivables from Metro Alliance Holdings and Equities Corp. (MAHEC) amounting to P351 million and P338 million as of December 31, 2009 and 2008, respectively. The said receivables have been the subject of collection efforts by the Group's management but the ultimate amount and timing of collection of these receivables cannot presently be determined.

The consolidated financial statements do not include any adjustments that may be necessary to reflect the effects of the ultimate outcome of these uncertainties on the carrying value and classification of the receivables from Acesite Limited (BVI) and MAHEC and the finance lease obligations to CIMAR and the carrying value of the related land.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2007
Issued July 10, 2007; Valid until July 9, 2010
PTR No. 2092715MB
Issued January 7, 2010 at Makati City

April 12, 2010
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009, 2008 and 2007

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2009**	2008
ASSETS			
Current Assets			
Cash and cash equivalents	*5*	**P39,126,248**	P46,597,296
Receivables – net	*6*	**167,035,370**	153,942,705
Inventories	*7*	**36,677,694**	45,104,976
Due from related parties - current portion	*9.a*	**581,849,767**	1,899,634,937
Prepaid expenses and other current assets	*8*	**13,417,253**	29,809,553
Total Current Assets		**838,106,332**	2,175,089,467
Noncurrent Assets			
Receivables from Acesite Limited (BVI)	*10*	**667,282,545**	717,426,534
Due from related parties - noncurrent portion	*9.a*	**1,099,306,413**	-
Property and equipment – net	*11, 15*	**6,876,922,699**	5,261,877,861
Available-for-sale (AFS) investments	*9.c*	**8,671,000**	12,572,950
Deferred tax assets	*21*	**171,862,719**	190,468,754
Other noncurrent assets	*12*	**71,474,888**	67,972,546
Total Noncurrent Assets		**8,895,520,264**	6,250,318,645
		P9,733,626,596	P8,425,408,112
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*13, 15*	**P1,104,999,740**	P1,142,451,361
Loans payable	*15*	**1,618,236,156**	1,918,725,963
Income tax payable	*21*	**9,035,293**	10,892,030
Due to related parties	*9.d*	**3,191,588**	3,252,789
Other current liabilities	*14, 24*	**79,734,051**	107,485,725
Total Current Liabilities		**2,815,196,828**	3,182,807,868
Noncurrent Liabilities			
Deferred tax liabilities	*21*	**1,274,206,388**	765,912,230
Other noncurrent liabilities	*16, 20, 24*	**729,191,810**	708,596,387
Total Noncurrent Liabilities		**2,003,398,198**	1,474,508,617
Total Liabilities		**4,818,595,026**	4,657,316,485
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	*18, 25*	**2,498,991,753**	2,498,991,753
Additional paid-in capital	*25*	**706,364,357**	706,364,357
Revaluation surplus in property and equipment		**2,237,373,260**	1,073,422,952
Unrealized valuation gain (loss) on AFS investments		**(2,469,834)**	222,511
Foreign currency translation adjustment		**49,036,711**	53,703,028
Deficit			
Appropriated		**130,000,000**	-
Unappropriated		**(1,396,492,695)**	(1,174,955,853)
Total Equity Attributable to Equity Holders of the Parent Company		**4,222,803,552**	3,157,748,748
Minority Interest		**692,228,018**	610,342,879
		P9,733,626,596	P8,425,408,112

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

			Years Ended December 31	
	Note	**2009**	2008	2007
REVENUES				
Hotel operations				
Rooms		**P615,773,509**	P700,663,324	P710,460,361
Rent and related income		**602,034,985**	516,892,180	473,368,788
Food and beverage	*23, 24*	**597,350,249**	627,539,459	673,877,033
Other operating departments		**26,927,634**	25,128,830	30,236,151
Others		**67,727,318**	75,538,582	75,101,356
		1,909,813,695	1,945,762,375	1,963,043,689
COSTS AND EXPENSES				
Cost of sales				
Food and beverages		**365,877,738**	425,901,618	426,620,117
Rooms		**49,869,246**	55,396,245	61,003,250
Other operating departments		**18,522,564**	16,410,425	20,099,476
Personnel cost	*9.e, 20*	**258,046,220**	246,880,212	226,859,126
Energy costs		**215,239,996**	234,539,699	253,055,569
Repairs and maintenance		**78,323,923**	74,557,848	65,734,324
Rent	*24*	**78,833,238**	61,938,850	52,292,043
Others	*19*	**385,284,702**	380,400,747	346,744,139
		1,449,997,627	1,496,025,644	1,452,408,044
		459,816,068	449,736,731	510,635,645
OTHER EXPENSES (INCOME)				
Depreciation and amortization	*11, 24*	**323,277,763**	260,426,324	264,456,749
Interest expense	*15*	**161,531,485**	120,059,866	112,235,750
Penalties and other charges	*13, 15*	**60,593,323**	60,042,105	59,878,056
Provision for impairment losses on receivables	*6, 9,10*	**83,165,306**	1,688,875	2,499,507
Foreign exchange losses (gains) - net		**(3,605,376)**	50,982,837	(57,950,894)
Others - net	*28*	**1,670,787**	35,943,044	(76,090,374)
		626,633,288	529,143,051	305,028,794
INCOME (LOSS) BEFORE INCOME TAX		**(166,817,220)**	(79,406,320)	205,606,851
INCOME TAX EXPENSE	*21*	**202,473**	2,064,104	42,955,494
NET INCOME (LOSS)		**(167,019,693)**	(81,470,424)	162,651,357

Forward

			Years Ended December 31	
	Note	**2009**	2008	2007
OTHER COMPREHENSIVE INCOME	*21*			
Foreign currency translation differences for foreign operations		**(P4,666,317)**	P28,004,362	(P16,391,476)
Appraisal increase in property and equipment for the year		**1,889,325,575**	-	-
Net change in fair value of available-for-sale financial assets		**(3,901,950)**	(13,440,051)	14,740,700
Reduction of deferred tax liability relating to revaluation surplus		**-**	59,199,245	-
Income tax on other comprehensive income		**(566,797,672)**	-	-
		1,313,959,636	73,763,556	(1,650,776)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P1,146,939,943**	(P7,706,868)	P161,000,581
Net income (loss) attributable to:				
Equity holders of the Parent Company		**(P159,223,379)**	(P60,215,556)	P140,007,553
Minority interest		**(7,796,314)**	(21,254,868)	22,643,804
		(P167,019,693)	(P81,470,424)	P162,651,357
Total comprehensive income (loss) attributable to:				
Equity holders of the Parent Company		**P1,065,054,803**	P17,657,194	P134,671,602
Minority interest		**81,885,140**	(25,364,062)	26,328,979
		P1,146,939,943	(P7,706,868)	P161,000,581
EARNINGS (LOSS) PER SHARE - Basic and diluted	*22*	**(P0.064)**	(P0.024)	P0.070

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	Note	**2009**	2008	2007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital stock - P1 par value	*18, 25*			
Balance at beginning of year		**P2,498,991,753**	P2,498,991,753	P1,945,934,653
Issuance of shares of stock		-	-	553,057,100
Balance at end of year		**2,498,991,753**	2,498,991,753	2,498,991,753
Additional Paid-in Capital	*25*			
Balance at beginning of year		**706,364,357**	706,364,357	755,435,050
Reduction in paid-in capital		-	-	(49,070,693)
Balance at end of year		**706,364,357**	706,364,357	706,364,357
Revaluation Surplus in Property and Equipment				
Balance at beginning of year		**1,073,422,952**	1,045,090,897	1,098,998,360
Effects of changes in tax rates		-	59,199,245	-
Appraisal increase for the year - net of income tax effect		**1,231,636,845**	-	-
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect		**(67,686,537)**	(30,867,190)	(53,907,463)
Balance at end of year		**2,237,373,260**	1,073,422,952	1,045,090,897
Unrealized Valuation Gain (Loss) on AFS Investments				
Balance at beginning of year		**222,511**	10,321,897	(234,761)
Valuation gain (loss) taken into equity during the year	*9.c*	**(2,692,345)**	(9,273,635)	11,055,525
Change in equity ownership of minority interest in a subsidiary		-	(825,751)	(498,867)
Balance at end of year		**(2,469,834)**	222,511	10,321,897
Foreign Currency Translation Adjustment				
Balance at beginning of year		**53,703,028**	25,698,666	42,090,142
Translation adjustment during the year		**(4,666,317)**	28,004,362	(16,391,476)
Balance at end of year		**49,036,711**	53,703,028	25,698,666

Forward

	Note	2009	2008	2007
			Years Ended December 31	
Deficit				
Appropriation for renovation and business expansion	*29*	**P130,000,000**	P -	P -
Unappropriated				
Balance at beginning of year		**(1,174,955,853)**	(1,117,754,111)	(1,289,246,153)
Transfer of revaluation surplus absorbed through depreciation for the year - net of income tax effect		**67,686,537**	30,867,190	53,907,463
Appropriation for the year		**(130,000,000)**	-	-
Change in equity ownership of minority interest in a subsidiary		**-**	(27,853,376)	(22,422,974)
Net income (loss) for the year		**(159,223,379)**	(60,215,556)	140,007,553
Balance at end of year		**(1,396,492,695)**	(1,174,955,853)	(1,117,754,111)
Total deficit		**(1,266,492,695)**	(1,174,955,853)	(1,117,754,111)
		4,222,803,552	3,157,748,748	3,168,713,459
MINORITY INTEREST				
Balance at beginning of year		**610,342,879**	569,051,186	1,061,349,826
Change in equity ownership of minority interest in a subsidiary	*25*	**-**	66,712,977	(515,617,194)
Valuation gain (loss) on AFS investments taken into equity during the year	*9.c*	**(1,209,605)**	(4,166,416)	3,685,175
Reacquisition of APHC shares		**-**	-	(3,010,425)
Appraisal increase in property and equipment - net of income tax effect		**90,891,058**	-	-
Net income (loss) for the year		**(7,796,314)**	(21,254,868)	22,643,804
Balance at end of year		**692,228,018**	610,342,879	569,051,186
		P4,915,031,570	P3,768,091,627	P3,737,764,645

See Notes to the Consolidated Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**(P166,817,220)**	(P79,406,320)	P205,606,851
Adjustments for:				
Depreciation and amortization	*11*	**323,277,763**	260,426,324	264,456,749
Interest expense	*15*	**161,531,485**	120,059,866	112,235,750
Tax refund income	*28*	**(29,690,348)**	-	(30,054,149)
Retirement benefit costs	*20*	**33,224,022**	27,228,245	20,851,673
Provision for impairment losses on receivables	*6, 10*	**83,165,306**	1,688,875	2,499,507
Unrealized foreign exchange loss (gain)		**(8,613,388)**	82,048,473	(83,232,883)
Interest income		**(36,208,481)**	(41,817,882)	(54,338,707)
Operating income before working capital changes		**359,869,139**	370,227,581	438,024,791
Decrease (increase) in:				
Receivables		**(22,909,378)**	5,994,529	46,270,330
Inventories		**8,427,282**	1,183,749	(6,835,488)
Prepaid expenses and other current assets		**16,392,300**	(15,275,263)	(191,132)
Increase (decrease) in:				
Accounts payable and accrued expenses		**(3,482,475)**	121,696,966	123,767,687
Other current liabilities		**(31,513,254)**	(1,234,191)	(40,956,213)
Cash generated from operations		**326,783,614**	482,593,371	560,079,975
Interest received		**600,545**	1,562,154	755,344
Income taxes paid		**(41,882,179)**	(17,605,104)	(54,252,823)
Retirement plan contributions paid	*20*	**(4,000,000)**	(154,195)	(56,075)
Interest paid		**(150,327,364)**	(105,371,276)	(112,195,849)
Net cash provided by operating activities		**131,174,616**	361,024,950	394,330,572
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	*11*	**(51,811,442)**	(66,801,921)	(179,274,908)
Due from related parties		**(109,173,807)**	(164,039,367)	(81,344,861)
Proceeds from sale of property and equipment	*11*	**842,585**	38,443	15,350,906
Decrease (increase) in other noncurrent assets		**(2,664,745)**	(6,981,381)	29,948,745
Net cash used in investing activities		**(162,807,409)**	(237,784,226)	(215,320,118)

Forward

		Years Ended December 31		
	Note	**2009**	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in loans payable	*15*	**(P383,819,860)**	(P137,491,538)	P392,918,951
(Increase) Decrease in due to related parties		**423,440,997**	(52,563,882)	(710,844,644)
Increase (decrease) in other noncurrent liabilities		**(9,293,075)**	20,223,836	177,015,668
Acquisition of treasury shares	*25*	-	-	(12,041,700)
Payment of obligation under finance lease		**(1,500,000)**	(620,168)	(693,139)
Net cash provided by (used in) financing activities		**28,828,062**	(170,451,752)	(153,644,864)
INCREASE (DECREASE) IN TRANSLATION ADJUSTMENT FOR THE YEAR		**(4,666,317)**	28,004,362	(16,391,476)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(7,471,048)**	(19,206,666)	8,974,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**46,597,296**	65,803,962	56,829,848
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P39,126,248**	P46,597,296	P65,803,962

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

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

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

	Percentage of Ownership as of December 31, 2009	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated (WCCCHI)	100	-
Waterfront Mactan Casino Hotel, Incorporated (WMCHI)	100	-
Davao Insular Hotel Company, Inc. (DIHCI)	98	-
Acesite (Phils.) Hotel Corporation (APHC)	69	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
WPL	100	-
Mayo Bonanza, Inc. (MBI)	100	-
CWIL (through direct ownership in WPL)	-	100
Pastries manufacturing:		
Waterfront Food Concepts Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2008, 2007 and 2006, except for APHC wherein the percentage ownership increased from 24% in 2006 to 75% in 2007 and decreased to 69% in 2008.

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

On February 12, 2008, MBI started commercial operations.

Office Address

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements of the Group as of and for the year ended December 31, 2009 were approved and authorized for issue by the Board of Directors (BOD) on April 12, 2010.

