

***PT. PAKUWON JATI Tbk.***  
***AND ITS SUBSIDIARIES***

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 - UNAUDITED

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
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PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2007 AND 2006 - UNAUDITED

	Notes	2007 Rp	2006 Rp
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2e,3	187,762,913,730	199,425,500,793
Fund for replacement of hotel's furniture, fixtures and equipment	2f,3	3,522,878,670	3,329,185,667
Trade accounts receivable from third parties-net of allowance for doubtful accounts of Rp 1,882,285,349 in 2007 and Rp 908,474,924 in 2006	2g,4,14	28,746,703,101	26,376,545,183
Other accounts receivable from third parties		2,122,325,678	1,689,901,332
Hotel's inventories and spareparts	2h	2,234,185,100	1,637,741,679
Prepaid taxes	2p,9	15,965,759,623	9,376,535,301
Prepaid expenses	2j	5,437,485,982	7,007,133,643
Total Current Assets		<u>245,792,251,884</u>	<u>248,842,543,598</u>
<b>NONCURRENT ASSETS</b>			
Restricted time deposits	5,14	988,196,147,020	-
Deferred tax assets - net	2p	6,815,148,307	18,170,721,035
Real estate assets	2i, 6		
Real estate inventories		158,240,717,672	132,739,716,610
Land not yet developed		205,038,255,922	171,506,829,404
Property and equipment - net of accumulated depreciation of Rp 343,956,453,473 in 2007 and Rp 303,026,281,020 in 2006	2k,7,14	1,838,747,564,399	1,109,629,735,279
Property and equipment under build, operate and transfer (BOT) scheme - net of accumulated amortization of Rp 43,746,354,255 in 2007 and Rp 40,130,333,871 in 2006	2l,8	14,916,303,423	18,532,323,807
Goodwill	2b	11,891,722,802	-
Deferred charges - landrights	2q	869,571,954	-
Other assets		-	120,000,000
Total Noncurrent Assets		<u>3,224,715,431,499</u>	<u>1,450,699,326,135</u>
<b>TOTAL ASSETS</b>		<u><u>3,470,507,683,383</u></u>	<u><u>1,699,541,869,733</u></u>

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2007 AND 2006 (Continued) - UNAUDITED

	Notes	2007 Rp	2006 Rp
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable		21,101,952,050	11,293,355,002
Other accounts payable		15,707,708,394	13,741,104,827
Taxes payable	2p,9	4,586,263,538	4,383,558,235
Current portion of accrued expenses	10	53,794,559,478	7,815,124,946
Reserve for replacement of hotel's furniture, fixtures and equipment	2f,3	3,522,878,670	3,329,185,667
Current portion of unearned income	2m,11	98,187,973,772	94,956,835,907
Short term loan	13	52,884,400,000	-
Current maturities of long-term liabilities			
Other accounts payable	2o,12	3,934,176,097	7,770,770,000
Bonds payable	2o,2r,4,7,14,16	281,103,482,164	90,060,300,000
<b>Total Current Liabilities</b>		<b>534,823,394,163</b>	<b>233,350,234,584</b>
<b>NONCURRENT LIABILITIES</b>			
Long-term accrued expenses - net of current portion	10	94,119,497,997	96,091,150,689
Long-term unearned income - net of current portion	2m,11	42,380,150,122	32,970,536,351
Tenants' deposits		39,636,040,944	35,067,764,696
Post-employment benefits obligation	2s	22,076,265,152	22,563,933,372
Long-term liabilities - net of current maturities			
Other accounts payable	2o,12	39,682,035,594	54,527,759,000
Bonds payable	2o,2r,4,7,14,16	1,082,135,261,725	904,719,525,000
Mandatory convertible bonds payable	15	528,844,000,000	-
<b>Total Noncurrent Liabilities</b>		<b>1,848,873,251,534</b>	<b>1,145,940,669,108</b>
<b>MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES</b>			
	2b	143,496,039,494	-
<b>EQUITY</b>			
Capital stock - Rp 500 par value per share			
Authorized - 2,500,000,000 shares in 2007 and 1,000,000,000 shares in 2006			
Subscribed and paid-up - 1,543,577,000 shares in 2007 and 667,000,000 shares in 2006	16	771,788,500,000	333,500,000,000
Additional paid-in capital	17	166,933,000,000	149,400,000,000
Revaluation increment in property and equipment	2k,7	542,682,950,793	491,683,550,793
Deficit		(538,089,452,601)	(654,332,584,752)
<b>Total Equity</b>		<b>943,314,998,192</b>	<b>320,250,966,041</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,470,507,683,383</b>	<b>1,699,541,869,733</b>

See accompanying notes to consolidated financial statements  
which are an integral part of the consolidated financial statements.

**PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 - UNAUDITED**

	<u>Notes</u>	<u>2007</u> <u>Rp</u>	<u>2006</u> <u>Rp</u>
SALES / REVENUES	2n,18	93,598,509,573	94,788,460,076
DIRECT COSTS AND COST OF SALES	2n,19	<u>45,655,626,620</u>	<u>47,010,417,104</u>
GROSS PROFIT		<u>47,942,882,953</u>	<u>47,778,042,972</u>
OPERATING EXPENSES	2n,20		
General and administrative		7,389,779,959	3,897,565,356
Marketing		<u>1,740,819,256</u>	<u>1,391,111,944</u>
Total Operating Expenses		<u>9,130,599,215</u>	<u>5,288,677,300</u>
INCOME FROM OPERATIONS		<u>38,812,283,738</u>	<u>42,489,365,672</u>
OTHER INCOME (CHARGES)			
Interest income	21	14,581,282,704	4,427,708,577
Gain (loss) on foreign exchange - net	2c,22	(3,703,513,687)	73,220,914,078
Interest expense	23	(32,141,533,112)	(2,706,315,424)
Others - net		<u>926,463,413</u>	<u>4,224,137,831</u>
Other Income (Expense) - Net		<u>(20,337,300,682)</u>	<u>79,166,445,062</u>
INCOME BEFORE TAX		<u>18,474,983,056</u>	<u>121,655,810,734</u>
TAX EXPENSE	2p		
Current tax		(4,957,261,801)	(5,703,125,469)
Deferred tax		<u>-</u>	<u>-</u>
Tax Expense		<u>(4,957,261,801)</u>	<u>(5,703,125,469)</u>
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		13,517,721,255	115,952,685,265
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	2b	<u>13,622,657</u>	<u>-</u>
NET INCOME		<u>13,531,343,912</u>	<u>115,952,685,265</u>
EARNINGS PER SHARE	2t,24	9	174

See accompanying notes to consolidated financial statements  
which are an integral part of the consolidated financial statements.

PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 - UNAUDITED

Notes	Paid-up capital stock	Additional paid-in capital	Revaluation increment in property and equipment	Deficit	Total equity
	Rp	Rp	Rp	Rp	Rp
Balance as of January 1, 2006	210,000,000,000	149,400,000,000	491,683,550,793	(770,285,270,017)	80,798,280,776
Conversion of mandatory convertible bonds	123,500,000,000				123,500,000,000
Net income for the period	-	-	-	115,952,685,265	115,952,685,265
Balance as of March 31, 2006	<u>333,500,000,000</u>	<u>149,400,000,000</u>	<u>491,683,550,793</u>	<u>(654,332,584,752)</u>	<u>320,250,966,041</u>
Balance as of January 1, 2007	333,500,000,000	149,400,000,000	491,683,550,793	(551,620,796,513)	422,962,754,280
Addition in paid-in capital:					
Conversion of bonds payable Series A, B, D and E	438,288,500,000	-	-	-	438,288,500,000
Additional paid-in capital	-	17,533,000,000	-	-	17,533,000,000
Revaluation increment in property and equipment	-	-	50,999,400,000	-	50,999,400,000
Net income for the period	-	-	-	13,531,343,912	13,531,343,912
Balance as of March 31, 2007	<u>771,788,500,000</u>	<u>166,933,000,000</u>	<u>542,682,950,793</u>	<u>(538,089,452,601)</u>	<u>943,314,998,192</u>

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OF CASH FLOWS  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 - UNAUDITED

	Notes	2007 Rp	2006 Rp
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers		102,324,755,450	84,649,485,505
Cash paid to suppliers, employees and others		<u>(78,507,241,521)</u>	<u>(55,285,030,466)</u>
Cash generated from operations		23,817,513,929	29,364,455,039
Interest received		15,110,280,593	4,453,404,551
Interest and bank charges paid		<u>(3,024,293,743)</u>	<u>(4,341,976,728)</u>
Income tax paid	9	<u>(7,019,007,470)</u>	<u>(3,982,795,652)</u>
Net Cash Provided by Operating Activities		<u>28,884,493,309</u>	<u>25,493,087,210</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Placement of time deposits	4	(11,773,360,162)	-
Acquisitions of property and equipment	7	<u>(5,750,022,216)</u>	<u>(17,558,032,268)</u>
Net Cash Used in Investing Activities		<u>(17,523,382,378)</u>	<u>(17,558,032,268)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of bonds payable	14	<u>(46,763,470,000)</u>	<u>(29,808,995,000)</u>
Net Cash Used in Financing Activities		<u>(46,763,470,000)</u>	<u>(29,808,995,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(35,402,359,069)	(21,873,940,058)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		223,224,045,272	221,299,440,851
Effect of foreign exchange rate changes		<u>(58,772,473)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>187,762,913,730</u>	<u>199,425,500,793</u>

See accompanying notes to consolidated financial statements  
which are an integral part of the consolidated financial statements.

1. GENERAL

a. Establishment and General Information

PT. Pakuwon Jati Tbk. (the "Company") was established based on notarial deed No. 281 dated September 20, 1982 of Kartini Muljadi, SH notary in Jakarta. The deed of establishment was approved by the Minister of Justice in his Decision Letter No. C2-308.HT.01.TH.83, dated January 17, 1983, and was published in the State Gazette No. 28, dated April 8, 1983 Supplement No. 420. The Company's articles of association have been amended several times, most recently by notarial deed No. 560 dated April 28, 2006, of Noor Irawati, SH., notary in Surabaya, concerning the amendment in the Company's articles of association article 4. The amendment was approved by the Minister of Law and Human Rights of the Republic of Indonesia in his Decision Letter No.C-18407.HT.01.04.TH.2006, dated June 22, 2006.

The Company is domiciled in Surabaya with its office located at Menara Mandiri, Jl. Basuki Rachmad No. 8 – 12, Surabaya - Indonesia.

According to article 3 of the Company's articles of association, the scope of its activities is to engage in the operations of (1) shopping center named as Tunjungan Plaza, (2) business center named as Menara Mandiri, (3) five star hotel named as Sheraton Surabaya Hotel and Towers (the hotel), and (4) real estate business Pakuwon City (formerly Laguna Indah Housing) and industrial estate (which is not yet operating and will be changed to residential estate), which are all situated in Surabaya. The Company started commercial operations in May 1986. The Company had average total number of employees of 1,303 in 2007 and 1,527 in 2006.

The Company's management at March 31, 2007 and 2006 consisted of the following:

President Commissioner	Alexander Tedja
Commissioner	Suhardi Poniman
Independent Commissioners	I Nyoman Budhiarta, S.E. Drs. Agus Soesanto
President Director	Ir. Richard Adisastra
Directors	Acub Zainal Omar Ishananto, S.H. Drs. Minarto

The Company's Audit Committee at March 31, 2007 and 2006 consisted of the following:

Chairman	Drs. Agus Soesanto
Members	Theresia Tuti Harjati, SE., Ak. Edwin Derma Radar Hukum

b. Consolidated Subsidiaries

The Company has direct ownership interest of more than 50% in the following subsidiaries:

Subsidiaries	Domicile	Nature of Business and Status Operations	Percentage of Ownership		Total Assets as of December 31, 2006 Rp'000
			2006	2005	
PT. Pakuwon Sentra Wisata (PSW)	Surabaya, Indonesia	Dormant	99.99%	99.99%	6,038,456
PT. Regency Laguna Jasamedika (RLJM)	Surabaya, Indonesia	Dormant	99.99%	99.99%	15,318,427
Pakuwon Jati Finance, B.V. (PJF)	Netherlands	Financial services	100.00%	-	1,059,363,755
PT Artisan Wahyu (AW)	Jakarta, Indonesia	Construction and development of apartment and shopping centre	83,33%	-	1,448,154,555

c. Public Offering of Shares and Bonds of the Company

Shares

On August 22, 1989, the Company obtained the notice of effectivity from the Chairman of the Capital Market Supervisory Agency (Bapepam) in his letter No. SI-044/SHM/MK.10/1989 for its public offering of 3,000,000 shares. These shares were listed in the Jakarta Stock Exchange on October 9, 1989.



On July 24, 1991, the Company obtained the notice of effectivity from the Chairman of Bapepam in his letter No. S-1115/PM/1991 for its limited public offering of 50,000,000 shares through rights issue I to stockholders. The shares were listed in the Jakarta Stock Exchange and Surabaya Stock Exchange on October 1, 1991.

On June 29, 1994, the Company obtained the notice of effectivity from the Chairman of Bapepam in his letter No. S-1163/PM/1994 for its limited public offering of 105,000,000 shares through rights issue II to stockholders. The shares were listed in the Surabaya Stock Exchange and Jakarta Stock Exchange on June 29, 1994 and July 15, 1994, respectively.

Based on the decision in the Extraordinary General Meeting of Stockholders dated October 17, 2005, the stockholders decided to increase the subscribed and paid-up capital stock by 247,000,000 shares without preemptive right to existing stockholders according to Bapepam's regulation No. IX.D.4 (Note 16).

On July 26, 2006, Series A, B, D and E Bonds amounting to US\$ 49,278,000 were converted to 876,577,000 shares in the Company. The transaction has been approved in the Extraordinary General Meeting of Stockholders dated July 24, 2006 (Notes 14 and 16).

As of March 31, 2007 and 2006, all of the Company's shares totaling 1,543,577,000 shares and 420,000,000, respectively, shares have been listed in the Jakarta Stock Exchange and Surabaya Stock Exchange.

#### Bonds

On June 11, 1996, the Company obtained the notice of effectivity from the Chairman of Bapepam in his letter No. S-946/PM/1996 for its public offering of bonds I in 1996 with nominal value of Rp 150,000,000,000 and a fixed coupon rate of 19.125% per annum. The bonds were listed in the Surabaya Stock Exchange on July 2, 1996.

On November 29, 1996, the Company obtained the notice of effectivity from the Chairman of Bapepam in his letter No. S-1951/PM/1996 for its public offering of bonds II in 1996 with nominal value of Rp 200,000,000,000 and a fixed coupon rate of 18.50% per annum. The bonds were listed in the Surabaya Stock Exchange on December 31, 1996.

The Company's bonds amounting to Rp 93,457,500,000 and Rp 93,532,500,000 as of March 31, 2007 and 2006, respectively, have been listed in the Surabaya Stock Exchange.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared using accounting principles and reporting practices generally accepted in Indonesia.

The consolidated financial statements, except for the statements of cash flows, are prepared under the accrual basis of accounting. The reporting currency used in the preparation of the consolidated financial statements is the Indonesian Rupiah, while the measurement basis used is the historical cost, except for certain accounts which are measured on the bases described in the related accounting policies.

