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Miscellaneous

* 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	22-Feb-2013 18:32:00
Announcement No.	00124

>> Announcement Details

The details of the announcement start here ...

Announcement Title *	Announcement by Subsidiary Company, Grand Plaza Hotel Corporation, on Full Year Results for the Year Ended 31 December 2012
Description	Please see the attached announcement released by Grand Plaza Hotel Corporation on 22 February 2013.
Attachments	22022013_GPHC_Results.pdf Total size = **937K** (2048K size limit recommended)

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102222013000855

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000166878
Company Name	GRAND PLAZA HOTEL CORPORATION DOING BUSINESS U-NDER THE NAME OF THE HERITAGE HOTEL MANILA
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	102222013000855
Document Type	17-A (FORM 11-A:AANU)
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Period Covered	December 31, 2012
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Remarks	with FS.

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 2012

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 ("Company")

5. City of Pasay, Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

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
Common Stock	**87,318,270** (Inclusive of 29,766,718 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 [x] No [ ]

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

Yes [x] 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 as of 29 January 2013 is PhP45 and the total voting stock held by non-affiliates of the Company is 7,823,105. Therefore, the aggregate market value of the voting stock held by non-affiliates of the Company is PhP352,039,725.

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. **N.A.**

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 businesses 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 ended 31 December 2012, the Company reported a net profit after tax of about PhP165 million as against PhP176 million in 2011 and PhP173 million in 2010.

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, Filipinos and guests from Southeast Asian nations, while food and beverage guests are mainly Filipinos.

Competitive Position

The main competitors of The Heritage Hotel Manila are Manila Diamond Hotel, Pan Pacific, Traders Hotel and Dusit Thani Hotel.

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

NAME	MPI	ARI	RGI
Heritage Hotel	0.91	0.78	0.71
Diamond Hotel	1.08	1.03	1.11
Dusit Thani	1.05	1.16	1.22
Pan Pacific	1.04	1.24	1.28

Traders Hotel	0.89	0.73	0.66

Note: MPI stands for Market Penetration Index, ARI stands for Average Room Rate Index and RGI stands for Revenue Growth Index. A figure of "1" means that the hotel is getting the fair share of the market.

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 for raw materials are Agathon Trading, Yulick Food Corporation and Distribution and Golden Horseshoe.

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 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 Elite Hotel Management Services Pte. Ltd.'s Philippines Branch 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.

Policy on Related Party Transactions

Section 5.2 of the Company's Revised Manual on Corporate Governance requires all material information to be publicly and timely disclosed through the appropriate mechanisms of the PSE and submitted to the SEC. Such information includes, among others, related party transactions. All such information should be disclosed.

In compliance with the Amended Implementing Rules and Regulations of the Securities Regulation Code ("SRC Rules"), the Company must disclose the following details for a related party contract:

a. the nature of the related party relationship;
b. the type of transaction (e.g. supply or services contract, loans, guarantees);

c. the total amounts payable and receivable in the transaction from or to the related party;
d. the elements of the transaction necessary to understand the listed company's financial statements.

The Company must also disclose its transactions in which related persons, such as directors, officers, substantial shareholders or any of their immediate families have a direct material interest, such as the related person’s beneficial ownership of the counterparty or share in the profits, bonus, or commissions out of the transaction.

No disclosure is needed for any transaction where:

a. The transaction involves services at rates or charges fixed by law or governmental authority;

b. The transaction involves services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture, or similar services;

c. The amount involved in the transaction or a series of similar transactions has an aggregate value of less than PhP2,500,000; or

d. The interest of the person arises solely from the ownership of securities of the registrant and the person receives no extra or special benefit that was not shared equally (pro rata) by all holders of securities of the class.

In compliance with the provisions of the Corporation Code, a contract of the Company with one or more of its directors or officers must be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock if any of the following conditions are absent:

a. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting.

b. The vote of such director was not necessary for the approval of the contract.

Full disclosure of the adverse interest of the directors or officers involved must be made at the stockholders' meeting and the contract must be fair and reasonable under the circumstances.

Furthermore, the Company must comply with the provision of the Corporation Code which requires a contract between two or more corporations having interlocking directors, where (i) the interest of the interlocking director in one corporation is substantial and his interest in the other corporation is merely nominal, and (ii) any of the following conditions are absent:

a. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting.

b. The vote of such director was not necessary for the approval of the contract.

to be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock of the corporation where the interlocking director's interest is nominal. Similarly, full disclosure of the adverse interest of the interlocking director/s involved must be made at the stockholders' meeting and the contract must be fair and reasonable under the circumstances. Stockholdings exceeding twenty (20%) percent of the outstanding capital stock shall be considered substantial for purposes of interlocking directors.

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 is also authorized to use "The Heritage Hotel Manila" as its business name under its Articles of Incorporation.

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 the 2012 Rules and Regulations to Govern the Accreditation of Accommodation Establishments of the DOT. 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 2012.

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 374 employees during the year 2012. Out of the 374 employees, 239 are regular employees and 135 are casual employees.

The number of employees per type of employment is, as follows:

	REGULAR	CASUAL	TOTAL
Hotel Operating Staff (All operating dept)	171	102	273

Management/Admin/Security (A&G Dept)	29	28	57
Sales & Marketing	14		14
Repairs & Maintenance	25	5	30
Total	239	135	374

Barring any unforeseen circumstance, for the year 2013, the Company will maintain more or less the same number of employees as in year 2012.

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

ITEM 2. PROPERTIES

The Company leases its hotel site from Harbour Land Corporation, a related company. The hotel site is located at the corner of Roxas Blvd. and EDSA Extension, 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 annual rental expenses for the hotel site and is PhP10.6 million.

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

ITEM 3. LEGAL PROCEEDINGS

In the middle of 2008, the Company received from the Bureau of Internal Revenue ("BIR") a Final Decision on Disputed Assessment finding the Company liable for deficiency value added tax ("VAT") with respect to the years 1996 to 2002 in total amount of PhP228.94 million. The Company filed a petition for review with the Court of Tax Appeal ("CTA") to appeal against such Final Decision on Disputed Assessment.

The BIR also issued a Warrant of Distraint and/or Levy and Warrant of Garnishment against the Company and its assets. On 12 September 2008, the Company filed a surety bond with the CTA, and the CTA granted the Company’s Urgent Motion to Suspend Collection of Tax and Extremely Urgent Supplemental Motion to Suspend and Enjoin Collection of Taxes and issued a Temporary Restraining Order enjoining the BIR from further efforts at collection of taxes, and particularly the implementation of the Warrant of Distraint and/or Levy and the Warrant of Garnishment.

In 2009, the Company moved to have a preliminary hearing conducted to first resolve the legal issues. The CTA granted the motion and hearings were subsequently conducted. On 4 September 2009, the CTA granted the evidence presented by the Company. On 6 January 2011, the Company received a CTA Resolution in which the CTA resolved to lift the Warrant of

Garnishment (thereby lifting the Warrant of Distraint and/or Levy as well) but denied the Company's Motion to Discharge Surety Bond.

On 22 June 2011, a copy of the CTA's resolution promulgated on 17 June 2011, which resolved the Motion in favor of the Company, thereby ordering that the surety bond posted by the Company for the suspension of collection of taxes be cancelled and withdrawn.

As mentioned in the CTA Resolution, in line with the decision of the Supreme Court in *Philippine Amusement and Gaming Corporation (PAGCOR) vs. The Bureau of Internal Revenue, et al.*, the CTA, in its decision dated 18 February 2011, cancelled the BIR's assessment against the Company for deficiency VAT in the amount of PhP228,943,589.15 for taxable years 1996 to 2001. In its resolution dated 17 May 2011, the CTA denied the Commissioner of Internal Revenue's Motion for Reconsideration of the CTA's decision rendered on 18 February 2011. According to the CTA, considering that the assessment against the Company for deficiency VAT has been cancelled, the CTA deemed it proper that the surety bond posted by the Company be discharged.

On 1 September 2011, the CTA En Banc resolved to give course to BIR's appeal. The Company filed its Memorandum in October 2011. On 27th July 2012, the CTA En Banc resolved that consistent with the pronouncement of the Supreme Court in the cases of *CIR vs. Acesite Hotel Corporation* and *PAGCOR vs. CIR*, that services rendered to PAGCOR are exempt from VAT, CIR's petition has no leg to stand and must necessarily fall. BIR filed a Motion for Reconsideration.

On 8th October 2012, the CTA En Banc resolved that BIR's Motion for Reconsideration is denied and the earlier decision of the CTA promulgated on 17th May 2011 is affirmed. On 5th December 2012, BIR filed with the Supreme Court a Petition for Review. As at the date of this report, the Petition for Review is still pending with the Supreme Court.

The Company will continue to pursue its case with the Supreme Court and will file the necessary disclosure on the outcome thereof following the issuance of the judgment of the Supreme Court.

Other than the above matter, 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 2012 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)
Angelito Imperio; (independent director) and
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 2012 and 2011:

Amount in Peso:

	HIGH	LOW	HIGH	LOW
	Year 2012	Year 2012	Year 2011	Year 2011
First Quarter	70	26	No movement	No movement
Second Quarter	33	26.8	No movement	No movement
Third Quarter	45	40	33	30
Fourth Quarter	45	45	No movement	No movement

The last recorded trade of the shares of the Company during the fiscal year covered by this report occurred on 4th October 2012. The share price was PhP45.

Holders of Securities

The Company has only one class of shares, i.e., common shares. The total outstanding common shares as of 31 December 2012 is 87,318,270 inclusive of 29,766,718 treasury shares.

As of 31 December 2012, the number of shareholders of the Company is 506.

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.	30,722,733	35.18%
02	Grand Plaza Hotel Corp- Treasury Stocks	29,766,718	34.09%
03	Zatrio Pte Ltd	19,005,714	21.77%
04	PCD Nominee Filipino	7,029,972	8.05%
05	PCD Nominee Non-Filipino	231,228	0.26%
06	Alexander Sy Wong	36,992	0.04%
07	Yam Kit Seng	7,000	<0.01%
08	Phoon Lin Mui	7,000	<0.01%
09	Yam Kum Cheong	7,000	<0.01%
10	Yam Poh Choo	7,000	<0.01%
11	Lucas M. Nunag	4,800	<0.01%
12	Natividad Kwan	3,983	<0.01%
13	Yam Kit Sung	2,999	<0.01%
14	Le Ying Tan-Lao	2,946	<0.01%
15	Peter Kan	2,443	<0.01%
16	Romeo L. Salonga	2,400	<0.01%
17	Christopher Lim	2,239	<0.01%
18	Robert Uy	2,000	<0.01%
19	Certerio Uy	1,000	<0.01%
20	Rolando Umali	1,000	<0.01%
	Total	86,847,167	99.46%

Dividends

In a Board of Directors meeting held on 15th May 2012, the Board of Directors approved the declaration of cash dividend of PhP2 per share for all the shareholders as of record date 29th May 2012.

Dividend Policy

The nature of the dividend, the dividend payment date and the amount of the dividend are determined and approved by the Company's Board of Directors.

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:

	2012	2011	2010
Current ratio	**1.93**	2.03	1.51
Net book value per share (include treasury shares)	**PhP12.09**	PhP12.93	PhP12.34
Earnings per share	**PhP2.83**	PhP2.89	PhP2.75
Profit before tax margin ratio	**34.06%**	34.78%	36.21%
EBITDA	**PhP261 million**	PhP280 million	PhP274 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 reduced during the year of review mainly due to lesser current assets especially in cash due to share buyback and dividends payments.

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 assets.

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 has dropped by PhP0.84 or 6% due to lower profit.

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 maintained the same profit margin of 34% as prior year..

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 shows a fall in EBITDA due to lower earnings.

Results of Operations:

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

YEAR	REVENUE – PHP’000	NIAT – PHP’000
2012	687,318	165,476
2011	718,828	176,063
2010	679,849	138,317

2012 Results of Operations

For the year 2012, the Company registered a drop in revenue by PhP31.5 million (4.3%) as compared to the same period of last year. Net income after tax recorded a fall of PhP10.5 million (6%) relative to prior year.

Revenue:
Room revenue decreased from PhP367.7 million to PhP353.1 million or 3.8%. The fall in room revenue is mainly due to drop in occupancy from 67% in 2011 to 64% in 2012. As a result, Revenue Per Available Room (Revpar) also decreased by 4%. The unfavorable variance is due to the corporate segment but offset by the increase in package segment.

Food and Beverage (F&B) division also showed a fall in revenue from PhP202.8 million to PhP183 million or 9%. The 3 revenue centers, Riviera Café, Casino and Banquet registered the fall in revenue. With the opening of the Resort World Casino Manila, it drew away the regular casino players in the Hotel. .

Others consisting mainly of rental from a tenant increased from PhP136.8 million to PhP141.8 million or 3.5% due to higher rental and a new tenant.

Cost of sales:
Total cost of sales does not show any material variance as compared to prior year.

Gross Profit:
Gross profit showed a drop by PhP30.8 million or 4.7% due to lower revenue.

Selling Expenses:
Selling expenses consist of property operation, maintenance, energy and conservation, salaries, transport charges and commission. As compared to the prior year, there is an increase from PhP213.6 million to PhP217.8 million or PhP4.1 million (1.9%). The variance is attributable to increase in salaries and property operation, maintenance, energy and conservation.

Administrative Expenses:
Administrative expenses mainly consist of management and incentive fees, salaries, credit card commission and dues and subscription. There is a drop from PhP196.8million to PhP181.3 million and this is attributable to the lower management and incentive fees which is consistent with the lower hotel revenue and gross operating profit for the year.

Other income/(expenses):
There is an increase from PhP7.5 million to PhP11.1 million or 47% as there is an exchange gain of PhP1.5 million in this year versus last year with a loss of PhP2 million.

Income Tax Expense:
Income tax expense decreased by PhP5.3 million or 7.2% due to lower profit for the year.

Net Income After Tax:
Net income after tax fell from PhP176 million to PhP165 million as a result of lower revenue for the year.