Basis of Measurement

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

Functional and Presentation Currency

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

Use of Estimates and Judgments

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

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

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

3. Summary of Significant Accounting Policies

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

Adoption of Revised Standards, Amendments and Improvements to Standards and Interpretations
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of revised, amendments and improvements to standards and interpretations as part of PFRS.

Revised Standards, Amendments and Improvements to Standards Adopted in 2009
The following are the revised, amendments and improvements to standards and improvements which are relevant to the Group, are effective for the year ended December 31, 2009, and have been applied in preparing these consolidated financial statements.

- Revised PAS 1, *Presentation of Financial Statements (2007)*, introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

  The adoption of the above revised standard did not have any material effect on the consolidated financial statements, except for the changes in the following:

  1. The Group elected to present total comprehensive income in a single statement of comprehensive income, which includes presentations of the unrealized gain on AFS investment and the appraisal increase on property and equipment with their corresponding income tax effects to "Other comprehensive income".

  2. Changes in the following titles and financial statement components:

     - From "Balance Sheet" to "Statement of Financial Position"
     - From "Statement of Income" to "Statement of Comprehensive Income"

- Revised PAS 23, *Borrowing Costs,* removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and provide more direction on the form of quantitative disclosures about fair value measurements and require information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

Disclosures on the bases used for fair value measurement using three-level fair value hierarchy are now presented in the notes to consolidated financial statements (see Note 26).

- *Improvements to PFRS 2008* - various standards (except as related to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations),* discuss 35 amendments and is divided into two parts: (a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and (b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board expects to have either no or only minimal effects on accounting.

  The adoption of these improvements did not have any material impact on the consolidated financial statements.

- *Improvements to PFRSs 2009* - Amendment to PAS 18, *Revenue, Determining whether an entity is acting as a principal or as an agent.* The appendix accompanying PAS 18 is amended to specify that an entity acts as a principal when it is exposed to the significant risks and rewards associated with the sale of goods or rendering of services. The amendments also include in the appendix to PAS 18 a number of indicators for consideration in assessing whether an entity is acting as a principal or as an agent. As this is an amendment to an appendix, there is no related effective date and therefore is applicable immediately.

  The adoption of these improvements did not have any material impact on the consolidated financial statements.

- PRFS 8, *Operating Segments,* introduces the "management approach" to segment reporting.

  There is no change in the presentation of the segment information in the consolidated financial statements.

<u>New and Revised Standards, Amendments and Improvements to Standards and Interpretations Not Yet Adopted</u>
The following are the new standards, amendments and improvements to standards and interpretations which are effective subsequent to 2009 that may be relevant to the Group.

<u>To be Adopted on January 1, 2010</u>

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items,* provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009.

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

- *Improvements to PFRSs 2009,* include 15 amendments to 12 standards. Some of these amendments may have significant implications for current practice, in particular the amendments to PAS 17, *Leases*, may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time. The improvements are generally effective for annual periods beginning on or after January 1, 2010.

- Philippine Interpretation IFRIC-18, *Transfers of Assets from Customers*, provides additional guidance on the accounting for the contributed property, plant and equipment by "access providers" (i.e., by the entity receiving the contribution) from customers. The interpretation clarifies: the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services; the recognition of revenue; and the accounting for transfers of cash from customers. The interpretation is effective for all transfers on or after July 1, 2009.

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

<u>To be Adopted on January 1, 2011</u>

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

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

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

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

To be Adopted on January 1, 2012

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate,* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The interpretation is effective for annual periods beginning on or after January 1, 2012.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments*, is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013.

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

Principles of Consolidation
The consolidated financial statements include the accounts of the Parent Company, as well as those of its subsidiaries enumerated in Note 1 to the consolidated financial statements. Subsidiaries 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

Minority Interests
Minority interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from Parent Company's equity. Minority interests are recognized initially at their share of the identifiable assets, liabilities and contingent liabilities recognized in the purchase accounting, excluding goodwill.

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 be met before revenue is recognized:

Rooms
Room revenue is recognized based on actual occupancy.

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

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

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

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

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

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

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

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

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

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

Determination of Fair Value

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

(a) Financial Assets or Financial Liabilities at FVPL

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

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

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

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

Financial assets and financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in a mark-to-market (MTM) gain/loss account in profit or loss. As of December 31, 2009 and 2008, the Group has no financial assets and financial liabilities at FVPL.

(b) HTM Investments

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

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

As of December 31, 2009 and 2008, the Group has no HTM investments.

(c) AFS Investments

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

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

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

As of December 31, 2009 and 2008, the Group’s AFS investments amounted to P8.7 million and P12.6 million, respectively. The Group designated as AFS investments its investments in shares of stock of Wellex Industries, Incorporated (WII) (see Note 9.c).

(d) Loans and Receivables

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

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

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, cancelled or has expired.

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

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

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

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

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

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

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

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

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

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

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

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

Cost which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the first-in, first-out method.

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

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

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

The net appraisal surplus resulting from the revaluation is credited to "Revaluation surplus in property and equipment" account (net of corresponding deferred income tax effects) shown under the consolidated statements of changes in equity. Any increase in the revaluation amount is credited to the "Revaluation surplus in property and equipment" account unless it offsets a previous decrease in the value of the same asset recognized in profit or loss. A decrease in value is recognized in profit or loss where it exceeds the increase previously recognized in the "Revaluation surplus in property and equipment". Upon disposal, any related revaluation surplus is transferred to "Retained earnings" account and is not taken into account in arriving at the gain or loss on disposal. Also, the amount of revaluation surplus absorbed through depreciation is being transferred to "Retained earnings" account (net of deferred income tax effect).

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

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

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

Subsequent costs
Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Hotel. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

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

The estimated useful lives are as follows:

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

Borrowing Costs

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

Retirement Benefits

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

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

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

Operating Leases

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

Finance Leases

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

Foreign Currency Transactions and Translation

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

The accounts of the foreign subsidiaries of the Parent Company are being maintained in U.S. dollar and during the translation of the financial statement accounts of the foreign subsidiaries for consolidation, the differences between the reporting currency and the functional currency are recorded under the "Foreign currency translation adjustment" account in other comprehensive income, in compliance with PAS 21, *Effects of Changes in Foreign Exchange Rates.*

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

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

Income Taxes

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

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

Deferred tax is 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 reporting date.

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

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 substantively enacted at the reporting date.

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

Earnings (Loss) Per Share

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

Provisions and Contingencies

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

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

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

Events After the Reporting Date

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

4. Accounting Estimates and Judgments

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

These estimates and judgments are 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 (see Notes 23 and 24).

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

Receivables from Acesite Limited (BVI)
APHC has receivables from Acesite Limited (BVI) amounting to P717.4 million in 2009 and 2008 which has been the subject of collection efforts by APHC management. In 2009, the APHC management provided an allowance for impairment losses on receivables from Acesite Limited (BVI) amounting to P50.1 million. The APHC management has made a judgment that the ultimate amount and timing of collection of the said receivables cannot presently be determined (see Note 10).

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

Transactions with Philippine Amusement and Gaming Operations (PAGCOR)
The Group has significant transactions with PAGCOR. Under Presidential Decree (PD) No. 1869, otherwise known as the PAGCOR Charter, PAGCOR is exempt from payment of any form of taxes other than the 5% franchise tax imposed on the gross revenue or earnings derived by PAGCOR from its operations under the franchise. The amended Revenue Regulation (RR) No. 16-2005, which became effective in 2006, however, provides that gross receipts of PAGCOR shall be subject to the 12% value added tax (VAT). In February 2007, the Philippine Congress amended PD No. 1869 to extend the franchise term of PAGCOR for another 25 years but did not include the revocation of PAGCOR's tax exemption privileges as previously provided for in PD No. 1869. The Group's management and its legal counsel have made a judgment that the amended PD No. 1869 prevails over RR No. 16-2005 (see Notes 21 and 27.d).

Estimating Allowance for Impairment Losses on Receivables and Due from Related Parties
The Group maintains an allowance for impairment losses on receivables and due from related parties at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with its customers, their payment behavior and known market factors. The Group reviews the age and status of receivable and due from related parties, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates.

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

Allowance for impairment losses on receivables and due from related parties as of December 31, 2009 and 2008 amounted to P107.8 million and P217.5 million, respectively. Total receivables and due from related parties, net of valuation allowance, amounted to P1.8 billion and P2.1 billion as of December 31, 2009 and 2008, respectively, (see Notes 6 and 9.a).

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

Estimating Impairment of AFS Investments
The Group classifies certain assets as AFS and recognizes movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. No impairment losses have been recognized in 2009, 2008 and 2007. The carrying value of AFS investments as of December 31, 2009 and 2008 amounted to P8.7 million and P12.6 million, respectively, (see Note 9.c).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation and amortization expense and decrease noncurrent assets. As of December 31, 2009 and 2008, the aggregate carrying amount of property and equipment amounted to P6.9 billion and P5.3 billion, respectively, (see Note 11).

Determination of the Appraisal Value of Certain Property and Equipment
The appraised value of the Group's property and equipment carried at revalued amounts is determined from market-based evidence by appraisal that was undertaken by an independent firm of appraisers in calculating such amounts. While management believes that the assumptions and market-based evidences used are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the valuation of the Group's property and equipment. However, management believes that the carrying amount of property and equipment as of December 31, 2009 and 2008 does not differ materially from that which would be determined using fair value at reporting date. As of December 31, 2009 and 2008, the aggregate carrying amounts of property and equipment carried at revalued amounts are P6.8 billion and P5.2 billion, respectively, (see Note 11).

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

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

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

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

As of December 31, 2009 and 2008, the carrying amounts of property and equipment amounted to P6.9 billion and P5.3 billion, respectively, (see Notes 11 and 24).

Deferred Tax Assets and Liabilities
The Group reviews the carrying amounts of deferred tax assets and liabilities at each reporting date and reduces deferred tax assets and liabilities to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. The Group recognized deferred tax assets amounting to P171.9 million and P190.5 million as of December 31, 2009 and 2008, respectively. The Group has deferred tax liabilities amounting to P1.3 billion and P765.9 million as of December 31, 2009 and 2008, respectively, (see Note 21).

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

The expected rate of return on plan assets of 9% was based on the average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. Details of the assumptions used in the calculation are described in Note 20 to the consolidated financial statements.

Net retirement benefits cost amounted to P33.2 million, P27.4 million and P20.9 million in 2009, 2008 and 2007, respectively. Retirement benefits liability amounted to P178.7 million and P149.5 million as of December 31, 2009 and 2008, respectively, (see Note 20).

5. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash on hand and in banks	**P37,009,567**	P46,425,296
Short-term placements	**2,116,681**	172,000
	P39,126,248	P46,597,296

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

6. Receivables

This account consists of:

	Note	2009	2008
Trade		**P146,338,465**	P271,416,019
Advances to suppliers and employees		**7,701,150**	12,580,139
Current portion of Meralco refund	*28*	**3,855,873**	3,360,904
Others	*23*	**39,844,678**	36,437,066
		197,740,166	323,794,128
Less allowance for impairment losses		**30,704,796**	169,851,423
		P167,035,370	P153,942,705

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

Outstanding rental receivables from PAGCOR included under "Other receivables" account in the consolidated statements of financial position, amounted to P20.5 million and P6.7 million as of December 31, 2009 and 2008, respectively.

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

	2009	2008
Beginning balance	**P169,851,423**	P168,308,864
Impairment loss for the year	**3,529,830**	1,688,874
Write-off	**(142,676,457)**	(146,315)
Ending balance	**P30,704,796**	P169,851,423

7. Inventories

This account consists of the following inventories carried at cost:

	2009	2008
Food and beverage	**P17,234,095**	P22,953,132
Operating supplies	**17,075,193**	19,616,477
Engineering and maintenance supplies	**2,368,406**	2,535,367
	P36,677,694	P45,104,976

8. Prepaid Expenses and Other Current Assets

This account consists of:

	Note	2009	2008
Prepaid taxes	*28*	**P8,050,959**	P7,414,359
Prepaid expenses		**1,014,566**	281,718
Others		**4,351,728**	22,113,476
		P13,417,253	P29,809,553

9. Related Party Transactions

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

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

	Relationship with the Group	*Note*	**2009**	2008
TWGI	Ultimate parent company	*15, 25*	**P202,435,529**	P1,448,699,427
Metro Alliance Holdings and Equities Corp. (MAHEC)	Stockholder	*9.b*	**351,319,527**	337,816,084
Forum Holdings Corp. (FHC)	Stockholder	*15, 25*	**40,877,246**	156,264,396
Others	Stockholder		**4,700,066**	4,483,537
			599,332,368	1,947,263,444
Less allowance for impairment losses			**17,482,601**	47,628,507
			P581,849,767	P1,899,634,937

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

	Relationship with the Group	*Note*	**2009**	2008
TWGI	Ultimate parent company	*15, 25*	**P1,088,815,367**	P -
FHC	Stockholder	*15, 25*	**70,110,475**	-
			1,158,925,842	-
Less allowance for impairment losses			**59,619,429**	-
			P1,099,306,413	P -

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

	2009	2008
Beginning balance	**P47,628,507**	P47,628,507
Impairment loss for the year	**17,252,607**	-
Reclassification to noncurrent portion	**(47,398,513)**	-
Ending balance	**P17,482,601**	P47,628,507

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

	2009	2008
Beginning balance	**P -**	P -
Impairment loss for the year	**12,220,916**	-
Reclassification from current portion	**47,398,513**	-
Ending balance	**P59,619,429**	P -

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

In 2007, the Parent Company entered into revised agreements with TWGI and FHC where all outstanding advances during the year are subjected to a revised interest of 7% per annum.

In 2008, the said agreement was amended whereby outstanding advances during the year are subjected to the original interest rate of 4% per annum.

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

	TWGI	FHC
2010	P190,000,000	P40,877,246
2011	190,000,000	15,000,000
2012	190,000,000	15,000,000
2013	190,000,000	15,000,000
2014	190,000,000	15,000,000
2015	328,815,366	10,110,475
	P1,278,815,366	P110,987,721

To reflect the agreement, P1,158.9 million of advances representing agreed term payments from 2011 to 2015 was transferred to noncurrent assets. Additional impairment was also recognized on the advances.