The consolidated statements of cash flows are prepared using the direct method with classifications of cash flows into operating, investing and financing activities.

### b. Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to December 31 each year. Control is achieved where the Company has the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. Control is also presumed to exist when the Company owns directly or indirectly through subsidiaries, more than 50% of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill and amortized using the straight-line method over five years. When the cost of acquisition is less than the interest in the fair values of the identifiable assets and liabilities acquired as at the date of acquisition (i.e. discount on acquisition), the fair values of the acquired non-monetary assets are reduced proportionately until all the excess is eliminated.

The interest of the minority stockholders is stated at the minority's proportion of the historical cost of the net assets. The minority interest is subsequently adjusted for the minority's share of movements in equity.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c. Foreign Currency Transactions and Translation

The books of accounts of the Company and its subsidiaries, except PJF and AW, are maintained in Indonesian Rupiah. Transactions during the year involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange prevailing at that date. The resulting gains or losses are credited or charged to current operations.

The books of accounts of PJF and AW are maintained in US Dollar. For consolidation purposes, the assets and liabilities of PJF and AW at balance sheet date are translated into Indonesian Rupiah using the exchange rates at balance sheet date, while revenues and expenses are translated into Indonesian Rupiah at the average rate for the year. The resulting translation adjustment is charged to current operations in the consolidated financial statements.

d. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in Indonesia requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could be different from these estimates.

e. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks and all unrestricted investments with maturities of three months or less from the date of placement.

f. Fund / Reserve for Replacement of Hotel's Furniture, Fixtures and Equipment

Reserve for replacement of and addition to the Hotel's furniture, fixtures and equipment is provided at 3.5% of the hotel's preceding year's total revenues.

A fund is specifically set aside to cover the reserve and is maintained in a bank account. Interest earned on such bank account represents a component of the reserve and the fund.

The cost of replacements of and additions to the Hotel's furniture, fixtures and equipment represent reduction in the balance of the reserve and the fund.

g. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on a review of the status of the individual receivable accounts at the end of the year.

h. Hotel's Inventories and Spareparts

Hotel inventories representing food and beverages, fuel, office supplies and building maintenance materials, are stated at cost or net realizable value, whichever is lower. Cost of food and beverage inventories is determined using the weighted average method. Cost of inventories other than food and beverage is determined using the first-in first-out method.

i. Real Estate Assets

Real Estate Inventories

Real estate inventories consist of land and buildings (houses and condominium units) which are ready for sale, buildings (houses) under construction, and land under development that are stated at cost or net realizable value, whichever is lower.

The cost of land under development consists of the cost of land for development, direct and indirect costs related to the development of real estate assets and borrowing costs. The cost of land under development is transferred to the buildings (houses) under construction account when the development is completed or is transferred to the land account when it is ready for sale, based on the area of saleable lots.

The cost of buildings under construction consists of the cost of developed land, construction costs and borrowing costs, and is transferred to the land and buildings ready for sale account when the development of the land and construction of buildings are completed. Cost is determined using the specific identification method.

Land Not Yet Developed

Land not yet developed consists of land that has not been developed yet and is stated at cost or net realizable value, whichever is lower.

The cost of land not yet developed consists of pre-development costs and cost of the land. The cost of land not yet developed is transferred to the land under development account when the development of the land has started or is transferred to the buildings (houses) under construction account when the land is ready for development.

j. Prepaid Expenses

Prepaid expenses are amortized over their beneficial periods using the straight-line method.

k. Property and Equipment

Property and equipment are stated at cost, except for certain revalued assets, less accumulated depreciation. Certain assets were revalued based on an independent appraisal made in accordance with government regulations. Revaluation increment in property and equipment is credited to a separate account under equity.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Tahun	
20 - 30	Buildings and facilities
10 - 20	Machinery and equipment
5	Motor vehicles
5	Office equipment
5	Interior design

Land is stated at cost and is not depreciated.

When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount, which is determined as the higher of net selling price or value in use.

The cost of maintenance and repairs is charged to operations as incurred; expenditures which extend the useful life of the asset or result in increased future economic benefits such as increase in capacity and improvement in the quality of output or standard of performance are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the current operations.

Construction in progress is stated at cost. Construction in progress is transferred to the respective property and equipment account when completed and ready for use.

l. Property and Equipment under Build, Operate and Transfer (BOT) Scheme

Property and equipment constructed under BOT scheme, including fixtures and facilities on them are presented at cost less accumulated depreciation. Depreciation is computed based on the estimated useful lives of the related property and equipment under build, operate and transfer scheme following the term of the agreement using straight-line method over 20 years.

m. Unearned Income

Unearned income represents receipt of advance payment of rent and service charges which are recognized proportionally over the earning period. It also includes advance payment from sale of land, houses and condominium units which are recognized when the revenue recognition criteria are met.

n. Revenue and Expense Recognition

Revenues from room rental and service charges are recognized based on the terms of the contract, revenues from parking and hotel operations are recognized when the services are rendered.

Revenue from the sale of residential houses, land and condominiums are recognized using the full accrual method, when all of the following criteria are met:

- The deed of sale has been signed;
- The balance is deemed collectible;

- Receivables from sale are free from subordination; and
- All rights, risks and benefits have been transferred substantially to the buyer (a memorandum of transfer agreement has been released).

Proceeds from the sale of land, wherein the construction of the building is completed without involving the seller, are recognized in full when all of the following criteria are met:

- The deed of sale has been signed;
- The buyer has paid a down payment of at least 20% of the agreed sales price, and the period of cancellation / refund has expired;
- The balance is deemed collectible;
- The receivables are free from subordination; and
- All improvements and related facilities on this project are completed and the seller has no further obligation to the buyer.

If any of the criteria is not met, the payments received from the buyers are recognized as unearned income and recorded using the deposit method until all the mentioned criteria are met.

Expenses are recognized when incurred (accrual basis).

o. Debt Restructuring

The excess of the carrying amount of the loan and related accounts over the total future cash payments specified by the new terms of the loan in a debt restructuring involving only modification of terms is recognized immediately as restructuring gain. After the restructuring, all cash payments under the terms of the loan are deducted from the carrying amount of the loan, and no interest expense is recognized on such loan until maturity.

If the carrying amount of the loan is less than the total future cash payments specified by the new terms of the loan in a debt restructuring involving only modification of terms, no gain or loss is recognized. The effect of such restructuring is accounted for prospectively from the time of restructuring. After the restructuring, interest expense is computed by applying a constant effective interest rate to the carrying amount of the loan and related accounts at the beginning of each period until maturity.

When settlement of loan is made through transfer of asset, the excess of the carrying amount of the restructured debt over the fair value of the asset is recognized immediately as debt restructuring gain. Gain arising from the restructuring of loans through transfer of assets which terms and conditions are not fully met is recognized as deferred gain or loss on the restructured loans presented under other accounts payable account and will be recognized as gain in the consolidated statement of income when related terms and conditions are fully met.

p. Income Tax

Final Income Tax

Final income tax expense is recognized proportionally with the accounting income recognized during the year. The difference between the final income tax paid and the final tax expense in the consolidated statement of income is recognized as prepaid tax or tax payable. If the income is subject to final income tax, the differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases are not recognized as deferred tax assets or liabilities.

Non-Final Income Tax

Current tax expense is determined based on the taxable income for the year computed using prevailing tax rates.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, except those differences that are subject to final tax. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable income will be available in future periods against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the consolidated statement of income, except when it relates to items charged or credited directly to equity, in which case, the deferred tax is also charged or credited directly to equity.