2011 Results of Operations

For the year under review, the Company showed a modest growth in revenue of PhP39 million or 5.7% compared to last year. However, the net income after tax increased slightly by PhP2.5 million or 1% due to rising inflation.

Revenue:
Room revenue improved by PhP6.2 million or 1.7% compared to last year. Occupancy improved from 63% to 67% while Average Room Rate showed a drop of 4%. The growth in room revenue is derived mainly from the group and airline crews segments.

F&B revenue improved by PhP11 million or 5% over the same period of last year. The improvement in F&B is shown in Riviera, Casino and Lobby Lounge outlets. Casino registered the strongest growth of PhP11.6 million or 27% compared to last year.

Other operated departments registered a minor growth of PhP0.16 million while other revenue increased by PhP21.4 million or 18% due to higher rental for a new tenant.

Cost of sales:
F&B cost of sales showed an increase of PhP5 million or 8% which is consistent with the higher F&B revenue.

Gross Profit:
Gross profit is derived after deducting cost of sales from revenue. There is an improvement in gross profit by 5.5% as compared with 2010 due to higher revenue.

Selling Expenses:

Selling expenses increased by PhP17.6 million or 9% over last year. One of the main reasons for the increment is due to higher property operation, maintenance, energy and conservation expenses which increased by PhP10.5 million due to higher electricity rate this year. In addition, payroll and related expenses also increased by PhP2.6 million due to salary increase.

Administrative Expenses:
Administrative expenses increased by PhP9.8 million or 5% due to higher payroll and related expenses and professional fees.

Other Income/(Expenses):
This consists mainly of interest income and foreign exchange gain or loss. There is a fall of PhP2.9 million or 28% due to the fact in year 2010, there was a recognition of other income from purchase of Tax Credit Certificate.

Net Income before tax:
This is the income before tax but after deduction of all expenses. There is an increase of PhP3.8 million in year 2011 as compared to last year due to higher revenue.

Provision for income tax:
Total provision for income tax for the year is PhP73.9 million while 2010 was PhP72.5 million and this is consistent with the higher profit.

Net Income:
As a result of significantly higher revenue, the profit after tax of the Company showed an increase of PhP2.5 million.

2010 Results of Operations

The Philippines economy including the hospitality industry has a good year 2010. The hospitality industry in the first half of year 2010 was very buoyant due to the national election. With more spending during the election period, the hotels were doing well for both rooms and food and beverage (F&B) businesses.

Revenue:
Room revenue improved by PhP31.9 million or 9.7% versus last year same period. Occupancy increased from 55% in year 2009 to 63% in year 2010. The Revpar also increased by 9.7% to PhP2,201.

F&B revenue fell slightly by PhP234,000 or less than 1% mainly due to lower contribution from the casino operation. Pagcor casinos are affected with the opening of the new Resort World.

Other operating department revenue improved significantly by PhP6.4 million or 151% due to higher telephone and internet revenue.

Others showed an improvement of PhP10 million or 9.5% due to higher rental from tenant.

Cost of sales:
Total cost of sales increased by PhP3.2 million mainly due to higher cost of sales for telephone department. The increase in cost of sales in telephone department is consistent with the higher telephone revenue which increased by 300% versus the same period of last year.

Gross Profit:
Gross profit is derived after deducting cost of sales from revenue. There is an improvement in gross profit by 7.8% as compared with year 2009. This is due to significantly higher revenue contribution.

Selling Expenses:
Selling expenses increased by PhP6 million (3%) as compared to the same period of last year. The increase in selling expenses is consistent with the improvement in total revenue. Bulk of the increment is in property operation, maintenance, energy and conservation.

Administrative Expenses:
This expense fell by PhP4 million (2%) relative to last year. This is mainly due to effort to reduce head counts and control of expenses. Depreciation and insurance expenses were also lower than same period of last year.

Other Income/(Expenses):
Total other income/(expenses) increased by PhP4.6 million (79%) as a result of higher other income and lesser foreign exchange loss.

Net Income before tax:
This is the income before tax but after deduction of all expenses. There is an increase of PhP48 million in year 2010 as compared to last year. The favorable variance is due to higher revenue.

Provision for income tax:
Total provision for income tax for year 2010 is PhP72 million (2009: PhP59 million). This increase in provision is consistent with the higher profit.

Net Income:
As a result of the significantly higher revenue, the profit after tax of the Company showed an increase of PhP35 million.

Financial Conditions:

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

YEAR	ASSETS - PHP'000	LIABILITIES – PHP'000
2012	1,448,251	392,115
2011	1,526,631	397,319
2010	1,467,596	390,594

2012 Financial Conditions

Total assets for the year 2012 decreased by PhP78 million or 5% versus the same period last year. Total liabilities decreased by PhP5.2 million or 1.3%. The main decrease in assets is due to lower cash position.

Assets:

- Cash and cash equivalents: This balance consists of cash and fixed deposits placed with banks. There is a drop from PhP354.3 million to PhP282.6 million as a result of share buyback and cash dividend payments during the FY2012. The Company paid out PhP178.3 million in total for both dividends and share buyback.

- Receivables – net: There is an increase in this balance by PhP16 million (5%) The increase is mainly due to increase in VAT due from PAGCOR and also advances to contractor in connection with a renovation project.

- Due from related parties: In the normal course of business, the Company advances to its related companies for working capital purpose. There is a drop in the balance from PhP3.1 million to PhP1.1 million due to the related companies have settled their outstanding balances to the Company as at year end.

- Inventories: Inventories consist of food, general supplies, beverage and tobacco, engineering supplies. The increase in this balance by PhP1.9 million is due to increase in food inventory.

- Prepayments and other current assets: This balance consists of input value-added tax and prepaid expenses which are mainly insurance premium. There is an increase in balance by PhP1.1 million.

- Property and equipment – net: This balance decreased by PhP25.6 million (3%) and is attributable to the net effect of depreciation, disposal of fixed assets and addition of fixed assets during the year. Depreciation charges for the year is PhP38 million.

- Deferred tax assets: Deferred tax assets consist of retirement liability, deferred rental income, allowance for impairment loss on receivables and foreign exchange gain/loss. The increase in balance by PhP1.8 million (18%) is due to higher retirement liability.

Liability and Equity:

- Accounts payable and accrued expenses: This account consists mainly of trade payables, accrued payroll and accrued utilities. There is a decrease in accrued trade payables by PhP10.6 million (16%) due to lesser volume of business for this year.

- Income tax payable: Income tax payable fell by PhP5.1 million (25%) and this is consistent with the lower profit for this year.

- Due to related parties: There is a drop in this balance by PhP12.4 million (64%) and is because the Company has repaid some outstanding payables to its related companies.

- Other current liabilities: This balance consists of output VAT payable, deferred rental and withholding taxes payable. The increase in balance by PhP9 million (4%) is due to higher output VAT payables.

- Accrued retirement liability: There is an increase in PhP2.7 million (8%) due to provision for retirement liability for the year 2012.

- Refundable deposit: This balance is mainly for security deposits placed by tenants with the Company. The increase in balance by PhP3.5million (13%) is due to the deposit of a new tenant.

- Treasury stock: This pertains to the share buyback exercise conducted during the year. On 25th June 2012, the Board approved a share buyback exercise of 1 share for every 25 shares and at PhP50 per share.

2011 Financial Conditions

Total assets for the year 2011 increased by PhP59 million or 4% versus the same period last year. Total liabilities increased by PhP7.3 million or 1.8%. The main increase in assets is due to higher cash position.

Assets:

- Cash and cash equivalents: This balance includes cash on hand and also short term placements with banks. This balance increased by PhP171 million (93%) over last year. The main reason is because in last year's financial statements, about PhP93 million was classified under non-current assets while this was re-classified back to cash in year 2011. In addition, due to better trading and no major spending, cash balance also improved.

- Due from related parties: This balance increased by PhP0.89 million (40%) as the related parties have not settled its obligation to the Company as at year end 2011.

- Inventories: There is a decrease of PhP0.76 (5%) due to lower general supplies balance.

- Prepayments and other current assets: There is a fall of PhP2.2 million (14%) due to lesser prepaid expenses for this year. The bulk of prepaid insurance in relation to the Surety Bond has been terminated in the third quarter of 2011 as there is no requirement for the Bond.

- Deferred tax assets: This comprised of accrual of retirement expenses, foreign exchange difference gain, deferred rental income and provision for impairment losses on receivables. There is an increase of PhP1.43 million (16%) relative to the same period of last year due to higher balance in retirement expenses and deferred rental income.

- Property and equipment net: This balance decreased by PhP24 million (3%) due to depreciation charges for the year and offset by addition of fixed assets of PhP14 million.

- Other non-current assets: The main reason for the fall in this balance by PhP93 million (52%) is that in year 2010, there was a restricted cash balance of PhP93.7 million which in year 2011 was reclassified to cash.

Liabilities and Equity:

- Accounts payable and accrued expenses: This balance increased by PhP23 million or 38% mainly due to higher trade payables.

- Income tax payable: This balance increased by PhP3.7 million (23%) mainly due to higher taxable profit.

- Due to related parties: There is an increase in this balance by PhP11.4 million (144%) as the Company has not repaid the outstanding balances to its related parties.

- Other current liabilities: This balance decrease by PhP40.5 million (15%) as in year 2010, there was a balance of PhP54.6 million dividend payable which was absent in this year 2011.

- Refundable deposits: This account pertains to deposits given by tenants and customers. The increase of PhP5.6 million (25%) is due to an increase in security deposit of one tenant.

- Accrued retirement liability: The increase in this balance by PhP3.4 million (11%) is due to the accrual of more retirement liability for the year in accordance to the Actuarist Report.

- Treasury stock: During the year 2011, the Company conducted a share buyback exercise with a share price of PhP50 per share and the ratio of 1 share for every 25 shares. The total amount is PhP123.7 million.

2010 Financial Conditions

Total assets for the year 2010 increased by PhP31 million or 2% as compared to the last period of review. While total liabilities increased by PhP49 million or 14% as compared to end of last year 2009.

Assets:

- Cash and cash equivalents: There is a significant increase in this balance by PhP51 million or 38% compared to prior year. The main reasons are due to lower capital expenditures during the year and higher revenue and profitability.

- Receivables – Net: This balance increased by PhP15 million (5%) due to higher turnover.

- Due from related parties: This balance fell by PhP2 million as the related parties have settled their obligations to the Company before year end.

- Inventories: Inventories increased by PhP2.9 million (28%) compared to the same period of last year. The increase in inventory is mainly in food and general supplies.

- Prepayments and other current assets: There is an increase of 7% in this balance. This is mainly due to the prepaid insurance premium which will be amortized over the years.

- Deferred tax assets: Deferred tax assets comprised of accrual of retirement expenses, foreign exchange difference gain, deferred rental income and provision for impairment losses on receivables. There is an increase of PhP2.29 million (36%) relative to the same period of last year. This is attributed to the higher accrual of retirement expenses by PhP1.5 million.

- Property and equipment – net: There is a decrease in this balance by PhP39 million which is due to the depreciation charge for the year.

Liabilities and Equity:

- Due to related parties: There is a significant reduction in this balance by PhP12 million (60%) versus last year same period as the Company has settled its obligations with other related parties during the year.

- Other current liabilities: This balance increased by PhP63 million due to higher volume of business for this year and also higher VAT payable. In addition for year 2010, there is a dividend payable of PhP54.6 million which will be paid in January 2011.

- Refundable deposits: Refundable deposits fell by PhP6 million as compared to the same period of last year because of refunding a tenant their deposit during the year.

- Accrued retirement liability: There is an increase in PhP3 million for the year and this is due to the provision made for retirement benefit for year 2010.

- Treasury shares: Treasury shares increased by PhP129 million as during the year, the Company has completed a share buyback exercise at PhP50 per share and 1 share for every 25 shares.

Risks

The Company has exposure to various risks, including liquidity risk, credit risk and market risk. For discussions of these risks, see *Note 25 – Financial Risks and Capital Management* to the accompanying audited financial statements in Item 7.

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	61
Bryan Cockrell	Director	American	No relation	65
Eddie C. T. Lau	Director	Chinese	No relation	57
Michele Dee Santos	Director	Filipino	No relation	45
Angelito Imperio	Independent Director	Filipino	No relation	73
Mia Gentugaya	Independent Director	Filipino	No relation	61
Eddie Yeo Ban Heng	Director / Vice-President / Assistant Compliance Officer / General Manager of The Heritage Hotel	Malaysian	No relation	66

	Manila			
Yam Kit Sung	General Manager of the Company / Chief Finance Officer / Compliance Officer / Chief Audit Executive	Singaporean	No relation	42
Johnny Yap (Joined 8th Nov 2012)	Executive Manager of The Heritage Hotel Manila	Malaysian	No relation	45
Alex Cheong	Executive Chef	Malaysian	No relation	38
Maria Christina J. Macasaet-Acaban	Corporate Secretary	Filipino	No relation	39
Alain Charles J. Veloso	Assistant Corporate Secretary	Filipino	No relation	32
Arlene De Guzman	Treasurer	Filipino	No relation	52

(*) 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 are duly elected and have qualified.

None of the directors and executive officers are related within the 4th 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. He was also an executive director of Millennium & Copthorne Hotels plc, a public listed company on the London Stock Exchange since April 2001. Mr Wong was appointed Chief Executive Officer of Millennium & Copthorne Hotels plc on 27 June 2011. He is also Chairman of Millennium & Copthorne New Zealand Limited and CDL Investments New Zealand Limited, both of which are listed on the New Zealand stock exchange. He is also the non-executive Chairman of M&C REIT Management Limited which manages the Singapore listed CDL Hospitality Trusts

BRYAN K. COCKRELL
DIRECTOR

Mr. Bryan Cockrell, an American national has been a Director of the Company since May 1997. Mr. Cockrell is the Chairman of the Pathfinder Group in the Philippines which has interests in tourism-related ventures, properties and other joint ventures undertakings and of the Group's investments in Vietnam. Before his stint in the Philippines, he held numerous positions in Singapore, Indonesia and Saudi Arabia. Mr. Cockrell is also a Director of Southeast Asia Cement Holdings Inc. and Republic Cement Corp.