Interest income on these advances amounted to P35.6 million, P40.2 million and P53.6 million in 2009, 2008 and 2007, respectively.

In 2009, the Parent Company provided an allowance for impairment losses on receivables from TWGI amounting to P12.2 million.

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

In 2006 and 2005, the Parent Company extended additional interest-bearing, collateral free advances to MAHEC which bear interest at 4% per annum. In 2007, the Parent Company entered into revised agreements with MAHEC where all outstanding advances during the year are subjected to a revised interest of 7% per annum. In 2008, the advances to MAHEC bear an interest of 4% per annum. The advances to MAHEC accumulated to P351.3 million as of December 31, 2009 owing to subsequent advances and the accrual of interest. During the year, the Parent Company provided an allowance for impairment losses on receivables amounting to P17.2 million. The said receivable is subject to the collection efforts by the Parent Company but management believes that the ultimate amount and timing of collection cannot presently be determined.

c. In July and August 2005, APHC's BOD approved the conversion of APHC's net receivables from MAHEC and East Asia Oil Company (EAOC) into 86,710,000 shares of stock of Wellex Industries, Incorporated (WII), an affiliate, the shares of which are listed in the Philippine Stock Exchange. The net receivable at the time of conversion amounted to P43.3 million. The conversion resulted in a loss on exchange of assets of P31.1 million for APHC. In accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, APHC classified the investment in WII's shares of stocks as an AFS investment. The aggregate fair market values of WII shares based on its closing market price as of December 31, 2009, 2008 and 2007 are P8.7 million, P12.6 million and P26.0 million, respectively, resulting in a valuation loss of P3.9 million and P13.4 million in 2009 and 2008, respectively, and a gain of P14.7 million in 2007.

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

	Relationship with the Parent Company	**2009**	2008
Philippine Estates Corp.	Under common control	**P1,734,887**	P1,734,887
WII	Under common control	**1,349,442**	1,349,442
Others	Under common control	**107,259**	168,460
		P3,191,588	P3,252,789

e. Total key management personnel compensation recognized in profit or loss as part of "Personnel costs" account, amounted to P28.4 million and P28.3 million in short-term employee benefits for 2009 and 2008, respectively. Post-employment benefits amounted to P1.4 million and P1.2 million in 2009 and 2008, respectively.

10. Receivables from Acesite Limited (BVI)

As of December 31, 2009 and 2008, APHC has unsecured receivables from Acesite Limited (BVI) amounting to P717.4 million. The components of the receivables from Acesite Limited (BVI) are as follows:

	2009	2008
Noninterest-bearing:		
Receivable from sale of investment in Listar Properties Limited (LPL)	**P327,587,500**	P327,587,500
Working capital advances	**374,839,034**	374,839,034
	702,426,534	702,426,534
Interest-bearing:		
Unsecured loan receivable - granted on August 8, 2002, which bears interest at 2% per annum	**15,000,000**	15,000,000
	717,426,534	717,426,534
Less allowance for impairment losses	**50,143,989**	-
	P667,282,545	P717,426,534

Receivable from Sale of Investment in LPL

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

The above receivables totaling P717.4 million, including any applicable interest, have been the subject of collection efforts by APHC following Acesite Limited (BVI)'s contest over the foreclosure and subsequent transfer to the Parent Company of its ownership in APHC in 2003 as more fully disclosed in Note 25 to the consolidated financial statements. The applicable interest receivable and income, however, are not recognized in the consolidated statements of financial position and profit or loss, respectively.

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

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

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

11. Property and Equipment

Movements in this account are as follows:

	For the Year Ended December 31, 2009								
	Land	Land Improvements	Leasehold Improvements	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipment	Transportation Equipment	Construction In Progress	Total
Measurement Basis:	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***Revalued***	***At Cost***	***Revalued***	***At Cost***	
Gross carrying amount:									
Beginning balance	P913,066,000	P21,691,596	P39,524,527	P6,123,789,124	P1,094,370,742	P232,930,105	P26,177,936	P2,781,636	P8,454,331,666
Additions	-	-	13,522,647	8,453,858	28,620,082	1,214,855	-	-	51,811,442
Adjustments due to revaluation	12,958,000	(8,285,596)	-	2,607,125,199	297,028,321	-	1,258,441	-	2,910,084,365
Disposals/reclassifications	-	-	-	(317,668)	(1,469,250)	(119,040)	-	(1,213,224)	(3,119,182)
Ending balance	**926,024,000**	**13,406,000**	**53,047,174**	**8,739,050,513**	**1,418,549,895**	**234,025,920**	**27,436,377**	**1,568,412**	**11,413,108,291**
Accumulated depreciation and amortization:									
Beginning balance	-	21,691,596	7,071,515	2,240,144,147	737,067,837	164,060,690	22,418,020	-	3,192,453,805
Provision	-	1,005,450	5,135,192	201,353,143	106,319,400	7,671,815	1,792,763	-	323,277,763
Adjustments due to revaluation	-	(21,691,596)	-	909,857,614	131,919,834	-	672,938	-	1,020,758,790
Disposals/reclassifications	-	-	-	-	(304,766)	-	-	-	(304,766)
Ending balance	**-**	**1,005,450**	**12,206,707**	**3,351,354,904**	**975,002,305**	**171,732,505**	**24,883,721**	**-**	**4,536,185,592**
Net carrying value:									
Beginning balance	P913,066,000	P -	P32,453,012	P3,883,644,977	P357,302,905	P68,869,415	P3,759,916	P2,781,636	P5,261,877,861
Ending balance	**P926,024,000**	**P12,400,550**	**P40,840,467**	**P5,387,695,609**	**P443,547,590**	**P62,293,415**	**P2,552,656**	**P1,568,412**	**P6,876,922,699**

	For the Year Ended December 31, 2008								
	Land	Land Improvements	Leasehold Improvements	Hotel Buildings and Improvements	Furniture, Fixtures and Equipment	Operating Equipment	Transportation Equipment	Construction In Progress	Total
Measurement Basis:	*Revalued*	*Revalued*	*At Cost*	*Revalued*	*Revalued*	*At Cost*	*At Cost*	*At Cost*	
Gross carrying amount:									
Beginning balance	P913,066,000	P21,691,596	P30,339,312	P6,088,550,720	P1,067,755,071	P225,038,116	P24,910,079	P16,455,636	P8,387,806,530
Additions	-	-	9,185,215	20,970,709	26,892,456	7,891,989	1,267,857	593,695	66,801,921
Disposals/reclassifications	-	-	-	14,267,695	(276,785)	-	-	(14,267,695)	(276,785)
Ending balance	913,066,000	21,691,596	39,524,527	6,123,789,124	1,094,370,742	232,930,105	26,177,936	2,781,636	8,454,331,666
Accumulated depreciation and amortization:									
Beginning balance	-	21,691,596	4,145,401	2,075,472,624	653,872,734	157,610,705	19,472,763	-	2,932,265,823
Provision	-	-	2,926,114	164,671,523	83,433,445	6,449,985	2,945,257	-	260,426,324
Disposals/reclassifications	-	-	-	-	(238,342)	-	-	-	(238,342)
Ending balance	-	21,691,596	7,071,515	2,240,144,147	737,067,837	164,060,690	22,418,020	-	3,192,453,805
Net carrying value:									
Beginning balance	P913,066,000	P -	P26,193,911	P4,013,078,096	P413,882,337	P67,427,411	P5,437,316	P16,455,636	P5,455,540,707
Ending balance	P913,066,000	P -	P32,453,012	P3,883,644,977	P357,302,905	P68,869,415	P3,759,916	P2,781,636	P5,261,877,861

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, *Consolidated and Separate Financial Statements.* In compliance with PAS 27, the property and equipment of the four (4) hotel properties, WCCCHI, APHC, WMCHI, and DIHCI are carried at revalued amounts effective March 31, March 24, April 14, and April 6, 2009, respectively. The revaluation in 2009 resulted in the increase in the gross carrying amount of property and equipment amounting to P2.3 billion.

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

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

	2009	2008
Hotel buildings and improvements	**P3,541,043,061**	P3,532,906,871
Furniture, fixtures and equipment	**835,082,984**	807,811,002
Leasehold improvements	**10,129,315**	10,129,315
Transportation equipment	**3,239,405**	3,239,405
	4,389,494,765	4,354,086,593
Less accumulated depreciation and amortization	**1,873,193,587**	1,729,963,950
	2,516,301,178	2,624,122,643
Land	**25,515,909**	25,515,909
	P2,541,817,087	P2,649,638,552

The hotel buildings and improvements owned by WCCCHI and WMCHI, which have a total net carrying value of about P4.1 billion and P2.7 billion as of December 31, 2009 and 2008, respectively, have been collateralized against the COSCO loan and PNB loan, respectively. Furthermore, the furniture, fixtures and equipment of WCCCHI and WMCHI, which have a total net carrying value of about P402.9 million, were mortgaged in favor of Cosco Prime Holdings, Inc. in 2009 (see Note 15).

As discussed also in Note 15 to the consolidated financial statements, the hotel buildings and equipment and furniture, fixtures and equipment of APHC with a total carrying value of P1.8 billion and P1.4 million as of December 31, 2009 and 2008, respectively, are used as collateral for APHC's loan with ICBC.

12. Other Noncurrent Assets

This account consists of:

	Note	**2009**	2008
Refundable deposits		**P26,167,993**	P34,155,446
Accrued rent receivable - noncurrent		**13,963,205**	4,470,388
MERALCO refund - net of current portion	*28*	**-**	3,855,873
Others		**31,343,690**	25,490,839
		P71,474,888	P67,972,546

13. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2009**	2008
Accrued interest and penalties	*15*	**P447,596,468**	P461,733,120
Trade		**338,659,715**	312,276,160
Accrued utilities		**65,313,634**	50,975,020
Local taxes and output value added tax		**50,866,806**	51,106,717
Accrued rent		**32,370,170**	24,594,414
Guest deposits		**27,465,459**	30,372,081
Accrued salaries and wages, and employee benefits		**24,951,892**	26,811,793
Due to contractors		**8,947,628**	8,837,147
Service charges withheld		**7,430,551**	4,023,785
Withholding taxes payable		**6,795,141**	30,919,992
Service charges		**5,371,740**	8,114,943
Unclaimed wages		**3,200,954**	2,846,873
Deferred income		**519,031**	42,677,866
Others		**85,510,551**	87,161,450
		P1,104,999,740	P1,142,451,361

14. Other Current Liabilities

This account consists of:

	Note	**2009**	2008
Accrued interest on obligations under finance lease	*24*	**P57,282,545**	P51,447,170
Current portion of rentals received in advance - APHC	*23, 24*	**10,079,014**	47,995,305
Current portion of obligations under finance lease	*24*	**4,348,781**	4,003,823
Others		**8,023,711**	4,039,427
		P79,734,051	P107,485,725

15. Loans Payable

This account consists of liabilities to the following:

	2009	2008
COSCO Prime Holdings, Inc.	**P826,487,513**	P -
ICBC	**396,741,090**	400,298,550
Social Security System (SSS)	**375,000,000**	375,000,000
PAGCOR	**20,007,553**	403,827,413
PNB	-	739,600,000
	P1,618,236,156	P1,918,725,963

COSCO Loan

The COSCO loan originally represents a US$30 million long-term debt from PNB availed by the Parent Company, together with WCCCHI and WMCHI (collectively known as the "Borrowers") on March 26, 1997, to partly finance the construction of the Cebu City Hotel Project.

Subsequently, the loan underwent several restructuring agreements which resulted to the following:

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

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

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

Assignment of PNB Loan to COSCO

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

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

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

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

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

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

a. Interest of P11,019,833 per month shall be paid by the Borrowers on or before the 19th of the month starting March 19, 2009.

b. The principal amounting to P826,487,513 shall be paid on or before February 18, 2010.

c. The Borrowers shall issue and deliver postdated checks in payment of a. and b. If any of the postdated checks is dishonored and/or the Borrowers fails to pay any interest or the principal when they fall due, the whole remaining balance plus the penalty of P239,505,819 shall immediately become due and demandable without need of any demand.

Upon full payment on or before the stipulated date by the Borrowers of the Settlement Amount and the interests thereon up to the date of payment, the Assignee shall cause: (a) the filing of a joint motion/manifestation with the Borrowers for the satisfaction of the Decision in Civil Case No. R-LLP-08-03632-CV (the "Judgment and the Settlement Agreement"); (b) the withdrawal or dismissal of the foreclosure proceedings; (c) confirm that it has no claims or receivable whatsoever against the Borrowers arising from the Loan Agreement dated 26 March 1997 and all restructuring agreements executed thereafter, the Settlement Agreement and the Decision; (d) execute a release of mortgage of the MTI; (e) execute a document releasing the pledged shares as well as physically returning the certificates of stocks covering the said shares; and (f) the resignation of the three (3) Directors and Corporate Secretary nominated or appointed by the Assignee to the BOD of WMCHI and WCCCHI.

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

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

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

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

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

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

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

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

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

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

On February 11, 2010, the Parent Company paid the agreed amount of the partial payment amounting P400 million to COSCO.

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

On June 3, 2003, an Amended Agreement was signed by the parties to amend the Existing Facility Agreement. As amended, the balance of the loan amounting to US$14.3 million shall bear annual interest rate at 2% above Singapore Interbank Offer Rate (SIBOR) and shall be payable in semi-annual installments up to April 30, 2006.

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

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

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

APHC paid US$0.75 million in 2006. There were no principal payments made in 2008 and 2007.

As of April 6, 2009, management is still negotiating with ICBC for the rescheduling of payments of APHC's overdue loan principal installments totaling US$8.43 million as of December 31, 2009 and 2008. In the absence of ICBC's formal agreement to the proposed restructuring, the entire balance of the loan has been classified as current liability in the Group's consolidated statements of financial position as of December 31, 2009 and 2008.

