



<b>Miscellaneous</b>	
* Asterisks denote mandatory information	
Name of Announcer *	CITY DEVELOPMENTS LIMITED
Company Registration No.	196300316Z
Announcement submitted on behalf of	CITY DEVELOPMENTS LIMITED
Announcement is submitted with respect to *	CITY DEVELOPMENTS LIMITED
Announcement is submitted by *	Enid Ling Peek Fong
Designation *	Company Secretary
Date & Time of Broadcast	23-Feb-2007 12:31:14
Announcement No.	00017

**>> Announcement Details**  
 The details of the announcement start here ...

Announcement Title *	Announcement of Full Year 2006 Results of Subsidiary Company, Grand Plaza Hotel Corporation
Description	We attach herewith the results announcement for the year ended 31 December 2006 issued by Grand Plaza Hotel Corporation, for your information.
<b>Attachments:</b>	 GPHC_FY2006.pdf Total size = <b>2252K</b> (2048K size limit recommended) <b>Total attachment size has exceeded the recommended value</b>

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended 31 December 2006
2. SEC Identification Number 166878 3. BIR Tax Identification No. 000-460-602-000
4. Exact name of issuer as specified in its charter GRAND PLAZA HOTEL CORPORATION
5. City of Pasay, Philippines 6.  (SEC Use Only)  
Province, Country or other jurisdiction Industry Classification Code:  
of incorporation or organization
7. 10/F, The Heritage Hotel Manila, Roxas Blvd. Cor. EDSA Ext., Pasay City 1300  
Address of principal office Postal Code
8. Tel No. (632) 854-8838 ; Fax No. (632) 854-8825  
Issuer's telephone number, including area code
- 9.....  
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Stock</b>	<b>87,318,270</b> (Inclusive of 13,942,063 treasury shares)

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

Yes [ x ] No [ ]

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

Stock Exchange : Philippine Stock Exchange  
Securities : Common Shares

12. Check whether the issuer:

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

Yes  No

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

Yes  No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

The share price of the Company on 22 January 2007 is PhP18.75 and the total voting stock held by non-affiliates of the Company is 9,851,414. Therefore, the aggregate market value of the voting stock held by non-affiliates of the Company is PhP184,714,012.

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes  No

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

- (a) Any annual report to security holders;
- (b) Any proxy or information statement filed pursuant to SRC Rule 20 and 7.1(b);
- (c) Any prospectus filed pursuant to SRC Rule 8.1-1.

## PART I – BUSINESS & GENERAL INFORMATION

### ITEM 1. BUSINESS

#### General

The Company was registered with the Securities and Exchange Commission on 9 August 1989 primarily to own, lease or manage one or more hotels, inns or resorts, all adjuncts and accessories thereto and all other tourist oriented business as may be necessary in connection therewith.

The Company owns The Heritage Hotel Manila, a deluxe class hotel which offers 467 rooms and deluxe facilities such as restaurants, ballrooms, and a casino.

The hotel opened on 2 August 1994 and the Company has continued to own and operate the hotel since then.

For the fiscal year ending on 31 December 2006, the Company reported a net profit after tax of about PhP157.6 million as against PhP147.1 million in 2005 and PhP109.2 million in 2004.

There is no bankruptcy, receivership or similar proceedings involving the Company. There are no material reclassifications, mergers, and consolidation involving the Company, nor purchases or sales of a significant amount of assets not in the ordinary course of business of the Company.

The Company's main source of income is revenue from the hotel operations. The market for the hotel services varied. The bulk of the room guests are corporate clients from various countries. The majority of the room guests are Americans, Japanese, Koreans and guests from Southeast Asian nations, while food and beverage guests are mainly Filipinos.

#### Competitive Position

The main competitors of the Heritage Hotel are Manila Diamond Hotel, Century Park Hotel, Westin Philippine Plaza Hotel and Hyatt Regency Hotel.

Based on information made available to us, the competitive position of these hotels is shown below:

NAME	OCCUPANCY %	AVERAGE ROOM RATE PESO	ROOM YIELD REVPAR
Heritage Hotel	70.56%	PhP2,852	PhP2,012
Diamond Hotel	75.86%	PhP3,253	PhP2,468
Century Park	74.20%	PhP2,321	PhP1,722
Hyatt Regency	61.87%	PhP2,942	PhP1,820
Westin Hotel	62.80%	PhP2,787	PhP1,750

Among its competitors, The Heritage Hotel ranks third in terms of occupancy, third in terms of average room rate and second in terms of RevPar.

### **Raw Materials and Services**

The hotel purchases its raw material for food and beverage (“F&B”) from both local and foreign suppliers. The top 3 suppliers are F. Del Rosario Pork Store, MY General Merchandise and PTC Commercial Corp.

### **Dependence on Single Customer**

The Company’s main source of income is revenue from the operations of the Heritage Hotel. The operations of the hotel are not dependent on a single or a few customers.

### **Related Party Transactions**

The Company in the normal course of business has entered into transactions with its related parties, principally consisting of cash advances. These advances are shown as “Due to related company”, “Due to immediate holding company”, and “Due to intermediate holding company” in the balance sheets.

The Company also leases its hotel site and a fully-furnished townhouse unit from a related company. The lease contract on the hotel site requires the Company to deposit PhP78 million to answer for any and all unpaid obligations that the Company may have under said contract.

The Company has entered into a Management Contract with CDL Hotels (Phils.) Corporation for the latter to act as the hotel’s administrator. Under the terms of the agreement, the Company is required to pay monthly basic management and incentive fees based on a certain percentage of revenue and gross operating profit.

### **Patents, Trademarks, Etc.**

The Company registered the tradename “The Heritage Hotel Manila” with the Intellectual Property Office on 12 July 2000 under registration number 41995105127. Under current laws, the registration is valid for a term of 20 years, or up to 12 July 2020. The registration is renewable for another 10 years.

The Company does not hold any other patent, trademark, copyright, license, franchise, concession or royalty agreement.

### **Government Approval and Regulation**

The hotel applies for Department of Tourism (“DOT”) accreditation annually. The accreditation is based on a certain standard set by the DOT for deluxe class hotels. The DOT inspects the hotel to determine whether the hotel meets the criteria of the DOT. The DOT accredited the hotel and the Company for the year 2006.

The Company is not aware of any new government regulation that may have a material impact on the operations of the Company during the fiscal year covered by this report.

### **Development Activities**

The Company did not undertake any development activities during the last three fiscal years.

### **Number of Employees**

The hotel employed a total of 529 employees during the year 2006. Out of the 529 employees, 344 are regular employees and 185 are casual employees.

The number by type of employee is as follows:

	REGULAR	CASUAL	TOTAL
Hotel Operating Staff (All operating dept)	249	136	385
Management/Admin/Security (A&G Dept)	44	42	86
Sales & Marketing	19	0	19
Repairs & Maintenance	32	7	39
Total	344	185	529

Barring any unforeseen circumstance, for the year 2007, the Company will maintain more or less the same number of employees as in year 2006.

There are no existing collective bargaining agreements between the Company and its employees.

## **ITEM 2. PROPERTIES**

The Company leases its hotel site and a fully furnished townhouse unit from Harbour Land Corporation, a related company. The hotel site is located at the corner of Roxas Blvd. and EDSA Extension, Pasay City. The townhouse is located at Unit 506, Roxas Seafront Garden Homes, Roxas Blvd. Corner Ortigas Street, Pasay City.

The lease for the hotel site is for a period of 25 years renewable for another 25 years. The lease commenced on 1 January 1990.

The lease for the townhouse is renewable every two years.

The annual rental expenses for the hotel site and the townhouse are PhP10.6 million and PhP0.12 million respectively.

The Company has no intention of acquiring additional property within the next 12 months.

### **ITEM 3. LEGAL PROCEEDINGS**

There are no material legal proceedings to which the Company or any of its subsidiaries or affiliates is a party or of which any of its property is the subject.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the security holders during the fourth quarter of the fiscal year covered by this report.

In the 15 May 2006 annual stockholders meeting, the following were elected as directors of the Company:

Wong Hong Ren;  
Eddie C.T. Lau;  
Bryan Cockrell;  
Eddie Yeo Ban Heng;  
Mia Gentugaya (independent director); and  
Angelito Imperio  
Michele Dee Santos

Please refer to the discussion in item 9 of this report.



## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common shares of the Company are listed on the Philippine Stock Exchange.

The following are the high and low share prices of the Company for the year 2006 and 2005:

Amount in Peso:

	HIGH	LOW	HIGH	LOW
	Year 2006	Year 2006	Year 2005	Year 2005
First Quarter	26.00	26.00	No movement	No movement
Second Quarter	No movement	No movement	No movement	No movement
Third Quarter	No movement	No movement	No movement	No movement
Fourth Quarter	34.00	18.75	33.00	25.00

The last recorded trade of the shares of the Company during the fiscal year covered by this report occurred on 29 December 2006. The share price was PhP18.75.

#### Holders of Securities

The Company has only one class of shares, i.e., common shares. The total outstanding common shares as of 31 December 2006 is 87,318,270 inclusive of 13,942,063 treasury shares.

As of 31 December 2006, the number of shareholders of the Company is 508.

The list of the top 20 shareholders is as follows:

	NAME OF SHAREHOLDER	NO. OF SHARES	% OF SHAREHOLDING (INCLUSIVE OF TREASURY SHARES)
01	The Philippine Fund Ltd.	39,244,343	44.95%
02	Zatrio Pte Ltd	24,280,450	27.81%
03	Grand Plaza Hotel Corp- Treasury Stocks	13,942,063	15.97%
04	PCD Nominee Filipino	9,267,339	10.61%
05	Alexander Sy Wong	47,256	0.05%
06	Yam Kit Seng	7,000	<0.01%
07	Phoon Lin Mui	7,000	<0.01%
08	Yam Kum Cheong	7,000	<0.01%
09	Yam Poh Choo	7,000	<0.01%

10	Lucas M. Nunag	4,800	<0.01%
11	Natividad Kwan	4,320	<0.01%
12	Le Ying Tan-Lao	3,610	<0.01%
13	Yam Kit Sung	2,999	<0.01%
14	Peter Kan	2,650	<0.01%
15	Romeo L. Salonga	2,400	<0.01%
16	Christopher Lim	2,332	<0.01%
17	Norberto R. Ong	2,000	<0.01%
18	Robert Uy	2,000	<0.01%
19	Estrella M. Dela Cruz	1,900	<0.01%
20	James Jao & / Or Henry Jao	1,687	<0.01%
	Total	86,840,149	99.45%

### **Dividends**

The Board of Directors, in its meeting held on 23 October 2006 approved the declaration of cash dividend in the total amount of PhP51,363,345 to be distributed among its shareholders as of record date 8 November 2006, pro-rata to their respective shareholdings and paid not later than 1 December 2006. The cash dividend declared is PhP0.7 per share.

The Board of Directors, in its meeting held on 25 November 2005 approved the declaration of cash dividends in the total amount of PhP22,887,003 to be distributed among its stockholders of record as 9 December 2005, pro-rata to their respective shareholdings and paid not later than 23 December 2005. The cash dividend declared is PhP0.3 per share.

### **Recent Sales of Unregistered Securities**

The Company does not have any unregistered securities.

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(A) Full Fiscal Year

### **Top 5 Key Performance Indicators of the Company for the last 3 years:**

	2006	2005	2004
Current ratio	1.52	1.67	1.63
Net book value per share (include treasury shares)	PhP12.58	PhP13.03	PhP12.88
Earnings per share	PhP2.15	PhP1.92	PhP1.39
Profit before tax margin ratio	34.91%	33.25%	26.52%
EBITDA	PhP241.9 million	PhP235.4 million	PhP195.5 million

Current ratio is derived by dividing the current assets with the current liabilities. This indicator measures the liquidity of the Company in the short-term. The current ratio has dropped during the year of review mainly due to lower cash balance which is a result of the payment for share buyback and cash dividend during the year.

Net book value per share is derived by dividing the net stockholders' equity by the total number of shares issued. This measures the value of the Company on a per share basis. The net book value per share decreased for the period of review due to lower asset value.

Earning per share is derived by dividing the net profit after tax by the total shares outstanding. This indicator measures the earning of the Company on a per share basis. The earnings per share improved in year 2006 due to higher profitability.

Profit before tax margin ratio is computed by dividing the profit before tax against the total revenue. This ratio measures whether the Company is able to contain its expenses in relation to the revenue. The Company has shown improvement in this indicator. It jumped from 33.25% in year 2005 to 34.91% in year 2006 mainly as a result of higher revenue.

EBITDA represents earnings before income tax, interest, depreciation and amortization. This indicator is in effect a measure of the cash flow of the Company. The Company improves its EBITDA by 2 % due to higher revenue and less expenses.

## **Results of Operations:**

Revenue and Net Income After Tax (“NIAT”) of the Company during the last 3 years are as follows:

YEAR	REVENUE - PHP	NIAT – PHP
2006	670,787,953	157,594,904
2005	650,797,809	147,169,147
2004	579,579,123	109,209,843

### **2006 Results of Operations**

The year 2006 again proved to be strong for the hotel industry in Metro Manila. The Company reported an increase of PhP20 million in revenue or 3% of the prior year. In terms of profitability, it is about PhP10 million higher than the previous year.