ANGELITO C. IMPERIO
INDEPENDENT DIRECTOR

Atty. Imperio has been a Director of the Company continuously since August 1992 and during that span of time, he served as independent Director from 2001 to 2004, and again from 2008 up to the present. 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. At present, his professional work is limited to outside counseling, particularly on estate planning, and serving as an official Appellate Court Mediator of civil cases pending in the Court of Appeals.

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

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. Ms. Dee-Santos also sits on the Board of Malayan Insurance Co., Bankers Assurance Corporation., First Nationwide Assurance Corporation, Pan Malayan Express Inc. Aequitas Holdings, Inc. and RCBC Savings Bank She is not a director of any other reporting company

EDDIE B.H. YEO
DIRECTOR, VICE-PRESIDENT, ASSISTANT COMPLIANCE OFFICER & GENERAL MANAGER OF THE HERITAGE HOTEL MANILA

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, CHIEF FINANCE OFFICER, COMPLIANCE OFFICER & CHIEF AUDIT EXECUTIVE

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 (now known as Millennium & Copthorne 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 HL Global Enterprises Limited, a company listed on the Singapore Stock Exchange. He also sits on the Board of several companies in the HL Global Enterprises Limited Group.

ARLENE DE GUZMAN
TREASURER

Ms. Arlene de Guzman has been the Company's Treasurer since August 1997. She is also a former director and president of the Company. She graduated with a B.S. Business Economics (cum laude) degree from the University of the Philippines in 1981. Her business experience includes: Senior Project Evaluation Officer, National Development Company, Head, Financial Risk Management, Philippine Associated Smelting and Refining Corporation (PASAR) and currently Senior Vice President of the Pathfinder Group. She is presently a director and/or officer of the various companies under the Pathfinder Group, Grand Plaza Hotel Corp, Calumboyan Holdings Group, Seacem Group and the President of a listed company - Southeast Asia Cement Holdings Inc. Other than the foregoing, Ms. de Guzman is not an officer or director of other public companies, listed companies, or companies that are grantees of secondary licenses from the SEC.

MARIA CHRISTINA J. MACASAET-ACABAN
CORPORATE SECRETARY

Ms. Macasaet-Acaban is a partner of the law firm of Quisumbing Torres. She joined Quisumbing Torres in 1998 after graduating *cum laude* from the University of the Philippines College of Law (Ll.B. 1998). She was also a recipient of the Dean's Medal for Academic Excellence and a member of the Order of the Purple Feather, the honors society of the University of the Philippines College of Law. She was admitted to the Philippine Bar in 1999.

Ms. Macasaet-Acaban practices corporate and commercial law, with focus on foreign investments, mergers and acquisitions, corporate compliance. She has represented multinational corporations operating in various industries, such as pharmaceutical and healthcare, information technology, outsourcing, manufacturing and real estate, in Philippine and cross-border transactions, and advised on equity restrictions, investment structures and regulatory compliance for Philippine business operations.

She serves as corporate secretary and assistant corporate secretary of various private companies. She is not an officer or director of other public companies or companies that are grantees of secondary licenses from the SEC.

ALAIN CHARLES J. VELOSO
ASSISTANT CORPORATE SECRETARY

Mr. Veloso is a senior associate of the law firm Quisumbing Torres. Mr. Veloso's practices corporate and commercial law, with focus on pharmaceuticals, securities, mergers and acquisitions, energy and natural resources, infrastructure, and outsourcing. He joined Quisumbing Torres in 2006 after graduating class valedictorian and *cum laude* from the

University of the Philippines College of Law in 2006. He was also a recipient of the Dean's Medal for Academic Excellence, a member of the Order of the Purple Feather, a Chief Justice Fred Ruiz Castro Academic Scholar, an ACCRA – Violeta C. Drilon Merit Scholar, and a Member of the Pi Gamma Mu Honors Society and the Phi Kappa Phi Honors Society. Mr. Veloso was admitted to the Philippine Bar in 2007 and ranked 10th in the 2006 Philippine Bar exams. Prior to obtaining his law degree, Mr. Veloso obtained his B.S. Accountancy from the University of the Philippines - Tacloban College in 2001, graduating *cum laude*. Mr. Veloso passed the Philippine licensure exam for Certified Public Accountants in 2001. He also teaches Transportation and Public Utilities Law and Land Titles and Registration at Centro Escolar University School of Law and Jurisprudence.

Mr. Veloso is also the assistant corporate secretary of various private companies. He is not an officer or director of other public companies or companies that are grantees of secondary licenses from the SEC.

Attendance Record

Meeting Attendance of the Company's Board of Directors in 2012:

Date of Board of Directors' meetings	Name of Directors						
	Wong Hong Ren	Bryan Cockrell	Angelito Imperio	Mia Gentugaya	Michele Dee-Santos	Eddie Lau	Eddie Yeo
30 January 2012	Present	Present	Present	Present	Present	Present	Present
3 February 2012 (Joint meeting with Audit Committee)	Absent	Present	Absent	Present	Present	Present	Present
1 March 2012 (Joint meeting with Nomination Committee)	Present	Present	Absent	Present	Present	Present	Present
22 March 2012 (Joint meeting with Nomination Committee)	Absent	Present	Present	Absent	Present	Present	Present
25 April 2012	Present	Present	Present	Present	Present	Present	Present
15 May	Present	Present	Present	Present	Present	Present	Present

2012 (10:30 a.m.)							
15 May 2012[1]	Present	Present	Present	Present	Present	Absent	Present
15 May 2012 (11:30 a.m.)[2]	Present	Present	Present	Present	Present	Absent	Present
26 July 2012	Present	Present	Present	Present	Present	Present	Present
30 October 2012	Present	Absent	Present	Present	Present	Present	Present
26 November 2012	Present	Present	Absent	Present	Present	Present	Present
Total	9 out of 11	10 out of 11	8 out of 11	10 out of 11	11 out of 11	9 out of 11	11 out of 11
Percentage of Attendance	81.82%	90.91%	72.73%	90.91%	100%	81.82%	100%

Meeting Attendance of the Company's Audit Committee in 2012

Date of the Audit Committee meetings	Name of Directors		
	Bryan Cockrell	Mia Gentugaya	Michele Dee-Santos
30 January 2012	Present	Present	Present
3 February 2012 (Joint meeting with Board of Directors)	Present	Present	Present
25 April 2012	Present	Present	Present
26 July 2012	Present	Present	Present
30 October 2012	Absent	Present	Present
Total	4 out of 5	5 out of 5	5 out of 5
Percentage of Attendance	80%	100%	100%

Meeting Attendance of the Company's Nomination Committee in 2012

[1] Organizational Meeting of the Board of Directors
[2] Annual Stockholders' Meeting

Date of the Nomination's Committee meetings	Name of Directors				
	Wong Hong Ren	Eddie Lau	Bryan Cockrell	Michele Dee-Santos	Angelito Imperio
1 March 2012 (Joint meeting with Board of Directors)	Present	Present	Present	Present	Absent
22 March 2012 (Joint meeting with Board of Directors)	Absent	Present	Present	Present	Present
Total	1 out of 2	2 out of 2	2 out of 2	2 out of 2	1 out of 2
Percentage of Attendance	50%	100%	100%	100%	50%

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE AND DIRECTORS COMPENSATION

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
Wong Hong Ren	Chairman & President	2012			
Eddie Yeo Ban Heng	General Manager of Hotel	2012			
Yam Kit Sung	General Manager of the Company	2012			
Johnny Yap	Executive Manager of Hotel	2012			
Alex Cheong	Executive Chef	2012			
Total		2012	11,328,636	1,481,160	70,000
Directors		2012			2,111,284
All officers & Directors as a group		2012	11,328,636	1,481,160	2,181,284

The estimated total compensation for officers and directors in year 2013 is as follows:

Salary – PhP12 million
Bonus – PhP2 million
Other Fees – PhP2 million

FOR THE LAST 2 FINANCIAL YEARS – 2011 and 2010

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
Wong Hong Ren	Chairman & President	2011			
Eddie Yeo Ban Heng	General Manager of Hotel	2011			
Yam Kit Sung	General Manager of the Company	2011			
Lawrence Wee (Resigned 14 Feb 2011)	Resident Manager of Hotel	2011			
Alvin Ng	Executive Chef	2011			
Total		2011	11,159,794	2,320,767	5,039,420
Directors		2011			2,389,044
All officers & Directors as a group		2011	11,159,794	2,320,767	7,426,464

NAME	POSITION	YEAR	SALARY	BONUS	OTHERS/ DIRECTOR FEES
WONG HONG REN	CHAIRMAN & PRESIDENT	2010			
EDDIE YEO BAN HENG	GENERAL MANAGER OF HOTEL	2010			
YAM KIT SUNG	GENERAL MANAGER	2010			
LAWRENCE WEE	RESIDENT MANAGER OF HOTEL	2010			
ALEX CHEONG	EXECUTIVE CHEF	2010			
TOTAL		2010	18,000,501	619,994	0
DIRECTORS		2010			2,110,970
ALL OFFICERS & DIRECTORS AS A GROUP		2010	18,000,501	619,994	2,110,970

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.

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 2012.

TITLE OF CLASS	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 entities are directly or indirectly the beneficial owners of more than 5% of the Company's voting shares (common) as of 31 December 2012

S/N	NAME OF SHAREHOLDER	CITIZENSHIP	NO. OF SHARES	% OF SHAREHOLDING (EXCLUSIVE OF TREASURY SHARES)
1	The Philippine Fund Limited	Bermuda	30,722,733[3]	53.38%
2	Zatrio Pte. Ltd.	Singapore	19,005,714	33.02%
3	RCBC Trust &	Filipino	6,256,554	10.87%

[3] 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%

	Investment			

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 13. CORPORATE GOVERNANCE

Under the Revised 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 Revised Manual of Corporate Governance and the Revised Code of Corporate Governance, and issues a certification regarding the level of compliance of the Company.

The Company complies with the rules, regulations, and issuances issued by government authorities pertaining to corporate governance and is committed to adhering to good corporate governance principles.

Section 7.2 of the Revised 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.

Implementation of the Revised Code of Corporate Governance

In compliance with Article 9 of the Philippine Securities and Exchange Commission Memorandum Circular No. 6, Series of 2009 or the Revised Code of Corporate Governance, the Board of Directors, in a meeting held on 29 October 2009, approved the amendment of the Company's Manual on Corporate Governance. The amendment of the Company's Manual on Corporate Governance was made to establish and implement the Company's corporate governance rules in accordance with the Revised Code of Corporate Governance.

For the year 2012, the Company, its directors, officers and employees substantially complied, and has taken reasonable action towards complying, with the leading practices and principles on good corporate governance as embodied in the Company's Manual on Corporate Governance, and in the Revised Code of Corporate Governance.

Participation in the Annual Corporate Governance Scorecard for Listed Companies

The Company annually participates in the SEC's and the Institute of Corporate Directors' ("ICD") Annual Corporate Governance Scorecard for Listed Companies ("Scorecard") to measure the performance of the Board of Directors and Management of the Company in accordance with the corporate governance best practices provided for in the Scorecard. The Company's overall average score in the Scorecard for 2009, 2010 and 2011 were 68%, 86%, and 82.52% respectively. The Company endeavors to further improve its corporate governance scores.

Compliance with the Corporate Governance Guidelines for Companies Listed on the Philippine Stock Exchange

The Company substantially complied with the Corporate Governance Guidelines for Companies Listed on the Philippine Stock Exchange ("Guidelines"). The Company's compliance report for 2012, in accordance with the Guidelines, will be made available at the Company's website.

Deviations from recommended practices in the Guidelines will not subject the Company to penalties. Below is a summary of the Company's deviations from some of these recommended practices:

a. The Guidelines recommend that listed companies have at least three (3) or thirty percent (30%) of its directors as independent directors. The Company currently has two (2) independent directors, consistent with the requirements of the Revised Code of Corporate Governance.

b. The Guidelines recommend that the Chairman and CEO positions be held separately by individuals who are not related to each other. The Company's Chairman is also the Company's CEO / President.

c. The Guidelines recommend that listed companies have a unit at the management level, headed by a Risk Management Officer ("RMO"). The Company does not have a Risk Management Officer at the management level.

d. The Guidelines recommend that listed companies have at least thirty percent (30%) public float to increase liquidity in the market. The proportion of the Company's outstanding shares that are considered public float is less than thirty percent (30%).

e. The Guidelines recommend disclosure in the annual report of principal risks to minority shareholders associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company. The Company's Annual Report does not include such a discussion.

Audit Committee Report for 2012

Further to the compliance with applicable corporate governance rules and principles, the Audit Committee reports that:

a. During the meeting of the Audit Committee on 19 February 2013, KPMG Manabat Sanagustin & Co., the Company's External Auditor, presented the results of its examinations of the Company's financial statements. Upon review and discussion with Management and KPMG Manabat Sanagustin & Co., the Audit Committee approved and endorsed to the Board of Directors the Company's financial statements as at and for the year ended 31 December 2012. During its meeting on 19 February 2013, the Board of Directors approved the Company's financial statements as at and for the year ended 31 December 2012.

b. In the meetings of the Audit Committee held on 25 April 2012, 26 July 2012, and 30 October 2012 the Audit Committee reviewed the Company's quarterly and half-year financial statements before their submission for the approval of the Board of Directors.

c. The Audit Committee's review of the Company's financial statements were made in the presence of the Company's External Auditor as well as the Company's Chief Audit Executive, and with particular focus on the following matters:

- Any change/s in accounting policies and practices;
- Major judgmental areas;
- Significant adjustments resulting from the audit;
- Going concern assumption;
- Compliance with accounting standards; and
- Compliance with tax, legal, and regulatory requirements.

d. The Audit Committee is in compliance with the requirements under the SEC's Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange ("Guidelines"). In its SEC Form 17-C submitted to the SEC on 5 October 2012, the Company disclosed the following:

- The Company confirmed that it has an Audit Charter, which was approved by the Company's Board of Directors on 15 July 2003;
- In compliance with the Guidelines, the Company is reviewing its Audit Charter and assessing the practices of its Audit Committee, in relation to the best practices and standards, as provided in the reference guides stated in the Guidelines, for each of the specific areas / dimensions under the Guidelines ("Assessment"). The Company is also in the process of consulting with its accountants, auditors and legal counsel in connection with the Assessment; and
- The Company shall submit a separate disclosure to discuss the results of the Assessment based on the Guidelines and the rating criteria set in its Audit Charter, after it completes the Assessment

During the period 9 to 19 January 2012, the Group Internal Auditors conducted an internal audit review of the Company for the year 2011. The formal audit report was released in March 2012. Based on the result of the internal audit, key controls and management environment are effective. Audit findings are few and indicate low risks to the business overall. The Group Internal Auditors will be conducting an internal audit review of the Company for the year 2012 in March 2013.