<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 (8) semi-annual payments, after a one-year grace period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Starting 2006, the Parent Company has been charging WCCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. The proceeds of the loan were substantially used in the expansion and improvement of WCCCHI's operations. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS. As of December 31, 2009, total outstanding loan obligations to SSS amounted to P823 million consisting of the principal of P375 million and interest and penalties of P448 million (presented as part of "Accounts payable and accrued expenses" account).

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. 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 P448 million and P462 million, respectively, have been classified as current liabilities as of December 31, 2009 and 2008 in the consolidated statements of financial position.

<u>PAGCOR Loan</u>

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

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

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

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

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

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

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

The balance of the loan as of December 31, 2009 is P20 million. Final amount of payment shall include all interests and penalties up to the date of payment.

16. Other Noncurrent Liabilities

The account is broken down as follows:

	Note	**2009**	2008
Retirement benefits liability	*20*	**P178,686,543**	P149,537,830
PAGCOR security deposit - WCCCHI and WMCHI	*23*	**232,600,000**	232,600,000
Concessionaires and other deposits - APHC	*23, 24*	**132,536,209**	137,345,209
Noncurrent portion of rentals received in advance - APHC	*23, 24*	**131,670,144**	131,670,144
Noncurrent portion of obligations under finance lease	*24*	**41,614,991**	45,803,994
Others		**12,083,923**	11,639,210
		P729,191,810	P708,596,387

Retirement benefits liability pertains to the following:

	2009	2008
APHC	**P111,334,405**	P90,606,184
WCCCHI	**36,647,881**	30,971,240
DIHCI	**19,776,733**	18,107,791
WMCHI	**10,927,524**	9,852,615
	P178,686,543	P149,537,830

17. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit - the Hotel operations and the Marketing operations. The Corporate and Others segment includes general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 3 to the consolidated financial statements..

The following table presents the revenue and profit information regarding industry segments for the years ended December 31, 2009, 2008 and 2007 and certain asset and liability information regarding industry segments as of December 31, 2009, 2008 and 2007 (in millions peso):

	Hotel Operations Years Ended			Marketing Operations Years Ended			Corporate and Others Years Ended			Eliminations Years Ended			Consolidated Years Ended		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
TOTAL REVENUES															
External sales	**1,791**	1,850	1,888	**-**	-	-	**119**	-	-	**-**	-	-	**1,910**	1,850	1,888
RESULTS															
Segment results	**99**	43	274	**-**	(30)	17	**(42)**	(22)	(28)	**-**	-	-	**57**	(P9)	P263
OTHER INCOME (LOSS)															
Interest expense	**(151)**	(118)	(111)	**(2)**	(2)	(1)	**(8)**	-	-	**-**	-	-	**(161)**	(120)	(112)
Interest income	**-**	-	-	**-**	-	-	**-**	50	54	**-**	-	-	**-**	50	54
Benefit from (provision for) income taxes	**4**	(2)	(45)	**-**	-	-	**(5)**	-	2	**-**	-	-	**(1)**	(2)	(43)
Others	**(67)**	-	-	**5**	-	-	**-**	-	-	**-**	-	-	**(62)**		
Total Other income (loss)	**(214)**	(120)	(156)	**3**	(2)	(1)	**(13)**	50	56	**-**	-	-	**(224)**	(72)	(101)
Net income (loss)	**(115)**	(77)	118	**3**	(32)	16	**(55)**	28	28	**-**	-	-	**(167)**	(81)	162
OTHER INFORMATION															
Segment assets	**8,289**	6,870	6,691	**220**	220	220	**5,671**	5,817	5,505	**(4,618)**	(4,672)	(4,526)	**9,562**	8,235	7,890
Deferred tax asset	**161**	181	173	**-**	-	-	**11**	9	8	**-**	-	-	**172**	190	181
Consolidated total assets	**8,450**	7,051	6,864	**220**	220	220	**5,682**	5,826	5,513	**(4,618)**	(4,672)	(4,526)	**9,734**	8,425	8,071
Segment liabilities	**3,510**	3,756	4,343	**40**	38	34	**2,636**	1,391	1,288	**(3,213)**	(3,213)	(3,057)	**2,973**	1,972	2,608
Loans and interest payable	**-**	647	889	**-**	-	-	**-**	748	1,115	**571**	524	-	**571**	1,919	2,004
Deferred liability	**1,274**	766	-	**-**	-	-	**-**	-	-	**-**	-	-	**1,274**	766	-
Consolidated total liabilities	**4,784**	5,169	5,232	**40**	38	34	**2,636**	2,139	2,403	**(2,642)**	(2,689)	(3,057)	**4,818**	4,657	4,612
Other Segment Information															
Capital expenditures	**37**	48	154	**-**	-	-	**15**	19	25	**-**	-	-	**52**	67	179
Depreciation and amortization	**315**	254	262	**-**	-	-	**8**	6	2	**-**	-	-	**323**	260	264

18. Capital Stock

Details of capital stock at December 31, 2009, 2008 and 2007 follow:

	Number of Shares		
	2009	2008	2007
Authorized capital stock			
Common shares at P1 par value each	**5,000,000,000**	5,000,000,000	5,000,000,000
Issued and outstanding			
Beginning of year	**2,498,991,753**	2,498,991,753	1,945,934,653
Issuance of shares during the year	**-**	-	553,057,100
	2,498,991,753	2,498,991,753	2,498,991,753

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

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

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

19. Other Expenses

This account consists of:

	2009	2008	2007
Security and other services	**P44,065,596**	P46,676,451	P30,942,495
Advertising	**43,693,741**	55,042,058	42,995,167
Taxes and licenses	**41,745,829**	38,931,087	39,181,872
Representation and entertainment	**36,890,143**	19,106,111	28,106,447
Supplies	**34,886,963**	33,760,101	37,538,116
Professional fees	**17,150,668**	8,309,540	10,891,262
Insurance	**14,407,340**	13,273,585	14,543,539
Communications	**8,552,816**	9,231,658	10,638,138
Commissions	**7,623,959**	9,204,165	8,639,983
Fuel and oil	**7,401,650**	1,341,274	2,025,912
Miscellaneous	**128,865,997**	145,524,717	121,241,208
	P385,284,702	P380,400,747	P346,744,139

20. Retirement Benefits Costs

The Parent Company and certain subsidiaries have their non-contributory, defined benefit plan covering substantially all of its regular employees. The benefits are based on years of service and percentage of the employee's final monthly salary during the last 5 years of continuous service. Retirement benefits costs recognized in profit or loss for the years ended December 31, 2009, 2008 and 2007 amounted to P33.2 million, P27.4 million and P20.9 million, respectively.

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

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

	2009	2008
Present value of defined benefit obligation	**P235,386,735**	P218,112,392
Fair value of plan assets	**(57,237,919)**	(72,978,116)
Net present value of defined benefit obligation	**178,148,816**	145,134,276
Unrecognized actuarial losses	**537,727**	4,403,554
Retirement benefits liability at end of year	**P178,686,543**	P149,537,830

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

	2009	2008
Present value of obligation, beginning of year	**P218,112,392**	P241,072,140
Interest cost	**24,085,478**	21,525,846
Current service cost	**15,300,110**	14,002,394
Benefits paid	**(26,997,055)**	(13,779,848)
Actuarial loss (gain)	**4,885,810**	(44,708,140)
Present value of obligation, end of year	**P235,386,735**	P218,112,392

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

	2009	2008
Fair value of plan assets, beginning of year	**P72,978,116**	P93,184,786
Expected return of plan assets	**6,203,140**	8,637,196
Contributions to the plan	**4,000,000**	154,195
Benefits paid	**(26,921,745)**	(13,779,848)
Actuarial (loss) gain	**978,408**	(15,218,213)
Fair value of plan assets, end of year	**P57,237,919**	P72,978,116

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

	2009	2008
Bonds	**68%**	68%
Stocks	**9%**	9%
Others	**10%**	10%

Net retirement benefits costs recognized in profit or loss as part of "Personnel cost" account are as follows:

	2009	2008	2007
Current service costs	**P15,300,110**	P14,002,394	P9,136,319
Interest cost	**24,085,478**	21,525,846	18,291,219
Expected return on plan assets	**(6,203,140)**	(8,637,196)	(8,100,397)
Net actuarial loss recognized during the period	**41,574**	491,396	1,524,532
	P33,224,022	P27,382,440	P20,851,673

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

	2009	2008	2007	2006	2005
Present value of defined benefit obligation	**P235,387**	P218,112	P241,072	P236,018	P147,484
Fair value of plan assets	**57,238**	72,978	93,185	90,004	86,239
Net present value of defined benefit obligation	**P178,149**	P145,134	P147,887	P146,014	P61,245

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

	2009	2008	2007
Discount rate	**11%**	11%	10%
Expected rate of return on plan assets	**9%**	9%	10%
Salary increase rate	**9%**	10%	10%

21. Income Taxes

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

	2009	2008	2007
Current	**P40,099,952**	P48,937,824	P76,587,117
Deferred	**(39,897,479)**	(46,873,720)	(33,631,623)
Provision for income tax	**P202,473**	P2,064,104	P42,955,494

Income tax recognized in other comprehensive income is as follows:

	2009		
	Before tax	Tax (expense) benefit	Net of tax
Foreign currency translation differences for foreign operations	(P4,666,317)	P -	(P4,666,317)
Appraisal increase in property and equipment	1,889,325,575	(566,797,672)	1,322,527,903
Net change in fair value of available-for-sale financial assets	(3,901,950)	-	(3,901,950)
	P1,880,757,308	**(P566,797,672)**	**P1,313,959,636**

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 comprehensive income is as follows:

	2009	2008	2007
Income (loss) before income tax	**(P166,817,220)**	(P79,406,320)	P205,606,851
Provision for (benefit from) income tax	**(P50,045,166)**	(P27,792,212)	P71,962,398
Additions to (reductions in) income tax resulting from the tax effects of:			
Unrecognized deferred tax from impairment losses on receivables	**24,185,254**	-	-
Unrecognized NOLCO and MCIT	**18,782,119**	-	-
Nondeductible expenses	**10,952,609**	13,879,847	7,157,178
Derecognition of previously recognized DTA and DTL	**8,199,505**	4,192,452	-
Changes in unrecognized deferred tax assets	**22,592**	1,912,265	(8,471,409)
Income not subject to income tax	**(11,894,440)**	(3,629,318)	(6,543,376)
Deferred tax asset recognized	**-**	(6,263,250)	-
NOLCO applied	**-**	(10,788,712)	(18,782,133)
Expired NOLCO and MCIT	**-**	252,895	9,641,808
Reversal of accruals	**-**	(444,159)	(12,008,972)
Changes in statutory tax rate	**-**	30,744,296	-
	P202,473	P2,064,104	P42,955,494

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

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

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

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

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

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2009	2008	**2009**	2008
Property and equipment	**P -**	P -	**P1,264,404,296**	P750,041,777
Rent receivable	**-**	-	**5,903,209**	8,039,014
MERALCO refund	**-**	-	**1,156,762**	2,545,741
Rent received in advance	**43,670,311**	54,896,465	**2,742,121**	5,285,698
Unrealized foreign exchange loss	**53,680,437**	54,747,675	**-**	-
Accrued retirement benefits	**53,605,963**	44,861,350	**-**	-
Allowance for impairment losses on receivables	**9,211,438**	8,347,889	**-**	-
NOLCO	**7,378,048**	13,471,891	**-**	-
Accrued rent expense	**2,503,016**	9,978,352	**-**	-
Unamortized past service cost	**1,710,215**	2,191,161	**-**	-
MCIT	**103,291**	1,973,971	**-**	-
	P171,862,719	P190,468,754	**P1,274,206,388**	P765,912,230

In 2009, the Group recognized income tax of P566 million in other comprehensive income attributable to the appraisal increase of its property and equipment during the year. There was no income tax recognized in other comprehensive income for 2008.

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

	2009	2008
NOLCO	**P17,557,946**	P4,077,749
Allowance for impairment losses on receivables	**32,566,277**	20,278,192
MCIT	**8,029,200**	-
	P58,153,423	P24,355,941

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

As of December 31, 2009, the Group has consolidated NOLCO of P83.1 million, the details of which are as follows:

Taxable Period	Unapplied Balances	Valid Until
December 31, 2009	P43,190,675	December 31, 2012
December 31, 2008	12,043,975	December 31, 2011
December 31, 2007	27,885,328	December 31, 2010
	P83,119,978	

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

Period Paid	Amount	Valid Until
December 31, 2009	P8,132,491	December 31, 2012

22. Earnings Per Share (EPS)

The EPS are computed as follows:

	2009	2008	2007
Net income (loss) attributable to equity holders of the Parent	**(P159,223,379)**	(P60,215,556)	P140,007,553
Weighted number of shares outstanding	**2,498,991,753**	2,498,991,753	2,008,837,636
Earnings (Loss) per share - basic and diluted	**(P0.064)**	(P0.024)	P0.070

There are no potentially dilutive shares as of December 31, 2009, 2008 and 2007. Accordingly, diluted EPS is the same as basic EPS.

23. Lease Agreements with PAGCOR

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

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

PAGCOR also agreed to pay WCCCHI and WMCHI security deposit equivalent to the one year rental based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit, which amounted to P232.6 million on December 31, 2009 and 2008, is recorded in the consolidated statements of financial position under the "Other noncurrent liabilities" account (see Note 16).

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

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

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

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

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

In 2007, APHC and PAGCOR agreed on the lease of an additional area. The lease period shall be five years from the start of PAGCOR's gaming operations. In September 2007, APHC received the related refundable security deposit that amounted to P65.8 million and recognized the same at P45.1 million which is its present value (presented as part of "Concessionaires and other deposits" under "Other noncurrent liabilities" account in the consolidated statements of financial position), and the difference of P20.7 million was recognized as additional advance rental (presented as part of "Rentals received in advance - APHC" under "Other current liabilities" account in the consolidated statements of financial position). The said deposit was discounted using an effective interest rate of 7.71% and the Group recognized an accretion expense using the effective interest method of P- and P1.0 million in 2009 and 2008, respectively, and a rental income using straight-line amortization of P1.0 million each in 2009 and 2008, respectively. The refund will be made upon complete turnover of the leased area by PAGCOR back to APHC.