The improvement in business is due to a more stable political climate in the Philippines and the booming world economy.

#### Revenue:

Rooms division revenue improved by PhP17 million or 5% over the prior year. Although room occupancy has decreased by 3.5% compared to year 2005, the increase in Average Room Rate (ARR) by PhP272 more than offset the drop in room occupancy. For the year 2006, the hotel focus on improving its ARR and shift its market segment to higher yield corporate business and hence the improvement in ARR.

Food & beverage (“F&B”) division also showed improvement in their performance by PhP6 million or 2.7% compared to the previous year. The increase in F&B revenue is mainly due to higher average check of PhP355 for the year 2006 (2005: PhP328). But the increase in average check is offset by the drop in covers by 34,381 or 6% over the same period of the prior year. The following F&B outlets surpassed the revenue of last year namely, banquet, casino, lobby lounge and mini-bar. With the opening of the new SM Mall of Asia which is located within 5 minutes drive from the hotel, its Riviera café is affected by the competition. Located in the new Mall are at least 500 different restaurants catering to various markets.

Other operated departments consisting of business center, laundry and telephone departments registered a slight decrease in revenue. The drop is mainly due to lower telephone department revenue as more guests are using their mobile phone instead of hotel phone but this is partially offset by the higher internet charges.

“Others Income” - The bulk of this comes from rental income from PAGCOR and the lease to a restaurant operator.

#### Cost of Sales:

Food and beverage cost of sales increase by PhP1.3 million or 2% as against last year. The increase in food and beverage cost of sales is consistent with the increase in food and beverage revenue by 2.7% as compared with the previous year.

#### Gross Profit:

Gross profit is derived after deducting cost of sales from revenue. There is an improvement in gross profit by 3.2% as compared with year 2005. This is due to higher revenue contribution.

#### Selling and Operating Expenses:

The detailed breakdown of this line item can be found in Note 18 of the Financial Statements. The bulk of this expense relates to payroll and related costs and also property operation, maintenance, energy and conservation (POMECE) expenses, guest supplies and laundry costs. Payroll cost has increased mainly in the housekeeping department as a result of the increase in minimum wage during the year. POMECE showed a decrease compared to year 2005 due to an accounting adjustment at year end for over accruals of energy cost amounting to about PhP5 million.

#### Administrative and General Expenses:

The detailed breakdown of this line item can be found in Note 19 of the Financial Statements. The bulk of this expense relates to payroll and related costs for overhead/supporting departments such as Engineering, Sales and Marketing, Human and Resources and Administrative and General. Total payroll and related expenses has increased to PhP55 million (2005 : PhP48 million). Payroll cost has increased mainly due to salary adjustment during the year. The other major expense for this line item is management and incentive fees. This relates to the fees paid to the operator of the Hotel. The fee has increased to PhP31.8 million (2005 : PhP30.8 million) as a result of the increase in revenue and gross operating profits (GOP). Management and incentive fees are based on a percentage of gross revenue and GOP respectively. Credit card commission has also increased by PhP0.6 million as a result of higher revenue and credit card transactions.

#### Non-operating income/(expenses):

The Company registered a net other income of PhP19 million (2005 : PhP8.2 million). The reason for the improvement is due to a foreign exchange gain of PhP1.2 million while the previous year was a loss of PhP6 million.. Interest income has also increased substantially during the year of review.

#### Net Income before tax:

This is the income before tax but after deduction of all expenses. There is an improvement of PhP18 million in year 2006 as compared to last year. The favorable variance is due to higher revenue and improved management of expenses.

#### Provision for income tax:

Total provision for income tax for year 2005 is PhP76.6 million (2005 : PhP69.2 million). This increase in provision is consistent with the improvement in total revenue. Moreover, with effective from 1 November 2005, the Internal Revenue increased the corporate income tax rate from 32% to 35%.

Net Income:

As a result of the significant improvement in revenue and effective cost control, the profit after tax of the Company showed an increase of PhP10.4 million.

### **2005 Results of Operations**

Year 2005 showed significant improvement in both revenue and NIAT. The Philippines economy has improved in year 2005 compared with 2004. Tourist arrival to the Philippines has also registered improvement over the past years. Department of Tourism focus on the South Korean, Japanese and Chinese markets help to bring in more tourist to the country. All these positive factors contribute to the significant jump in revenue and NIAT.

Revenue:

Rooms division revenue increased by PhP48.7 million or 18% over the previous year. This improvement is due to higher occupancy and Average Room Rate (ARR). Occupancy for year 2005 is 74.10% (year 2004: 71.82%) while ARR improved from PhP2,241 to PhP2,580. Consequently, RevPar increased by PhP302 as against the prior year.

During the year 2005, Philippines hosted the South East Asia (SEA) Games in December which help to bring in more tourist to Metro Manila. In addition, the World Pyrotechnic Olympic competition was also held in December and the Hotel was the official hotel for this event. All these factors with the overall improvement in the world economy help to improve the hotel business.

Food & beverage ("F&B") division also showed significant improvement in their performance. F&B revenue increased from PhP204 million in year 2004 to PhP218 million in the current year or 6.8% increase. This is achieved through higher food covers of 564,187 (2004: 544,559), higher average food check of PhP328.94 (2004: PhP321.84). Among all the F&B outlets, casino and Riviera restaurant showed the best improvement in results. The Hotel has introduced a new buffet line in the casino at the beginning of the year which help to increase the daily covers.

Other operated departments consisting of business center, laundry and telephone departments registered a slight decrease in revenue. The drop is mainly due to lower telephone department revenue as more guests are using their mobile phone instead of hotel phone.

"Others Income" - The bulk of this comes from rental income from PAGCOR and the lease to a restaurant operator. The improvement is consistent with the increase in rental rate.

Cost of Sales:

Food and beverage cost of sales increase by PhP1.7 million or 2.9% as against last year. The increase in food and beverage cost of sales is consistent with the increase in food and beverage revenue by 6% as compared with the previous year.

#### Gross Profit:

Gross profit is derived after deducting cost of sales from revenue. There is an improvement in gross profit by PhP69.9 million or 11% as compared with year 2004. This is due to higher revenue contribution.

#### Selling and Operating Expenses:

The detailed breakdown of this line item can be found in Note 16 of the Financial Statements. The bulk of this expense relates to payroll and related costs and also property operation, maintenance, energy and conservation (POMEC) expenses.

Energy cost has increased significantly this year due to higher electricity, fuel and diesel costs.

However, total "Selling and Operating Expenses" as a percentage of total revenue has decreased from 33% in year 2004 to 31% in year 2005.

#### Administrative and General Expenses:

The detailed breakdown of this line item can be found in Note 17 of the Financial Statements.

The bulk of this expense relates to payroll and related costs for overhead/supporting departments such as Engineering, Sales and Marketing, Human and Resources and Administrative and General. Total payroll and related expenses has decreased to PhP48.2 million (2004 : PhP51 million). The other major expense for this line item is management and incentive fees. This relates to the fees paid to the operator of the Hotel. The fee has increased to PhP30.8 million (2004 : PhP24.5 million) as a result of the increase in revenue and gross operating profits (GOP). Management and incentive fees are based on a percentage of gross revenue and GOP respectively.

#### Non-operating income/(expenses):

The Company registered a net other income of PhP8.2 million (2004 : (PhP2.1 million)). The reason for the improvement is due to lower foreign exchange loss for this year vis-à-vis the prior year. Moreover, the Company has also a share in the profit of an associated company for this year instead of a loss in the prior year.

#### Net Income before tax:

This is the income before tax but after deduction of all expenses. There is an improvement of PhP63 million in year 2005 as compared to last year. The favorable variance is due to higher revenue and improved management of expenses.

#### Provision for income tax:

Total provision for income tax for year 2005 is PhP69.2 million (2004 : PhP44.5 million). This increase in provision is consistent with the 12% improvement in total revenue. Moreover, with effective from 1 November 2005, the Internal Revenue increased the corporate income tax rate from 32% to 35%.

#### Net Income:

As a result of the significant improvement in revenue and effective cost control, the profit after tax of the Company showed an increase of PhP37.9 million.

## **2004 Results of Operations**

Year 2004 showed a significant improvement in terms of revenue and NIAT. During the year 2004, there were no major world events such as Severe Acute Respiratory Diseases (SARs) that affected the world tourism business. The Philippines had a peaceful Presidential election in May 2004 and thereafter, business confidence returned to the country. Compared to last year, more travelers visited the Philippines and the country hosted more business conferences.

### Revenue:

Revenue increased by PhP92 million or 19% as compared to last year. The improvement is shown in all segments of the business. Room revenue increased by PhP52 million as compared to last year. The better result for Room segment is due to higher occupancy of 71% in year 2004 as against 53% for year 2003. Food & Beverage revenue increased by PhP33 million due to higher covers and average check. Other operated departments consisting of business center, laundry and telephone departments also shown an improvement in revenue of PhP1.2 million or 12%. This is due to the higher room occupancy and improved business environment, which contribute to higher revenue for this segment. The bulk of this comes from rental income from PAGCOR and the lease to a restaurant operator. The improvement is consistent with the increase in rental rate.

### Cost of Sales:

Food and beverage cost of sales increase by PhP11 million or 23% as against last year. The increase in food and beverage cost of sales is consistent with the increase in food and beverage revenue by 19% as compared with the previous year.

### Gross Profit:

Gross profit is derived after deducting cost of sales from revenue. There is an improvement in gross profit by PhP81 million or 18% as compared with year 2003. This is due to higher revenue contribution.

### Operating Expenses:

The detailed breakdown of this line item can be found in Note 16 of the Financial Statements. Although revenue has increased by PhP92 million as compared to the previous year, operating expenses only rose by PhP19 million. The bulk of the increase in this expense is due to higher property, operation, maintenance, energy and conservation costs. Basically, energy cost has gone up significantly for year 2004 as against 2003.

### Non-operating income/(expenses):

For year 2004, the Company registered a net loss of PhP2.1 million as compared to a gain of PhP17 million in the previous year. The main reason is because of a realized foreign exchange loss of PhP18.2 million which arises from the settlement of a foreign currency denominated liability during the year.

### Net Income before tax:

This is the income before tax but after deduction of all expenses. There is an improvement of PhP43 million in year 2004 as compared to last year. The favorable variance is due to higher revenue and better cost control.



Provision for income tax:

There is an increase of PhP14 million in this account. The increase is consistent with the higher profit before tax.

Profit after tax:

As a result of the significant improvement in revenue and effective cost control, the profit after tax of the Company showed an increase of PhP29 million.

### **Financial Conditions:**

The total assets and liabilities of the Company for the last 3 years are as follows:

YEAR	ASSETS - PHP	LIABILITIES – PHP
2006	1,440,846,714	342,619,504
2005	1,475,568,678	337,882,935
2004	1,443,029,234	318,212,585

### **2006 Financial Conditions**

Total assets for the year 2006 decreased by PhP34.7 million as compared to the previous year. The main reason for this drop is due to lesser cash and bank balance by PhP58 million relative to prior year.

Assets:

- Cash and cash equivalents: There is a significant drop in cash balance over the same period of last year as a result of higher payout to shareholders for the share buyback and dividends during the year. Dividends increased by PhP29 million as compared to the previous year. In addition, during the year, the hotel also embarked on its room renovation program and the funds used in this exercise is generated internally.
- Accounts receivables: This balance increased by PhP14 million or 6% over the same period of last year. This is due to higher revenue vis-à-vis year 2005.
- Due from related parties: This balance represents the significant transaction the Company has with its related parties. There is a significant drop by PhP13 million compared to year 2005 as the related parties have settled their obligation with the Company. The 2 major parties are Rogo Realty Corporation and CDL Hotels (Phils.) Corp.

- Prepayments and other current assets: This balance increase mainly due to higher prepayments. This is mainly due to advance payment of insurance until May 2007 while in prior year, there is no such advance payment.
- Property and equipment: Fixed assets of the Company increased by PhP8 million. As the Company has started renovation of its 448 guestrooms in the last quarter of year 2006, it recognize a portion of the renovation cost to construction-in-progress of PhP27 million. However, this is offset by the depreciation charges for the year of PhP25 million.

#### Liabilities:

Total liabilities increased by about PhP4 million as compared to year 2005. The increment is due to higher accounts payable and accrued expenses, refundable deposits and reserves.

- Accounts payable and accrued expenses: This balance increased by PhP6 million or 7% relative to year 2005. The main reason for this increment is noted in accrued liabilities which increased by PhP6 million is due to increase in employee benefits and vacation leave accruals.
- Due to related parties: The Company has a management contract with CDL Hotels (Phils) Corp under which the latter provides management, technical and administrative services to the Company in return for a yearly management and incentive fees equivalent to a certain percentage of gross revenue and of gross operating profit, respectively. There is a decrease of PhP6.6 million compared to the same period last year in balance due to CDL Hotels (Phils) Corp as the Company has paid the management and incentive fees for the year.
- Refundable deposits: This pertains to deposits given by tenants as security deposits and deposits given by guests who want to hold functions in the hotel. The increase in this balance is consistent with the higher revenue.
- Other current liabilities: The bulk of this balance is for output tax payable. There is an increase of P10 million which is consistent with the increase in total revenue of the hotel.
- Reserves: Reserves pertain to a portion of the service charge set up by the Company to offset the cost of replacing certain operating equipment of the hotel such as lost, broken or damaged chinaware, glassware and flatware. The increase is consistent with the higher revenue during the year.