Corporate Social Responsibility ("CSR") Report for 2012

Creating a positive impact in the lives of its key stakeholders in order to build and sustain the momentum towards a sustainable future is at the heart of The Heritage Hotel Manila's business operations.

Driven by the revitalized investors' confidence in the changing of the guards at the highest echelons of the Philippine government's executive office, the Heritage Hotel further spreads optimism and acts as a catalyst for making a difference in the quality of life of its stakeholders and in a broader perspective, a brighter future for the Philippines.

Development Opportunities for Employees

Employee Empowerment:

Internal movement & succession
We provide opportunities for employees to manage their career path through an open and spontaneous performance review. Department Heads are encouraged to train their staff in all scopes of their jobs, multi-tasking and taking accountabilities to prepare them for greater responsibility. Internal movement or promotion within department is put on public knowledge through bulletin boards and e-mails and their colleagues celebrate and congratulate them for their achievements.

Staff dialogue and monthly tea parties
Employees are empowered when they are given the opportunity to share their thoughts and concern about their jobs. Staff dialogue is scheduled for each department each month where the top executives and General Manager take time to listen and answer employees' inquiries. Monthly tea parties also served as venue for the General Manager to inspire, motivate and give updates on the direction the hotel would take.

Employee Development:

OSE Training
To adapt the Group corporate culture in terms of behavioral norms, the hotel conducts discussion and implementation of Outstanding Service themes to all employees at all levels. Daily assignment of OSE or OSE calendar is sent to all departments as their point of discussion in their daily briefing and endorsement.

Work Life Balance

Sports activity
The hotel holds an annual sports event to prompt the importance of active lifestyles and develop social skills by engaging in sports. Employees find time to associate with other employees outside their department and develop friendships that thrive even when they go back to their respective offices. Social values and behaviors such as team work, will to win and sportsmanship are demonstrated and cultivated on these activities.

Employee center

Employees are encouraged to engage in sports activity within the comforts of their work. Vinluan, an empty space in the hotel transformed into employee center where they can play table tennis, darts and board games.

5 day work week
The hotel recently embraced the five-day work week to all administrative personnel to give weekends away for leisure, relaxation and other activities that would keep them refreshed and passionate for another week of challenges at work.

Disaster Preparedness

We have established a team of trained employees to respond to possible disasters like fire, earthquakes and other accidents our guests and employees might experience during their stay in the hotel. Instructors from Philippine National Red Cross trained our staff with basic first aid management and CPR (cardio-pulmonary resuscitation) while a team from the local fire department taught our employees with procedures in emergency rescue transfer and use of fire fighting equipment.

Environmental Awareness

Energy and water conservation
The reduction of working days for administrative personnel or offices aims not only to achieve work life balance but also to reduce the hotel's energy consumption. A hotel wide campaign on the best cost management practices of departments educates and inspires associates to conserve and preserve supplies and resources.

Engineering Department helps in devising ways to improve electricity consumption by using halogen and fluorescent lights. Room guests are also encouraged to save water and laundry detergent consumption by re-using bed linens and towels when possible. Scraps and old newspapers are recycled into flowers and pots to decorate our restaurants and other sections of the hotel.

Earth Hour
The hotel actively participates in the annual Earth Hour, a worldwide campaign of turning off the lights for an hour in efforts to increase awareness on energy consumption and climate change. This event is spearheaded by the World Wildlife Fund (WWF), an international environmental advancement group and reported to have remarkable drop in energy usage in key cities of participating countries.

Community Involvement

Blood letting
The hotel is a consistent recipient of the Philippine National Red Cross Meritorious Service Award for its continuous participation in blood letting activities. We have organized eight blood donation activities since 2008 and have forwarded a total of 97,150 ml of blood to Red Cross.

Readiness for career
The hotel offers educational experiences and hotel-life skills training for students interested to have careers in hospitality industry. As contribution to the industry, we help prepare future hoteliers with the competencies and attitudes to make them confident and fit to explore their lot in the marketplace. Students from various universities and training centers across the metro and provinces have seen and experienced the hotel standards in terms of cleanliness and service and end the year-2012 with 47 graduating students fully equipped the 5 star way.

Job opportunities
The hotel is a long-standing figure of stability providing career opportunities for professionals and people recently graduated from school. We have provided employment security Pasay City and other neighboring cities and provinces thus providing their families and communities decent way of living.

Funds for charitable institutions
The hotel capitalizes on accumulating funds to support our beneficiaries during Christmas season and Chinese New Year. A wishing well is placed at the hotel lobby where guests and employees can share their piece of good fortune to scholars and less privileged families of Pasay City through "Our Lady of Sorrows Outreach Foundation". A total of PhP17,000.00 was forwarded to the foundation from the proceeds of Chinese New Year donation drive and PhP20, 000 in check from the Christmas wishing well.

Pangarap Foundation, a shelter for street children and out of school youth of Pasay City is a donee institution of the hotel through its donation box placed at Front Desk where guests can donate upon check-in and out.

Charming children from Children's Joy Foundation are invited to participate in the Christmas caroling in the hotel from December 16-25, 2012. It gives them the opportunity to exhibit their talents, entertain our guests and gather significant amount of donations from the hotel's guests.

Bridging International Relations

The hotel is a venue for many events and functions of diplomatic organizations in the country. We have hosted a number of parties, exhibits, fashion shows to promote distinctive cultures of our international clients and improved our relationships with them

We have also participated in the Bowling Tournament in honor of H.E. Dato' Seri Dr. Ibrahim Saad, Malaysian Ambassador to the Republic of the Philippines last June 16, 2012 and brought the honor as second placer.

Corporate Social Responsibility (CSR) has been an integral part of the Company's vision and mission. Founded on this commitment, we take into consideration the interests of society on key stakeholders such as our investors, customers, employees, contractors and suppliers as well as the community.

We believe in conducting our business responsibly, mindful of the impact our operations have on society so as to build an enduring and sustainable organization. We continually seek ways to ensure a better quality of life for the community and environment where we live, work and play.

Our Commitment to Stakeholders:
As a responsible corporation, it is our goal to be transparent and accountable to our stakeholders who have an interest in our operations.

Our Customers:
To offer quality and innovative products, unsurpassed service and value for money.

Our Investors:
To maintain profitability and achieve optimum returns on their investments.

Our Employees:
To maximize their potential and care for their personal well-being and career development.

Our Contractors and Suppliers:
To select based on quality of work and their ability to complement our commitment to environment, health and safety.

The Community:
To serve the community we operate in so as to create a better place for all, especially caring for the less fortunate, enhancing youth development, promoting the arts and conserving the environment.

The Company does not have an employee stock option plan. However, the employees are given annual merit based cash bonus based on the Company's financial performance and also the individual staff's performance.

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 2012 to December 2012:

Date of SEC Form 17-C	Summary of the matter disclosed
30 January 2012	Certification on the Company's compliance with its

	Manual on Corporate Governance.
30 January 2012	Certification on the attendance record of the Company’s Board of Directors’ meetings held from 1 January 2011 to 31 December 2011.
30 January 2012	Approval of the record date for the Company's annual stockholders' meeting for 2012.
15 May 2012	Board of Directors’ approval of the proposal for the purchase by the Company of part of its shares from its stockholders of record as of 25 June 2012.
15 May 2012	Board of Directors’ approval of the declaration of cash dividend of PhP2 per share for all the stockholders of record as of 29 May 2012.
15 May 2012	Election of the Company’s officers by members of the Board of Directors.
15 May 2012	Election of the members of the Board of Directors, re-appointment of the Company’s External Auditor by the stockholders.
24 May 2012	Timetable of the Company’s offer to purchase (“Buyback Offer”) a portion of its outstanding shares from its stockholders as of 25 June 2012; Appointment of AB Capital Securities, Inc., as the transacting broker for the Buyback Offer; Copies of the documents that will be distributed in connection with the Buyback Offer.
26 July 2012	Resignation of Ms. Leonor Tabeta as Director of Finance of The Heritage Hotel Manila/Appointment of Ms. Catherine Serrano as Acting Director of Finance of The Heritage Hotel Manila.
31 July 2012	Report on the result of the Company’s Buyback Offer, i.e., list of stockholders who tendered shares under the Buyback Offer and the number of shares tendered by each stockholder.
13 August 2012	Report on the completion of the Company’s Buyback Offer, i.e., the number of shares that were purchased by the Company from the stockholders who tendered their shares as of 31 July 2012.

5 October 2012	Compliance with the Guidelines for the Assessment of the Performance of the Audit Committees of Companies Listed on the Exchange
19 October 2012	Response to the letter of the SEC Corporation Finance Department dated 10 October 2012, with regard to the Company's Compliance with the Guidelines for the Assessment of the Performance of the Audit Committees of Companies Listed on the Exchange
26 November 2012	Renewal of the Management Agreement between the Company and Elite Hotel Management Services Pte. Ltd.

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 ______________________ on 14 FEB 2013.

By:

Wong Hong Ren
Chairman & President

Yam Kit Sung
General Manager/
Vice President Finance

Maria Christina Macasaet-Acaban
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of 14 FEB 2013 2013__ affiant(s) exhibiting to me their Community Tax Certificates/Passports, as follows:

Names	CTC/Passport No.	Date of Issue	Place of Issue
Wong HOng Ren	E1802233F	30 April 2010	Singapore
Yam Kit Sung	E3384874K	07 Sept. 2013	Singapore
Ma. Christina M. Acaban	XX2019184	12 Sept. 2013	Mla. Philippines

Notary Public

Doc. No. 013
Page No. 04
Book No. II
Series of 2013.

Ma. Christina E. Tecson
Notary Public
Roll No. 59684
Taguig City, Philippines

MA. CHRISTINA E. TECSON
Notary Public for and in Taguig City
Appointment No. 231, until 31 December 2013
12/F Net One Center, 26th Street cor 3rd Avenue
Bonifacio Global City, Taguig City
Roll of Attorney No. 59684
PTR No. [illegible] / 01-08-2013, Taguig City
Lifetime IBP No. [illegible] / 02-29-2012, Makati City

19 February 2013

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, 2012, 2011 and 2010. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

KPMG Manabat Sanagustin & Co., the independent auditors 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
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 _________ this _____ day of 14 FEB 2013 2013, the signatories exhibiting to me their Community Tax Certificates/Passports details of which are as follows:

Name	~~Community Tax Certificate/~~ Passport Number	Date	Place of Issue
Wong Hong Ren	E1802233F	30 April 2010	Singapore
Yam Kit Sung	E3384874K	07 September 2012	Singapore

Notary Public

MA. CHRISTINA E. TECSON
Notary Public for and in Taguig City
Appointment No. 231 until 31 December 2013
12/F Net One Center, 26th Street cor 3rd Avenue
Bonifacio Global City, Taguig City
Roll of Attorney No. 59684
PTR No. A-1726034 / 01-08-2013, Taguig City
Lifetime IBP No. 890544 / 02-29-2012, Makati City

Doc. No. 074
Page No. 04
Book No. II
Series of 2013.

Ma. Christina E. Tecson
Notary Public
Roll No. 59684
Taguig City, Philippines

GRAND PLAZA HOTEL CORPORATION

FINANCIAL STATEMENTS
December 31, 2012, 2011 and 2010

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Grand Plaza Hotel Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Grand Plaza Hotel Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years in the three-year period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Plaza Hotel Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and RR No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Manabat Sanagustin & Co.

February 19, 2013
Makati City, Metro Manila

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

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Branches: Bacolod · Cebu · Iloilo · Subic

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Grand Plaza Hotel Corporation, which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years in the three-year period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Plaza Hotel Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and RR No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

JIMMY S. QUIÑONES
Partner
CPA License No. 0085650
SEC Accreditation No. 0679-AR-1, Group A, valid until March 30, 2014
Tax Identification No. 112-072-024
BIR Accreditation No. 08-001987-17-2011
Issued February 4, 2011; valid until February 3, 2014
PTR No. 3669527MC
Issued January 2, 2013 at Makati City

February 19, 2013
Makati City, Metro Manila

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

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

We have audited the accompanying financial statements of Grand Plaza Hotel Corporation as at and for the year ended December 31, 2012, on which we have rendered our report thereon dated February 19, 2013.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president or any member of the Board of Directors and Stockholders of the Company.