On September 15, 2008, APHC renewed the contract of lease with PAGCOR for two (2) years and six (6) months. Monthly rental rate is subject to 5% annual escalation starting on the second year of the renewal of the contract of lease. Monthly rental shall be P2,378.03 per square meter of the main area and P1,132.40 per square meter of the expansion area, both covering a floor area totaling 9,234.37 square meters. PAGCOR shall also pay APHC an advance rental of six (6) months to be paid upon execution of the renewed contract of lease and shall be applied to the rentals due for the first six (6) months. Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of three (3) months for the Main area and six (6) months for the expansion and shall be paid upon the execution of the contract.

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

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

	2009	2008
Less than one year	**P494,730,114**	P488,718,194
Between one and five years	**673,726,079**	1,144,331,411
	P1,168,456,193	P1,633,049,605

24. Other Lease Agreements

Land under Operating Lease

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

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

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

	2009	2008
Less than one year	**P13,793,443**	P13,793,443
Between one and five years	**48,774,279**	55,173,772
More than five years	**220,706,560**	234,500,003
	P283,274,282	P303,467,218

Total annual rent expense recognized in profit or loss amounted to P78.8 million, P61.9 million and P52.3 million in 2009, 2008 and 2007, respectively.

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

In view of the nature of the lease and related contracts, the lease has been classified as a finance lease as repurchase of the land can be exercised anytime during the period of the lease. Accordingly, the Group recognized the capitalized asset and related liability of P25 million (equivalent to the purchase option price and also the minimum lease payment) in the Group's consolidated statements of financial position under "Land under finance lease" and part of "Other noncurrent liabilities" accounts, respectively. Accruals of interest expense to CIMAR until the purchase option is exercised are recognized in profit or loss as part of "Interest expense" account.

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

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

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

The contract of lease between APHC and CIMAR stipulates that the said contract shall remain in full force and effect unless otherwise revoked or amended in writing by both parties, and, accordingly, in the opinion of APHC's management and its legal counsel, the finance lease cannot be terminated unilaterally. As of December 31, 2009 and 2008, total unpaid liabilities and penalty interests due to CIMAR amounted to P57.3 million and P51.4 million, respectively, shown as part of "Other current liabilities" account in the consolidated statements of financial position. The Group continues to accrue for liabilities to CIMAR based on the existing contract pending the resolution of the reconveyance case.

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

As of April 6, 2009, APHC has filed a motion for issuance of a temporary restraining order and/or writ of preliminary injunction seeking to enjoin the Metropolitan Trial Court from continuing with its hearing on the ejectment case filed by CIMAR. Moreover, APHC has initiated discussions with CIMAR for the possible amicable settlement of this matter. The ultimate outcome of this matter and its effect on APHC's hotel operations cannot presently be determined.

Equipment under Finance Lease

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

At the inception of the lease, DIHCI capitalized the equipment and recognized the related lease liability equivalent to the present value of the total expected lease payments determined at P9,763,129. Depreciation expense recognized in profit or loss for the each of the years ended December 31, 2009 and 2008 related to the leased equipment amounted to P976,313.

Reconciliations between the total of future minimum lease payments and their present value as of December 31, 2009 and 2008 are as follows:

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

		December 31, 2008		
	Note	Future Minimum Lease Payments	Imputed Finance Charges	Present value of Future Minimum Lease Payments
Less than one	*14*	P1,500,000	P666,073	P833,927
Between one and five years	*16*	6,000,000	1,777,835	4,222,165
More than five years	*16*	2,750,000	229,012	2,520,988
		P10,250,000	P2,672,920	P7,577,080

The carrying value of the leased asset amounted to P5,695,159 and P6,671,472 as of December 31, 2009 and 2008.

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

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

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

		December 31, 2008		
	Note	Present Value of Future Minimum Lease Payments	Imputed Finance Charges	Future Minimum Lease Payments
Less than one	*14*	P3,169,896	P1,270,104	P4,440,000
Between one and five years	*16*	14,060,841	2,220,715	16,281,556
		P17,230,737	P3,490,819	P20,721,556

Net carrying amount of PABX equipment as of December 31, 2009 and 2008 is P18.4 million and P20.9 million, respectively (see Note 11).

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

Total rent recognized as revenues amounted to P549.8 million, P496.8 million and P473.4 million as of December 31, 2009, 2008 and 2007, respectively.

Lease Agreements entered into by MBI

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

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

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

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

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

25. Acquisition of APHC Shares

On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC effected through a cross-sale in the PSE. The shares were previously owned by Acesite Limited (BVI), non-resident stockholders of APHC, pledged in favor of Equitable PCI Bank (EPCIB), Inc., which was subsequently foreclosed by EPCIB and sold to the Parent Company in consideration of US$2,060,571 or P112,259,886, which was effectively the same as the prevailing market price of the APHC shares at that time (P1.66 per share). Subsequently, the Parent Company incurred additional legal costs to complete the acquisition amounting to P14.5 million, which formed part of the cost of investment. The acquisition was made pursuant to the Parent Company's plans to expand its operations, which are currently in Cebu City, to the Metro Manila area.

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

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

On June 24, 2004, at the annual 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 RTC of Manila. On August 16, 2004, the RTC of Manila dismissed the case on the intervention filed by the stockholder.

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

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

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

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

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

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

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

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

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

As of December 31, 2009, the Parent Company's equity interest in APHC remained at 69%.

26. Financial Risk Management

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, due from related parties, AFS investments, receivables from Acesite Limited (BVI), accounts payable and accrued expenses, other current liabilities, due to related parties, loans payable, and other noncurrent liabilities. The main purpose of these financial instruments is to raise finances for the Group's operations.

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

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

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

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

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

The aging analyses of the Group's financial assets (in thousands) as of December 31, 2009 and 2008 are as follows:

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

			Past due but not impaired					
December 31, 2008	Total	Neither past due nor impaired	<30 days	30 - 60 days	61 - 90 days	91 - 120 days	> 120 days	Impaired
Receivables - net	P323,794	P86,969	P26,522	P13,579	P4,799	P9,227	P12,847	P169,851
Due from related parties - net	1,899,635	1,899,635	-	-	-	-	-	-
AFS investments	12,573	12,573	-	-	-	-	-	-
Receivable from Acesite Limited (BVI)	717,427	-	-	-	-	-	717,427	-
Total	P2,953,429	P1,999,177	P26,522	P13,579	P4,799	P9,227	P730,274	P169,851

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

Information on the Group's receivables and due from related parties that are impaired as of December 31, 2009 and 2008 and the movement of the allowance used to record the impairment losses are disclosed in Notes 6 and 9 to the consolidated financial statements.

Liquidity Risk

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

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

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

The following table summarizes the maturity profile of the Group's financial liabilities (in thousands) as of December 31, 2009 and 2008 based on contractual undiscounted payments:

	Total	**Contractual Undiscounted Payments**			
December 31, 2009	**carrying value**	**Total**	**On demand**	**Less than 1 year**	**1 to 5 years**
Accounts payable and accrued expenses	P1,105,000	P1,105,000	P880,550	P215,661	P8,789
Loans payable	1,618,236	1,618,236	791,748	826,488	-
Due to related parties	3,192	3,192	3,192	-	-
Other current liabilities	79,734	79,734	59,197	10,458	10,079
Other noncurrent liabilities	729,192	729,192	-	-	729,192
	P3,535,354	**P3,535,354**	**P1,734,687**	**P1,052,607**	**P748,060**

	Total	Contractual Undiscounted Payments			
December 31, 2008	carrying value	Total	On demand	Less than 1 year	1 to 5 years
Accounts payable and accrued expenses	P1,142,451	P1,142,451	P802,443	P323,178	P16,830
Loans payable	1,918,726	1,918,726	1,179,126	739,600	-
Due to related parties	3,253	3,253	3,253	-	-
Other current liabilities	107,486	107,486	77,642	29,844	-
Other noncurrent liabilities	708,596	708,596	-	-	708,596
	P3,880,512	P3,880,512	P2,062,464	P1,092,622	P725,426

Market Risk

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

Interest Rate Risk

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

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

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

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

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

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of ±50 basis points in 2009 and 2008. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's loan payable held at the reporting date. All other variables are held constant (in thousands).

Increase (decrease)	Income after income tax	
Change in interest rates (in basis points)	**2009**	2008
+50	**(P6,216)**	(P5,699)
-50	**6,216**	5,699

There are no other impact on the Group's equity other than those already affecting profit or loss in 2009 and 2008.

Foreign Currency Risk
Currency risk arises when transactions are denominated in foreign currencies.

As a result of loan payable from ICBC which is denominated in US dollar, the Group's consolidated statements of financial position can be affected by movements in this currency. Aside from this and certain cash, the Group does not have any material transactional foreign exchange risks as its revenue and costs are substantially denominated in Philippines peso.

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

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

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

December 31, 2008	US Dollar	Philippine Peso
Cash	$34,522	P1,639,277
Loan payable	8,430,000	400,298,550
Net foreign currency-denominated liability	$8,395,478	P398,659,273

The Group recognized P3.6 million foreign exchange gain in 2009, P51.0 million foreign exchange loss in 2008, and P58.0 million foreign exchange gain in 2007, arising from the translation of these foreign-currency denominated financial instruments.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2009 and 2008, with all other variables held constant, of the Group's 2009 and 2009 income after tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following % change in foreign currency rates (in thousands).

Increase (decrease)	Income after income tax
Change in foreign currency (%)	**2009**
+2%	**(P13,138)**
-3%	**6,393**

Increase (decrease)	Income after income tax
Change in foreign currency (%)	2008
+7%	(P28,136)
-3%	12,058

There is no other impact on the Group's equity other than those already affecting profit or loss in 2009 and 2008.

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

The Group is not exposed to commodity price risk.

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

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2009 and 2008, with all other variables held constant, of the Group's equity (in thousands).

Increase (decrease)		Equity
Change in equity price (%)	**2009**	2008
+2%	**P174**	P251
-2%	**(174)**	(251)

The impact on the Group's equity already excludes the impact on transactions affecting profit or loss in the 2009 and 2008.

Fair Value of Financial Assets and Liabilities

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial assets and liabilities that are carried in the consolidated financial statements (in thousands) as of December 31, 2009 and 2008:

	2009		2008	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets				
Cash and cash equivalents	**P39,126**	**P39,126**	P46,597	P46,597
Receivables - net	**167,035**	**167,035**	153,943	153,943
Due from related parties - current portion	**581,850**	**581,850**	1,899,635	1,899,635
Due from related parties - net of current portion	**1,099,306**	**1,099,306**	-	-
AFS investments	**8,671**	**8,671**	12,573	12,573
MERALCO refund - net of current portion	**-**	**-**	3,856	5,705
Receivables from Acesite Limited (BVI)	**667,283**	**667,283**	717,427	717,427
Financial liabilities				
Accounts payable and accrued expenses	**1,104,500**	**1,104,500**	1,142,451	1,142,451
Loans payable	**1,618,236**	**1,618,236**	1,918,726	1,918,726
Due to related parties	**3,191**	**3,191**	3,253	3,253
Other current liabilities	**79,734**	**79,734**	107,486	107,486
Other noncurrent liabilities	**729,192**	**729,192**	708,596	708,596

The carrying values of cash and cash equivalents, receivables, due from related parties - current portion, due from related parties - noncurrent portion, accounts payable and accrued expenses, loans payable and other current liabilities 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, 2009 and 2008.

The fair value of MERALCO refund was calculated by discounting expected future cash flows at prevailing market rates. Discount rates used ranged from 5.8% to 7.7% in 2009 and 2008.

The fair value of other noncurrent liabilities was calculated by discounting expected future cash flows at prevailing market rates. Discount rates used ranged from 5.8% to 7.7% in 2009 and 2008.

The fair value of the receivables from Acesite Limited (BVI) as of and December 31, 2009 and 2008 cannot be presently determined due to the uncertainty of the ultimate amount and timing of the collection of the receivables (see Note 10).

Fair Value Hierarchy

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

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

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

	2008			
	Level 1	Level 2	Level 3	Total
Financial Assets				
WII shares of stocks	P12,573	P -	P -	P12,573
	P12,573	**P -**	P -	P12,573

Risk Management Structure

Board of Directors

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

Risk Management Committee

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

Capital Management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Capital is defined as the invested money or invested purchasing power, the net assets or equity of the entity. The Group's overall strategy remains unchanged from 2009, 2008 and 2007.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2009 and 2008. Capital includes equity less unrealized valuation gain on AFS investments.

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

27. Commitments and Contingencies

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

a. On March 1, 2005, APHC received an assessment from the BIR principally for deficiency income tax, final withholding taxes on foreign income payments and expanded VAT on receipts from PAGCOR, 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.

   In 2007, APHC and WCCCHI availed of the Tax Amnesty Program under RA No. 9480 which provides for the immunity of taxpayer from payment of taxes (including civil, criminal or administrative penalties) arising from the failure to pay any and all internal revenue taxes except withholding tax liabilities, for taxable year 2005 and prior years. Consequently, APHC and WCCCHI paid the corresponding amnesty tax amounting to about P1.5 million and P0.5 million, respectively, as prescribed by RA 9480.

   Based on the foregoing, management and its legal counsel believe that APHC and WCCCHI no longer has a present obligation (legal and constructive) with respect to such tax assessment, except for the portion relating to the final withholding tax.

b. On April 10, 2007, the Parent Company received a demand letter with notice of assessment from the BIR for deficiency taxes for the taxable year 2003 totaling P18.67 million, inclusive of related interest and penalties. On May 9, 2007, the Parent Company sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of the Parent Company is sustainable, and accordingly believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On May 22, 2007, BIR answered in another letter that it maintains its position that the Parent Company has tax deficiencies. On October 10, 2007, the Parent Company again sent a letter to the BIR contesting the assessment. On February 13, 2009, the BIR sent a final demand letter requesting payment for the deficiency taxes. As of April 6, 2009, the said assessment is pending final resolution by the Parent Company and BIR. Management and its legal counsel also believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment.

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

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

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

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

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

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

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

   As of April 6, 2009, the said assessment is pending final resolution by APHC and the Manila City Treasurer. APHC management and its legal counsel also 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.