### **2005 Financial Conditions**

Total assets for the year 2006 increased by about PhP32.5 million as compared to the prior year. The main reason is due to higher cash balance, accounts receivables and advances to related parties.

#### Assets:

- Cash and cash equivalents: Cash balance increased significantly during the year as there was a significant turn around in the business and revenue increased by 12%. Cash generated from operating activities for year under review is PhP208.6 million (2004 : PhP176.3 million) or 18% increment.
- Accounts receivables: The increment is about 9% over the previous year. This is due to improvement in rooms and food and beverage (F&B) business by 13% vis-à-vis year 2004.
- Advances to related parties: There is an increase of PhP6.3 million as compared to last year. This is due to an advance to a related company, CDL Hotels (Phils) Corp. of PhP7.4 million which has not been repaid as at year end.
- Deferred Income Tax Assets: This item comprised of deferred tax for provision for retirement, deferred rental income and provision for bad debts. As compared against the previous year, there is an increase of 24%. The increment is due to higher provision for retirement.
- Property and equipment: There is a drop of PhP10.2 million in this balance as compared to last year. The decrease is due to depreciation charges for the year and offset by the addition of fixed assets amounting to PhP16.6 million.

#### Liabilities:

Total liabilities increased by about PhP19 million as compared to year 2004. The increment is due to higher income tax payable, other liabilities and reserves.

- Accounts payable and accrued expenses: There is a drop of PhP5.7 million as compared to year 2004. The main reason for this is the decrease in accrued expenses by PhP5 million. During the year 2005, the Company reversed some of the over-accrual such as bonus and insurance and this resulted in the drop in balance.
- Due to related parties: There is an increase of PhP3.3 million because the Company has not paid its related company, the management and incentive due of PhP9.6 million.
- Income tax payable: There is a significant increment in this balance from PhP14.5 million to PhP27.9 million. The reason is a combination of higher profit and also an increase in corporate income tax rate to 35% from 32% during the year.
- Refundable deposits: This balance includes security deposits from tenants and also deposits from guests who want to hold a banquet function in the hotel. There is a decrease of PhP3 million in deposit from guests who want to hold banquet in the hotel for this year. This decrease is due to clearing up of some expired deposits.
- Other liabilities: The bulk of this balance is VAT payable. This balance increase by about PhP9 million from the previous year.

- Reserves: Reserves pertain to a portion of the service charge set up by the Company to offset the cost of replacing certain operating equipment of the hotel such as lost, broken or damaged chinaware, glassware and flatware. The increase is consistent with the increase in hotel revenue.

### **2004 Financial Conditions**

Total assets for the year 2004 increased by about PhP69 million as compared to last year. The main reason is due to the increase in cash balance by about PhP117 million and increase in Deposit on Lease Contract by PhP20 million. However, the increase was offset by the decrease in Investment in Stock of Associated Company and other advances by PhP62 million.

#### Assets:

- Cash and cash equivalents: Cash balance increased significantly during the year as there was no share buyback exercise conducted during the year and there was also no major capital expenditure.
- Receivables – trade: This balance increased by about 6.8% as compared to last year. The main reason for the increase is due to the improvement in business from Rooms and Food and Beverage.
- Interest: Interest receivable increased by PhP0.875 million or 9% as compared to last year. This balance arises from interest receivables from financial institutions for fixed deposits. The increase is due to higher fixed deposit balance placed with financial institutions.
- Advances to officers and employees: This account represents amount advanced to employees or officers of the Company. The balance is zero as at 31 December 2004 as compared to last year of PhP527,936. This is due to the fact that all advances to this group have been liquidated as at end of the year.
- Advances to suppliers and contractors: The significant increase in this account is due to the fact that as at 31 December 2004, the Company has made an advance to a contractor for the installation of carpet for certain areas in the hotel. As at end of the year, the contractor has not completed the installation of the carpet and the amount is outstanding.
- Advances to related company: This balance showed a zero amount as at end of year 2004 as compared to PhP2.258 million in the previous year. The reason for the variance is due to settlement by the related company for the outstanding amount.
- Advances to immediate holding company: The balance increased by 100% to PhP 210,157 as the Company made an advance for an outstanding invoice for the immediate holding company. This balance was settled by the first quarter of year 2005.
- Other Receivables: This balance decreased by PhP1.635 million or 27% as against last year. This account basically consists of receivables due from tenants. The balance was high for

years 2003 as some of the tenants have not paid their receivables at year-end. For year ended 2004, the tenants have settled their obligations.

- Inventories: Inventories increased by PhP2.782 million or 33.5% as compared to last year. The main rationale for the increase is due to higher revenue for this year. With an improved business environment, the Hotel has to increase its stock so as to avoid loss of business due to lack of stock. The increase is consistent with the improved in total revenue.
- Deferred tax assets: The detailed breakdown of this balance can be found in Note 5 of the Financial Statements. Basically, the increased is due to higher provision for retirement and deferred rental.
- Prepayment: This balance is mainly for expenses such as insurance paid in advance by the Company and amortized throughout the year. This year the balance increased by about PhP660,510 mainly due to higher insurance premium.
- Other Current Assets: The detailed breakdown of this balance can be found in Note 6 of the Financial Statements. The reason for the increase is due to higher input tax, which corresponds to higher purchases for the year.
- Investment in Stock of Associated Company and other Advances: The detailed of this balance can be found in Note 7 of the Financial Statements. The significant decrease in this balance by PhP62 million is mainly due to repayment of the outstanding advances by the associated company. The Company agreed to convert PhP20 million of the outstanding advances as additional deposit for lease contract and PhP10,678,565 as advance rental to be applied after 5 years. The remaining balance of the advances were offset against amount owing by the Company to the associated company.
- Deposit on Lease Contract: The increase of PhP20 million is due to the conversion of outstanding advances to deposit as discussed above.
- Other assets: The detailed of this balance can be found in Note 10 of the Financial Statements. The reason for the significant variance is due to the recognition of advance rental paid to the associated company to be applied in 5 years time.

#### Liabilities:

Total liabilities decreased by about PhP24 million as compared to year 2003. The drop is due to settlement of inter-company balances and decrease in accrued expenses.

- Accounts payable and accrued expenses: The detailed breakdown of this account can be found in Note 11 of the Financial Statements. As compared to last year, there is a decrease of PhP4.7 million or 5.3%. The variance is mainly due to an increase in Accounts Payable (trade) which is a result of higher purchases for the year due to improved in business. The increase in Accounts Payable (trade) is offset by a drop in Accrued Expenses (real property tax) by PhP17.5 million. The details of this decrease in accrual for real property tax can be found in Note 22 of the Financial Statements.

- Due to immediate holding company: There is a decrease of PhP10.3 million as compared to last year. The reason is because the Company has paid the immediate company for the outstanding liability during the year.
- Due to related companies (net): There is an increase of PhP6.29 million as compared to the previous year. The main reason for this variance is due to the fact that the Company has not settled its obligation with the related companies during year 2004.
- Income tax payable: This balance increased by PhP6.8 million or 88% as compared with the previous year. The main justification for the significant jump is the higher profit before tax which increased by PhP43 million as compared to year 2003. As such, income tax payable also increased.
- Rental payable: This represents outstanding rent payable to an associated company for the lease of the hotel site and a townhouse. There is a significant drop of PhP38.4 million compared to last year as the rental was settled with the associated company during the year.
- Other liabilities: There is an increase of PhP14 million or 9% as compared with the same period last year. The bulk of the variance is due to increase in VAT payable to BIR which is consistent with the increase in purchases for the year.

## **ITEM 7. FINANCIAL STATEMENTS**

Please see attachments.

## **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There are no changes and/or disagreements with Accountants on any matter relating to accounting principles or practices, financial disclosures, auditing scope and procedure during the last two fiscal years.

### PART III – CONTROL AND COMPENSATION INFORMATION

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES OF THE REGISTRANT

NAME	OFFICE	CITIZENSHIP	FAMILY RELATION (*)	AGE
Wong Hong Ren	Chairman & President	Singaporean	No relation	55
Bryan Cockrell	Director	American	No relation	59
Eddie C. T. Lau	Director	Chinese	No relation	51
Michele Dee Santos	Director	Filipino	No relation	39
Angelito Imperio	Director	Filipino	No relation	67
Mia Gentugaya	Independent Director	Filipino	No relation	55
Eddie Yeo Ban Heng	Director / General Manager of The Heritage Hotel Manila	Malaysian	No relation	59
Yam Kit Sung	General Manager of the Company	Singaporean	No relation	36
Ho Mei Mei	Assistant General Manager of The Heritage Hotel Manila	Singaporean	No relation	58
Chua Yew Hock	Executive Chef	Singaporean	No relation	46
Cornelio Abuda	Corporate Secretary and Compliance Officer	Filipino	No relation	43
Christopher L. Lim	Asst. Corporate Secretary	Filipino	No relation	49
Arlene De Guzman	Treasurer	Filipino	No relation	46

(\*) *Up to the fourth civil degree either by consanguinity or affinity.*

Under Article IV, Section 2 of the By-Laws of the Company, the directors shall hold office for one year and until their successors have qualified and are duly elected.

None of the directors and executive officers are related within the 4<sup>th</sup> civil degree of consanguinity or affinity.

None of the following events occurred during the past five years that are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, promoter or control person of the registrant:

- a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two year prior to that time;

- b) Conviction by final judgment in a criminal proceeding;
- c) Being subject to any order, judgment or decree limiting such person's involvement in any type of business, securities, commodities or banking activities; and
- d) Being found by domestic or foreign court of competent jurisdiction in a civil action to have violated any securities or commodities law.

**Business Experience:**

**WONG HONG REN**

*CHAIRMAN & PRESIDENT*

Mr. Wong Hong Ren was first elected Director and Chairman of the Board of Directors in May 1996. Since 1988 he has held the position of Group Investment Manager of Hong Leong Management Services Pte. Ltd.. Before joining the Hong Leong Group in 1988, he was the Director and General Manager of Investment and Property of Haw Par Brothers International Ltd. and First Capital Corporation where he was actively involved in the management of the companies' funds in international equities.

**BRYAN K. COCKRELL**

*DIRECTOR*

Mr. Bryan Cockrell, an American national has been a Director of the Company since May 1997. The Pathfinder Group has interests in tourism-related ventures, properties and other joint ventures undertakings. Before his stint in the Philippines, he held numerous positions in Singapore, Indonesia and Saudi Arabia.

**ANGELITO C. IMPERIO**

*DIRECTOR*

Atty. Imperio has been a Director of the Company since August 1992 and had served as independent Director for three terms from 2001 to 2004. He completed his legal education at the University of the Philippines (LL.B.) and was admitted to the bar in 1966. He was a senior partner of the law firm SyCip Salazar Hernandez & Gatmaitan until his retirement in October 2004. He is now acting as of counsel to the same law firm. He also sits on the Board of Directors of various companies.

**MIA G. GENTUGAYA**

*INDEPENDENT DIRECTOR*

Atty. Gentugaya is a senior partner of SyCip Salazar Hernandez & Gatmaitan. She has been a Director of the Company since August 1992 and served as independent director since 2005. She was admitted to the Philippine Bar in 1978 after completing her legal education at the University of the Philippines (LL.B.). Atty. Gentugaya practices corporate and commercial law, and has



been named by Global Chambers and International Financial Law Review as one of the world's leading lawyers in project finance and commercial law. She is a member of the International Bar Association, the Philippine Bar Association, the Maritime Law Association of the Philippines (charter member; Trustee, 1988 – 1989) and the Makati Business Club. She also serves in the Board of Directors of various companies.

**MICHELE DEE-SANTOS**

*DIRECTOR (Appointed on 7 February 2006)*

Ms. Santos was appointed on 7 February 2006. She obtained a B.A. International Business from Marymount College, New York, U.S.A. She started her career as a Staff Operations Manager of American Express Bank in New York City. She is currently the Executive Vice President of AY Foundation, President of Sandee Unlimited Inc., Chairperson and President of Luis Miguel Foods, Inc., Treasurer of Mico Equities, Inc. and Trustee of Yuchengco Museum, Inc. Ms. Dee-Santos also sits on the Board of Malayan Insurance Co., Bankers Assurance Corporation., First Nationwide Assurance Corporation, Pan Malayan Express Inc. and Aequitas Holdings, Inc. She is not a director of any other reporting company.

**EDDIE YEO**

*DIRECTOR & GENERAL MANAGER OF THE HERITAGE*

Mr. Eddie Yeo is appointed as a Director and General Manager of The Heritage Hotel Manila on 13 January 2005. Prior to his current position, he was the General Manager of Copthorne Kings Hotel Singapore from January 1999 to 2004. He has more than 30 years experience in managing and developing hotel projects in Singapore, Malaysia, Thailand, Australia, USA and Vietnam. He holds a Master of Business Administration from the University of South Australia, is a Certified Hotel Administrator (CHA) from the Educational Institute of the American Hotel & Motel Association, Michigan, USA and a Member of the Chartered Management Institute, UK.