Deferred tax assets and liabilities are offset in the consolidated balance sheet, except if they are for different legal entities, in the same manner the current tax assets and liabilities are presented.

q. Deferred Charges – Landrights

Expenses related to the legal processing of landrights are deferred and amortized using the straight-line method over the legal term of the landright since the legal term of the right is shorter than its economic life.

r. Bond Issuance Costs

Bonds issuance costs are deducted directly from the related proceeds of the related bonds to determine the net proceeds of the bonds. Differences between the net proceeds and nominal values represent discount or premium which are amortized using the straight-line method over the term of the bonds.

s. Post-Employment Benefits

The Company provides defined post-employment benefits to its employees in accordance with Labor Law No. 13/2003. No funding has been made to this defined benefit plan.

The cost of providing post-employment benefits is determined using the Projected Unit Credit Method. The accumulated unrecognized actuarial gains or losses that exceed 10% of the present value of the Company's defined benefit obligations are recognized on a straight-line basis over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains or losses and unrecognized past service cost.

Aside from providing post-employment benefits in accordance with Labor Law No. 13/2003, the hotel has established a defined contribution plan covering all its local permanent employees. The hotel's contribution to the plan is charged to current operations.

t. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year.

Diluted earnings per share is computed by dividing net income by the weighted average number of shares outstanding as adjusted for the effects of all dilutive potential ordinary shares.

3. CASH AND CASH EQUIVALENTS

	2007	2006
	Rp	Rp
Cash on hand	470,077,015	570,785,836
Cash in banks		
Rupiah		
Bank Lippo	3,828,194,619	2,714,741,198
Bank Mandiri	3,080,971,489	6,054,600,759
Bank Central Asia	1,770,411,341	1,904,578,742
Bank Rakyat Indonesia	142,142,629	135,938,254
Bank Danamon Indonesia	14,517,790	83,204,267
Bank Internasional Indonesia	179,385,472	-
Others (each less than Rp 10 million)	8,942,658	9,366,236
U.S. Dollar		
Bank of New York	818,302,022	-
Bank Mandiri	2,571,045,329	426,866,625
Bank Lippo	162,520,144	399,779,614
Bank Danamon Indonesia	63,235,336	
Bank Panin	47,735,465	48,356,319
Others (each less than Rp 10 million)	7,185,937	49,400,513
Euro		
Ing Bank	546,526,324	
Time deposits		-
Rupiah		
Bank Mega	35,378,571,534	10,523,944,997
Bank Danamon Indonesia	36,986,712,365	53,009,070,949
Bank Internasional Indonesia	22,004,192,500	54,485,150,828
Bank Mandiri	2,029,705,400	15,531,425,948
Bank Halim	2,039,877,988	-
Bank Lippo	-	600,000,000
Bank Niaga	400,000,000	-
U.S. Dollar		
Bank DBS Indonesia	5,385,290,743	5,185,765,065
Bank Mandiri	182,420,000	186,900,000
Bank Mega	73,167,828,300	9,075,000,001
Bank Internasional Indonesia	-	23,609,810,309
Bank Bukopin	-	18,150,000,000
Total cash and cash equivalents	<u>191,285,792,400</u>	<u>202,754,686,460</u>
Fund for replacement of hotel's furniture, fixtures and equipment	<u>(3,522,878,670)</u>	<u>(3,329,185,667)</u>
Net	<u><u>187,762,913,730</u></u>	<u><u>199,425,500,793</u></u>
Interest rates per annum on time deposits		
Rupiah	9.00 % - 9.25 %	12.50% - 13.00%
U.S. Dollar	4.75 % - 5.00 %	4.25% - 4.75%

4. TRADE ACCOUNTS RECEIVABLE FROM THIRD PARTIES

	<u>2007</u>	<u>2006</u>
	Rp	Rp
a. By Business Segment:		
Hotel	7,494,341,195	8,201,570,921
Space rental	16,114,194,988	15,394,062,790
Sale of land and buildings	2,971,283,879	536,495,070
Others	4,049,168,388	3,152,891,326
Total	<u>30,628,988,450</u>	<u>27,285,020,107</u>
Allowance for doubtful accounts	<u>(1,882,285,349)</u>	<u>(908,474,924)</u>
Net	<u><u>28,746,703,101</u></u>	<u><u>26,376,545,183</u></u>
b. By Age Category:		
1 - 30 days	17,638,745,307	13,639,600,136
31 - 60 days	5,891,072,818	8,092,654,463
61 - 90 days	2,586,698,646	3,836,943,864
More than 90 days	4,512,471,679	1,715,821,644
Total	<u>30,628,988,450</u>	<u>27,285,020,107</u>
Allowance for doubtful accounts	<u>(1,882,285,349)</u>	<u>(908,474,924)</u>
Net	<u><u>28,746,703,101</u></u>	<u><u>26,376,545,183</u></u>
Changes in the allowance for doubtful accounts:		
Beginning balance	2,857,179,572	1,785,350,409
Reversal of allowance	<u>(974,894,223)</u>	<u>(876,875,485)</u>
Ending balance	<u><u>1,882,285,349</u></u>	<u><u>908,474,924</u></u>

All trade accounts receivable in 2007 and 2006 are in Rupiah currency.

Management believes that the allowance for doubtful receivables is adequate to cover possible losses on uncollectible accounts.

Management also believes that there are no significant concentrations of credit risk in trade accounts receivable.

Trade accounts receivable from hotel operations amounting to Rp 7,494,341,195 and Rp 8,201,570,921 are used as collateral for Series A, B and C Bonds in 2007 and 2006, respectively (Note 14). Trade accounts receivable from space rentals of Tunjungan Plaza I, II and III amounting to Rp 11,011,052,837 are used as collateral for Series D, E and F Bonds in 2006 (Note 14)

5. RESTRICTED TIME DEPOSIT

This account represents time deposits placed in UBS AG, Singapore and Ing Bank, Singapore amounting to US\$108,378,607.92 or equivalent to Rp 988,196,147,020 as of March 31, 2007, which were generated from the issuance of senior secured notes by PJF (a subsidiary). The balance includes interest earned from the placement of these time deposits. The interest rate ranging from 5.19% to 5.23% per annum. This time deposit is restricted and will be used for the repayment of certain existing debt and to finance the development of Superblock Gandaria.

6. REAL ESTATE ASSETS

Real Estate Inventories

	<u>2007</u>	<u>2006</u>
	Rp	Rp
Land already developed		
Virginia Regency	22,008,716,789	27,773,660,932
Laguna Indah	17,532,230,338	17,522,396,467
Laguna Regency	3,243,113,015	2,477,548,061
Riviera Villa	1,528,630,121	1,525,571,056
Taman Mutiara	1,371,219,439	1,371,219,439
Royal Villa	1,370,115,031	1,367,461,089
Westwood Villa	942,227,054	940,370,060
Taman Permata	125,376,779	125,376,780
Land and buildings ready for sale		
Virginia Regency	2,897,355,938	3,417,514,040
Rumah contoh	678,270,200	678,270,200
Royal Villa	829,707,603	829,707,603
Riviera Villa	242,795,538	236,662,607
Taman Permata	130,218,796	130,183,796
Westwood Villa	-	427,636,923
Laguna Regency	1,712,871,303	1,712,871,303
Total	<u>54,612,847,944</u>	<u>60,536,450,356</u>
Condominium unit:		
Regency Condominium	<u>6,491,573,072</u>	<u>6,938,476,107</u>
Land under development:		
Villa Venice	68,302,007,212	65,264,790,147
Pakuwon Town Square	<u>28,834,289,444</u>	-
Total	<u>97,136,296,656</u>	<u>65,264,790,147</u>
Total	<u><u>158,240,717,672</u></u>	<u><u>132,739,716,610</u></u>

Land Not Yet Developed

	<u>2007</u>	<u>2006</u>
	Rp	Rp
Location:		
East Surabaya	106,084,601,977	104,729,024,750
North Surabaya	73,322,178,584	52,088,016,600
West Surabaya	20,508,323,666	9,573,636,359
Embong Malang, Central Surabaya	<u>5,123,151,695</u>	<u>5,116,151,695</u>
Total	<u><u>205,038,255,922</u></u>	<u><u>171,506,829,404</u></u>

The total land not yet developed measures 2,670,825 square meters in 2007 and 2,520,903 square meters in 2006.