MANABAT SANAGUSTIN & CO., CPAs

JIMMY S. QUIÑONES
Partner
CPA License No. 0085650
SEC Accreditation No. 0679-AR-1, Group A, valid until March 30, 2014
Tax Identification No. 112-072-024
BIR Accreditation No. 08-001987-17-2011
Issued February 4, 2011; valid until February 3, 2014
PTR No. 3669527MC
Issued January 2, 2013 at Makati City

February 19, 2013
Makati City, Metro Manila

GRAND PLAZA HOTEL CORPORATION

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 25*	**P282,627,393**	P354,346,636
Receivables - net	*5, 14, 25*	**304,042,397**	289,457,654
Loan receivable	*9, 14, 25*	**15,500,000**	15,500,000
Due from related parties	*14, 25*	**2,128,022**	3,104,245
Inventories	*6*	**14,560,701**	12,590,052
Prepayments and other current assets	*7*	**14,671,313**	13,556,076
Total Current Assets		**633,529,826**	688,554,663
Noncurrent Assets			
Property and equipment - net	*10*	**670,837,987**	696,497,186
Investment in an associate	*8, 14*	**47,856,099**	47,400,841
Deferred tax assets - net	*21*	**11,931,345**	10,082,610
Other noncurrent assets	*11, 14, 19, 25*	**84,095,791**	84,095,791
Total Noncurrent Assets		**814,721,222**	838,076,428
		P1,448,251,048	P1,526,631,091
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*12, 25*	**P81,778,891**	P83,754,423
Income tax payable		**14,731,884**	19,901,903
Due to related parties	*14, 19, 25*	**6,843,486**	19,329,331
Other current liabilities	*13, 25*	**224,095,289**	215,947,873
Total Current Liabilities		**327,449,550**	338,933,530
Noncurrent Liabilities			
Accrued retirement liability	*20*	**33,434,296**	30,731,001
Refundable deposits	*19*	**31,231,875**	27,655,055
Total Noncurrent Liabilities		**64,666,171**	58,386,056
		392,115,721	397,319,586
Equity			
Capital stock		**873,182,700**	873,182,700
Additional paid-in capital		**14,657,517**	14,657,517
Retained earnings:			
Appropriated	*22*	**1,488,311,220**	1,369,513,270
Unappropriated	*24*	**168,295,110**	241,471,288
Treasury stock	*23*	**(1,488,311,220)**	(1,369,513,270)
Total Equity		**1,056,135,327**	1,129,311,505
		P1,448,251,048	P1,526,631,091

See Notes to the Financial Statements.

GRAND PLAZA HOTEL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

	Note	**2012**	2011	2010
		Years Ended December 31		
REVENUES				
Rooms		**P353,134,536**	P367,797,598	P361,588,294
Food and beverage		**183,057,051**	203,305,340	192,168,744
Other operating departments		**9,233,265**	10,827,511	10,661,422
Others	*19*	**141,893,873**	136,897,660	115,430,745
		687,318,725	718,828,109	679,849,205
COST OF SALES	*15*			
Food and beverage		**60,673,470**	61,942,665	56,930,297
Other operating departments		**4,461,453**	3,845,761	4,435,307
		65,134,923	65,788,426	61,365,604
		622,183,802	653,039,683	618,483,601
SELLING EXPENSES	*16*	**217,866,661**	213,676,025	195,813,491
ADMINISTRATIVE EXPENSES	*17*	**181,334,125**	196,887,450	187,005,045
		399,200,786	410,563,475	382,818,536
NET OPERATING INCOME		**222,983,016**	242,476,208	235,665,065
OTHER INCOME (EXPENSES)				
Interest income	*9, 14*	**9,567,316**	9,114,225	9,600,032
Foreign exchange gain (loss)		**1,504,399**	(2,087,781)	(1,977,790)
Equity in net income of an associate	*8*	**455,258**	307,867	291,561
Others		**(414,424)**	213,835	2,571,609
		11,112,549	7,548,146	10,485,412
INCOME BEFORE INCOME TAX		**234,095,565**	250,024,354	246,150,477
INCOME TAX EXPENSE	*21*	**68,618,771**	73,960,628	72,597,787
NET INCOME/TOTAL COMPREHENSIVE INCOME		**P165,476,794**	P176,063,726	P173,552,690
Basic and Diluted Earnings Per Share	*18*	**P2.83**	P2.89	P2.74

See Notes to the Financial Statements.

GRAND PLAZA HOTEL CORPORATION

STATEMENTS OF CHANGES IN EQUITY

			Years Ended December 31	
	Note	**2012**	2011	2010
CAPITAL STOCK				
Common stock - P10 par value				
Authorized - 115,000,000 shares				
Issued - 87,318,270 shares		**P873,182,700**	P873,182,700	P873,182,700
ADDITIONAL PAID-IN CAPITAL		**14,657,517**	14,657,517	14,657,517
RETAINED EARNINGS				
Appropriation for acquisition of treasury stock				
Balance at beginning of year		**1,369,513,270**	1,245,759,170	1,116,857,170
Additions during the year	*22*	**118,797,950**	123,754,100	128,902,000
Balance at end of year		**1,488,311,220**	1,369,513,270	1,245,759,170
Unappropriated				
Balance at beginning of year		**241,471,288**	189,161,662	206,913,564
Net income for the year		**165,476,794**	176,063,726	173,552,690
Appropriation during the year	*22*	**(118,797,950)**	(123,754,100)	(128,902,000)
Dividends declared during the year	*24*	**(119,855,022)**	-	(62,402,592)
Balance at end of year		**168,295,110**	241,471,288	189,161,662
		1,656,606,330	1,610,984,558	1,434,920,832
TREASURY STOCK, at cost - 29,766,718 shares, 27,390,759 shares, and 24,915,677 shares in 2012, 2011 and 2010, respectively	*23*			
Balance at beginning of year		**(1,369,513,270)**	(1,245,759,170)	(1,116,857,170)
Acquisition of treasury stock during the year	*22*	**(118,797,950)**	(123,754,100)	(128,902,000)
Balance at end of year		**(1,488,311,220)**	(1,369,513,270)	(1,245,759,170)
		P1,056,135,327	P1,129,311,505	P1,077,001,879

See Notes to the Financial Statements.

GRAND PLAZA HOTEL CORPORATION
STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P234,095,565**	P250,024,354	P246,150,477
Adjustments for:				
Depreciation	*10, 17*	**37,563,273**	38,360,257	38,805,451
Interest income		**(9,567,316)**	(9,114,225)	(9,600,032)
Retirement expense	*20*	**3,718,996**	3,837,572	3,399,601
Unrealized foreign exchange loss (gain)		**1,135,365**	2,196,862	(544,918)
Equity in net income of an associate	*8*	**(455,258)**	(307,867)	(291,561)
Loss on disposal of property and equipment		**433,175**	-	-
Recovery of impairment losses on receivables	*25*	**(50,045)**	(173,869)	(215,948)
Dividend income		**(18,750)**	-	(100,200)
Operating income before working capital changes		**266,855,005**	284,823,084	277,602,870
Decrease (increase) in:				
Receivables		**(17,901,160)**	(13,225,736)	(20,820,013)
Inventories		**(1,970,649)**	761,540	(2,948,030)
Prepayments and other current assets		**(14,575,351)**	(10,886,605)	(14,301,441)
Other noncurrent assets		**-**	93,783,783	-
Increase (decrease) in:				
Accounts payable and accrued expenses		**(1,975,533)**	22,859,178	854,885
Due to related parties		**(12,485,845)**	11,412,236	(12,023,139)
Refundable deposits		**3,576,820**	5,623,444	(6,100,391)
Other current liabilities		**8,147,416**	14,123,234	8,771,633
Cash generated from operations		**229,670,703**	409,274,158	231,036,374
Income taxes paid		**(62,177,410)**	(58,278,333)	(51,404,808)
Interest received		**12,933,778**	16,164,213	5,019,806
Retirement benefits paid		**(1,015,701)**	(421,998)	(195,104)
Net cash provided by operating activities		**179,411,370**	366,738,040	184,456,268
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	*10*	**(13,471,050)**	(14,135,881)	(189,757)
Proceeds from disposal of property and equipment		**1,133,801**	-	-
Dividend received		**18,750**	-	100,200
Net cash used in investing activities		**(12,318,499)**	(14,135,881)	(89,557)

Forward

		Years Ended December 31		
	Note	**2012**	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease (increase) in due from related parties		**P976,223**	(P895,005)	P2,836,474
Acquisition of treasury stock	*23*	**(118,797,950)**	(123,754,100)	(128,902,000)
Dividends paid	*24*	**(119,855,022)**	(54,690,042)	(7,712,550)
Net cash used in financing activities		**(237,676,749)**	(179,339,147)	(133,778,076)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1,135,365)**	(2,196,862)	544,918
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(71,719,243)**	171,066,150	51,133,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*4*	**354,346,636**	183,280,486	132,146,933
CASH AND CASH EQUIVALENTS AT END OF YEAR	*4*	**P282,627,393**	P354,346,636	P183,280,486

See Notes to the Financial Statements.

GRAND PLAZA HOTEL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Grand Plaza Hotel Corporation (the "Company") was incorporated and 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 is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE). The Company is 54% owned by The Philippine Fund Limited (TPFL), a corporation organized in the Islands of Bermuda. The ultimate parent of the Company is Hong Leong Investment Holdings Pte Ltd., a corporation organized in Singapore.

The Company owns and operates The Heritage Hotel (the "Hotel"), a deluxe class hotel that offers 450 rooms and facilities and amenities such as restaurants, function halls, and a coffee shop, as one operating segment. The address of the Company's registered and principal office is located at the 10th Floor, The Heritage Hotel Manila, EDSA corner Roxas Boulevard, Pasay City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements were authorized and approved for issue by the Board of Directors (BOD) on February 19, 2013.

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

Functional and Presentation Currency
The Company's financial statements are presented in Philippine peso, which is the Company's functional currency. All values are rounded off to the nearest peso, except when otherwise stated.

Use of Estimates and Judgments
The preparation of financial statements in conformity with PFRSs 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates.

Judgments are made by management on the developments, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following presents the summary of these judgments and estimates, which have the most significant effect on the amounts recognized in the financial statements:

Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

Estimating Allowance for Impairment Losses on Receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, customers' payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded administrative expenses and decrease current assets.

As of December 31, 2012 and 2011, allowance for impairment losses on receivables amounted to P128,361 and P178,406, respectively (see Note 5). As of December 31, 2012 and 2011, the carrying amount of receivables amounted to P304,042,397 and P289,457,654 (see Note 5).

Estimating Net Realizable Value of Inventories
In determining the net realizable value of inventories, the Company considers inventory obsolescence, physical deterioration, physical damage and changes in price levels or other causes based on specific identification and as determined by management for inventories estimated to be salable in the future. The Company adjusts the cost of inventory to recoverable value at a level considered adequate to reflect market decline in value of the recorded inventories. The Company reviews its inventories on a regular basis to identify those which are to be written down to net realizable values.

Inventories, at lower of cost and net realizable value, amounted to P14,560,701 and P12,590,052 as of December 31, 2012 and 2011, respectively (see Note 6).

Estimating Useful Lives of Property and Equipment
The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal

technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. As of December 31, 2012 and 2011, the carrying amount of property and equipment amounted to P670,837,987 and P696,497,186, respectively (see Note 10).

Realizability of Deferred Tax Assets
The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly.

As of December 31, 2012 and 2011, the Company's net deferred tax assets amounted to P11,931,345 and P10,082,610, respectively (see Note 21).

Retirement Benefits
The Company accrues retirement benefit cost based on the requirements under its Employees' Retirement Plan, which is in compliance with Republic Act (R.A.) 7641. The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates and salary increase rates. In accordance with PFRSs, actual results that differ from the Company's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future period.

While the Company believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2012 and 2011, the Company's accrued retirement liability amounted to P33,434,296 and P30,731,001, respectively. Retirement expense amounted to P3,718,996, P3,837,572 and P3,399,601 in 2012, 2011 and 2010, respectively (see Note 20).

Operating Lease **-** *Company as Lessor*
The Company has entered into a lease of its commercial spaces. The Company has determined that it retains all significant risks and rewards of ownership of these spaces which are leased out under operating leases arrangements (see Note 19).

Operating Lease **-** *Company as Lessee*
The Company has entered into a lease of land. All the significant risks and rewards of ownership of the leased land remain with the lessor, since the leased property, together with the buildings thereon, and all attached permanent fixtures will be returned to the lessor upon the termination of the lease (see Note 19).

Estimating Allowance for Impairment Losses on Nonfinancial Assets
The Company assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

3. Summary of Significant Accounting Policies

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

<u>Adoption of New or Revised Standards, Amendments to Standards and Interpretations</u>
The Company has adopted the following amendments to standards and interpretations starting January 1, 2012 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Company's financial statements.

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

- Philippine Interpretations Committee Question and Answer (PIC Q&A) No. 2011-03, *Accounting for Inter-company Loans* provides guidance on how should an interest free or below market rate loan between group companies be accounted for in the separate/stand-alone financial statements of the lender and the borrower: (i) on the initial recognition of the loan; and (ii) during the periods to repayment.

The adoption of the above revised standards and amendments or improvements to standards did not have material effect on the Company's financial statements.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early and the extent of the impact has not yet been determined.

The Company will adopt the following new or revised standards, amendments or improvements to standards in the respective effective dates:

To be Adopted on January 1, 2013

- Presentation of Items of Other Comprehensive Income (Amendments to PAS 1). The amendments:

  - require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
  - do not change the existing option to present profit or loss and other comprehensive income in two statements; and
  - change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

  The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard. These amendments are effective for annual periods beginning on or after July 1, 2012 with earlier application permitted and are applied retrospectively.

- *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)*. These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are:

  - offset in the statement of financial position; or
  - subject to enforceable master netting arrangements or similar agreements.

  They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position. These amendments will be effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:

  - the nature of, and risks associated with, an entity's interests in other entities; and
  - the effects of those interests on the entity's financial position, financial performance and cash flows.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- PAS 19, *Employee Benefits* (amended 2011). The amended PAS 19 includes the following requirements:

  - actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
  - expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

  Upon adoption of the amendments to PAS 19 on its effective date, the Company determined that it will have material impact in the financial statements. The effect is to recognize retrospectively the actuarial gains with an estimated amount of P10 million based on the latest actuarial reports in the statements of other comprehensive income and statements of changes in equity.