**EDDIE C.T. LAU**

*DIRECTOR*

Mr. Eddie Lau, a Chinese and was appointed Director of the Company since 17 January 2005. He obtained his MBA from the University of Durham, UK. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Certified Accountants in UK. Mr. Lau is also an associate member of the Chartered Institute of Bankers in UK. He has more than 25 years experience in the financial industry and has extensive practical exposures in financial control, business planning and operational management. He had worked with Hang Seng Bank, Standard Chartered Bank, Bank Austria and The Long-Term Credit Bank of Japan. For the past twelve years, he was the Financial Controller of those banks that he worked with. Mr. Lau had also served in the Hong Kong Monetary Authority as a Bank Examiner to monitor the banks' compliance in Hong Kong. Currently, Mr. Lau is the Senior Vice President – Head of Group Finance of Asia Financial Holdings group. He joined Asia Financial Holdings group since July 2000.

**YAM KIT SUNG**

*GENERAL MANAGER & VICE PRESIDENT OF FINANCE OF GRAND PLAZA HOTEL CORPORATION*

Mr. Yam obtained his Bachelor of Accountancy (Honors) degree from Nanyang Technological University in Singapore. Upon graduation, he joined the international accounting firm, Price Waterhouse based in Singapore as an auditor and later joined CDL Hotels International Limited as an internal auditor. In 1996, he joined The Heritage Hotel Manila as an Operations Analyst and was appointed General Manager of the Company in April 2000. In June 2006, Mr. Yam was appointed Vice President Finance for HLG Enterprise Limited formerly known as LKN Primefield Limited, a company listed on the Singapore Stock Exchange. He also sits on the Board of several companies in the HLG Enterprise Limited group.

**CORNELIO ABUDA**

*CORPORATE SECRETARY AND COMPLIANCE OFFICER*

Mr. Cornelio B. Abuda assumed the position of Corporate Secretary and Compliance Officer of the Company on 1 July 2006. Mr. Abuda received his Bachelor of Laws degree from the University of the Philippines College of Law in 1990. He was admitted into the Philippine bar in 1991, and has been practicing law since then. He is a Partner of Quisumbing Torres Law Office, a member firm of Baker & McKenzie International. As a practicing lawyer, he has acted as a corporate secretary of various business concerns, among which are Nittan Capital Finance Inc. He is not a director of any reporting company

## ITEM 10. EXECUTIVE COMPENSATION

### EXECUTIVE AND DIRECTORS COMPENSATION

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
Wong Hong Ren	Chairman & President	2006			
Eddie Yeo Ban Heng	General Manager of Hotel	2006			
Yam Kit Sung	General Manager	2006			
Ho Mei Mei	AGM of Hotel	2006			
Chua Yew Hock	Exe. Chef	2006			
Total		2006	20,419,804	4,023,327	581,779
Directors		2006			3,024,000
All officers & Directors as a group		2006	20,419,804	4,023,327	3,605,779

The estimated total compensation for officers and directors in year 2007 is as follows:

Salary – PhP21 million

Bonus – PhP4 million

Other Fees – PhP4 million.

### FOR THE LAST 2 FINANCIAL YEARS – 2005 & 2004

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
Wong Hong Ren	Chairman & President	2005			
Eddie Yeo Ban Heng	General Manager of Hotel	2005			
Yam Kit Sung	General Manager	2005			
Ho Mei Mei	AGM of Hotel	2005			
Chua Yew Hock	Exe. Chef	2005			
Total		2005	21,356,797	3,386,708	905,412
Directors		2005			2,772,047
All officers & Directors as a group		2005	21,356,797	3,386,708	3,677,457

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
Wong Hong Ren	Chairman & President	2004			
Peter Kan	General Manager of Hotel	2004			
Yam Kit Sung	General Manager	2004			
Ho Mei Mei	AGM of Hotel	2004			
Alex Chew	Exe. Chef	2004			
Total		2004	20,438,072	3,480,626	1,429,014
Directors		2004			1,226,190
All officers & Directors as a group		2004	20,438,072	3,480,626	2,655,204

The compensations of the directors are one-time directors' fees and do not involve any other form of remuneration. There are no arrangements, such as consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as director.

Except for the Executive Chef, Mr. Chua Yew Hock, all the key officers are on a two-year employment contract renewable upon mutual agreement. Mr. Chua Yew Hock is on a one-year contract.

There are no agreements that require, if any such executive officers resign or are terminated by the Company, or if there is a change in control of the Company, the executive officers of the Company to be compensated a total amount exceeding PhP2,500,000.

## **ITEM 11. SECURITY AND OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

### **Security Ownership of Management**

The following table shows the shareholding beneficially held by the officers of the Company as at 31 December 2006.

TITLE CLASS	OF	NAME OF BENEFICIAL OWNER / (CITIZENSHIP)	AMOUNT & NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Common shares		Yam Kit Sung (Singaporean)	2,999 shares beneficial	Less than 1%
Common shares		Eddie Yeo Ban Heng (Malaysian)	1 share beneficial	Less than 1%

The following entitles are directly or indirectly the beneficial owners of more than 5% of the Company's voting shares (common) as of 31 December 2006.

S/N	NAME OF SHAREHOLDER	CITIZENSHIP	NO. OF SHARES	% OF SHAREHOLDING (EXCLUSIVE OF TREASURY SHARES)
1	The Philippine Fund Limited	Bermuda	39,249,343 <sup>1</sup>	53.49%
2	Zatrio Pte. Ltd.	Singapore	24,280,450	33.09%
3	RCBC Trust & Investment	Filipino	7,992,944 <sup>2</sup>	10.89%

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Please see Note 15 of the audited financial statements for details.

## ITEM 13. CORPORATE GOVERNANCE

Under the Manual of Corporate Governance of the Company, the Compliance Officer is responsible for monitoring compliance with the provisions and requirements, as well as violations of the Manual of Corporate Governance and issues a Certification regarding the level of compliance of the Company.

The Company complies with regulations and issuances issued by government authorities pertaining to corporate governance.

<sup>1</sup> The Philippine Fund Limited is owned by:

Shareholder's Name	Class of Shares Owned	% Held
1. Hong Leong Hotels Pte. Ltd. P.O. Box 309 Grand Cayman British West Indies, Cayman Islands	Ordinary	60%
2. Pacific Far East (PFE) Holdings Corporation (formerly Istethmar International Corporation) Suite 2705-09, 27Flr, Jardine House 1 Connaught Place, Central, Hong Kong	Ordinary	20%
3. Robina Manila House Limited 8/F Bangkok Bank Building 28 Des Voeux Road, Central Hong Kong	Ordinary	20%

<sup>2</sup> The registered address of RCBC Trust & Investment Division is 333 Sen. Gil J. Puyat Ave. Makati City.

Section 7.2 of the Manual of Corporate Governance of the Company provides that the Manual shall be reviewed quarterly unless the board of directors provides otherwise. Moreover, the Audit Committee of the Company reports regularly to the board of directors its quarterly review of the financial performance of the Company.

#### **ITEM 14. EXHIBITS AND REPORTS ON SEC FORM 17-C**

##### **Exhibits**

None

##### **Reports on SEC Form 17-C**

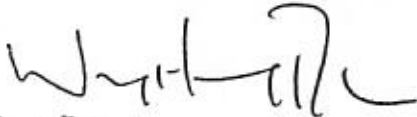
The following events were reported in SEC Form 17-C during the period January 2006 to December 2006:

<b>Date of SEC Form 17-C</b>	<b>Subject Disclosed</b>
9 January 2006	<ul style="list-style-type: none"> <li>• Submission of certificate of compliance of manual on corporate governance.</li> </ul>
9 January 2006	<ul style="list-style-type: none"> <li>• Submission of attendance report of members of the board of directors.</li> </ul>
7 February 2006	<ul style="list-style-type: none"> <li>• Resignation of Guia Margarita Santos-Qua and her replacement by Michele Dee-Santos as a member of the board of directors, audit committee and nomination committee.</li> </ul>
15 May 2006	<ul style="list-style-type: none"> <li>• Buyback of shares of GPHC.</li> <li>• Election of directors, officers and members of the Nomination committee, audit committee and remuneration committee.</li> <li>• Approval by shareholders of the amendment of the By-laws of GPHC to incorporate the rules and procedure to nominate and select the independent director.</li> </ul>
8 June 2006	<ul style="list-style-type: none"> <li>• Approval by the SEC of the amendment of the By-laws of GPHC to incorporate the rules and procedure to nominate and select the independent director.</li> </ul>
21 June 2006	<ul style="list-style-type: none"> <li>• Report on the completion of the share buyback of GPHC.</li> </ul>
30 June 2006	<ul style="list-style-type: none"> <li>• Resignation of Natividad Kwan as corporate secretary and compliance officer of GPHC and her replacement by Cornelio Abuda.</li> </ul>
5 July 2006	<ul style="list-style-type: none"> <li>• Report on the Agreement to renew the management agreement between GPHC and CDL Hotels (Phils) Corp.</li> </ul>
20 September 2006	<ul style="list-style-type: none"> <li>• Report on the renewal of contract of lease between GPHC and PAGCOR.</li> </ul>
13 October 2006	<ul style="list-style-type: none"> <li>• Report on the renovation work of The Heritage Hotel Manila.</li> </ul>
23 October 2006	<ul style="list-style-type: none"> <li>• Declaration of cash dividend.</li> </ul>

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Securities Regulation 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 Singapore on 5 Feb, 2007.

By:



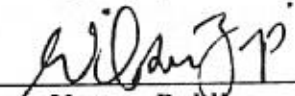
Wong Hong Ren  
Chairman & President

~~Yam Kit Sung  
General Manager/  
Vice President Finance~~

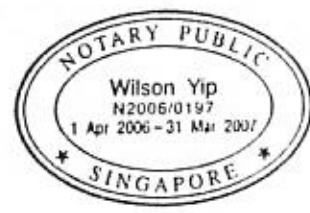
~~Cornelio Abuda  
Corporate Secretary~~

**SUBSCRIBED AND SWORN** to before me this 5th day of February 2007  
affiant(s) exhibiting to me <sup>his</sup> ~~their~~ ~~Community Tax Certificates/Passports~~, as follows:

Names	CTC/Passport No.	Date of Issue	Place of Issue
Wong Hong Ren	S0016593Z	9-10-2002	Singapore

  
\_\_\_\_\_  
Notary Public

Doc. No.  
Page No.  
Book No.  
Series of 2007.



**SIGNATURES**

Pursuant to the requirements of Section 17 of the Securities Regulation 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 Pasay, Philippines on FEB 13 2007 February, 2007.

By:

~~Wong Hong Ren~~  
~~Chairman & President~~


  
Yam Kit Sung  
General Manager/  
Vice President Finance

~~Cornelio Abuda~~  
~~Corporate Secretary~~

**SUBSCRIBED AND SWORN** to before me this FEB 13 2007 day of February 2007 affiant(s) exhibiting to me his Community Tax Certificates/Passports, as follows:

<b>Names</b>	<b>CTC/Passport No.</b>	<b>Date of Issue</b>	<b>Place of Issue</b>
Yam Kit Sung	10959377	February 24, 2006	Pasay City

Doc. No. 289  
Page No. 59  
Book No. 13  
Series of 2007.

  
**ATTY. CARLOS G. BORMENTU**  
Notary Public  
**NOTARY PUBLIC**  
UNTIL DECEMBER 31, 2007  
PTR NO. 0627352/1-9-07 PASAY CITY  
SP NO. 692756/1-10-07 PASAY CITY  
ROLL NO. 30650



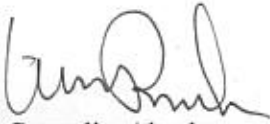
**SIGNATURES**

Pursuant to the requirements of Section 17 of the Securities Regulation 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 Taguig City on 14 February, 2007.

By:

Wong Hong Ren  
Chairman & President

Yam Kit-Sung  
General Manager/  
Vice President-Finance



Cornelio Abuda  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this **14<sup>th</sup>** day of February 2007 affiant(s) exhibiting to me his Community Tax Certificates/Passports, as follows:

<b>Names</b>	<b>CTC/Passport No.</b>	<b>Date of Issue</b>	<b>Place of Issue</b>
<b>Cornelio B. Abuda</b>	<b>01581823</b>	<b>4 January 2007</b>	<b>Manila</b>



**LORD A. V. NUEVA**  
**Notary Public**

Notary Public, Taguig, M.M.

Appointment No. 80, Until December 31, 2007

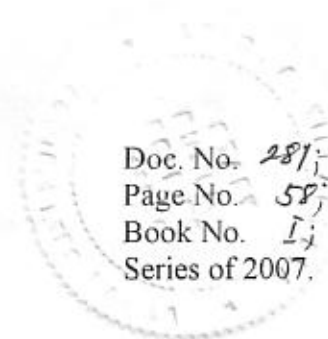
12<sup>th</sup> Floor, Net One Center, Crescent Park West

Bonifacio Global City, Taguig, Metro Manila

Roll of Attorney's No. 46445

PTR No. 0092218-A / 01-04-07 / Taguig, M.M.

Lifetime IBP No. 638095 / 01-10-05 / Makati Chapter



Doc. No. 281  
Page No. 58  
Book No. I  
Series of 2007.