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

f. In 2002, the members of the DIHCI Employees Union-NFL filed a notice for Preventive Mediation, claiming that the Memorandum of Agreement (MOA) entered into by the Union with the management was null and void on the following grounds: (a) it was entered into by the Union's officers without the consent of the Union's general membership; and (b) it provides for diminished employees' benefits in violation of the Labor Code. Complainants demanded payment of salary differentials for twenty-six (26) months in the total amount of P5.5 million and payment of differentials for their sick and vacation leaves in the total amount of P1.6 million. Management believes that there is a possible obligation that may occur, but cannot determine presently the amount to be paid until the resolution of the case.

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

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

28. Other Matters

Meralco Refund

As a customer of Meralco, APHC received a refund for some of Meralco's previous billings under Phase IV-B of Meralco's refund scheme. APHC opted to recover the refund through receipt of quarterly postdated checks of equal amount over 5 years, starting April 2005 up to December 2010. In 2005, APHC recognized a receivable from Meralco amounting to P15.9 million (net of unearned interest income of P6.2 million). Accretion income recognized amounted to P- million, P1.3 million and P1.6 million in 2009, 2008 and 2007, respectively. The receivable was discounted using an effective interest rate of 14.0%.

Amounts to be recovered within one year and beyond one year that are included in the "Receivables" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position as of December 31, 2009 and 2008 follow:

	Note	**2009**	2008
Within one year	*6*	**P3,855,873**	P3,360,904
After one year but not more than five years	*12*	**-**	3,855,873
		P3,855,873	P7,216,777

Tax Refund

APHC filed a petition for the refund of VAT erroneously paid by the APHC to the BIR from 1996 to 1997 on its sale of food and services to, as well as gross rentals from, PAGCOR in May 1998 with the Court of Tax Appeals 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 after which, the BIR appealed the decision of the CA before the SC.

In February 2007, the SC ordered the BIR to refund to APHC, without unreasonable delay the amount of P30.1 million representing the said refund. In a letter dated October 16, 2007, the BIR issued a tax credit certificate of about P30.1 million in compliance with the order for a refund and stated that APHC should recognize the refund as part of its gross income in the year of actual receipt of the refund. APHC received the related tax credit certificate of P30.1 million which is presented as part of "Prepaid expenses and other current assets" account (net of the amount applied to income tax payment) in the 2007 consolidated statements of financial position and recognized in profit or loss as part of "Other income" account. Accordingly, the related VAT payable previously recognized in profit or loss amounting to P34.0 million was reversed by APHC.

Lease, Development, Operation and Management of Mimosa

On June 6, 2008, the Parent Company submitted a bid to Clark Development Corporation (CDC) for the lease, development, operation and management of the Mimosa Leisure Estate (the "Project"). On July 4, 2008, the CDC Board approved the award of the Project to the Parent Company. Pursuant to the bidding documents, the parties agreed to execute a Memorandum of Understanding preparatory to the Lease Agreement in order to ensure compliance by the Parent Company of its deliverables as provided in its bid. On October 20, 2008, CDC sent a letter to the Parent Company informing the latter that the CDC Board decided to cancel the bidding process and return the bid security, amounting to P54,377,778, due to a supervening event that materially affected the terms of the Project.

29. Appropriated Retained Earnings

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

COVER SHEET

AS094-8678

S.E.C. Registration Number

WATERFRONT PHILIPPINES, INCORPORATED

(Company's Full Name)

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

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

Ms. Connie Francisco

Contact Person

(02) 687-0888

Company Telephone Number

12	31	AFS09	11	21
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

541

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

WATERFRONT
PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Waterfront Philippines, Inc.** is responsible for all information and representations contained in the financial statements for the period ended December 31, 2009. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regards, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

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

Signed under oath by the following:

Precilla O. Toriano
Corporate Finance Director

Kenneth T. Gatchalian
President

Renato B. Magadia
Chairman of the Board

Elvira A. Ting
Treasurer

DOC. NO. 461
PAGE NO. 87
BOOK NO. 9
SERIES OF 2010

ATTY. DARIO D. RAMA JR.
NOTARY PUBLIC CEBU CITY
UNTIL DEC. 31, 2010
PTR NO. 9665203-1-4-10 C.C.
ROLL NO. 24276 CEBU CITY

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

WATERFRONT PHILIPPINES, INCORPORATED

SEPARATE FINANCIAL STATEMENTS
December 31, 2009, 2008 and 2007

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

Branches · Subic · Cebu · Bacolod · Iloilo

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

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

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

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

We have audited the accompanying separate financial statements of Waterfront Philippines, Incorporated as of and for the year ended December 31, 2009, on which we have rendered our report dated April 12, 2010.

In compliance with Revenue Regulation V-20, we are stating that:

1. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company; and

2. The taxes paid and/or accrued by the Company during the year are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2007
Issued on July 10, 2007; Valid until July 9, 2010
PTR No. 2092715MB
Issued January 7, 2010 at Makati City

April 12, 2010
Makati City, Metro Manila

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

Branches · Subic · Cebu · Bacolod · Iloilo

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying separate financial statements of Waterfront Philippines, Incorporated, which comprise the separate statements of financial position as at December 31, 2009 and 2008, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for each of the years in the three-year period ended December 31, 2009, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

KPMG

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the unconsolidated financial position of Waterfront Philippines, Incorporated as of December 31, 2009 and 2008, and its unconsolidated financial performance and its unconsolidated cash flows for each of the years in the three-year period ended December 31, 2009, in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 6 to the financial statements which indicates that the Company has receivables from Metro Alliance Holdings and Equities Corp. (MAHEC) amounting to P351 million and P338 million as of December 31, 2009 and 2008, respectively. The said receivables have been the subject of collection efforts by the management but the ultimate amount and timing of collection of these receivables cannot presently be determined. The separate financial statements do not include any adjustment that may be necessary to reflect the effects of the ultimate outcome of this uncertainty on the carrying value and classification of these receivables.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2007
Issued on July 10, 2007; Valid until July 9, 2010
PTR No. 2092715MB
Issued January 7, 2010 at Makati City

April 12, 2010
Makati City, Metro Manila

BUREAU OF INTERNAL REVENUE
15 APR 2010
Mandaue City

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2009	2008
ASSETS			
Current Assets			
Cash		**P1,929,553**	P792,120
Due from related parties - current portion	*6*	**512,951,603**	1,562,906,744
Total Current Assets		**514,881,156**	1,563,698,864
Noncurrent Assets			
Investments in and advances to subsidiaries	*5*	**3,786,880,808**	3,662,968,291
Due from related parties - noncurrent portion	*6*	**828,014,404**	-
Deferred tax asset	*9*	**-**	1,973,971
Other noncurrent assets		**5,420,016**	5,420,016
Total Noncurrent Assets		**4,620,315,228**	3,670,362,278
		P5,135,196,384	P5,234,061,142
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	*7*	**P453,427,590**	P391,607,019
Due to related parties	*6*	**811,076,123**	1,014,435,708
Loans payable	*8*	**1,201,487,513**	1,114,600,000
Income tax payable	*9*	**3,843,177**	742,144
Total Current Liabilities		**2,469,834,403**	2,521,384,871
Equity			
Capital stock	*5, 11*	**2,498,991,753**	2,498,991,753
Additional paid-in capital		**706,364,357**	706,364,357
Deficit		**(539,994,129)**	(492,679,839)
Total Equity		**2,665,361,981**	2,712,676,271
		P5,135,196,384	P5,234,061,142

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

	Note	2009	2008	2007
		Years Ended December 31		
REVENUES				
Interest income	*6*	**P32,539,054**	P37,107,161	P49,683,460
Gain on sale of shares of stock	*5*	**-**	10,061,181	-
		32,539,054	47,168,342	49,683,460
GENERAL AND ADMINISTRATIVE EXPENSES				
Representation and entertainment		**23,053,480**	5,846,302	13,771,030
Taxes and licenses		**9,120,732**	3,307,476	1,102,530
Professional fees		**2,854,929**	1,132,215	821,770
Transportation and travel		**443,741**	161,486	112,926
Miscellaneous		**524,071**	1,681,090	2,001,981
		35,996,953	12,128,569	17,810,237
INCOME BEFORE INTEREST, DEPRECIATION AND AMORTIZATION, PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES AND INCOME TAX		**(3,457,899)**	35,039,773	31,873,223
INTEREST, DEPRECIATION AND AMORTIZATION AND PROVISION FOR IMPAIRMENT LOSSES ON RECEIVABLES				
Provision for impairment losses on receivables	*6*	**29,473,522**	-	-
Interest expense	*6.b*	**8,565,721**	-	-
Depreciation and amortization		**-**	-	251,099
		38,039,243	-	251,099
INCOME (LOSS) BEFORE INCOME TAX		**(41,497,142)**	35,039,773	31,622,124
INCOME TAX EXPENSE	*9*	**5,817,148**	252,895	343,491
NET INCOME (LOSS)		**(P47,314,290)**	P34,786,878	P31,278,633
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P47,314,290)**	P34,786,878	P31,278,633

See Notes to the Separate Financial Statements.

15 APR 2010

RDO, Mandaue City

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31		
	Note	**2009**	2008	2007
CAPITAL STOCK - P1 par value per share				
Authorized - 5 billion shares				
Issued - 2,498,991,753 shares in 2009 and 2008, 1,945,934,653 shares in 2007	*5, 11*			
Balance at beginning of year		**P2,498,991,753**	P2,498,991,753	P1,945,934,653
Issuance of shares of stock		**-**	-	553,057,100
Balance at end of year		**2,498,991,753**	2,498,991,753	2,498,991,753
ADDITIONAL PAID-IN CAPITAL	*5*			
Balance at beginning of year		**706,364,357**	706,364,357	755,435,050
Reduction in paid-in capital		**-**	-	(49,070,693)
Balance at end of year		**706,364,357**	706,364,357	706,364,357
DEFICIT				
Balance at beginning of year		**(492,679,839)**	(527,466,717)	(558,745,350)
Net income (loss) for the year		**(47,314,290)**	34,786,878	31,278,633
Balance at end of year		**(539,994,129)**	(492,679,839)	(527,466,717)
		P2,665,361,981	P2,712,676,271	P2,677,889,393

See Notes to the Separate Financial Statements.

WATERFRONT PHILIPPINES, INCORPORATED
SEPARATE STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**(P41,497,142)**	P35,039,773	P31,622,124
Adjustments for:				
Impairment losses on receivables	*6*	**29,473,522**	-	-
Interest income	*6*	**(32,539,054)**	(37,107,161)	(49,683,460)
Interest expense	*6.b*	**8,565,721**	-	-
Depreciation and amortization		**-**	-	251,099
Operating loss before working capital changes		**(35,996,953)**	(2,067,388)	(17,810,237)
Decrease (increase) in other noncurrent assets		**-**	(669,642)	1,955,356
Increase in trade and other payables		**61,820,571**	60,226,104	60,251,797
Cash generated from operations		**25,823,618**	57,489,074	44,396,916
Interest received		**205,087**	-	-
Income tax paid		**(742,144)**	(993,669)	(412,020)
Net cash provided by operating activities		**25,286,561**	56,495,405	43,984,896
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loans payable	*8*	**-**	-	(148,400,000)
Advances from (to) related parties		**(24,149,128)**	(55,823,857)	104,315,106
Net cash used in financing activities		**(24,149,128)**	(55,823,857)	(44,084,894)
NET INCREASE (DECREASE) IN CASH		**1,137,433**	671,548	(99,998)
CASH AT BEGINNING OF YEAR		**792,120**	120,572	220,570
CASH AT END OF YEAR		**P1,929,553**	P792,120	P120,572

See Notes to the Separate Financial Statements.

1. Reporting Entity

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

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

	Percentage of Ownership as of December 31, 2009	
	Direct	Indirect
Hotels and resorts:		
Waterfront Cebu City Casino Hotel, Incorporated (WCCCHI)	100	-
Waterfront Mactan Casino Hotel, Incorporated (WMCHI)	100	-
Davao Insular Hotel Company, Inc. (DIHCI)	98	-
Acesite (Phils.) Hotel Corporation (APHC)	69	-
Grand Ilocandia Resort and Development, Inc. (GIRDI)	54	-
Fitness gym:		
W Citigyms & Wellness, Inc. (W Citigym)	100	-
International marketing and promotion of casinos:		
WPL	100	-
Mayo Bonanza, Inc. (MBI)	100	-
CWIL (through direct ownership in WPL)	-	100
Pastries manufacturing:		
Waterfront Food Concepts Inc. (WFC)	100	-
Hotel management and operation:		
Waterfront Management Corporation (WMC)	100	-

The Parent Company's percentages of ownership for the above subsidiaries are the same for 2009, 2008 and 2007, except for APHC wherein the percentage ownership increased from 24% in 2006 to 75% in 2007 and decreased to 69% in 2008.

Office Address
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

<u>Statement of Compliance</u>
The separate financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

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

The separate financial statements of the Company as of and for the year ended December 31, 2009 were authorized for issue by the Board of Directors (BOD) on April 12, 2010.

<u>Basis of Measurement</u>
The separate financial statements have been prepared on the historical cost basis.

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

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

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

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

3. Summary of Significant Accounting Policies

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

New Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council approved the adoption of a number of new standards, amendments to standards, and interpretations as part of PFRSs.

Revised Standards, Amendments and Improvements to Standards Adopted in 2009
The following are the revised standards, amendments and improvements to standards which are relevant to the parent company and are effective for the year ended December 31, 2009, and have been applied in preparing these separate financial statements.

- Revised PAS 1, *Presentation of Financial Statements (2007)*, introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised PAS 23, *Borrowing Costs,* removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and provide more direction on the form of quantitative disclosures about fair value measurements and require information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

- *Improvements to Philippine Financial Reporting Standards 2008* - various standards (except as related to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations),* discuss 35 amendments and is divided into two parts: (a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and (b) Part II includes 11 terminology or editorial amendments that the International Accounting Standards Board expects to have either no or only minimal effects on accounting.