7. PROPERTY AND EQUIPMENT

	January 1, 2007	Additions (Deductions)	March 31, 2007
	Rp	Rp	Rp
Cost or revalued amounts:			
Land	386,999,521,405	-	386,999,521,405
Buildings and facilities	865,860,661,396	204,593,161	866,065,254,557
Machinery and equipment	161,784,180,203	107,040,210	161,891,220,413
Motor vehicles	8,888,957,433	3,582,477,316	12,471,434,749
Office equipment	27,501,389,737	769,883,524	28,271,273,261
Interior design	10,434,216,690	2,000,001	10,436,216,691
Construction in progress		-	
Buildings and facilities	6,507,125,526	710,061,971,270	716,569,096,796
Total	1,467,976,052,390	714,727,965,482	2,182,704,017,872
Accumulated depreciation:			
Buildings and facilities	225,758,486,992	7,351,010,240	233,109,497,232
Machinery and equipment	67,576,920,614	2,066,897,586	69,643,818,200
Motor vehicles	5,719,661,057	947,917,716	6,667,578,773
Office equipment	24,066,147,612	494,565,581	24,560,713,193
Interior design	9,940,960,817	33,885,258	9,974,846,075
Total	333,062,177,092	10,894,276,381	343,956,453,473
Net Book Value	1,134,913,875,298		1,838,747,564,399

	January 1, 2006	Additions (Deductions)	March 31, 2006
	Rp	Rp	Rp
Cost or revalued amounts:			
Land	319,733,720,621	22,000,000,000	341,733,720,621
Buildings and facilities	864,328,520,510	585,727,528	864,914,248,038
Machinery and equipment	158,740,561,944	606,249,549	159,346,811,493
Motor vehicles	9,050,557,433	-	9,050,557,433
Office equipment	27,057,107,403	127,855,970	27,184,963,373
Interior design	10,512,028,169	(86,312,828)	10,425,715,341
Construction in progress			-
Buildings and facilities	-	-	-
Total	1,389,422,496,080	23,233,520,219	1,412,656,016,299
Accumulated depreciation:			
Buildings and facilities	196,478,658,701	7,134,325,190	203,612,983,891
Machinery and equipment	59,488,269,054	2,007,717,115	61,495,986,169
Motor vehicles	4,352,848,321	373,451,517	4,726,299,838
Office equipment	23,053,152,348	297,235,657	23,350,388,005
Interior design	9,817,356,090	23,267,027	9,840,623,117
Total	293,190,284,514	9,835,996,506	303,026,281,020
Net Book Value	1,096,232,211,566		1,109,629,735,279

Depreciation amounting to Rp 10,186,667,622 in 2007 dan Rp 9,835,996,505 in 2006 was recorded under direct costs-building expenses (Note 19).

In 2006 and 1999, the Company revalued part of its property and equipment. The revaluation was based on government rules. In 2006, the Company revalued land where Sheraton Surabaya Hotel & Tower are located and two (2) parcels of land situated beside the Hotel, with net revaluation increment amounting to Rp 50,999,400,000. On December 26, 2006, the Company obtained approval from the Tax Office for Listed Companies in its Decision Letter No. 2027/WPJ.07/BD.04/2006. In 1999, the Company revalued part of its property and equipment as of December 31, 1998 with net revaluation increment in property and equipment amounting to Rp 491,683,550,793. The Company obtained approval from the Tax Office for Listed Companies in its Decision Letter No. 021/WPJ.06/KP.0404/1999 dated May 20, 1999. On March 31, 2007 and 2006, the balance of the net revaluation increment in property and equipment were recorded as part of equity amounting to Rp 542,682,950,793 and Rp 491,683,550,793, respectively.

The Company owns several parcels of land located in Kelurahan Kaliasin and Kelurahan Kedungdoro (Surabaya) with legal rights in the form of Building Used Rights (HGBs) for a period of 10 to 30 years from 2007 to 2032. Management believes that there will be no difficulty in the extension of the landrights since all parcels of land were acquired legally and supported by sufficient evidence of ownership.

In 2005, land with HGB No. 395 together with Tunjungan Plaza I and Tunjungan Plaza II buildings, land with HGB Nos. 206, 266, 284 and 286 together with Tunjungan Plaza III building are used as collateral for Series D, E and F Bonds (Note 14). In 2006, the security rights in the land and buildings comprising Tunjungan Plaza I and Tunjungan Plaza III are used as collateral for Senior Secured Notes (Note 14). Land with HGB Nos. 265, 275 and 294 together with Sheraton Surabaya Hotel & Towers thereon are used as collateral for Series A, B and C Bonds (Note 14). Land with HGB Nos. 183, 282, 290, 292, 300 and 304, together with the Tunjungan Plaza IV buildings thereon are used as collateral for Bonds Payable I (Note 14).

On March 31, 2007 and 2006, property and equipment and property and equipment under build, operate and transfer (BOT) scheme were insured as follows:

- Properties of Tunjungan Plaza I and II / Menara Mandiri, Tunjungan Plaza III, Tunjungan Plaza IV, Central Plant and Laguna Square (Pakuwon City) were covered by property all risk insurance with PT. Zurich Insurance Indonesia for US\$ 83,900,000 and Rp 15,000,000,000 as of March 31, 2007 and for US\$ 72,100,000 and Rp 15,000,000,000 as of March 31, 2006. Property and equipment of Sheraton Surabaya Hotel & Towers was covered by property all risk insurance with PT. Asuransi AIU Indonesia as of March 31, 2007 and PT. Asuransi Allianz Utama Indonesia as of March 31, 2006 for US\$ 35,000,000 and US\$ 40,000,000, respectively. Its properties were also insured against terrorism and sabotage with PT. Asuransi Bintang Tbk for US\$ 5,000,000 as of March 31, 2007 and US\$ 3,000,000 as of March 31, 2006.
- Tunjungan Plaza I, II / Menara Mandiri, III and IV, Central Plant and Laguna Square (Pakuwon City) were covered by Public Liability Insurance with PT. Asuransi AIU Indonesia in 2007 and 2006 for US\$ 1,250,000, respectively. Sheraton Surabaya Hotel & Towers was covered by Public Liability Insurance with PT. ACE INA Insurance in 2007 and 2006 each for US\$ 10,000,000.
- Some of the vehicles were insured with PT. Asuransi Allianz Utama Indonesia and PT. Asuransi AIU Indonesia in 2007 for Rp 3,130,000,000 and PT. Asuransi Harta Aman Pratama Tbk. in 2006 for Rp 2,005,500,000.

Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

#### 8. PROPERTY AND EQUIPMENT UNDER BUILD, OPERATE AND TRANSFER (BOT) SCHEME

	January 1, 2007	Addition	Deduction	March 31, 2007
	Rp	Rp	Rp	Rp
Cost:				
Buildings	46,927,904,937	-	-	46,927,904,937
Machinery and equipment	11,734,752,741	-	-	11,734,752,741
Total	58,662,657,678	-	-	58,662,657,678
Accumulated depreciation:				
Buildings	33,898,338,703	757,320,687	-	34,655,659,390
Machinery and equipment	8,944,010,456	146,684,409	-	9,090,694,865
Total	42,842,349,159	904,005,096	-	43,746,354,255
Net Book Value	15,820,308,519			14,916,303,423

PT. PAKUWON JATI Tbk. AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007 AND 2006 AND FOR THE THREE MONTH PERIODS THEN ENDED (Continued) - UNAUDITED

	January 1, 2006	Addition	Deduction	March 31, 2006
	Rp	Rp	Rp	Rp
Cost:				
Buildings	46,927,904,937	-	-	46,927,904,937
Machinery and equipment	11,734,752,741	-	-	11,734,752,741
Total	58,662,657,678	-	-	58,662,657,678
Accumulated depreciation:				
Buildings	30,869,055,955	757,320,687	-	31,626,376,642
Machinery and equipment	8,357,272,820	146,684,409	-	8,503,957,229
Total	39,226,328,775	904,005,096	-	40,130,333,871
Net Book Value	19,436,328,903			18,532,323,807

Depreciation expense amounting to Rp 904,005,096 in 2007 and 2006, respectively, was presented under direct costs-building expenses (Note 19).

At March 31, 2007 and 2006, the property and equipment under BOT scheme were insured along with property and equipment (Note 7).

9. TAXES PAYABLE AND PREPAID TAXES

Taxes Payable

	2007	2006
	Rp	Rp
The Company		
Final income tax	1,940,565,347	2,089,914,138
Tax on transfer right on land and/or building	-	55,004,499
Other income taxes:		
- Article 21	22,912,388	364,968,513
- Article 23/26	61,949,344	317,372,011
Value added tax	2,034,871,524	1,502,027,074
Tax on promotional activities	-	54,272,000
The subsidiaries		
Current tax	214,350,721	-
Other income taxes:		
- Article 21	4,055,869	-
- Article 23/26	(35,608,617)	-
Value added tax	343,166,962	-
Total	4,586,263,538	4,383,558,235

Details of final income tax are as follows:

	2007	2006
	Rp	Rp
Final income tax on rental and service charges	4,957,261,801	5,703,125,469
Less:		
Amount withheld by third parties	(1,176,512,692)	(2,387,166,377)
Payment by the Company	(1,840,183,762)	(1,226,044,954)
Final income tax payable	1,940,565,347	2,089,914,138

Prepaid Taxes

At March 31, 2007 and 2006, the Company has prepaid taxes amounting to Rp 15,965,759,623 and Rp 9,376,535,301, respectively. In 2007 and 2006 the balance of prepaid taxes includes prepaid final income tax on unearned income amounting to Rp 10,208,159,081 and Rp 9,074,337,092 respectively.

10. ACCRUED EXPENSES

	2007 Rp	2006 Rp
Interest and penalty payable on bonds (Note 14)	141,327,611,997	98,137,226,689
Electricity, water and gas	870,507,954	854,816,200
Others	5,715,937,524	4,914,232,746
Total	147,914,057,475	103,906,275,635
Current portion	(53,794,559,478)	(7,815,124,946)
Long-term portion	94,119,497,997	96,091,150,689

11. UNEARNED INCOME

	2007 Rp	2006 Rp
Space rental	125,956,419,813	115,122,292,578
Land and buildings	11,357,269,927	8,910,983,616
Others	3,254,434,154	3,894,096,064
Total	140,568,123,894	127,927,372,258
Current portion	(98,187,973,772)	(94,956,835,907)
Long-term portion	42,380,150,122	32,970,536,351

12. LONG-TERM OTHER ACCOUNTS PAYABLE

	2007 Rp	2006 Rp
Deferred gain on restructured bonds, from:		
Settlement with real estate inventory	25,360,008,000	25,360,008,000
Reduction of interest and write-off of penalty on Bonds I and II	8,293,942,532	15,078,559,000
Interest payable series C and F Bonds	6,801,692,003	18,699,393,000
Others	3,160,569,156	3,160,569,000
Total	43,616,211,691	62,298,529,000
Current maturities from:		
Reduction of interest and write-off penalty on Bonds I and II	1,746,093,165	6,348,093,000
Interest payable series C and F Bonds	2,188,082,932	1,422,677,000
Total	3,934,176,097	7,770,770,000
Long-term portion	39,682,035,594	54,527,759,000

Deferred gain on restructured bonds from settlement with real estate inventory resulted from the settlement of Bonds I amounting to Rp 40,050,000,000 and Bonds II amounting to Rp 49,850,000,000 using real estate inventory amounting to Rp 57,417,469,515 and cash amounting to Rp 6,292,122,000 or totaling Rp 63,709,591,515. From these transactions, in 2003, the Company recorded the difference between the total nominal value and total settlement amounting to Rp 26,190,408,486 as deferred gain on restructuring since the deed of sale has not yet been signed. Until 2005, the Company stated realization of the said gain amounting to Rp 830,399,507.

Deferred gain on restructured bonds from reduction of interest and write-off of penalty represents the difference between the carrying amount of restructured Bonds I and II (principal and accrued interest) in 2003 and the agreed total settlement amount and outstanding loan balance. The difference was deferred since the carrying amount was less than the future cash payments.

Interest payable on Series C and F Bonds represents the differences between the nominal value of Series C and F Bonds of the related restructured loans (Note 14) and will be realized on due date of each interest payable. On November 21, 2006, Series F Bonds has been fully paid, thus, the interest payable amounting to Rp 6,041,376,758 were write-off and presented as part of other income.

### 13. SHORT TERM LOAN

Short term loan represent the loan of AW (a subsidiary) from Applegate Investors Pte Ltd with maximum limit US\$9,000,000. The short term loan bears no interest and no collateral. As of March 31, 2007, AW had obtained loan amounting to US\$ 5,800,000 or equivalent Rp 52,884,400,000.

### 14. BONDS PAYABLE

	<u>2007</u> Rp	<u>2006</u> Rp
Senior secured notes - net of unamortized bond issuance cost	962,869,363,189	-
Bonds payable (in Rupiah)		
Bonds I	93,457,500,000	93,532,500,000
Bonds resulting from restructured loans:		
Series A Bonds US\$ 6,942,602 in 2007 and US\$ 10,398,000 in 2006	63,302,645,205	94,361,850,000
Series B Bonds US\$ 23,057,398 in 2007 and US\$ 33,248,000 in 2006	210,237,355,495	301,725,600,000
Series C Bonds US\$ 3,660,000 in 2007 and US\$ 4,392,000 in 2006	33,371,880,000	39,857,400,000
Series D Bonds US\$ 18,306,000 in 2006	-	166,126,950,000
Series E Bonds US\$ 29,484,000 in 2006	-	267,567,300,000
Series F Bonds US\$ 3,483,000 in 2006	-	31,608,225,000
Total	<u>1,363,238,743,889</u>	<u>994,779,825,000</u>
Current maturities	<u>(281,103,482,164)</u>	<u>(90,060,300,000)</u>
Long-term portion	<u><u>1,082,135,261,725</u></u>	<u><u>904,719,525,000</u></u>

#### Senior Secured Notes

On November 16, 2006, PJF (a subsidiary), as Issuer, issued bonds amounting to US\$ 110,000,000 with fixed interest of 12% per annum payable every six (6) months. The bonds have a term of five (5) years and are due on November 14, 2011. All the bonds were offered at 100% of the nominal value and are listed at the Singapore Stock Exchange with the Bank of New York London Branch as Trustee.

The bonds are unconditionally and irrevocably guaranteed by the Company.

The funds generated from the issuance of bonds were used for the repayments of certain existing debt and the acquisition of at least 80% of PT. Artisan Wahyu, a related party through the purchase of new shares.

The agreement provides for various events of default.

Based on the ratings issued by Moody's Investors Service, Inc. and Fitch, the bonds are rated B2 and B, respectively.