**FOREIGN SERVICE OF THE  
REPUBLIC OF THE PHILIPPINES**

EMBASSY OF THE PHILIPPINES )  
Consular Section ) S.S.  
Singapore )

**CERTIFICATE OF AUTHENTICATION**

**NATHANIEL G. IMPERIAL, Consul**

of the Republic of

the Philippines, Singapore, duly commissioned and qualified, do hereby certify that  
**WILSON YIP**

before whom the annexed instrument has been executed to wit:

SECURITIES AND EXCHANGE COMMISSION SEC FORM 17-A RE: ANNUAL REPORT  
QUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE & SECTION 141 OF  
CORPORATION CODE OF THE PHIL'S. DULY SIGNED BY WONG HONG REN,  
MAN & PRESIDENT OF GRAND PLAZA HOTEL CORP.

at the time he/she signed the same a Notary Public in Singapore and that  
his/her signature affixed thereto is genuine.

The Embassy assumes no responsibility for the contents of the annexed document.

WITH THIS HEREOF, I have hereunto set my hand and affixed the seal of the Embassy of

the Philippines at Singapore, this \_\_\_\_\_ day of \_\_\_\_\_ 08-Feb-07

**NATHANIEL G. IMPERIAL**  
Consul

Serial No: 38/2007

Fee paid : 0.00

OR : 3

# GRAND PLAZA HOTEL CORPORATION

1 February 2007

## **Statement of Management's Responsibility For Financial Statements**

### **SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills  
City of Mandaluyong

The management of **GRAND PLAZA HOTEL CORPORATION** is responsible for all information and representations contained in the financial statements as of and for the years ended December 31, 2006, 2005 and 2004. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

Laya Mananghaya & Co., the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors and Stockholders.

*Wong Hong Ren*

Wong Hong Ren  
Chairman and President

Yam Kit Sung  
General Manager & Chief Financial Officer

Subscribed and sworn to before me a notary public for and in the City of SINGAPORE this 5th day of February 2007, the signatories exhibiting to me their Community Tax Certificates/Passports details of which are as follows:

Name	<del>Community Tax Certificate/</del> Passport Number	Date	Place of Issue
Wong Hong Ren	S0016593Z	9th Oct 2002	Singapore

Wong Hong Ren

~~Yam Kit Sung~~

*Wilson Yip*

Notary Public

Doc. No.  
Page No.  
Book No.  
Series of 2007.




\_\_\_\_\_  
Wong Hong Ren  
Chairman and President

  
\_\_\_\_\_  
Yam Kit Sung  
General Manager & Chief Financial Officer

Subscribed and sworn to before me a notary public for and in the City of Pasay, Philippines this  
**FEB 13 2007** of February 2007, the signatory exhibiting to me his Community Tax  
Certificates/Passports details of which are as follows:

Name	Community Tax Certificate/ Passport Number	Date	Place of Issue
<del>Wong Hong Ren</del>			
Yam Kit Sung	10959377	February 24, 2006	Pasay City

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Page No. 59  
Book No. 13  
Series of 2007.

  
ATTY. CARLOS C. PORMENTO  
Notary Public  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2007  
PTR NO. 062735271-9-07 PASAY CI  
IBP NO. 69275671-10-07 PASAY CITY /  
ROLL NO. 30650



**FOREIGN SERVICE OF THE  
REPUBLIC OF THE PHILIPPINES**

EMBASSY OF THE PHILIPPINES )  
Consular Section ) S.S.  
Singapore )

**CERTIFICATE OF AUTHENTICATION**

**NATHANIEL G. IMPERIAL, Consul** of the Republic of

the Philippines, Singapore, duly commissioned and qualified, do hereby certify that  
**WILSON YIP**

before whom the annexed instrument has been executed to wit:  
STATEMENTS OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS DATED  
FEBRUARY 2007 ADDRESSED TO SECURITIES AND EXCHANGE COMMISSION,  
PHILIPPINES SIGNED AND EXECUTED BY WONG HONG REN, CHAIRMAN AND  
PRESIDENT OF GRAND PLAZA HOTEL CORPORATION

at the time he/she signed the same \_\_\_\_\_ a Notary Public in Singapore and that  
his signature affixed thereto is genuine.

The Embassy assumes no responsibility for the contents of the annexed document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Embassy of  
the Philippines at Singapore, this \_\_\_\_\_ day of \_\_\_\_\_ 08-Feb-07

**NATHANIEL G. IMPERIAL  
Consul**

Service No: 07/2007

Fee Paid: \$ 00

OR No: 97

**GRAND PLAZA HOTEL CORPORATION**

FINANCIAL STATEMENTS  
December 31, 2006 and 2005



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

Telephone +63 (2) 885 7000  
 +63 (2) 893 8507  
 Fax +63 (2) 894 1985  
 +63 (2) 816 6595  
 Internet www.kpmg.com.ph  
 e-Mail manila@kpmg.com.ph

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

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
 Grand Plaza Hotel Corporation  
 10<sup>th</sup> Floor, The Heritage Hotel Manila  
 EDSA corner Roxas Boulevard  
 Pasay City

We have audited the accompanying financial statements of Grand Plaza Hotel Corporation, which comprise the balance sheets as at December 31, 2006 and 2005, and the statements of revenues and expenses, statements of changes in stockholders' equity and statements of cash flows for each of the years in the three year period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 opinion.

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

Units 142/144 & 146/148  
 Ground Floor, Alpha Building  
 Subic International Hotel Compound  
 Rizal corner Sta. Rita Roads  
 Subic Bay Freeport Zone 2222  
 Philippines

Telephone +63 (47) 252 2825  
 Fax +63 (47) 252 2826  
 e-Mail subic@kpmg.com.ph

Unit 503, 5<sup>th</sup> Floor, Keppel Center  
 Samar Loop corner  
 Cardinal Rosales Avenue  
 Cebu Business Park  
 Cebu City 6000  
 Philippines

Telephone +63 (32) 233 9337  
 +63 (32) 233 9339  
 Fax +63 (32) 233 9327  
 e-Mail cebu@kpmg.com.ph

2<sup>nd</sup> Floor, Uy Building  
 Sen. B. Aquino Avenue  
 Mandurao  
 Iloilo City 5000  
 Philippines

Telephone +63 (33) 321 3821  
 +63 (33) 321 3822  
 Fax +63 (33) 321 3823  
 e-Mail iloilo@kpmg.com.ph

Suite 3, Doll Building  
 6<sup>th</sup> Street  
 Bacolod City 6100  
 Philippines

Telephone +63 (34) 434 9225  
 Fax +63 (34) 434 8015  
 e-Mail bacolod@kpmg.com.ph

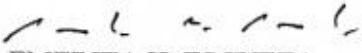




*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Plaza Hotel Corporation as of December 31, 2006 and 2005, and of its financial performance and its cash flows for each of the years in the three year period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

**MANABAT SANAGUSTIN & CO.**

  
EMERITA H. ESCUETA

Partner

CPA License No. 0049037

SEC Accreditation No. 0022-AR-1

Tax Identification No. 123-046-982

BIR Accreditation No. 08-001987-2-2004

Issued July 14, 2004; Valid until July 13, 2007

PTR No. 0325107 J

Issued January 18, 2007 at Makati City

February 15, 2007

Makati City, Metro Manila

Philippines



## **REPORT OF INDEPENDENT AUDITORS**

Board of Directors and Stockholders  
Grand Plaza Hotel Corporation

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### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Plaza Hotel Corporation as of December 31, 2006 and 2005, and of its financial performance and its cash flows for each of the years in the three year period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

*Manabat Saugustin & Co.*

February 15, 2007  
Makati City, Metro Manila  
Philippines

**GRAND PLAZA HOTEL CORPORATION**  
**BALANCE SHEETS**

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>P237,842,702</b>	P295,549,341
Receivables - net (Notes 5 and 15)	<b>220,587,591</b>	206,430,172
Due from related parties (Note 15)	<b>1,012,526</b>	14,083,253
Inventories (Note 6)	<b>7,624,150</b>	8,975,281
Prepayments and other current assets (Note 7)	<b>17,577,727</b>	4,739,094
<b>Total Current Assets</b>	<b>484,644,696</b>	529,777,141
<b>Deferred Income Tax</b> (Note 8)	<b>10,474,579</b>	8,972,145
<b>Investment in an Associate</b> (Note 9)	<b>44,708,786</b>	44,171,976
<b>Loan Receivable</b> (Notes 10, 15 and 26)	<b>15,500,000</b>	15,500,000
<b>Property and Equipment - net</b> (Note 11)	<b>787,658,183</b>	779,968,066
<b>Other Assets</b> (Notes 12, 15 and 24)	<b>94,807,355</b>	94,805,355
	<b>P1,437,793,599</b>	P1,473,194,683
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 13 and 23)	<b>P83,608,032</b>	P77,714,008
Income tax payable	<b>24,074,549</b>	27,974,594
Due to related parties (Notes 15 and 24)	<b>4,267,811</b>	12,749,709
Refundable deposits (Note 24)	<b>27,389,434</b>	25,859,073
Other current liabilities (Notes 14 and 16)	<b>200,226,563</b>	191,211,538
<b>Total Current Liabilities</b>	<b>339,566,389</b>	335,508,922
<b>Stockholders' Equity</b>	<b>1,098,227,210</b>	1,137,685,761
	<b>P1,437,793,599</b>	P1,473,194,683

*See Notes to Financial Statements.*

**GRAND PLAZA HOTEL CORPORATION**  
**STATEMENTS OF REVENUES AND EXPENSES**

	Years Ended December 31		
	2006	2005	2004
<b>REVENUES</b>			
Rooms	P329,097,179	P312,635,020	P263,894,829
Food and beverage	224,958,055	218,824,181	204,833,416
Other operating departments	8,734,803	10,548,146	11,713,420
Others (Note 24)	107,997,916	108,790,462	99,137,458
	<b>670,787,953</b>	650,797,809	579,579,123
<b>COST OF SALES</b> (Note 17)			
Food and beverage	61,520,377	60,219,973	58,509,268
Other operating departments	3,932,907	4,277,682	4,666,236
	<b>65,453,284</b>	64,497,655	63,175,504
<b>GROSS PROFIT</b>	<b>605,334,669</b>	586,300,154	516,403,619
<b>SELLING AND OPERATING EXPENSES</b> (Note 18)	<b>202,283,913</b>	203,624,372	192,041,852
<b>ADMINISTRATIVE EXPENSES</b> (Note 19)	<b>187,867,771</b>	174,530,008	168,475,144
	<b>390,151,684</b>	378,154,380	360,516,996
<b>NET OPERATING INCOME</b>	<b>215,182,985</b>	208,145,774	155,886,623
<b>OTHER INCOME (EXPENSES)</b>			
Interest income	17,130,531	13,211,688	12,971,326
Foreign exchange gain (loss)	1,222,152	(6,090,964)	(13,750,619)
Equity in net income (loss) of an associate (Note 9)	536,810	540,280	(1,415,640)
Dividend income	67,705	91,827	25,050
Gain on disposal of property and equipment	48,671	476,600	-
	<b>19,005,869</b>	8,229,431	(2,169,883)
<b>INCOME BEFORE INCOME TAX</b>	<b>234,188,854</b>	216,375,205	153,716,740
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 8)			
Current	78,096,384	70,988,812	50,143,329
Deferred	(1,502,434)	(1,782,772)	(5,636,432)
	<b>76,593,950</b>	69,206,040	44,506,897
<b>NET INCOME</b>	<b>P157,594,904</b>	P147,169,165	P109,209,843
<b>Basic Earnings Per Share</b> (Note 22)	<b>P2.15</b>	P1.93	P1.39
<b>Diluted Earnings Per Share</b> (Note 22)	<b>P2.15</b>	P1.93	P1.39

*See Notes to Financial Statements.*

**GRAND PLAZA HOTEL CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Years Ended December 31		
	2006	2005	2004
<b>CAPITAL STOCK</b>			
Common stock - P10 par value			
Authorized - 115,000,000 shares			
Issued - 87,318,270 shares	<b>P873,182,700</b>	P873,182,700	P873,182,700
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>14,657,517</b>	14,657,517	14,657,517
<b>RETAINED EARNINGS</b>			
Appropriated			
Balance at beginning of year	<b>551,388,370</b>	439,975,320	439,975,320
Additions during the year (Note 25)	<b>145,690,100</b>	111,413,050	-
Balance at end of year	<b>697,078,470</b>	551,388,370	439,975,320
Unappropriated			
Balance at beginning of year	<b>249,845,544</b>	236,976,432	143,470,243
Appropriation during the year (Note 25)	<b>(145,690,100)</b>	(111,413,050)	-
Net income for the year	<b>157,594,904</b>	147,169,165	109,209,843
Dividends (Note 21)	<b>(51,363,345)</b>	(22,887,003)	(15,703,654)
Balance at end of year	<b>210,387,003</b>	249,845,544	236,976,432
	<b>907,465,473</b>	801,233,914	676,951,752
<b>TREASURY STOCK, at cost -</b>			
13,942,062 shares, 11,028,261 shares and 8,800,000 shares in 2006, 2005 and 2004, respectively (Note 20)			
Balance at beginning of year	<b>(551,388,370)</b>	(439,975,320)	(439,975,320)
Acquisition of treasury stock (Note 25)	<b>(145,690,100)</b>	(111,413,050)	-
Balance at end of year	<b>(697,078,470)</b>	(551,388,370)	(439,975,320)
	<b>P1,098,227,210</b>	P1,137,685,761	P1,124,816,649