- PAS 28, *Investments in Associates and Joint Ventures* (2011)

  PAS 28 (2011) supersedes PAS 28 (2008), *Investments in Associates*. PAS 28 (2011) makes the following amendments:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
  - on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

  This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *Annual Improvements to PFRSs 2009 - 2011 Cycle - various standards* contain amendments to five standards with consequential amendments to other standards and interpretations. The amendments are effective for annual periods beginning on or after January 1, 2013. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Company:

  - PAS 1, *Presentation* of Financial Statements - Comparative Information beyond Minimum Requirements. This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs.

    For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present:

    - other primary statements for that additional comparative period, such as a third statement of cash flows; or
    - the notes related to these other primary statements.

To be Adopted on January 1, 2014

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and

  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

  These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

To be Adopted on January 1, 2015

- PFRS 9, *Financial Instruments (2010),* PFRS 9 *Financial Instruments (2009)*

  PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The adoption of PFRS 9 (2010) is expected to have an impact on the Company's financial assets, but not any impact on the Company's financial liabilities.

PFRS 9 (2010 and 2009) are effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments consist of cash and cash equivalents, receivables, loan receivable, due from related parties, other assets, accounts payable and accrued expenses, due to related parties, refundable deposits, and other current liabilities except for output VAT payable, withholding taxes payable and deferred rental.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when: (a) the Company's contractual rights to the cash flows from the financial assets expire or (b) the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases or sales of financial assets are accounted for at settlement date, i.e., the date that an asset is delivered to or by the Company. Financial liabilities are derecognized when the Company's obligations specified in the contract expire or are discharged or cancelled.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are initially recognized, they are measured at fair value. In the case of investments not at fair value through profit or loss, fair value at initial recognition includes directly attributable transaction costs. The Company classifies its financial liabilities as either FVPL financial liabilities or other financial liabilities. The Company determines the classification of its financial assets and financial liabilities upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

The Company has no financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and financial liabilities at FVPL.

The measurement of non-derivative financial instruments subsequent to initial recognition is described below:

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also recognized in profit or loss. Gains or losses are recognized in profit or loss when the loans and receivable are derecognized or impaired, as well as through the amortization process.

Included in this category are the Company's cash and cash equivalents, receivables, loan receivable, due from related parties and other noncurrent assets (see Notes 4, 5, 9, 11 and 14).

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 are subject to an insignificant risk of changes in value.

Other Financial Liabilities
This category pertains to financial liabilities that are not designated or classified as at FVPL upon inception of the liability. These include liabilities arising from operations and borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Company's accounts payable and accrued expenses, due to related parties, refundable deposits, and other current liabilities except for output VAT payable, withholding taxes payable and deferred rental (see Notes 12, 13, 14 and 19).

Capital Stock
Capital stock are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefit.

Treasury Stock
When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented as additional paid-in capital.

Inventories
Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) principle, and includes expenditures 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. Obsolete inventories are disposed of and related costs are recognized in profit or loss.

Investment in an Associate
An associate is an entity in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

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. Investments in associate is recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the associate after the date of acquisition until such time the Company losses it significant influence. The Company's share of the profit or loss of the associate is recognized as "Equity in net income of an associate" in the Company's statements of comprehensive income.

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

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company. The costs of day-to-day servicing an asset are recognized in profit or loss in the period in which they are incurred.

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

The estimated useful lives are as follows:

	Number of Years
Building and building improvements	46 - 50
Furniture, fixtures and equipment	5 - 10
Transportation equipment	5
Leasehold improvements	5

Estimated useful lives and depreciation and amortization methods are reviewed at each reporting date to ensure that the period and depreciation and amortization method are consistent with the expected pattern of economic benefits from these assets.

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

Impairment of Assets

Financial Assets

The Company assesses at reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Non-financial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset’s value in use and fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increase in the carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Foreign Currency Transactions

Transactions in foreign currencies are translated to Philippine peso based on the prevailing exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing at the reporting date. The resulting foreign exchange gains or losses are recognized in profit or loss.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Revenue and Expense 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. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. 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.

Other Operating Departments: Revenue is recognized upon rendering of service.

Rent Income: Rent income from operating lease is recognized on a straight-line basis over the lease term.

Other income, including interest income which is presented net of tax, is recognized when earned.

Costs and expenses are recognized when incurred.

Income Tax

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

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

Deferred income tax is provided using the liability 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 reporting date.

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

Earnings Per Share

The Company presents basic and diluted earnings per share (EPS) for its common shares. 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.

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 has an unfunded, noncontributory, defined benefit retirement plan covering substantially all of its employees, except for its directors of hotel operations and executive officers. The calculation is performed annually by a qualified independent actuary using the projected unit credit method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Gains and losses on the curtailment or settlement of retirement benefits are recognized when the curtailment or settlement occurs. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded 10% of the present value of the defined benefit obligation and the fair value of the plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The retirement liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized and reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligation are to be settled directly.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Any event after the reporting date that provide additional information about the Company's financial position at the reporting date (adjusting events) is recognized in the financial statements when material. Any event after the reporting date that is not an adjusting event is disclosed in the notes to the financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

	Note	**2012**	2011
Cash on hand and in banks		**P17,548,366**	P41,432,575
Short-term investments	*11*	**265,079,027**	312,914,061
	25	**P282,627,393**	P354,346,636

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

In line with the decision of the Court of Tax Appeals (CTA) last May 17, 2011, wherein the assessment against the Company is cancelled, CTA deemed it proper to discharge the surety bond posted. The Company's short term investment pledged to secure the bond was reclassified to cash and cash equivalents in 2011 (see Note 5).

5. Receivables

This account consists of:

	Note	**2012**	2011
Trade			
Receivables from Philippine Amusement and Gaming Corporation (PAGCOR)		**P228,521,008**	P217,052,294
Charge customers	*25*	**33,790,343**	40,997,404
Others		**16,354,528**	12,967,262
		278,665,879	271,016,960
Interest	*14*	**13,832,218**	16,309,132
Advances to contractors		**8,587,101**	1,190,235
Advances to employees		**549,066**	360,854
Other receivables		**2,536,494**	758,879
		304,170,758	289,636,060
Less allowance for impairment losses on trade receivables	*25*	**128,361**	178,406
		P304,042,397	P289,457,654

Trade receivables are non-interest bearing and are generally on a 15 to 30 day credit term.

Receivables from PAGCOR include billings for output value added tax (VAT) as of December 31, 2012 and 2011, respectively. The collection of this amount is still pending as PAGCOR is seeking clarification from the Bureau of Internal Revenue (BIR) whether PAGCOR is subject to 10% VAT considering its status as a government corporation. The corresponding 10% output VAT payable from the billings to PAGCOR is likewise not remitted to the BIR pending the clarification from the BIR (see Note 13).

Under Revenue Regulation 16-2005 "Consolidated Value Added Tax Law" which took effect on November 1, 2005, it was legislated that PAGCOR is subject to the value added tax of 12%. Management believes that this law has a prospective application and therefore the previously recorded VAT on transactions with PAGCOR (prior to November 1, 2005) would have to be reversed when the position from the BIR is secured.

In the middle of 2008, the Company received from the Bureau of Internal Revenue (BIR) a Final Decision on Disputed Assessment finding the Company liable for deficiency value added tax (VAT) with respect to the years 1996 to 2002 in total amount of P228.94 million. The Company filed a petition for review with CTA to appeal against such Final Decision on Disputed Assessment.

The BIR also issued a Warrant of Distraint and/or Levy and Warrant of Garnishment against the Company and its assets. On September 12, 2008, the Company filed a surety bond with the CTA, and the CTA granted the Company's Urgent Motion to Suspend Collection of Tax and Extremely Urgent Supplemental Motion to Suspend and Enjoin Collection of Taxes and issued a Temporary Restraining Order enjoining the BIR from further efforts at collection of taxes, and particularly the implementation of the Warrant of Distraint and/or Levy and the Warrant of Garnishment.

In line with the decision of the Supreme Court (SC) in *Philippine Amusement and Gaming Corporation (PAGCOR) vs. The Bureau of Internal Revenue, et al.,* the CTA, in its decision dated February 18, 2011, cancelled the BIR assessment against the Company for deficiency value-added tax in the amount of P228.94 million for taxable years 1996 to 2002. In its resolution dated May 17, 2011, the CTA denied the Commissioner of Internal Revenue's Motion for Reconsideration of the CTA's decision rendered on February 18, 2011. According to the CTA, considering that the assessment against the Company for deficiency VAT has been cancelled, the CTA deemed it proper that the surety bond posted by the Company be discharged.

On September 1, 2011, the CTA En Banc resolved to give course to BIR's appeal. The Company has filed its Memorandum in October 2011. On November 15, 2011, the CTA ruled that for failure by the BIR to file the Memorandum within the period prescribed with the Court and that the Company has already filed its Memorandum, the case is now submitted for decision.

On February 24, 2012, the Company filed a "Motion for Early Resolution", requesting that the petition be dismissed outright as the BIR failed to file its memorandum. The petition was already given due course and the same was already submitted for decision.

On July 27, 2012, a decision to dismiss the case in favor of the Company was rendered by the CTA En Banc. The decision of the Third Division in CTA case no. 7794, promulgated on February 18, 2011 and its resolution promulgated on May 17, 2011 are affirmed.

On August 24, 2012, BIR filed a motion for reconsideration of the decision rendered by CTA last July 27, 2012 but was subsequently denied by CTA on October 8, 2012.

The BIR, through the Office of the Solicitor General appealed the case to the SC. A petition for review was filed by BIR to the SC last October 31, 2012.

As of date, the Company is still waiting for the SC decision.

The Company's exposure to credit risks and impairment losses related to trade receivables from charge customers are disclosed in Note 25.

6. Inventories

This account consists of:

	2012	2011
Food	**P4,528,475**	P2,673,229
General supplies	**4,731,399**	4,632,644
Beverage and tobacco	**710,792**	997,711
Engineering supplies	**868,234**	978,230
Others	**3,721,801**	3,308,238
	P14,560,701	P12,590,052

There was no write down of inventories to NRV in both 2012 and 2011.

7. Prepayments and Other Current Assets

This account consists of:

	2012	2011
Input value-added tax	**P9,995,285**	P9,479,891
Prepaid expenses	**4,186,243**	3,678,834
Others	**489,785**	397,351
	P14,671,313	P13,556,076

Input value added taxes are current and can be applied against output value added taxes.

8. Investment in an Associate

Investment in an associate pertains to the 40% ownership in Harbour Land Corporation (HLC), a Philippine corporation engaged in the real estate business (see Note 14).

This account consists of:

	2012	2011
Acquisition cost	**P48,200,000**	P48,200,000
Accumulated share in net losses:		
Balance at beginning of year	**(799,159)**	(1,107,026)
Equity in net income of associate during the year	**455,258**	307,867
Balance at end of year	**(343,901)**	(799,159)
	P47,856,099	P47,400,841

A summary of the financial information of HLC follows:

	2012	2011
Total assets	**P147,157,484**	P146,917,375
Total liabilities	**81,546,912**	82,444,947
Total equity, net of subscription receivable of P54 million	**65,610,573**	64,472,428
Revenue	**10,678,560**	10,678,560
Net income	**1,138,145**	739,994

9. Loan Receivable

This pertains to the loan granted to Rogo Realty Corporation (RRC), a company under common control, which is collateralized by RRC's investment in shares of stock of HLC with a carrying value P72.3 million as at December 31, 2012 and 2011 and is payable on demand with interest rate of 5% per annum (see Note 14).

Interest income in 2012, 2011 and 2010 amounted to P775,000 for each year.

10. Property and Equipment

The movements in this account are as follows:

	Building and Building Improvements	Furniture Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Gross carrying amount:					
Balance, January 1, 2011	P978,480,720	P355,851,791	P4,158,198	P385,157	P1,338,875,866
Additions	6,038,326	8,097,555	-	-	14,135,881
Balance, December 31, 2011	984,519,046	363,949,346	4,158,198	385,157	1,353,011,747
Additions	1,386,174	12,084,876	-	-	13,471,050
Disposal	-	(5,322,664)	-	-	(5,322,664)
Balance, December 31, 2012	**985,905,220**	**370,711,558**	**4,158,198**	**385,157**	**1,361,160,133**
Accumulated depreciation and amortization:					
Balance, January 1, 2011	344,873,720	268,887,080	4,008,347	385,157	618,154,304
Depreciation during the year	21,430,624	16,779,782	149,851	-	38,360,257
Balance, December 31, 2011	366,304,344	285,666,862	4,158,198	385,157	656,514,561
Depreciation during the year	21,599,217	15,964,056	-	-	37,563,273
Disposal	-	(3,755,688)	-	-	(3,755,688)
Balance, December 31, 2012	**387,903,561**	**297,875,230**	**4,158,198**	**385,157**	**690,322,146**
Carrying amount:					
December 31, 2011	P618,214,702	P78,282,484	P -	P -	P696,497,186
December 31, 2012	**P598,001,659**	**P72,836,328**	**P -**	**P -**	**P670,837,987**

11. Other Noncurrent Assets

This account consists of:

	Note	2012	2011
Lease deposit	*14, 19, 25*	**P78,000,000**	P78,000,000
Miscellaneous investments and deposits		**5,085,791**	5,085,791
Others		**1,010,000**	1,010,000
		P84,095,791	P84,095,791

In previous years, the Company has restricted cash which represents portion of its short-term investments that was pledged to secure the bond in connection with the value added tax case of the Company (see Note 5).

In 2011, CTA discharged the surety bond as discussed in Note 5. The Company reverted the related cash to current assets.

12. Accounts Payable and Accrued Expenses

This account consists of:

	Note	2012	2011
Trade payables	*14*	**P54,117,021**	P64,806,169
Accrued payroll		**13,251,893**	15,021,238
Accrued utilities		**11,973,118**	1,682,657
Accrued other liabilities		**2,005,173**	1,745,234
Others		**431,686**	499,125
		P81,778,891	P83,754,423

The Company's exposure to liquidity risk related to trade and other payables are disclosed in Note 25.

Trade payables have normal terms of 15 to 30 days.