The senior secured notes payable consists of the following:

	2007 Rp
Nominal value (US\$ 110,000,000)	1,002,980,000,000
Unamortized bond issuance cost	(40,110,636,811)
Net	<u>962,869,363,189</u>

The Senior Secured Notes are secured by:

- First priority security rights over Tunjungan Plaza I and III (Note 7).
- Fiduciary security of all movable assets located in Tunjungan Plaza I and III.
- Fiduciary security of all claims under insurance and reinsurance policies maintained on the land and buildings comprising Tunjungan Plaza I and III.
- A pledge of the Company's shares in PT. Artisan Wahyu, following the completion of the acquisition of PT. Artisan Wahyu.
- Several offshore accounts and an onshore account to be managed by Account Managers in accordance with the Account Management Agreement.

The Issuer (PJF) and the Company have agreed in the notes and indenture governing the notes to observe certain covenants, including, among other requirements:

- A limitation on the incurrence of liabilities;
- A limitation on dividends and other restricted payments;
- A limitation on certain asset sales;
- A limitation on the issuance and sale of capital stock of restricted subsidiaries;
- A limitation on transaction with affiliates;
- A limitation on the incurrence of liens;
- A limitation on sale / leaseback transactions;
- A limitation on permitted business activities;
- A limitation on the ability to consolidate, merge, or sell all or substantially all assets;
- Covenants as to the delivery of certain financial statements.

#### Bonds Payable I

In 1996, the Company issued Bonds I totaling Rp 150,000,000,000, with interest at 19.125% per annum. The maturity date of these bonds has been extended up to June 28, 2011 based on Bondholders' General Meeting (RUPO) in 2003. The bonds were intended for the project development for Tunjungan Plaza IV. Bonds I are secured by HGB Certificate Nos. 183, 282, 290, 292, 300 and 304, covering a total area of 0.885 hectares and located in Kelurahan Kedungdoro, Surabaya, together with the buildings thereon (Note 7).

In 2003, the Company and the holders of Bonds I agreed to restructure the bonds payable, as follows:

- a. Based on RUPO of Bonds I with principal totaling Rp 109,950,000,000 as stated in the Minutes of RUPO I No. 65 dated June 23, 2003 and Deed No. 9 dated September 8, 2003 concerning Addendum V of the Custodianship Agreement of Bonds I both from Notary Mrs. Machrani Moertolo S. SH., the holders of Bonds I agreed on the following among others:
  - i. Schedule of payment of bond principal as follows :
    - 2005 amounting to Rp 16,492,500,000
    - 2007 amounting to Rp 21,990,000,000
    - 2009 amounting to Rp 32,985,000,000
    - 2011 amounting to Rp 38,482,500,000
  - ii. Floating rate of 1% over Bank Indonesia Certificate (SBI) capped at 12% per annum.
  - iii. Interest-free cash payment of interest in arrears amounting to Rp 102,303,802,125, through installment of 2% per annum depending on the cash flow position of the Company and the remaining will be paid in the ninth year through refinancing. The past due interest was presented under accrued expenses (Note 10).

- iv. Write-off of penalty for the late payment of coupon nos. 8, 9, and 10 amounting to Rp 519, 455,769.
- v. Release as collateral of the land measuring 825,525 square meters located in Kelurahan Dukuh Sutorejo, Surabaya and Kelurahan Kalisari, Surabaya, upon the completion of Tunjungan Plaza IV project, in accordance with the valuation from independent appraiser appointed by the the Company the value of which is over 120% of the outstanding bonds principal.

In 2006 and 2005, the Company paid the first installment amounting to Rp 75,000,000 and Rp 16,417,500,000, thus Bonds I payable amounted to Rp 93,457,500,000 and Rp 93,532,500,000 in 2007 and 2006, respectively.

#### Bonds Resulting from Restructured Loans

On October 25, 2005, the Company and all its lenders entered into agreements to restructure all loans and related interest payable. This restructuring has been approved in the Extraordinary Shareholders' General Meeting as documented in Notarial Deed No. 72 dated October 17, 2005 of Noor Irawati SH., notary in Surabaya.

The details of Series A to F Bonds, as a result of the restructuring above.

#### Series A Bonds

In 2006, holders of Series A Bonds have changed and details of Series A Bonds as of March 31, 2007 and 2006 are as follows:

<u>Bondholders</u>	<u>2007</u>	
	<u>US\$</u>	<u>Equivalent in Rp</u>
Sino Connect Invesment Ltd	5,535,501	50,472,698,118
Oakhill Capital Ltd	649,105	5,918,539,390
Burgami Investment Ltd	486,833	4,438,943,294
BSL Investment Inc.	271,163	2,472,464,403
Total	<u>6,942,602</u>	<u>63,302,645,205</u>

<u>Bondholders</u>	<u>2006</u>	
	<u>US\$</u>	<u>Equivalent in Rp</u>
Standard Merchant Bank (Asia) Ltd	8,289,000	75,222,675,000
Nobhill Capital Corp	972,000	8,820,900,000
Continental Capital Pte. Ltd	729,000	6,615,675,000
Bank Panin	408,000	3,702,600,000
Total	<u>10,398,000</u>	<u>94,361,850,000</u>

On July 26, 2006, Series A Bonds amounting to US\$ 754,198 were converted to 13,414,500 new shares with a fixed rate of Rp 9,250/US\$1 (Note 16).

Series A Bonds are transferable and redeemable at the option of the Company, non-interest bearing and have a term of 7 years from the date of issue. Based on Extraordinary General Meeting of Stockholders dated July 24, 2006 as stated in notarial deed No. 113 of Noor Irawati, SH., the remaining Series A Bonds which are yet to be converted to shares are payable in quarterly installments of US\$ 1,157,100 within a term of two years until July 25, 2008.

Series A, B and C Bonds are secured by:

- The Company's HGBs with certificate Nos. 265, 275 and 294 covering a total area of 17,979 square meters together with the building thereon, located in Kelurahan Kedungdoro, Surabaya (Note 7).
- Receivables, claims and rights over proceeds from the hotel operations (Note 4) and proceeds from insurance claim.

#### Series B Bonds

In 2006, holders of Series B Bonds have changed and details of Series B Bonds as of March 31, 2007 and 2006 are as follows:

Bondholder	2007	
	US\$	Ekuivalen Rp
Sino Connect Investments Ltd	18,657,855	170,122,321,890
Oakhill Capital Ltd	2,873,844	26,203,709,592
Burgami Investments Ltd	1,525,699	13,911,324,013
Total	<u>23,057,398</u>	<u>210,237,355,495</u>

  

Bondholder	2006	
	US\$	Ekuivalen Rp
Standard Merchant Bank (Asia) Ltd	26,904,000	244,153,800,000
Nobhill Capital Corp	4,144,000	37,606,800,000
Continental Capital Pte. Ltd	2,200,000	19,965,000,000
Jumlah / Total	<u>33,248,000</u>	<u>301,725,600,000</u>

On July 26, 2006, Series B Bonds amounting to US\$ 2,504,802 were converted to 44,555,500 new shares with a fixed rate of Rp 9,250/US\$1 (Note 16).

Series B Bonds are transferable and redeemable at the option of the Company, non-interest bearing and have a term of nine (9) years from the date of issue. Based on Extraordinary General Meeting of Stockholders (Note 16), the remaining Series B Bonds which are yet to be converted to shares will be payable in quarterly installments of US\$ 3,842,900 within a term of two years until July 25, 2008. Based on the amendment of bonds agreement dated October 10, 2006, Series B Bonds will be fully paid with the proceeds from the issuance of Senior Secured Notes.