*See Notes to Financial Statements.*

**GRAND PLAZA HOTEL CORPORATION**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>P234,188,854</b>	P216,375,205	P153,716,740
Adjustments for:			
Depreciation	<b>25,637,134</b>	26,878,023	39,643,967
Equity in net loss (income) of an associate	<b>(536,810)</b>	(540,280)	1,415,640
Provision for (reversal of) doubtful accounts	<b>(44,504)</b>	165,014	-
Provision for retirement	<b>4,470,059</b>	2,986,418	4,479,627
Interest income	<b>(17,130,531)</b>	(13,211,688)	(12,971,326)
Dividend income	<b>(67,705)</b>	(91,827)	(25,050)
Operating income before working capital changes	<b>246,516,497</b>	232,560,865	186,259,598
Decrease (increase) in:			
Receivables	<b>(14,152,378)</b>	(14,910,969)	25,817,888
Inventories	<b>1,351,131</b>	(274,562)	(2,782,327)
Prepayments and other current assets	<b>(23,153,778)</b>	(8,785,782)	(1,307,230)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>1,423,965</b>	(8,677,841)	(9,190,164)
Due to related parties	<b>(8,483,465)</b>	4,079,148	(51,954,856)
Refundable deposits	<b>1,530,361</b>	(3,063,536)	1,140,709
Other current liabilities	<b>9,015,025</b>	12,616,689	14,734,496
Cash generated from operations	<b>214,047,358</b>	213,544,012	162,718,114
Income taxes paid	<b>(71,681,294)</b>	(48,517,887)	(43,332,206)
Interest received	<b>17,169,994</b>	12,225,242	6,297,136
Dividend received	<b>67,705</b>	91,827	25,050
Net cash provided by operating activities	<b>159,603,763</b>	177,343,194	125,708,094
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	<b>(33,327,251)</b>	(16,670,435)	(2,097,919)
Decrease (increase) in other assets	<b>(2,000)</b>	1,071,786	(10,678,565)
Net cash used in investing activities	<b>(33,329,251)</b>	(15,598,649)	(12,776,484)

*Forward*

	<b>Years Ended December 31</b>		
	<b>2006</b>	2005	2004
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease (increase) in due from related parties	<b>P13,070,727</b>	(P6,373,069)	P27,926,261
Increase (decrease) in due to related parties	<b>1,567</b>	(1,706,903)	11,691,194
Dividends paid	<b>(51,363,345)</b>	(22,887,003)	(15,699,214)
Acquisition of treasury stock	<b>(145,690,100)</b>	(111,413,050)	-
Deposit on lease contract	-	-	(20,000,000)
Net cash provided by (used in) financing activities	<b>(183,981,151)</b>	(142,380,025)	3,918,241
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(57,706,639)</b>	19,364,520	116,849,851
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>295,549,341</b>	276,184,821	159,334,970
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P237,842,702</b>	P295,549,341	P276,184,821

*See Notes to Financial Statements.*



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**GRAND PLAZA HOTEL CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. Organization and Business**

Grand Plaza Hotel Corporation (“the Company”) was registered with the Philippine Securities and Exchange Commission (SEC) on August 9, 1989 primarily to own, lease or manage one or more hotels, inns or resorts, all adjuncts and accessories thereto, and all other tourist-oriented businesses as may be necessary in connection therewith.

The Company owns and operates The Heritage Hotel (“the Hotel”), a deluxe class hotel that offers 448 rooms and facilities and amenities such as restaurants, function halls, and a coffee shop. The Company’s principal office is located at the 10<sup>th</sup> Floor, The Heritage Hotel, EDSA corner Roxas Boulevard, Pasay City, Metro Manila, Philippines.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRSs).

The financial statements were approved by the Board of Directors on February 15, 2007.

Basis of Measurement

The financial statements have been prepared on the historical cost basis and presented in Philippine Peso, which is the Company’s functional currency.

Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

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**3. Significant Accounting Policies**

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

Adoption of New Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council, or FRSC, (the successor body to the Accounting Standards Council) approved the adoption as part of PFRSs a number of new standards, amendments to standards, and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

*New Standard, Amendments to Standards and Interpretations Adopted in 2006*

Effective January 1, 2006, the Company adopted the following new standards, amendments to standards and interpretations:

- Amendment to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* provides an option for recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also requires entities to give additional disclosures.
- IFRIC 4, *Determining Whether an Arrangement Contains a Lease* provides guidance for determining whether an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments, is or contains, a lease that should be accounted for in accordance with PAS 17, *Leases*.

The adoption of the above standards, amendments to standards and interpretations did not have a material effect on the Company's financial statements.

*New Standard, Amendment to Standard and Interpretations Not Yet Adopted*

The following are the new standard, amendment to standard and interpretations which are not yet effective for the year ended December 31, 2006, and have not been applied in preparing these financial statements:

- PFRS 7, *Financial Instruments: Disclosures* requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks.
- Amendment to PAS 1, *Presentation of Financial Statements - Capital Disclosures* adds requirements to disclose the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are stated at face value, net of allowance if collection of the full amount is no longer probable.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in, first-out (FIFO) principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

### Investment in an Associate

Investment in an associate, Harbour Land Corporation (HLC), which is 40%-owned by the Company and in which the Company has significant influence is accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Company's share in the net assets of the investee company. After the application of the equity method, the company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the investee company. The statements of revenues and expenses reflect the share of the results of the operations of the investee company.

The Company discontinues applying the equity method when its investment in the investee company is reduced to zero. Accordingly, additional losses are not recognized unless the Company has guaranteed certain obligations of the investee company. When the investee company subsequently reports net income, the Company will resume applying the equity method but only after its share in net income equals the share in net losses not recognized during the period the equity method was suspended.

### Property and Equipment

Items of property and equipment are measured at cost less accumulated depreciation, amortization and impairment losses, if any, except operating supplies (chinaware, glassware, silverware, linen and utensils) which are not depreciated, based on industry practice. Operating supplies are treated as a base stock upon initial opening of the hotel.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognized in statements of revenues and expenses as incurred.

Depreciation is recognized in statements of revenues and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Number of Years</u>
Building and building improvements	46-50
Furniture, fixture and equipment	5-10
Transportation equipment	5
Leasehold improvements	5

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Construction in progress, which pertains to renovation of rooms, is stated at cost and is not depreciated until such time the renovation is completed.

### Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in statements of revenues and expenses.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

### Foreign Currency Transactions

Transactions in foreign currencies are translated to Philippine Peso at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in statements of revenues and expenses.

### Leased Assets

The Company accounts for its leases under the operating lease method. Under this method the total lease payments are amortized as expense using the straight-line basis over the term of the lease.

### Revenue Recognition

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

*Room revenue:* Revenue is recognized upon actual room occupancy.

*Food and beverage:* Revenue is recognized upon delivery of order.

*Rent income:* Revenue from rental income is recognized on a straight-line basis over the lease term.

### Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in statements of revenues and expenses except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred income tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the balance sheet date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred income tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized.

#### Treasury Stock

Treasury stock is carried at cost.

#### Earnings Per Share

The Company presents basic and diluted earnings per share (EPS) for its ordinary assets. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends declared during the year, if any. Diluted EPS is determined by adjusting the net income for the effects of all dilutive potential shares, which comprise convertible notes and share options granted to employees.

#### Related Parties

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities.

#### Retirement Costs

The Company accrues retirement costs in accordance with the existing law, Republic Act No. 7641.

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#### **4. Cash and Cash Equivalents**

This account consists of:

	<b>2006</b>	2005
Cash on hand and in banks	<b>P21,212,795</b>	P16,859,570
Short-term investments	<b>216,629,907</b>	278,689,771
	<b>P237,842,702</b>	P295,549,341

Cash in banks earn interest at the prevailing bank deposit rates. Short-term investments consist mainly of time deposits which earn interest at prevailing market rates.

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## 5. Receivables

This account consists of:

	2006	2005
Trade	<b>P198,237,668</b>	P188,817,487
Interest (Note 15)	<b>11,989,788</b>	11,864,788
Advances to contractors	<b>2,714,170</b>	1,241,104
Advances to employees	<b>99,489</b>	587,661
Other receivables	<b>7,986,534</b>	4,421,556
	<b>221,027,649</b>	206,932,596
Less allowance for doubtful accounts	<b>440,058</b>	502,424
	<b>P220,587,591</b>	P206,430,172

Trade receivables include billings for output tax to a certain government-controlled corporation (see Note 14).

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## 6. Inventories

This account consists of:

	2006	2005
Food	<b>P2,448,772</b>	P1,679,599
General supplies	<b>2,259,229</b>	3,197,429
Beverage and tobacco	<b>1,040,611</b>	1,294,897
Engineering supplies	<b>866,517</b>	882,734
Others	<b>1,009,021</b>	1,920,622
	<b>P7,624,150</b>	P8,975,281

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## 7. Prepayments and Other Current Assets

This account consists of:

	2006	2005
Input tax	<b>P9,597,854</b>	P2,414,123
Prepaid expenses	<b>7,946,529</b>	1,684,626
Others	<b>33,344</b>	640,345
	<b>P17,577,727</b>	P4,739,094

## 8. Income Tax

The components of the Company's deferred income tax assets are as follows:

	2006	2005
Provision for retirement	<b>P7,733,716</b>	P6,209,889
Deferred rental income	<b>2,586,843</b>	2,586,407
Provision for bad debts	<b>154,020</b>	175,849
	<b>P10,474,579</b>	P8,972,145

The reconciliation of the provision for income tax computed at statutory income tax rate to the provision for income tax shown in the statements of revenues and expenses follows:

	2006	2005	2004
Provision for income tax at statutory tax rate	<b>P81,966,099</b>	P70,321,936	P49,189,357
Additions to (reductions in) income tax resulting from the tax effects of:			
Foreign exchange difference	<b>(869,593)</b>	1,827,391	(1,451,744)
Income subjected to final tax	<b>(4,314,666)</b>	(2,767,702)	(2,243,065)
Equity in net loss (income) of an associate	<b>(187,890)</b>	(175,585)	453,005
Others	-	-	(1,440,656)
	<b>P76,593,950</b>	P69,206,040	P44,506,897

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 law effective November 1, 2005. Among others, the Act includes the following significant revisions to the rules of taxation:

- Change in the corporate income tax rates from 32% to 35% starting November 1, 2005 and to 30% starting January 1, 2009;
- Change in the amount of interest expense disallowed as tax-deductible expense equivalent to a certain percentage applied to the interest income subjected to final tax; such percentage was changed from 38% to 42% starting November 1, 2005 and to 33% starting January 1, 2009; and
- Grant of authority to the Philippine President to increase the 10% VAT rate to 12% effective February 1, 2006, subject to compliance with certain economic conditions.

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**9. Investment in an Associate**

Investment in an associate pertains to 40% ownership in Harbour Land Corporation (HLC), a Philippine Corporation engaged in the real estate business.

This account consists of:

	<b>2006</b>	2005
Acquisition cost	<b>P48,200,000</b>	P48,200,000
Accumulated share in net losses:		
Balance at beginning of year	<b>(4,028,024)</b>	(4,568,304)
Equity in net income of associate during the year	<b>536,810</b>	540,280
Balance at end of year	<b>(3,491,214)</b>	(4,028,024)
	<b>P44,708,786</b>	P44,171,976

A summary of the financial information of HLC follows:

	<b>2006</b>	2005
Total assets	<b>P149,302,604</b>	P148,001,669
Total liabilities	<b>91,530,638</b>	91,571,730
Total stockholders' equity	<b>57,771,966</b>	56,429,939
Net income	<b>1,342,027</b>	1,350,699

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**10. Loan Receivable**

This pertains to the loan granted to Rogo Realty Corporation (RRC) which is collateralized by RRC's investment in shares of stock of HLC and is payable in year 2015 with interest rate of 5% per annum. The loan is carried at cost.