- *Improvements to PFRSs 2009* - Amendment to PAS 18, *Revenue, Determining whether an entity is acting as a principal or as an agent.* The appendix accompanying PAS 18 is amended to specify that an entity acts as a principal when it is exposed to the significant risks and rewards associated with the sale of goods or rendering of services. The amendments also include in the appendix to PAS 18 a number of indicators for consideration in assessing whether an entity is acting as a principal or as an agent. As this is an amendment to an appendix, there is no related effective date and therefore is applicable immediately.

The adoption of the above revised standards, amendments and improvements to standards did not have any material effect on the parent company's financial statements, except for the changes in the titles of the following separate financial statements components:

- Balance Sheet to Statement of Financial Position; and
- Statement of Income to Statement of Comprehensive Income

New, Amendments and Improvements to Standards and Interpretations Not Yet Adopted
The following are the new, amendments and improvements to standards and interpretations which are effective subsequent to 2009 that may be relevant to the Company.

<u>To be Adopted on January 1, 2010</u>

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items,* provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009.

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

- *Improvements to PFRSs 2009,* include 15 amendments to 12 standards. Some of the these amendments may have significant implications for current practice, in particular the amendments to PAS 17, *Leases,* may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time. The improvements are generally effective for annual periods beginning on or after January 1, 2010.

<u>To be Adopted on January 1, 2011</u>

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010.

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

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

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments*, is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013.

Under the prevailing circumstances, the adoption of the new or revised standards, amendments to standards and new interpretations in future periods is not expected to have any material effect on the separate financial statements. However, additional disclosures will be included when these are adopted in the future.

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

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

Financial Assets
The Parent Company's financial assets include cash, due from related parties - current and noncurrent portion and advances to subsidiaries.

Cash
Cash includes cash in banks.

Due from Related Parties - Current and Noncurrent Portion
Due from related parties represents advances made to The Wellex Group, Metro Alliance Holdings and Equities Corporation, Forum Holdings Corp. and others.

Advances to Subsidiaries
Advances to subsidiaries represent advances made to subsidiaries primarily to finance the construction and completion of certain hotel projects.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Impairment of Financial Assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

Financial Liabilities
The Parent Company's financial liabilities include trade and other payables, due to related parties, and loans payable. Financial liabilities are recognized when the parent company becomes a party to the contractual agreements of the instrument.

Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost, normally equal to its nominal amount when the impact of time value of money is insignificant.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

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

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

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

Property and Equipment

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

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

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

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

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

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

As of December 31, 2007, the fixed assets of the Parent Company costing P3.9 million have been fully depreciated. No additions were made during the years 2009 and 2008.

Borrowing Costs

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

Impairment of Nonfinancial Assets

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

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

An impairment loss is recognized for the excess of the carrying value of the asset or cash-generating unit's carrying amount over its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In assessing value in use, the following factors are considered: a) an estimate of the future cash flows the entity expects to derive from the asset; b) expectations about possible variations in the amount or timing of those future cash flows; c) the time value of money, represented by the current market risk-free rate of interest; d) the price for bearing the uncertainty inherent in the asset; and e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. Impairment loss is charged in profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. Reversals of impairment, if any, are recognized in profit or loss.

Income Taxes

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

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

Deferred 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, 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 or substantively enacted at the reporting date.

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

Provisions and Contingencies

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

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

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

Events After the Reporting Date

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

4. Accounting Estimates and Judgments

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

Determining Functional Currency

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

Estimating Allowance for Impairment Losses on Receivables and Due from Related Parties

The Parent Company maintains an allowance for impairment losses on receivables and due from related parties at a level considered adequate to provide for potential uncollectible accounts. The level of this allowance is evaluated by the Parent Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Parent Company's relationship with its debtors, their payment behavior and known market factors. The Parent Company reviews the age and status of receivable and due from related parties, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Parent Company made different judgment or utilized different estimates. Allowance for impairment losses on receivables and due from related parties as of December 31, 2009 and 2008 amounted to P77.1 million and P47.6 million, respectively (see Note 6).

Estimating Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that carrying amount of an asset may be impaired. If such indication exists, the Parent Company makes an estimate of the asset's recoverable amount. At the reporting date, the Parent Company assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. As of December 31, 2009 and 2008, there is no indication of impairment of the Parent Company's nonfinancial assets.

Recognition of Deferred Tax Asset
The Parent Company reviews the carrying amounts of deferred tax asset at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Parent Company will utilize all or part of the deferred tax assets. Deferred tax asset as of December 31, 2009 and 2008, amounted to nil and P2.0 million, respectively (see Note 9).

5. Investments in and Advances to Subsidiaries

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

	2009			2008		
	Acquisition Costs	**Advances to Subsidiaries**	**Total**	Acquisition Costs	Advances to Subsidiaries	Total
WCCCHI	**P13,800**	**P2,205,210**	**P2,219,010**	P13,800	P2,128,884	P2,142,684
DIHCI	**584,363**	**32,318**	**616,681**	584,363	35,904	620,267
APHC	**538,620**	-	**538,620**	538,620	-	538,620
GIRDI	**253,667**	-	**253,667**	253,667	-	253,667
MBI	**25**	**53,164**	**53,189**	25	46,111	46,136
WMCHI	**13,800**	**41,862**	**55,662**	13,800	-	13,800
WCitigym	**625**	**12,426**	**13,051**	625	12,280	12,905
WFC	**125**	**5,143**	**5,268**	125	4,956	5,081
WMC	**125**	**31,608**	**31,733**	125	29,683	29,808
	P1,405,150	**P2,381,731**	**P3,786,881**	P1,405,150	P2,257,818	P3,662,968

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

Acquisition of APHC Shares
On February 17, 2003, the Parent Company acquired 74,889,231 shares or 75% of the issued and outstanding capital stock of APHC effected through a cross-sale in the Philippine Stock Exchange.

In 2006, the Parent Company sold its investments in APHC totaling 51 million shares at varying selling prices through the PSE. Majority of the sale transactions were made with parties that were relatively owned and/or have related party relationship with TWGI, a stockholder of the parent company. Total proceeds from the sale 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 December 31, 2006 separate statements of comprehensive income.

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

Total proceeds from the sale 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 to related parties" account in the separate statements of financial position (see Note 6).

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

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

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

As of December 31, 2009, the Parent Company's equity interest in APHC remained at 69%.

Status of WPL and MBI

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

6. Related Party Transactions

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

	Relationship with the Parent Company	*Note*	**2009**	2008
TWGI	Stockholder	*6.a, 6.b*	**P150,000,000**	P1,195,104,286
Metro Alliance Holdings and Equities Corp. (MAHEC)	Stockholder	*6.a, 6.c*	**351,319,527**	337,816,084
Forum Holdings Corp. (FHC)	Stockholder	*6.a*	**25,877,246**	74,427,401
Others	Stockholder		**3,237,431**	3,187,480
			530,434,204	1,610,535,251
Less allowance for impairment losses			**17,482,601**	47,628,507
			P512,951,603	P1,562,906,744

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

	Relationship with the Parent Company	*Note*	**2009**	2008
TWGI	Stockholder	*6.a, 6.b*	**P887,633,832**	P -
Less allowance for impairment losses			**59,619,428**	-
			P828,014,404	P -

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

	2009	2008
Beginning balance	**P47,628,507**	P47,628,507
Impairment loss for the year	**17,252,607**	-
Reclassification to noncurrent portion	**(47,398,513)**	-
Ending balance	**P17,482,601**	P47,628,507

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

	2009	2008
Beginning balance	**P -**	P -
Impairment loss for the year	**12,220,915**	-
Reclassification from current portion	**47,398,513**	-
Ending balance	**P59,619,428**	P -

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

   In 2007, the Parent Company entered into revised agreements with TWGI, MAHEC and FHC whereby outstanding advances during the year are subjected to a revised interest of 7% per annum.

   In 2008, the said agreement was amended whereby outstanding advances during the year are subjected to the original interest rate of 4% per annum.

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

	TWGI	FHC
2010	P150,000,000	P25,877,246
2011	150,000,000	-
2012	150,000,000	-
2013	150,000,000	-
2014	150,000,000	-
2015	287,633,832	-
	P1,037,633,832	P25,877,246

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

Interest income on these advances amounted to P32.3 million, P37.1 million and P49.7 million in 2009, 2008 and 2007, respectively.

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

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

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

   The Parent Company also has outstanding receivables from FHC amounting P25.9 million and P74.4 million as of December 31, 2009 and 2008, respectively. In 2009, the Parent Company collected principal and interest amounting P49.5 million of its receivables from FHC.

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

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

	Relationship with the Parent Company	**2009**	2008
WMCHI	Subsidiary	**P -**	P309,246,772
APHC	Subsidiary	**465,654,300**	356,502,416
WPL	Subsidiary	**197,007,248**	197,250,770
GIRDI	Subsidiary	**145,230,787**	148,182,961
Others	Related parties	**3,183,788**	3,252,789
		P811,076,123	P1,014,435,708

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

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

7. Trade and Other Payables

This account is broken down as follows:

	Note	**2009**	2008
Accrued interest and penalties - SSS loan	*8*	**P447,596,468**	P387,003,145
Others		**5,831,122**	4,603,874
		P453,427,590	P391,607,019

8. Loans Payable

This account consists of liabilities to the following:

	2009	2008
PNB	**P -**	P739,600,000
COSCO	**826,487,513**	-
SSS	**375,000,000**	375,000,000
Current portion	**P1,201,487,513**	P1,114,600,000

COSCO Loan

The COSCO loan originally represents a US$30 million long-term debt from PNB availed by the Parent Company, together with WCCCHI and WMCHI (collectively known as the "Borrowers") on March 26, 1997, to partly finance the construction of the Cebu City Hotel Project.

Subsequently, the loan underwent several restructuring agreements which had the following results:

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

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

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

Assignment of PNB Loan to COSCO

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

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

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

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

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

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

a. Interest of P11,019,833 per month shall be paid by the Borrowers on or before the 19th of the month starting March 19, 2009.

b. The principal amounting to P826,487,513 shall be paid on or before February 18, 2010.

c. The Borrowers shall issue and deliver postdated checks in payment of (a) and (b). If any of the postdated checks is dishonored and/or the Borrowers fails to pay any interest or the principal when they fall due, the whole remaining balance plus the penalty of P239,505,819 shall immediately become due and demandable without need of any demand.

Upon full payment on or before the stipulated date by the Borrowers of the Settlement Amount and the interests thereon up to the date of payment, the Assignee shall cause: (a) the filing of a joint motion/manifestation with the Borrowers for the satisfaction of the Decision in Civil Case No. R-LLP-08-03632-CV (the "Judgment and the Settlement Agreement"); (b) the withdrawal or dismissal of the foreclosure proceedings; (c) confirm that it has no claims or receivable whatsoever against the Borrowers arising from the Loan Agreement dated 26 March 1997 and all restructuring agreements executed thereafter, the Settlement Agreement and the Decision; (d) execute a release of mortgage of the Mortgage Trust Indenture (MTI); (e) execute a document releasing the pledged shares as well as physically returning the certificates of stocks covering the said shares; and (f) the resignation of the three (3) Directors and Corporate Secretary nominated or appointed by the Assignee to the BOD of WMCHI and WCCCHI.

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

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

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

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

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

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

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

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

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

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

On February 11, 2010, the Parent Company paid the agreed amount of the partial payment amounting P400 million to COSCO.

SSS Loan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Starting 2006, the Parent Company is charging WCCCHI on the related interests and penalties on the contention that the latter benefited from the proceeds of the SSS loan. Penalties are inclusive of legal fees and other related expenses relative to the filing of the deficiency claim against the Parent Company by SSS. The proceeds of the loan were substantially used in the expansion and improvement of WCCCHI's operations.

Presently, the Parent Company and SSS are locked in negotiations for the restructuring of the loan. 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 P387 million (presented as part of "Trade and other payables" account) have been classified as current as of December 31, 2009 and 2008 separate statements of financial position, respectively.

9. Income Taxes

The components of the Parent Company's provision for income tax expense are as follows:

	2009	2008	2007
Current	**P3,843,177**	P742,143	P993,669
Deferred	**1,973,971**	(489,248)	(650,178)
Income tax expense	**P5,817,148**	P252,895	P343,491

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

	2009	2008	2007
Income before income tax	**(P41,497,142)**	P35,039,773	P31,622,124
Provision for (benefit from) income tax at 30% in 2009 and 35% in 2008 and 2007	**(P12,449,143)**	P12,263,920	P11,067,743
Tax effects of:			
Income not subject to income tax	**(61,526)**	(3,521,414)	-
Nondeductible expenses	**9,485,760**	2,046,206	4,819,861
Unrecognized deferred tax from impairment losses on receivables	**8,842,057**	-	-
NOLCO applied	**-**	(10,788,712)	(15,887,604)
MCIT expired	**-**	252,895	343,491
	P5,817,148	P252,895	P343,491

Deferred tax asset as of December 31, 2008 represents unused tax credits for payments of MCIT from December 31, 2006 to 2008, in compliance with existing tax regulations. As of December 31, 2008, the MCIT payments and the applicable years that these will be deductible from regular corporate income tax follows:

Period Paid	Amount	Valid Until
December 2008	P742,144	December 2011
December 2007	993,669	December 2010
December 2006	238,158	December 2009
	P1,973,971	

In 2009, all of the MCIT payments from previous years were deducted from regular income tax.

Deferred tax assets have not been recognized in respect of the allowance for impairment losses on receivables amounting to P77.1 million and P47.6 million in 2009 and 2008, respectively.

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

The Parent Company has NOLCO of P64.3 million which expired in December 31, 2008.

On May 24, 2005, Republic Act No. 9337 entitled “An Act Amending the National Internal Revenue Code, as Amended, with Salient Features” (Act), was passed into a law effective November 1, 2005. Among others, the Act includes the following significant revisions to the rules of taxation:

a. Change in the corporate income tax rates from 32% to 35% starting November 1, 2005 and 30% starting January 1, 2009 and onwards; and

b. Change in interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 42% starting November 1, 2005 and 33% starting January 1, 2009 and onwards.