13. Other Current Liabilities

This account consists of:

	Note	**2012**	2011
Output VAT payable		**P202,715,371**	P193,155,784
Deferred rental	*25*	**5,073,130**	4,896,161
Withholding taxes payable		**2,348,002**	2,639,778
Payable to employees		**5,533,762**	6,520,269
Others		**8,425,024**	8,735,881
		P224,095,289	P215,947,873

Output VAT payable represents output tax charged to PAGCOR, as discussed in Note 5.

14. Related Party Transactions

In the normal course of business, the Company has transactions with its related parties. These transactions and account balances as at December 31 follow:

2012	**Transaction Amount**	**Ref**	**Due from**	**Due to**
Associate				
Lease deposit	P -	b	P78,000,000	P -
Interest income	3,900,000	b	2,225,290	-
Rent expense	10,678,560	19	-	1,904,343
Key Management Personnel of the Entity				
Short term employee benefits	21,386,566	f	-	-
Under Common Control				
Management and incentive fees	29,641,201	e	-	2,349,691
Advances	15,763,656	a	2,128,022	2,589,452
Loan		c	15,500,000	-
Interest income	775,000	c	10,611,249	-
Total			**P108,464,561**	**P6,843,486**

2011	Transaction Amount	Ref	Due from	Due to
Associate				
Lease deposit	P -	b	P78,000,000	P -
Interest income	3,900,000	b	325,000	-
Rent expense	10,678,560	19	-	952,172
Key Management Personnel of the Entity				
Short term employee benefits	21,712,009	f	-	-
Under Common Control				
Management and incentive fees	33,546,682	d, e	-	18,188,345
Advances	18,028,082	a	3,104,245	188,814
Loan		c	15,500,000	-
Interest income	775,000	c	15,539,781	-
Total			P112,469,026	P19,329,331

2010	Transaction amount	Ref	Due from	Due to
Associate				
Lease deposit	P -	b	P78,000,000	P -
Interest income	3,900,000	b	7,800,000	-
Rent expense	10,678,560	19	-	1,966,630
Key Management Personnel of the Entity				
Short term employee benefits	21,222,306	f	-	-
Under Common Control				
Management and incentive fees	33,707,516	d	-	5,544,221
Advances	13,910,231	a	2,209,240	406,244
Loan		c	15,500,000	-
Interest income	775,000	c	14,764,781	-
Total			P118,274,021	P7,917,095

Due from related parties are included in the following account:

	Note	**2012**	2011	2010
Receivables-net	*5, 9, 19*	**P12,836,539**	P15,864,781	P22,564,781
Loan receivable	*9*	**15,500,000**	15,500,000	15,500,000
Due from related parties		**2,128,022**	3,104,245	2,209,240
Other noncurrent assets	*11, 19*	**78,000,000**	78,000,000	78,000,000
Total		**P108,464,561**	P112,469,026	P118,274,021

a. In the normal course of business, the Company grants/obtains advances to/from related parties for working capital purposes. These advances are non-interest bearing, unsecured and are payable on demand.

b. The interest receivable from HLC, its associate, represents the uncollected interest on the lease deposit of the Company to HLC at 5% a year (see Note 19). The related interest income amounted to P3.9 million each for the years in 2012, 2011 and 2010.

c. The interest receivable from RRC, an entity under control, represents the uncollected interest on the loan granted by the Company to RRC at 5% a year (see Note 9). The related interest income amounted to P0.78 million for each of the years in 2012, 2011 and 2010.

d. The Company has a management contract with CDL, an entity under control, under which the latter provides management, technical and administrative services to the Company in return for a yearly management and incentive fees equivalent to 2% of total gross revenue and 7% of gross operating profit, respectively (see Note 17). CDL was replaced by Elite Hotel Management Services Pte. Ltd-Philippine Branch in April 2011.

e. The Company has a Management Agreement with Elite Hotel Management Services Pte. Ltd-Philippine Branch, an entity under control, under which the latter provides management, technical and administrative services. In return, the Company has to pay monthly basic management and incentive fees based on a percentage of the hotel's revenue (2%) and gross operating profit (7%) starting April 2011.

f. Transactions with Key Management Personnel
The total remuneration of key management personnel in the form of short-term employee benefits is shown below:

	2012	2011	2010
Directors of Hotel operations	**P3,053,604**	P4,632,014	P3,808,576
Executive officers	**18,332,962**	17,080,085	17,413,730
	P21,386,566	P21,712,099	P21,222,306

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

15. Cost of Sales and Services

This account consists of:

	Note	**2012**	2011	2010
Cost of foods and beverage:				
Inventories at beginning of year	*6*	**P12,590,052**	P13,351,592	P10,403,562
Purchases		**67,105,572**	65,026,886	64,313,634
Available for sale		**79,695,624**	78,378,478	74,717,196
Inventories at end of year	*6*	**(14,560,701)**	(12,590,052)	(13,351,592)
		P65,134,923	P65,788,426	P61,365,604

16. Selling Expenses

This account consists of:

	Note	**2012**	2011	2010
Salaries, wages and employee benefits:	*20*			
Food and beverage		**P40,214,428**	P37,507,347	P35,619,283
Rooms		**27,921,985**	27,380,743	26,645,057
Other operated departments		**1,143,485**	1,085,379	1,044,916
		69,279,898	65,973,469	63,309,256
Property operation, maintenance, energy and conservation		**104,829,993**	102,710,455	92,190,815
Guest supplies		**9,769,726**	12,134,169	11,420,538
Transport charges		**8,516,011**	6,562,299	4,654,703
Laundry and dry cleaning		**5,494,644**	5,334,938	4,438,767
Kitchen fuel		**4,153,321**	3,852,414	3,577,828
Commission		**3,313,766**	2,188,715	2,060,096
Printing and stationery		**2,525,723**	2,992,692	3,043,172
Music and entertainment		**959,495**	875,703	1,961,580
Cleaning supplies		**779,811**	875,042	1,549,945
Permits and licenses		**331,556**	319,987	1,716,397
Miscellaneous		**7,912,717**	9,856,142	5,890,394
		P217,866,661	P213,676,025	P195,813,491

17. Administrative Expenses

This account consists of:

	Note	**2012**	2011	2010
Hotel Overhead Departments				
Salaries, wages and employee benefits:	*20*			
Administrative and general		**P32,318,676**	P32,507,749	P32,874,580
Engineering		**9,071,697**	8,534,422	8,341,681
Sales and marketing		**6,006,970**	6,855,053	6,114,497
Human resources		**2,633,855**	2,488,329	2,057,031
		50,031,198	50,385,553	49,387,789
Management and incentive fees	*14*	**29,641,201**	33,546,682	33,707,516
Credit card commission		**5,563,850**	5,570,015	5,003,463
Dues and subscription		**2,231,370**	2,225,263	608,241
Data processing		**1,425,280**	2,302,681	1,777,875
Advertising		**1,077,385**	2,194,679	1,351,028
Entertainment		**848,183**	824,137	1,195,529
Awards and social activities		**557,943**	671,861	714,334
Miscellaneous		**3,000,153**	3,824,768	4,366,349
		P94,376,563	P101,545,639	P98,112,124

	Note	2012	2011	2010
Corporate Office				
Depreciation and amortization	*10*	**P37,563,273**	P38,360,257	P38,805,451
Insurance		**11,491,995**	10,473,676	11,151,686
Leased land rental	*19*	**10,678,560**	10,678,560	10,678,560
Property tax		**9,265,681**	9,265,681	9,265,681
Professional fees		**7,262,330**	13,297,869	4,180,325
Directors' fees		**2,111,285**	2,387,044	2,110,970
Taxes and licenses		**1,698,192**	1,564,245	2,433,303
Office supplies		**1,255,902**	1,258,110	1,212,088
Transportation		**388,636**	1,012,368	682,499
Miscellaneous		**5,241,708**	7,044,001	8,372,358
		86,957,562	95,341,811	88,892,921
		P181,334,125	P196,887,450	P187,005,045

18. Earnings Per Share

Basic and diluted earnings per share are computed as follows:

	2012	2011	2010
Weighted average number of common shares			
Balance at beginning of year	**P59,927,511**	P62,402,593	P64,980,633
Weighted average number of shares acquired during the year	**(1,484,974)**	(1,546,926)	(1,611,275)
	P58,442,537	P60,855,667	P63,369,358

	2012	2011	2010
Net income for the year	**P165,476,794**	P176,063,726	P173,552,690
Divided by weighted average outstanding shares	**58,442,537**	60,855,667	63,369,358
	P2.83	P2.89	P2.74

There are no potential dilutive common shares in the years presented.

19. 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 of 5% upon renewal of the contracts subject to renegotiations of both parties. Future minimum lease receivables are as follows:

	2012	2011
Due within one year	**P104,054,366**	P104,054,366
After one year but not more than five years	**-**	104,054,366
	P104,054,366	P208,108,732

The lease agreements with the third parties required the latter to give the Company lease deposits amounting to a total of P28,290,278 and P25,694,468 in 2012 and 2011, respectively, and are shown as part of “Refundable deposits” in the statements of financial position. Rent income amounted to P136,647,105, P131,661,025 and P110,550,431 in 2012, 2011 and 2010, respectively, shown as “Others” under Revenue in the Statement of Comprehensive Income.

On March 31, 2011, the Company, as lessor, and PAGCOR, as lessee, agreed to amend and include additional spaces in the Contract of Lease. The amended lease contract is binding until July 10, 2013.

On February 15, 2012, the BOD of PAGCOR has decided not to renew the contract of lease expiring on July 10, 2013. Management is still negotiating and discussing with the management of PAGCOR to reconsider its position and extend the lease.

<u>Lease Obligations</u>
The Company leases the land occupied by the Hotel from HLC for a period of 25 years up to January 1, 2015. 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:

a. Annual rental on the land of P10,678,560 (shown as part of Leased land rental under “Administrative expenses” account in 2011, 2010 and 2009);

b. Required lease deposit (shown as part of “Other noncurrent assets” in the statements of financial position) of P78 million; and

c. Interest rate of 5% per annum on the lease deposit which the lessor is obligated to pay to the Company.

Future minimum rental obligations on the land are as follows:

	2012	2011	2010
Due within one year	**P10,678,560**	P10,678,560	P10,678,560
After one year but not more than five years	**10,678,560**	21,357,120	32,035,680
	P21,357,120	P32,035,680	P42,714,240

20. Retirement Cost

The Company’s employees are entitled to retirement benefits in compliance with R.A. No. 7641, which is unfunded.

The reconciliation of the present value of the defined benefit obligation to the recognized liability presented as "Accrued retirement liability" in the Company's statements of financial position is shown below:

	2012	2011
Present value of defined benefit obligation	**P23,428,474**	P26,077,462
Unrecognized actuarial gains	**10,005,822**	4,653,539
Liability recognized in the statements of financial position	**P33,434,296**	P30,731,001

The movements in the present value of the defined benefit obligation for the years ended December 31 are as follows:

	2012	2011
Present value of obligation at beginning of year	**P26,077,462**	P22,388,419
Current service cost	**1,894,478**	2,141,338
Interest cost	**1,981,887**	1,903,016
Benefits paid	**(1,015,701)**	(421,998)
Actuarial losses (gains)	**(5,509,652)**	66,687
Present value of obligation at end of year	**P23,428,474**	P26,077,462

The amounts of retirement expense which are recorded under "Salaries, wages and employee benefits" in the statements of comprehensive income for the years ended December 31 are as follows:

	2012	2011	2010
Current service cost	**P1,894,478**	P2,141,338	P1,694,667
Interest cost	**1,981,887**	1,903,016	1,755,366
Amortization of actuarial gain	**(157,369)**	(206,782)	(50,432)
Retirement expense	**P3,718,996**	P3,837,572	P3,399,601

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2012	2011	2010
Discount rate	**6%**	8%	8%
Future salary increases	**3%**	7%	7%

The historical information of the amounts for the current and previous annual periods are as follows:

	2012	**2011**	2010	2009	2008
Present value of defined benefit obligation	**P23,428,474**	P26,077,462	P22,388,419	P21,277,161	P16,969,517
Deficit in the plan	**P23,428,474**	P26,077,462	P22,388,419	P21,277,161	P16,969,517
Experience adjustments on plan liabilities	**P483,778**	(P2,435,509)	(P1,665,030)	P1,563,774	(P1,187,329)

21. Income Tax

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

	2012	2011	2010
Current tax expense	**P70,467,505**	P75,390,864	P74,308,278
Deferred tax benefit	**(1,848,734)**	(1,430,236)	(1,710,491)
	P68,618,771	P73,960,628	P72,597,787

The reconciliation of the income tax expense computed at statutory income tax rate to the income tax expense shown in the statements of comprehensive income follows:

	2012	2011	2010
Income before income tax	**P234,095,565**	P250,024,354	P246,150,477
Income tax expense at statutory tax rate	**P70,228,669**	P75,007,306	P73,845,143
Additions to (reductions in) income tax resulting from the tax effects of:			
Income subjected to final tax	**(1,467,696)**	(1,331,743)	(1,477,485)
Equity in net income of an associate	**(136,577)**	(92,360)	(87,468)
Non deductible expense	**(5,625)**	377,425	317,597
	P68,618,771	P73,960,628	P72,597,787

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

	2012	2011
Retirement liability	**P10,030,289**	P9,219,300
Deferred rental income	**1,521,939**	1,468,848
Allowance for impairment losses on receivables	**38,508**	53,522
Unrealized foreign exchange (gain) loss	**340,609**	(659,060)
	P11,931,345	P10,082,610

22. Appropriation of Retained Earnings

The Company has appropriated the amount of P118,797,950, P123,754,100 and P128,902,000 in 2012, 2011 and 2010, respectively, to finance the acquisition of treasury stock during those years.