## 11. Property and Equipment

The movements in this account are as follows:

For the Year Ended December 31, 2006							
	Building and Improvements	Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Operating Supplies	Construction in Progress	Total
Gross carrying amount:							
Balance at beginning of year	P969,959,007	P300,633,726	P3,259,091	P385,157	P33,651,470	P -	P1,307,888,451
Additions	2,309,257	2,767,268	899,107	-	-	27,351,619	33,327,251
Disposals	-	(737,071)	-	-	-	-	(737,071)
Balance at end of year	972,268,264	302,663,923	4,158,198	385,157	33,651,470	27,351,619	1,340,478,631
Accumulated depreciation and amortization:							
Balance at beginning of year	238,550,722	288,404,052	580,454	385,157	-	-	527,920,385
Depreciation and amortization for the year	21,251,766	3,703,579	681,789	-	-	-	25,637,134
Disposals	-	(737,071)	-	-	-	-	(737,071)
Balance at end of year	259,802,488	291,370,560	1,262,243	385,157	-	-	552,820,448
Carrying amount:							
December 31, 2006	P712,465,776	P11,293,363	P2,895,955	P -	P33,651,470	P27,351,619	P787,658,183
December 31, 2005	P731,408,285	P12,229,674	P2,678,637	P -	P33,651,470	P -	P779,968,066

For the Year Ended December 31, 2005							
	Building and Improvements	Furniture, Fixture and Equipment	Transportation Equipment	Leasehold Improvements	Operating Supplies		Total
Gross carrying amount:							
Balance at beginning of year	P963,302,618	P294,770,048	P2,082,362	P385,157	P33,651,470		P1,294,191,655
Additions	6,656,389	7,514,046	2,500,000	-	-		16,670,435
Disposals	-	(1,650,368)	(1,323,271)	-	-		(2,973,639)
Balance at end of year	969,959,007	300,633,726	3,259,091	385,157	33,651,470		1,307,888,451
Accumulated depreciation and amortization:							
Balance at beginning of year	217,477,622	284,526,315	1,626,907	385,157	-		504,016,001
Depreciation and amortization for the year	21,073,100	5,528,105	276,818	-	-		26,878,023
Disposals	-	(1,650,368)	(1,323,271)	-	-		(2,973,639)
Balance at end of year	238,550,722	288,404,052	580,454	385,157	-		527,920,385
Carrying amount:							
December 31, 2005	P731,408,285	P12,229,674	P2,678,637	P -	P33,651,470		P779,968,066
December 31, 2004	P745,824,996	P10,243,733	P455,455	P -	P33,651,470		P790,175,654

## 12. Other Assets

This account consists of:

	2006	2005
Deposit on lease contract (Note 15)	P78,000,000	P78,000,000
Prepaid rental (Note 15)	10,678,565	10,678,565
Miscellaneous investments and deposits	5,118,790	5,116,790
Others	1,010,000	1,010,000
	<b>P94,807,355</b>	<b>P94,805,355</b>

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**13. Accounts Payable and Accrued Expenses**

This account consists of:

	2006	2005
Trade payables	<b>P22,378,372</b>	P22,981,533
Accrued liabilities	<b>60,730,535</b>	54,233,350
Others	<b>499,125</b>	499,125
	<b>P83,608,032</b>	P77,714,008

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**14. Other Current Liabilities**

This account consists of:

	2006	2005
Output tax payable	<b>P154,836,603</b>	P144,028,820
Reserves (Note 16)	<b>22,759,198</b>	18,679,826
Deferred rental	<b>7,390,979</b>	7,389,734
Others	<b>15,239,783</b>	21,113,158
	<b>P200,226,563</b>	P191,211,538

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Output tax payable consists mainly of output tax charged to a certain government-controlled corporation, as mentioned in Note 5.

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**15. Related Party Transactions**Transactions with Related Parties

The Company has significant transactions with related parties as indicated below.

	Nature	2006	2005
Due from related parties:			
HLC	Advances	<b>P1,003,294</b>	P1,004,626
RRC	Advances	<b>6,784</b>	5,623,171
CDL Hotels (Phils.) Corporation (CDL)	Advances	<b>2,448</b>	7,455,456
		<b>1,012,526</b>	14,083,253
RRC	Interest	<b>11,664,788</b>	10,889,788
HLC	Interest	<b>325,000</b>	975,000
		<b>11,989,788</b>	11,864,788
RRC	Loan	<b>15,500,000</b>	15,500,000
HLC	Lease deposit	<b>78,000,000</b>	78,000,000
HLC	Prepaid rent	<b>10,678,565</b>	10,678,565
		<b>P117,180,879</b>	P130,126,606

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	Nature	2006	2005
Due to related parties:			
CDL	Management fee	<b>P3,004,486</b>	P9,616,201
HLC	Rent payable	<b>962,872</b>	2,834,622
Millennium & Copthorne Int'l. Ltd.	Advances	<b>300,453</b>	298,886
		<b>P4,267,811</b>	P12,749,709

In the normal course of business, the Company grants/obtains advances to/from related parties for working capital purposes. These advances are not interest-bearing and have no definite payment terms.

The interest receivable from HLC arises from the 5% interest on the lease deposit of the Company to HLC.

The interest receivable from RRC arises from the 5% interest on the loan granted by the Company to RRC.

The Company has a management contract with CDL under which the latter provides management, technical and administrative services to the Company in return for a yearly management and incentive fees equivalent to a certain percentage of total gross revenue and of gross operating profit, respectively.

The relationship of the Company with the related parties is shown below:

<b>Related Party</b>	<b>Relationship</b>
RRC	Under common control
HLC	Associate
CDL	Under common control
The Philippine Fund Limited	Intermediate parent company
Millennium & Copthorne Int'l. Ltd.	Ultimate parent company

#### Transactions with Key Management Personnel

The total remuneration of key management personnel is shown below:

	2006	2005	2004
Directors	<b>P3,024,000</b>	P2,772,047	P1,226,190
Executive officers	<b>12,123,356</b>	25,648,917	25,347,712
	<b>P15,147,356</b>	P28,420,964	P26,573,902

The Company does not provide post-employment and equity-based compensation benefits to its directors and executive officers.

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## 16. Reserves

The changes in reserves consist of:

	2006	2005
Balance at beginning of year	<b>P21,053,839</b>	P17,477,115
Additions	<b>8,385,534</b>	8,068,767
Utilization	<b>(6,680,175)</b>	(6,866,056)
Balance at end of year (Note 14)	<b>P22,759,198</b>	P18,679,826

This account pertains to reserves set up by the Company to defray the cost of replacing certain operating supplies of the Hotel such as lost, broken, damaged or worn-out chinaware, glassware, linen, bed sheets, etc.

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## 17. Cost of Sales

This account consists of:

	2006	2005	2004
Inventory, beginning	<b>P8,975,281</b>	P9,190,928	P8,292,405
Purchases	<b>64,102,153</b>	64,282,008	64,074,027
Available for sale	<b>73,077,434</b>	73,472,936	72,366,432
Inventory, ending	<b>(7,624,150)</b>	(8,975,281)	(9,190,928)
	<b>P65,453,284</b>	P64,497,655	P63,175,504

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## 18. Selling and Operating Expenses

This account consists of:

	2006	2005	2004
Salaries, wages and employee benefits:			
Food and beverage	<b>P48,001,577</b>	P44,146,724	P48,245,352
Rooms	<b>25,089,431</b>	21,655,230	22,612,094
Other operated departments	<b>2,902,112</b>	3,745,106	3,819,371
	<b>75,993,120</b>	69,547,060	74,676,817
Property operation, maintenance, energy and conservation	<b>97,667,359</b>	105,121,596	92,446,370
Guest supplies	<b>8,757,893</b>	9,638,549	8,530,393
Laundry and dry cleaning	<b>4,328,967</b>	3,655,191	2,907,324
Kitchen fuel	<b>3,229,529</b>	3,285,588	2,727,059
Transport charges	<b>1,583,942</b>	2,449,475	927,734
Printing and stationery	<b>1,433,446</b>	1,537,137	1,620,229
Cleaning supplies	<b>1,392,469</b>	1,435,768	1,330,278
Permits and licenses	<b>1,350,073</b>	1,119,705	1,181,872
Music and entertainment	<b>1,313,043</b>	1,292,034	1,261,952
Reservation expenses	<b>1,111,648</b>	1,428,389	704,448
Commission	<b>547,574</b>	579,802	459,913
Miscellaneous	<b>3,574,850</b>	2,534,078	3,267,463
	<b>P202,283,913</b>	P203,624,372	P192,041,852

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## 19. Administrative Expenses

This account consists of:

	2006	2005	2004
Hotel Overhead Departments			
Salaries, wages and employee benefits:			
Administrative and general	<b>P36,524,054</b>	P32,257,451	P33,934,637
Engineering	<b>8,835,142</b>	7,645,997	7,605,491
Sales and marketing	<b>7,208,155</b>	6,245,402	6,964,390
Human resources	<b>2,452,909</b>	2,061,630	2,522,818
	<b>55,020,260</b>	48,210,480	51,027,336
Management and incentive fees	<b>31,875,716</b>	30,797,778	24,534,409
Credit card commission	<b>5,218,836</b>	4,624,023	3,996,151
Legal and professional fees	<b>3,422,804</b>	3,600,859	2,914,099
Data processing	<b>2,598,474</b>	1,050,024	1,079,442
Entertainment	<b>1,492,634</b>	978,150	1,068,631
Communication	<b>835,019</b>	1,098,719	1,286,884
Printing and stationery	<b>847,178</b>	928,622	922,782
Awards and social activities	<b>153,766</b>	671,612	940,342
Training	<b>25,189</b>	401,074	900,141
Miscellaneous	<b>8,308,833</b>	4,877,905	7,592,453
	<b>109,798,709</b>	97,239,246	96,262,670
Corporate Office			
Depreciation	<b>25,637,134</b>	26,878,023	39,643,967
Insurance	<b>14,111,359</b>	13,086,061	11,994,894
Leased land rental	<b>10,798,560</b>	10,798,560	8,016,900
Property tax	<b>9,265,681</b>	9,265,681	9,000,001
Miscellaneous	<b>18,256,328</b>	17,262,437	3,556,712
	<b>78,069,062</b>	77,290,762	72,212,474
	<b>P187,867,771</b>	P174,530,008	P168,475,144

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## 20. Treasury Stock

The board of directors, in its meeting on May 15, 2006, approved the purchase of 2,913,802 shares of the Company at P50 per share from its stockholders on record as of June 5, 2006. The buy-back offer was to purchase one (1) share out of every twenty-six (26) shares held by each shareholder as of record date.

The board of directors, in its meeting on April 18, 2005, approved the purchase of 2,228,261 shares of the Company at P50 per share from its stockholders on record as of May 9, 2005. The buy-back offer was to purchase one (1) share out of every thirty-five (35) shares held by each shareholder as of record date.

As of December 31, 2006, 13,942,062 shares were held in treasury after share buy-back of 2,913,802 shares in May 2006.

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## 21. Dividend Declaration

The board of directors declared cash dividends on various dates as follows:

Date of Meeting	Stockholders on Record as of	Date of Payment	Dividend per Share	Amount
Oct. 23, 2006	Nov. 8, 2006	Dec. 1, 2006	P0.70	P51,363,345
Nov. 25, 2005	Dec. 9, 2005	Dec. 23, 2005	0.30	22,887,003
Oct. 14, 2004	Nov. 3, 2004	Nov. 20, 2004	0.20	15,703,654

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## 22. Earnings Per Share

Basic earnings per share are computed as follows:

	2006	2005	2004
Outstanding number of shares			
Balance at beginning of year - net of treasury stock of 13,942,062 shares, 11,028,261 shares and 8,800,000 shares in 2006, 2005 and 2004, respectively	76,290,009	78,518,270	78,518,270
Acquisition of treasury stock	2,913,801	2,228,261	-
	<b>73,376,208</b>	76,290,009	78,518,270
	2006	2005	2004
Net income for the year	<b>P157,594,904</b>	P147,169,165	P109,209,843
Divided by outstanding shares	<b>73,376,208</b>	76,290,009	78,518,270
	<b>P2.15</b>	P1.93	P1.39

There are no potential dilutive common stock for the years presented.

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## 23. Retirement Cost

The Company accrues retirement benefits for its employees in compliance with Republic Act No. 7641 "Philippine Retirement Law" which requires a company to pay a minimum retirement benefits to employees who retire after reaching the mandatory retirement age of 65 years old or the optional retirement age of 60 years old with at least five (5) years of service to the company.

Provision for retirement amounted to P4,470,059, P2,986,418 and P4,479,627 for the years 2006, 2005 and 2004, respectively. As at December 31, 2006 and 2005, accrued retirement liability presented under "Accounts Payable and Accrued Expenses" account totaled P22,096,333 and P17,742,541, respectively.

Based on the latest actuarial valuation of the Company's retirement liability under Republic Act No. 7641 as of December 31, 2006, the current service cost is P2,082,152 and P1,217,871 in 2006 and 2005, respectively, and the present value of obligation is P16,456,780 and P14,326,413 in 2006 and 2005, respectively. The retirement fund is currently unfunded.

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## 24. Leases

### Lease Receivables

The Company leases certain portions of the Hotel premises to third parties for a term of three years with options for extension/renewal upon mutual agreement of the parties. The leases include provisions for rental increment ranging from 5% to 12% upon renewal of the contracts subject to renegotiations of both parties. Future minimum lease receivables are as follows:

	2006	2005	2004
Due within one year	<b>P101,535,303</b>	P110,270,575	P92,367,900
After one year but not more than five years	<b>50,924,644</b>	165,445,174	51,553,862
	<b>P152,459,947</b>	P275,715,749	P143,921,762

The lease agreements with the third parties required the latter to give the Company lease deposits in the total amount of P23,470,282 shown as part of “Refundable Deposits” in the balance sheet.

### Lease Obligations

The Company leases the land occupied by the Hotel from HLC for a period of 25 years up to January 1, 2015. Future minimum rental obligations on the land are as follows:

	2006	2005	2004
Due within one year	<b>P10,678,565</b>	P10,678,565	P10,678,565
After one year but not more than five years	<b>42,714,260</b>	42,714,260	42,714,260
More than five years	<b>32,035,695</b>	53,392,825	64,071,390
	<b>P85,428,520</b>	P106,785,650	P117,464,215

On August 1, 2004, the Company, as lessee, and HLC, as lessor, agreed to amend the Contract of Lease with Option to Purchase executed by the parties on November 12, 1991 covering the lease of the land. The amended contract provides for the following changes:

- The annual rental on the land was increased from P5,910,000 to P10,678,565;
- The required lease deposit (shown as part of “Other Assets” in the balance sheet) was increased from P58 million to P78 million;
- The interest rate on the lease deposit which the lessor is obligated to pay to the Company was reduced from 10% per annum to 5%;
- The parties agreed to convert a portion of the unpaid interest on the lease deposit in the amount of P10,678,565 into advance rental payment (shown as part of “Other Assets” in the balance sheet) to be applied on the rent due from the Company for the year 2009; and
- The parties agreed to convert a portion of the unpaid interest on the lease deposit in the amount of P20 million into “Deposit on Lease Contract” to cover the full amount of the agreed increase in the lease deposit.