On October 10, 2007, the BIR issued Revenue Regulations No. 12-2007, which amended the timing of the calculation and payment of MCIT from an annual basis to a quarterly basis, i.e. excess MCIT from a previous quarter during the current taxable year may be applied against subsequent quarterly or current annual income tax due, whether MCIT or RCIT. However, excess MCIT from the previous taxable year/s are not creditable against MCIT due for a subsequent quarter and are only creditable against quarterly and annual RCIT.

10. Lease Agreements with PAGCOR

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

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

PAGCOR also agreed to pay WCCCHI and WMCHI security deposit equivalent to the one year rental based on monthly rentals for 2004, which amount shall be maintained at all times. The security deposit amounted to P242.4 million and P243.2 million as of December 31, 2009 and 2008, respectively.

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

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

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

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

On September 15, 2008, APHC renewed the contract of lease with PAGCOR for two (2) years and six (6) months. Monthly rental rate is subject to 5% annual escalation starting on the second year of the renewal of the contract of lease and every year thereafter. Monthly rental shall be P2,378.03 per square meter of the main area and P1,132.40 per square meter of the expansion area, both covering a floor area totaling 9,234.37 square meters. PAGCOR shall also pay APHC an advance rental of six (6) months to be paid upon execution of the renewed contract of lease and shall be applied to the rentals due for the first six (6) months. Moreover, the security deposit placed by PAGCOR shall also be updated based on the monthly rental rate in the renewed contract of lease. The updating shall cover only the period of three (3) months for the Main area and six (6) months for the expansion and shall be paid upon the execution of the contract.

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

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

	2009	2008
Less than one year	**P513,930,114**	P488,718,194
Between one and five years	**913,044,093**	1,144,331,411
	P1,426,974,207	P1,633,049,605

11. Capital Stock

Details of capital stock at December 31, 2009, 2008 and 2007 follow:

	2009		2008		2007	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Authorized capital stock Common shares at P1 par value each	**5,000,000,000**	**P5,000,000,000**	5,000,000,000	P5,000,000,000	5,000,000,000	P5,000,000,000
Issued and outstanding Beginning of year	**2,498,991,753**	**P2,498,991,753**	2,498,991,753	P2,498,991,753	1,945,934,653	P1,945,934,653
Issuance of shares during the year	-	-	-	-	553,057,100	553,057,100
	2,498,991,753	**P2,498,991,753**	2,498,991,753	P2,498,991,753	2,498,991,753	P2,498,991,753

During 2007, the Parent Company entered into various share swap transactions wherein it issued 553 million of its primary shares at par value of P1 per share in exchange for 45.8 million APHC shares at varying market prices (see Note 5).

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

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

12. Financial Risk Management

The Parent Company's financial instruments comprise of cash, due from and to related parties, trade and other payables, and loans payable to COSCO and SSS. The main purpose of these financial instruments is to raise finances for the Parent Company's operations.

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

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Parent Company.

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 cash and due from related parties, the exposure of the Parent Company to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As of December 31, 2009 and 2008, the aging analyses of the Parent Company's financial assets are as follows (in thousands):

			Past due but not impaired					
December 31, 2009	**Total**	**Neither past due nor impaired**	**< 30 days**	**31-60 days**	**61-90 days**	**> 90 days**	**> 90 days**	**Impaired**
Due from related parties - current portion	P530,434	P175,136	P -	P -	P -	P -	P337,816	P17,482
Due from related parties - noncurrent portion	887,633	828,014	-	-		-	-	59,619
	P1,418,067	**P1,003,150**	**P -**	**P -**	**P -**	**P -**	**P337,816**	**P77,101**

			Past due but not impaired					
December 31, 2008	Total	Neither past due nor impaired	< 30 days	31-60 days	61-90 days	> 90 days	> 90 days	Impaired
Due from related parties	P1,610,535	P1,562,907	P -	P -	P -	P -	P -	P47,628
	P1,610,535	P1,562,907	P -	P -	P -	P -	P -	P47,628

Liquidity Risk

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

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

The Parent Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Parent Company's reputation.

The following table summarizes the maturity profile of the Parent Company's financial liabilities (in thousands) as of December 31, 2009 and 2008 based on contractual undiscounted payments:

	Total carrying value	**Contractual undiscounted payments**				
		Total	**On demand**	**Less than 1 year**	**1 to 5 years**	**> 5 years**
Trade and other payables	**P453,427**	**P453,427**	**P453,427**	**P -**	**P -**	**P -**
Loans payable	**1,201,487**	**1,201,487**	**375,000**	**826,487**	**-**	**-**
Due to related parties	**811,076**	**811,076**	**811,076**	**-**	**-**	**-**
	P2,465,990	**P2,465,990**	**P1,639,503**	**P826,487**	**P -**	**P -**

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	> 5 years
Trade and other payables	P391,607	P391,607	P391,607	P -	P -	P -
Loans payable	1,114,600	1,114,600	375,000	739,600	-	-
Due to related parties	1,014,436	1,014,436	1,014,436	-	-	-
	P2,520,643	P2,520,643	P1,781,043	P739,600	P -	P -

Fair Value of Financial Assets and Liabilities

The carrying amounts of the Parent Company's financial assets and liabilities are equal or approximate their fair values.

As of December 31, 2009 and 2008, the Company has no financial instruments carried at fair value.

Capital Management

The primary objective of the Parent Company's capital management is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital is defined as the invested money or invested purchasing power, the net assets or equity of the entity. The Parent Company's overall strategy remains unchanged for 2009, 2008 and 2007.

The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to its shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2009 and 2008.

The Parent Company is not subject to externally-imposed capital requirements.

13. Other Matters

BIR Assessment

On April 10, 2007, the Parent Company received a demand letter with notice of assessment from the Bureau of Internal Revenue (BIR) for deficiency taxes for the 2003 taxable year totaling P18.67 million, inclusive of related interest and penalties. On May 9, 2007, the Parent Company sent a letter to the BIR contesting the said assessment. Management and its legal counsel believe that the position of Parent Company is sustainable, and accordingly, believe that the Parent Company does not have a present obligation (legal or constructive) with respect to such assessment. On May 22, 2007, BIR answered in another letter that it maintains its position that the Parent Company has tax deficiencies. On October 10, 2007, the Parent Company again sent a letter to the BIR contesting the assessment. On February 13, 2009, the BIR sent a final demand letter requesting payment for the deficiency taxes. As of April 3, 2009, the said assessment is pending final resolution by the Parent Company and BIR.

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

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

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

Lease, Development, Operation and Management of Mimosa

On June 6, 2008, the Parent Company submitted a bid to Clark Development Corporation (CDC) for the lease, development, operation and management of the Mimosa Leisure Estate (the "Project"). On July 4, 2008, the CDC Board approved the award of the Project to the Parent Company. Pursuant to the bidding documents, the parties agreed to execute a Memorandum of Understanding preparatory to the Lease Agreement in order to ensure compliance by the Parent Company of its deliverables as provided in its bid. On October 20, 2008, CDC sent a letter to the Parent Company informing the latter that the CDC Board decided to cancel the bidding process and return the bid security, amounting to P54,377,778, due to a supervening event that materially affected the terms of the Project.

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

Branches · Subic · Cebu · Bacolod · Iloilo

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

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

REPORT OF INDEPENDENT AUDITORS

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Waterfront Philippines, Incorporated (the "Company") as of and for the year ended December 31, 2009, and have issued our report thereon dated April 12, 2010.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration, presented as an attachment to the audited financial statements of Waterfront Philippines, Incorporated, is the responsibility of the Company's management. This schedule is presented for purposes of complying with the Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008, *Guidelines on the Determination of Retained Earnings Available for Dividend Declaration,* and is not part of the basic separate financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the separate financial statements of the Company and, in our opinion, fairly state in all material respects, the financial statements data required to be set forth therein in relation to the basic financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2007
Issued July 10, 2007; Valid until July 9, 2010
PTR No. PTR No. 2092715MB
Issued January 7, 2010 at Makati City

April 12, 2010
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED

IPT BUILDING, PRE-DEPARTURE AREA
MACTAN CEBU INTERNATIONAL AIRPORT
LAPU-LAPU CITY, CEBU

SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2009

RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, BEGINNING OF YEAR	**(P492,679,839)**
Add net loss during the year closed to retained earnings	**(47,314,290)**
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END OF YEAR	**(P539,994,129)**

Figures are based on functional currency audited financial statements

KPMG

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

Branches · Subic · Cebu · Bacolod · Iloilo

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

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

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippines Standards on Auditing, the consolidated financial statements of Waterfront Philippines, Incorporated and Subsidiaries as of and for the year ended December 31, 2009 included in this Form 17-A and have issued our report thereon dated April 12, 2010.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

VIRGILIO L. MANGUILIMOTAN
Partner
CPA License No. 0035026
SEC Accreditation No. 0047-AR-2
Tax Identification No. 112-071-561
BIR Accreditation No. 08-001987-11-2007
Issued July 10, 2007; Valid until July 9, 2010
PTR No. 2092715MB
Issued January 7, 2010 at Makati City

April 12, 2010
Makati City, Metro Manila

WATERFRONT PHILIPPINES, INCORPORATED AND SUBSIDIARIES

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Supplementary Schedules
Required by the Securities and Exchange Commission
As of December 31, 2009 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)	P1,448,699,427	P17,857,168	P175,305,699	P -	P202,435,529	P1,088,815,367	P1,291,250,896
Metro Alliance Holdings and Equities Corp (stockholder and related party)	337,816,084	13,503,443	-	-	351,319,527	-	351,319,527
Forum Holdings Corp (stockholder and related party)	156,264,396	4,268,758	49,545,433	-	40,877,246	70,110,475	110,987,721
Polymax Worldwide (related party)				-	-	-	-
Pacific Wide (related party)					-	-	-

Refer also to Note 9 of the consolidated financial statements

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	P8,671,000	P -	P -	P -	P -	P -	P8,671,000	P -

Refer also to Note 9.c of the consolidated financial statements

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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

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1) The affiliates named shall be grouped as in Schedule C. The information called for shall be shown separately for each affiliate whose investment was shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase.

Schedule E. **Property, Plant and Equipment (1)**

Classification (2)	Beginning balance	Additions at cost (3)	Retirements / Disposals (4)	Other charges - additions (deductions) (5)	Ending balance
Land	P913,066,000	P -	P -	P12,958,000	P926,024,000
Land Improvements	21,691,596	-	-	(8,285,596)	13,406,000
Leasehold and leasehold improvements	39,524,527	13,522,647	-	-	53,047,174
Hotel buildings and improvements	6,123,789,124	8,453,858	(317,668)	2,607,125,199	8,739,050,513
Furniture, fixture and equipment	1,094,370,742	28,620,082	(1,469,250)	297,028,321	1,418,549,895
Operating equipment	232,930,105	1,214,855	(119,040)	-	234,025,920
Transportation equipment	26,177,936	-	-	1,258,441	27,436,377
Construction in-progress	2,781,636	-	(1,213,224)	-	1,568,412

Refer also to Note 11 of the consolidated financial statements

1) Briefly comment on any significant and unusual additions, abandonments, or retirements, or any significant and unusual changes in the general character and location, of principal plants and other important units which may have occurred during the period.

2) Show by major classifications, as indicated in Part IV-(b)(14). If property, plant and equipment abandoned is carried at other than a nominal amount, indicate, if practicable, the amount thereof and state the reasons for such treatment, insignificant or minor items may be shown under a miscellaneous caption.

3) For each change that represents anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

4) Explain, if practicable, changes stated at other than cost.

5) Clearly describe the nature of the changes and the other accounts affected.

Schedule E. Accumulated Depreciation

Description (1)	Beginning Balance	Additions charged to costs and expenses	Retirements/ Disposals	Other charges - Add (deduct) describe	Ending balances
Land	P -	P -	P -	P -	P -
Land Improvements	21,691,596	1,005,450	-	(21,691,596)	1,005,450
Leasehold and leasehold improvements	7,071,515	5,135,192	-	-	12,206,707
Hotel buildings and improvements	2,240,144,147	201,353,143	-	909,857,614	3,351,354,904
Furniture, fixture and equipment	737,067,837	106,319,400	(304,766)	131,919,834	975,002,305
Operating equipment	164,060,690	7,671,815	-	-	171,732,505
Transportation equipment	22,418,020	1,792,763	-	672,938	24,883,721

Refer also to Note 11 of the consolidated financial statements

1) If practicable, accumulated depreciation shall be shown to correspond with the classification of property set forth in the related schedule of property, plant and equipment, separating especially depreciation, depletion, amortization and provision for retirement.

Schedule G. Intangible Assets - Other Assets

Description (1)	Beginning balance	Additions at cost (2)	Deduction (3) Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
			Not applicable			

1) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications as indicated in Parts IV-(b)(16).

2) For each change representing anything other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

3) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Schedule H. **Long Term Debt**

Title of Issue and type of obligation(1)	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet (2)	Amount shown under caption "Long-Term Debt" in related balance sheet (3)
COSCO Prime Holdings, Inc.	P826,487,513	P826,487,513	P -
ICBC Loans Payable	396,741,090	396,741,090	-
SSS Loans Payable	375,000,000	375,000,000	-
PAGCOR Provident	20,007,553	20,007,553	-

Refer also to Note 15 of the consolidated financial statements

1) Include in this column each type of obligation authorized.

2) This column is to be totaled to correspond to the related balance sheet caption.

3) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

Schedule I. **Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)**

Name of affiliate (1)	Balance at beginning of period	Balance at end of period (2)
Philippine Estates Corp.	P1,734,887	P1,734,887
Wellex Industries Incorporated	1,349,442	1,349,442

Refer also to Note 9 of the consolidated financial statements

1) The affiliates named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.

2) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Schedule J. **Guarantees of Securities of Other Issuers (1)**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (2)	Amount owned by person for which statement is filed	Nature of guarantee (3)

Not applicable

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1) Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

2) There need be made only a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Schedule K. Capital Stock (1)

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common stock	5,000,000,000	2,498,991,753	-	-	40,363,630	2,458,628,123

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.