23. Treasury Stock

The board of directors approved the acquisition of treasury stock in the last three years as follows:

Date of Meeting	No. of Shares Purchased	Stockholders on Record as of	Ratio of Purchase	Cost Per Share	Amount
May 15, 2012	2,375,959	June 25, 2012	1:25	P50	P118,797,950
May 13, 2011	2,475,082	June 13, 2011	1:25	50	123,754,100
May 15, 2010	2,578,040	June 5, 2010	1:25	50	128,902,000

As at December 31, 2012 and 2011, 29,766,718 shares and 27,390,759 shares, respectively, were held in treasury.

24. Dividend Declaration

On May 15, 2012, the Board of Directors of the Company declared cash dividends equivalent to P119,855,022 out of the unrestricted retained earnings as of December 31, 2011 payable on or before June 22, 2012 to the stockholders of record as of May 29, 2012.

25. Financial Risk and Capital Management

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The main purpose of the Company's dealings in financial instruments is to fund its operations and capital expenditures.

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD, through the Executive Committee, is responsible for developing and monitoring the Company's risk management policies. The committee identifies all issues affecting the operations of the Company and reports regularly to the BOD on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. All risks faced by the Company are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Company's operations and detriment forecasted results. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Company's Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Company's corporate governance process relating to the: a) quality and integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Company's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Company with legal and regulatory requirements, including the Company's disclosure control and procedures; e) evaluation of management's process to assess and manage the Company's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Company's annual report.

Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises principally from the Company's trade receivables.

Exposure to credit risk is monitored on an ongoing basis. Credit checks are being performed on all clients requesting credit over certain amounts. Credit is not extended beyond authorized limits, established where appropriate through consultation with a professional credit vetting organization. Credit granted is subject to regular review, to ensure it remains consistent with the clients' current credit worthiness and appropriate to the anticipated volume of business.

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 rating. The treasury policy sets aggregate credit limits of any one counterparty and management annually reviews the exposure limits and credit ratings of the counterparties.

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

The carrying amount of financial assets as of December 31, 2012 and 2011 represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates is as follows:

	Note	**2012**	2011
Cash and cash equivalents	*4*	**P282,078,894**	P353,886,587
Receivables - net	*5, 14*	**304,042,397**	289,457,654
Loan receivable	*9, 14*	**15,500,000**	15,500,000
Due from related parties	*14*	**2,128,022**	3,104,245
Other noncurrent assets	*11*	**84,095,791**	84,095,791
		P687,845,104	P746,044,277

Details of trade receivables from charge customers as of December 31, 2012 and 2011 by type of customer is as follows:

	Note	**2012**	2011
Airlines		**P8,168,267**	P5,302,011
PAGCOR		**7,213,112**	17,310,225
Corporations		**6,576,109**	5,772,263
Travel agencies		**4,022,305**	2,849,364
Credit cards		**4,457,495**	2,873,705
Others		**3,353,055**	6,889,836
	5	**33,790,343**	40,997,404
Less allowance for impairment losses on trade receivables	*5*	**128,361**	178,406
		P33,661,982	P40,818,998

The Company's most significant customer, PAGCOR, accounts for 21.35% and 42.22% of the trade receivables from charge customers as of December 31, 2012 and 2011, respectively. Revenues from PAGCOR approximately amounted to P214,432,205, P233,189,580 and P185,361,592 in 2012, 2011 and 2010, respectively, and represent 31%, 32% and 27% of the Company's total revenues.

The aging of trade receivables as of December 31, 2012 and 2011 is as follows:

	2012		2011	
	Gross Amount	**Impairment**	Gross Amount	Impairment
Current	**P21,066,199**	**P -**	P25,991,010	P -
Over 30 days	**8,829,645**	**-**	11,840,494	-
Over 60 days	**3,318,427**	**-**	2,846,646	-
Over 90 days	**576,072**	**128,361**	319,254	178,406
	P33,790,343	**P128,361**	P40,997,404	P178,406

The movements in the allowance for impairment in respect of trade receivables during the year are as follows:

	Amount
Balance at January 1, 2011	P352,275
Reversal in 2011	(173,869)
Balance at December 31, 2011	178,406
Reversal in 2012	(50,045)
Balance at December 31, 2012	P128,361

The allowance for impairment losses on trade receivables as of December 31, 2012 and 2011 of P128,361 and P178,406, respectively, relates to outstanding accounts of customers that are more than 90 days past due.

The table below shows the credit quality of the Company's financial assets based on their historical experience with the corresponding debtors.

	As of December 31, 2012			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash and cash equivalents	**P282,627,394**	**P -**	**P -**	**P282,627,394**
Receivables - net	**27,925,890**	**47,192,288**	**228,924,220**	**304,042,398**
Loan receivable	**-**	**15,500,000**	**-**	**15,500,000**
Due from related parties	**-**	**2,128,022**	**-**	**2,128,022**
Other noncurrent assets	**84,095,791**	**-**	**-**	**84,095,791**
	P394,649,075	**P64,820,310**	**P228,924,220**	**P688,393,605**

	As of December 31, 2011			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	P354,346,636	P -	P -	P354,346,636
Receivables - net	31,219,432	37,798,690	220,439,532	289,457,654
Loan receivable	-	15,500,000	-	15,500,000
Due from related parties	-	3,104,245	-	3,104,245
Other noncurrent assets	84,095,791	-	-	84,095,791
	P469,661,859	P56,402,935	P220,439,532	P746,504,326

Grade A receivables pertain to those receivables from customers that always pay on time or even before the maturity date. Grade B includes receivables that are collected on their due dates provided that they were reminded or followed up by the Company. Those receivables which are collected consistently beyond their due dates and require persistent effort from the Company are included under Grade C.

Cash in banks is considered good quality (Grade A) as this pertains to deposits in reputable banks.

<u>Liquidity Risk</u>

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The Company's total current liabilities as of December 31, 2012 and 2011 amounted to P327,449,550 and P338,933,530, respectively, which are less than its total current assets of P633,529,826 and P688,554,663, respectively. Thus, the Company has sufficient funds to pay for its current liabilities and has minimal liquidity risk.

<u>Market Risk</u>

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company is subject to various market risks, including risks from changes in room rates, interest rates and currency exchange rates.

Room Rates

The risk from room rate changes relates to the Company's ability to recover higher operating costs through price increases to customers, which may be limited due to the competitive pricing environment that exists in the Philippine hotel industry and the willingness of customers to avail of hotel rooms at higher prices.

The Company minimizes its exposure to risks in changes in room rates by signing contracts with short period of expiry so this gives the Company the flexibility to adjust its room rates in accordance to market conditions. Also, there are minimal changes in room rates in the hotel industry.

Interest Rate Risk

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

Foreign Currency Risk

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

Fair Values

The fair values together with the carrying amounts of the financial assets and liabilities shown in the statements of financial position are as follows:

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**P282,627,393**	**P282,627,393**	P354,346,636	P354,346,636
Receivables - net	**304,042,397**	**304,042,397**	289,457,654	289,457,654
Loan receivable	**15,500,000**	**15,500,000**	15,500,000	15,500,000
Due from related parties	**2,128,022**	**2,128,022**	3,104,245	3,104,245
Other noncurrent assets	**84,095,791**	**84,095,791**	84,095,791	84,095,791
Accounts payable and accrued expenses	**81,778,891**	**81,778,891**	83,754,423	83,754,423
Due to related parties	**6,843,486**	**6,843,486**	19,329,331	19,329,331
Other current liabilities	**13,958,786**	**13,958,786**	15,256,150	15,256,150

Estimation of Fair Values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Cash and Cash Equivalents

The fair value of cash approximates its carrying amount due to the short-term nature of these assets.

Receivables/Due from Related Parties/Loan Receivable/Accounts Payable and Accrued Expenses/Due to Related Parties/Other Current Liabilities Except for Output VAT Liability, Withholding Taxes Payables and Deferred Rental

Current receivables are reported at their net realizable values, at total amounts less allowances for estimated uncollectible accounts. Current liabilities are stated at amounts reasonably expected to be paid within the next twelve months or within the Company's operating cycle. Due to/from related parties and loan receivable are payable on demand.

Short-term Investments/Other Noncurrent Assets

Short-term investments and other noncurrent assets are interest bearing. The carrying value of short-term investments approximates its fair value, because the effective interest rate used for discounting the short-term investment and other noncurrent assets approximates the current market rate of interest for similar transactions.

Capital Management

The Company's objectives when managing capital are to increase the value of shareholders' investment and maintain high growth by applying free cash flow to selective investments. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Chief Financial Officer has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally imposed capital requirements.

The Company monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Total debt is equivalent to accounts payable and accrued expenses, income tax payable, due to related parties, other current liabilities, refundable deposits and accrued retirement liability. Total equity comprises mainly of the capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the period.

As at December 31, 2012 and 2011, the Company is compliant with the minimum public float requirement by the Philippine Stock Exchange (PSE).

The Company has 115,000,000 shares registered with SEC as at December 31, 2012. As at December 31, 2012 and 2011, the Company issue/offer price is P45 and P33, respectively. The total number of shareholders is 506 as of December 31, 2012 and 2011.

26. 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.

27. Supplementary Information Required by Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs. The following is the tax information required for the taxable year ended December 31, 2012:

I. Based on Revenue Regulations (RR) No. 19-2011

A. Sales/Receipts/Fees

	Exempt	Special Rate	Regular/ Normal Rate	Total
Sale of services	**P -**	**P -**	**P504,438,644**	**P504,438,644**
Sale of goods	**-**	**-**	**183,057,051**	**183,057,051**
	P -	**P -**	**P687,495,695**	**P687,495,695**

B. Cost of Sales/Services

	Exempt	Special Rate	Regular/ Normal Rate	Total
Cost of Sales				
Merchandise/finished goods inventory, beginning	**P -**	**P -**	**P12,590,052**	**P12,590,052**
Add: Purchases of merchandise/cost of goods manufactured	**-**	**-**	**67,051,201**	**67,051,201**
Total goods available for sale	**-**	**-**	**79,641,253**	**79,641,253**
Less: Merchandise/ finished goods inventory, end	**-**	**-**	**14,560,701**	**14,560,701**
	P -	**P -**	**P65,080,552**	**P65,080,552**

C. Non-Operating and Taxable Other Income

	Exempt	Special Rate	Regular/ Normal Rate	Total
Interest income	**P -**	**P -**	**P4,674,996**	**P4,674,996**
Others	**-**	**-**	**4,836,626**	**4,836,626**
	P -	**P -**	**P9,511,622**	**P9,511,622**

D. Itemized Deductions (if Company did not avail of the Optional Standard Deduction)

	Exempt	Special Rate	Regular/ Normal Rate	Total
Salaries and allowances	**P -**	**P -**	**P120,652,718**	**P120,652,718**
Repairs and maintenance-materials and supplies	**-**	**-**	**104,829,993**	**104,829,993**
Depreciation	**-**	**-**	**37,563,273**	**37,563,273**
Management and consultancy fee	**-**	**-**	**29,641,201**	**29,641,201**
Office supplies	**-**	**-**	**14,372,816**	**14,372,816**
Insurance	**-**	**-**	**11,491,995**	**11,491,995**
Taxes and licenses	**-**	**-**	**11,295,794**	**11,295,794**
Rental	**-**	**-**	**10,678,560**	**10,678,560**
Transportation and travel	**-**	**-**	**8,904,647**	**8,904,647**
Commissions	**-**	**-**	**8,877,617**	**8,877,617**
Professional fees	**-**	**-**	**7,262,330**	**7,262,330**
Fuel and oil	**-**	**-**	**4,153,321**	**4,153,321**
Dues and subscription	**-**	**-**	**2,231,370**	**2,231,370**
Directors fee	**-**	**-**	**2,111,285**	**2,111,285**
Representation and entertainment	**-**	**-**	**1,807,677**	**1,807,677**
Data processing	**-**	**-**	**1,425,280**	**1,425,280**
Advertising	**-**	**-**	**1,077,385**	**1,077,385**
Other hotel expenses	**-**	**-**	**18,657,822**	**18,657,822**
	P -	**P -**	**P397,035,084**	**P397,035,084**

II. Based on RR No. 15-2010

A. Value Added Tax (VAT)

1. Output VAT	P57,164,529
Account title used:	
Basis of the Output VAT:	
Vatable sales	P471,341,250
Exempt sales	5,029,828
Zero rated sales	211,120,673
	P687,491,751

2. Input VAT	
Beginning of the year	P1,667,473
Input tax Deferred on Capital Goods from Previous Period	616,311
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	10,246,947
b. Services lodged under other accounts	19,145,700
Claims for tax credit/refund and other adjustments	199,944
Balance at the end of the year	P31,876,375

B. Withholding Taxes

Tax on compensation and benefits	P22,464,342
Final withholding taxes	15,862,350
Creditable withholding taxes	10,472,244
	P48,798,936

C. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under Cost of Sales & Operating Expenses	
Real estate taxes	P9,265,681
License and permit fees	1,104,202
Others	925,911
	P11,295,794

D. Deficiency Tax Assessments

Period Covered	Amount*
2001	P765,104
2002	228,943,589
2009	1,666,209
2010	1,656,322
	P233,031,224

*Amount of deficiency tax assessments, whether protested or not.

E. Tax Cases

As of December 31, 2012, the Company has the following tax cases:

a. 2001 - Settled basic tax due of P403,130 on March 2010, as agreed on the Letter of Abatement filed. Request to waive the interest and surcharges of P346,140 is still for approval at BIR LTS.

b. 2002 - PAGCOR VAT case filed against the Company (see Note 5).

COVER SHEET

1 6 6 8 7 8

S.E.C. Registration Number

G R A N D   P L A Z A   H O T E L   C O R P O R A T I O N

(Company's Full Name)

1 0 t h   F l o o r ,   T h e   H e r i t a g e   H o t e l

M a n i l a ,   E D S A   c o r n e r

R o x a s   B o u l e v a r d ,   P a s a y   C i t y

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

Mr. Yam Kit Sung

Contact Person

854-8838

Company Telephone Number

1 2 (*Month*)   3 1 (*Day*)

A A F S

FORM TYPE

Month   *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

506

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.