The Company also leases a fully furnished townhouse unit from HLC for a period of 2 years up to December 31, 2007 renewable at the option of both parties. The annual rental on the townhouse unit is P120,000.

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## **25. Appropriation of Retained Earnings**

The Company has appropriated the amount of P145,690,100 and P111,413,050 in 2006 and 2005, respectively, to finance the acquisition of treasury stock during those years.

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## **26. Financial Assets and Liabilities**

The Company's financial assets consisting of shares of stock and liabilities are recognized initially at fair value. Transaction costs (debts issuance costs) are included in the initial measurement of all financial assets and liabilities. Subsequent to initial recognition, assets and liabilities are valued at amortized cost using the effective interest rate method or the fair value depending on the classification.

The estimated fair values of the Company's financial assets and liabilities as of December 31, 2006 and 2006 approximate their carrying values based on the following methods and assumptions used to estimate fair value of each class of financial instrument for which it is practicable to estimate such value:

### Financial Assets

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents and receivables approximate the amount of consideration at the time of initial recognition. Investment in an associate is accounted for under the equity method as required under PAS 28 Investment in an Associate. Loan receivable is carried at cost in the balance sheets.

### Financial Liabilities

Due to the short-term nature of the transactions, the fair value of accounts payable and accrued expenses and other liabilities approximate the amount of consideration at the time of initial recognition.

### Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash, short-term time deposits, receivables, and payables.

Exposure to credit, interest rate, liquidity and currency risks arise in the normal course of the Company's business activities. The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.



### Credit Risk

The investment of the Company's cash resources is managed so as to minimize risk while seeking to enhance yield. The Company's holding of cash and money market placements expose the Company to credit risk of the counterparty if the counterparty is unwilling or unable to fulfill its obligations, and the Company consequently suffers financial loss. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit standing. The treasury policy sets aggregate credit limits of any one counterparty and annually reviews the exposure limits and credit ratings of the counterparties.

The Company has credit management policies in place to ensure that rental contracts are entered into with customers who have sufficient financial capacity and good credit history.

Receivables balance is being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

As of balance sheet date, there were no significant concentrations of credit risk.

### Interest Rate Risk

The Company has no debt obligations to third parties. As such the Company has minimal interest rate risk.

### Liquidity Risk

The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. The maturities of short-term money market placements are balanced between maximization of earnings and meeting cash requirements.

### Foreign Currency Risk

Financial assets and financing facilities extended to the Company were mainly denominated in Philippine Peso. As such, the Company's foreign currency risk is minimal.

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## **27. Contingencies**

The Company, in the ordinary course of business, is a party to certain labor and other cases which are under protest or pending decisions by the courts, the outcome of which are not presently determinable. In the opinion of Management and its legal counsel, the eventual liability arising from these cases or claims, if any, will not have a material effect on the Company's financial position or results of operations.

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## **28. Reclassification**

Certain accounts in the 2005 financial statements have been reclassified to conform with the 2006 financial statements presentation.

**GRAND PLAZA HOTEL CORPORATION**

**Schedules Required by the Securities and Exchange Commission  
December 31, 2006**

**TABLE OF CONTENTS**

<b>Schedule</b>	<b>Description</b>	
A	Marketable Securities - Current Marketable Equity Securities and Other Short-Term Cash Investments	See Attached
B	Amount Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	See Attached
C	Non-current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	See Attached
D	Indebtedness of Unconsolidated Subsidiaries and Related Parties	See Attached
E	Intangible Assets - Other Assets	Not Applicable
F	Long-term Debt	Not Applicable
G	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	See Attached
H	Guarantees of Securities of Other Issuers	Not Applicable
I	Capital Stock	See Attached
	List of Top Twenty (20) Stockholders of Record	See Attached
	Number of Shares Held by Directors/Officers	See Attached

**GRAND PLAZA HOTEL CORPORATION**

**Schedule A - Marketable Securities - Current Marketable Equity Securities  
and Other Short-Term Cash Investments  
December 31, 2006**

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<b>Name of issuing entity and association of each issue</b>	<b>Number of shares or principal amount of bonds and notes</b>	<b>Amount shown in the balance sheet</b>	<b>Income accrued</b>
ANZ Bank	P162,859,629	P162,859,629	P246,882
Dao Heng Bank - Hongkong	53,770,278	53,770,278	47,476
	P216,629,907	P216,629,907	P294,358

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**GRAND PLAZA HOTEL CORPORATION**

**Schedule B - Amount Receivable from Directors, Officers, Employees, Related Parties  
and Principal Stockholders (Other than Related Parties)**

**December 31, 2006**

<b>Debtor</b>		<b>Balance at beginning of period</b>	<b>Additions</b>	<b>Deductions</b>		<b>Current</b>	<b>Noncurrent</b>	<b>Balance at end of period</b>
				<b>Amounts collected</b>	<b>Amounts written off</b>			
<b>Name</b>	<b>Designation</b>							
De Jesus, Grace	HRD Assistant	P84,030	-	-	-	P84,030	-	P84,030
Bautista, Armando	Purchasing Manager	23,145	-	1,615	-	21,530	-	21,530
Chua, Yew Hock	Exec. Sous Chef	4,455	5,247	-	-	9,702	-	9,702
Ho, Mei Mei	Asst. General Manager	23,749	-	41,746	-	(17,997)	-	(17,997)
Winebrenner - Various Employees	Health Insurance	301,980	-	305,067	-	(3,087)	-	(3,087)
Villanueva, Madel	Financial Analyst	53,552	-	53,552	-	-	-	-
Ventigan, Charity	Sales Manager	22,491	-	22,491	-	-	-	-
Miyoshi, Ikuko	Former Japanese Sales & GR Mgr.	18,889	-	18,889	-	-	-	-
Roldan, Norielle	Director of Marketing	16,014	-	16,014	-	-	-	-
Kabigting, Regina	PR Manager	14,000	-	14,000	-	-	-	-
Magsalin, Grace	HR Director	10,000	-	10,000	-	-	-	-
Garcia, Jefferson	Accounts Clerk	6,390	-	6,390	-	-	-	-
Bautista, Nimfa	Reservations Manager	4,329	-	4,329	-	-	-	-
Other various employees	Various	4,637	674	-	-	5,311	-	5,311
		P587,661	P5,921	P494,093	-	P99,489	-	P99,489

**GRAND PLAZA HOTEL CORPORATION**

**Schedule C - Non-current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments  
December 31, 2006**

<b>Name of issuing entity and description of investment</b>	<b>Number of shares or principal amount of bonds and notes</b>	<b>Net Amount in Pesos</b>	<b>Equity in earnings/(loss) of investee for the year</b>	<b>Other</b>	<b>Distribution of earnings by investee</b>	<b>Dividends received from other investments not accounted for by the equity method</b>	<b>Other</b>
Investments in shares of stock - at equity: Harbour Land Corporation	48,200,000	P44,708,786	P536,810	P -	P -	P -	P -

**GRAND PLAZA HOTEL CORPORATION****Schedule D - Indebtedness of Unconsolidated Subsidiaries and Related Parties  
December 31, 2006**

<b>Description</b>	<b>Nature</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
Due from related parties:			
Rogo Realty Corporation	Advances	P5,623,171	P6,784
Harbour Land Corporation	Advances	1,004,626	1,003,294
CDL Hotels (Phils.) Corporation	Advances	7,455,456	2,448
		14,083,253	1,012,526
Harbour Land Corporation	Interest	975,000	325,000
Rogo Realty Corporation	Interest	10,889,788	11,664,788
		11,864,788	11,989,788
Rogo Realty Corporation	Loan	15,500,000	15,500,000
Harbour Land Corporation	Lease Deposit	78,000,000	78,000,000
Harbour Land Corporation	Prepaid Rent	10,678,565	10,678,565
		P130,126,606	P117,180,879

**GRAND PLAZA HOTEL CORPORATION**

**Schedule G - Indebtedness to Related Parties (Long-Term Loans from Related Companies)  
December 31, 2006**

<b>Description</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
Due to related parties:		
Millennium & Copthorne Int'l. Ltd.	P298,886	P300,453
CDL Hotels (Phils.) Corporation	9,616,201	3,004,486
Harbour Land Corporation	2,834,622	962,872
	<b>P12,749,709</b>	<b>P4,267,811</b>

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**GRAND PLAZA HOTEL CORPORATION**

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**Schedule I - Capital Stock  
December 31, 2006**

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<b>Title of Issue</b>	<b>Number of shares authorized</b>	<b>Number of shares Issued and outstanding shown under related balance sheet caption</b>	<b>Number of shares reserved for options, warrants, conversion and other rights, etc.</b>	<b>Number of shares held by related parties</b>	<b>Directors, officers and employees</b>	<b>Others</b>
Common shares at P10 par value	115,000,000	87,318,270	-	39,249,343	7,320	48,061,607

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*\*Number of shares in Treasury is 13,942,062.*



**GRAND PLAZA HOTEL CORPORATION**  
**List of Top Twenty (20) Stockholders of Record**  
**December 31, 2006**

Name of Stockholders	Citizenship	No. of Shares Held	Percentage to Total Outstanding
The Philippine Fund Limited	Bermuda	39,249,343	44.95%
Zatrio PTE Ltd	Singaporean	24,280,450	27.81%
Grand Plaza Hotel Corporation - Treasury stocks	Filipino	13,942,063	15.97%
PCD Nominee Corporation (Filipino)	Filipino	9,267,339	10.61%
Alexander Sy Wong	Filipino	47,256	0.05%
Yam Kum Cheong	Filipino	7,000	0.01%
Pam Poh Choo	Filipino	7,000	0.01%
Phoon Lin Mui	Filipino	7,000	0.01%
Yam Kit Seng	Filipino	7,000	0.01%
Lucas M. Nunag	Filipino	4,800	0.01%
Natividad Kwan	Filipino	4,320	0.00%
Le Ying Tan-Lao	Filipino	3,610	0.00%
Yam Kit Sung	Filipino	2,999	0.00%
Peter Kan	Singaporean	2,650	0.00%
Romeo L. Salonga	Filipino	2,400	0.00%
Christopher Lim	Filipino	2,332	0.00%
Norberto R. Ong	Filipino	2,000	0.00%
Robert Uy	Filipino	2,000	0.00%
Estrella M. Dela Cruz	Filipino	1,900	0.00%
James Jao & / Or Henry Jao	Filipino	1,687	0.00%
		<b>86,845,149</b>	<b>99.46%</b>

**GRAND PLAZA HOTEL CORPORATION**  
**SUPPLEMENTARY DATA - NUMBER OF SHARES HELD**  
**BY DIRECTORS/OFFICERS**  
**December 31, 2006**

<b>Names</b>	<b>Position</b>	<b>No. of Shares Held</b>
Natividad B. Kwan	Corporate Secretary and Compliance Officer	4,320
Yam Kit Sung	General Manager	2,999
Eddie Yeo Ban Heng	Director / General Manager	1
		7,320

**Grand Plaza Hotel Corporation**  
**Aging Report As At 31 December 2006**

<b>Customer Type</b>	<b>0 to 8 days</b>	<b>9 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>91 to 120 days</b>	<b>Over 120 days</b>	<b>Total</b>	<b>%</b>
Airlines	68,113	109,844	49,176	-	17,543	-	244,676	0.81%
Credit card	2,265,008	-	-	-	-	-	2,265,008	7.50%
PAGCOR	2,725,756	5,055,687	21,418	-	-	-	7,802,861	25.83%
Individual - local	-	-	-	-	-	267,270	267,270	0.88%
Company - local	252,326	7,891,639	3,516,660	1,357,046	200,086	20,564	13,238,321	43.82%
Overpayment	(60,872)	(279,898)	(70,059)	(129,591)	(27,554)	(406,600)	(974,574)	-3.23%
Permanent accounts	57,035	40,368	10,690	147	800	3,867	112,907	0.37%
Employee charges	-	-	-	-	-	-	-	0.00%
Travel Agent - Local	768,648	1,568,809	95,706	41,746	-	-	2,474,909	8.19%
Temporary credit	64,403	2,160,078	149,744	42,186	-	-	2,416,411	8.00%
Travel Agent - Foreign	727,735	988,560	461,502	83,342	102,715	-	2,363,854	7.82%
<b>TOTAL</b>	<b>6,868,151</b>	<b>17,535,087</b>	<b>4,234,837</b>	<b>1,394,876</b>	<b>293,590</b>	<b>(114,899)</b>	<b>30,211,642</b>	<b>100.00%</b>
<b>(%)</b>	<b>22.73%</b>	<b>58.04%</b>	<b>14.02%</b>	<b>4.62%</b>	<b>0.97%</b>	<b>-0.38%</b>	<b>100.00%</b>	