#### Series C Bonds

The balance of Series C Bonds issued to Bank Panin as of March 31, 2007 amounting to US\$ 3,660,000 or equivalent to Rp 33,371,880,000.

Series C Bonds are transferable and redeemable at the option of the Company and have a term of seven (7) years from the date of issue. The bonds including the interest are payable in quarterly installments ranging from US\$ 186,741 to US\$ 248,473 until November 25, 2012.

Series C Bonds bear interest at the following rates per annum:

- 1<sup>st</sup> year : 5%
- 2<sup>nd</sup> year : 6%
- 3<sup>rd</sup> year : 7%
- 4<sup>th</sup> to 7<sup>th</sup> year : 8%

#### Series D Bonds

Series D Bonds are payable to BSL Investment Inc. amounting to US\$ 18,306,000 as of March 31, 2006. On July 26, 2006, the remaining outstanding balance of US\$ 17,628,000 was converted to 313,575,000 new shares amounting to Rp 156,787,500,000.

The above bonds are secured by:

- The Company's HGB with certificate No. 395 covering a total area of 8,870 square meters located in Embong Kaliasin, Surabaya, as well as Tunjungan Plaza I and II buildings and facilities thereon (Note 7).
- Receivables, claims and rights over proceeds from the Tunjungan Plaza I and II / Menara Mandiri (Note 4) and proceeds from insurance claim.



### Series E Bonds

Details of Series E Bonds as of March 31, 2006 are as follows:

Bondholders	2006	
	US\$	Ekuivalen Rp
Standard London (Asia) Ltd	10,827,000	98,255,025,000
Aozora Bank	6,426,000	58,315,950,000
Nobhill Capital Corp	3,375,000	30,628,125,000
Standard Merchant Bank (Asia) Ltd	3,213,000	29,157,975,000
Modern Dragon Limited	1,836,000	16,661,700,000
BSL Investment Inc.	1,350,000	12,251,250,000
Continental Capital Pte. Ltd	1,350,000	12,251,250,000
Oakhill Capital Limited	837,000	7,595,775,000
Bank Panin	216,000	1,960,200,000
Bank Rakyat Indonesia	54,000	490,050,000
Total	29,484,000	267,567,300,000

On July 26, 2006, the remaining outstanding balance of US\$ 28,391,000 was converted to 505,032,000 new shares amounting to Rp 252,516,000,000

### Series F Bonds

Series F Bonds were payable to Bank Rakyat Indonesia and Bank Panin amounting to US\$ 3,483,000 as of March 31, 2006. On November 21, 2006 the remaining outstanding balance of US\$ 3,623,000 have been fully paid.

Series F Bonds are transferable and redeemable at the option of the Company with a term of seven (7) years from the date of issue. The bonds including interest are payable in quarterly installments ranging from US\$ 142,862 to US\$ 190,089 up to November 25, 2012.

Series F Bonds bear interest at the following rates:

- 1<sup>st</sup> year : 5%
- 2<sup>nd</sup> year : 6%
- 3<sup>rd</sup> year : 7%
- 4<sup>th</sup> to 7<sup>th</sup> year : 8%

Series E and F Bonds are secured by:

- Parcels of land in the name of the Company with HGB Nos. 206, 266, 284 and 286 covering a total area of 12,454 square meters located in Jalan Embong Malang, Surabaya as well as buildings and facilities thereon (Note 7).
- Receivables, claims and rights over proceeds from Tunjungan Plaza III operations (Note 4) and insurance claim.

Series A, B, C, D, E and F Bonds Indentures contain certain negative covenants which among others, restrict the Company, without the prior written notice to the bondholders, to:

- Obtain any credit facilities from parties other than in the ordinary course of business and subordinated loans from shareholders of the Company.
- Make or purport to make any prepayment of its indebtedness to any party, including the shareholder loan.
- Undertake or permit any re-organization, amalgamation, reorganization, take over, consolidation, merger or acquisition with other company or acquisition of share in that company.
- Declare, distribute or pay any dividend or other distribution of profits.
- Amend or alter any of the provisions of its Articles of Association, among others, its capital structure, except for the purpose of increasing its authorized capital stock other than for the purpose of implementation of the MCBs, and

The negative covenants also restrict the Company, without the prior written consent of bondholders, to:

- Make or cause to make loans or advances to the shareholders, affiliated party or any third party, directly or indirectly, other than in the ordinary course of business.
- Take voluntarily liquidation or dissolution of the Company or instruct another party to file the bankruptcy proposal and suspension of payment to the authorized government institutions.
- Grant a corporate guarantee for the indebtedness of other parties.
- Expand or narrow the line of the Company's business.
- Assign and transfer in whole or in part the Company's obligation under any finance document to other party.

- Purchase, acquire or subscribe for any shares in any subsidiary or affiliated company.
- Encumber, sell or transfer or dispose any securities to other parties and any action taken by the Company which is not authorized to do without obtaining the power of attorney from the creditors.
- Pledge or encumber the Company's assets which have been granted as security in favor of the creditors.

The bond agreements also provided that if the Company fails to fulfill its obligations, the bondholders can declare the outstanding principal as immediately due and payable.

15. MANDATORY CONVERTIBLE BONDS (MCBs) PAYABLE

This account represent mandatory convertible unsecured bond of AW (a subsidiary), to UOB Kay Hian Finance Limited amounting to US\$ 58,000,000 or equivalent Rp 528,844,000,000 with conversion period since the issuance date until maturity date on July 31, 2016.

16. CAPITAL STOCK

Name of Stockholder	2007		
	Number of Shares	Percentage of Ownership	Total Paid-up Capital Stock
		%	Rp
BSL Investment Inc.	341,830,500	159.34	170,915,250,000
Burgami Investments Ltd	322,551,000	150.35	161,275,500,000
PT. Pakuwon Arthaniaga	233,851,148	109.00	116,925,574,000
Concord Media Investment Ltd (CMIL)	114,000,000	53.14	57,000,000,000
Standard Merchant Bank (Asia) Ltd.	110,295,000	51.41	55,147,500,000
Sino Connect Investments Limited	101,788,500	47.45	50,894,250,000
Oakhill Capital Limited	78,957,000	36.80	39,478,500,000
PT. Pakuwon Trijaya	25,332,000	11.81	12,666,000,000
Alexander Tedja (President Commissioner)	288,000	0.13	144,000,000
Suhardi Poniman (Commissioner)	144,000	0.07	72,000,000
Richard Adisastra (President Director)	4,200	0.00	2,100,000
Public (less than 5% each)	214,535,652	100.00	107,267,826,000
Total	1,543,577,000	719.50	771,788,500,000

Name of Stockholder	2006		
	Number of Shares	Percentage of Ownership	Total Paid-up Capital Stock
		%	Rp
PT. Pakuwon Arthaniaga	178,046,968	26.69	89,023,484,000
PT. Pakuwon Trijaya	25,332,000	3.80	12,666,000,000
Alexander Tedja (Presiden Komisaris )	288,000	0.04	144,000,000
Suhardi Poniman (Komisaris)	144,000	0.02	72,000,000
Richard Adisastra (Presiden Direktur)	4,200	0.00	2,100,000
Concord Media Investment Ltd	114,000,000	17.09	57,000,000,000
Standard Merchant Bank (Asia) Ltd	110,295,000	16.54	55,147,500,000
Nobhill Capital Corporation	12,977,000	1.95	6,488,500,000
Continental Capital Pte Ltd	9,728,000	1.46	4,864,000,000
Masyarakat (masing-masing dibawah 5%)	216,184,832	32.41	108,092,416,000
Jumlah	667,000,000	100.00	333,500,000,000

Based on the Extraordinary Meeting of Stockholders as stated in notarial deed No. 72 dated October 17, 2005 of Noor Irawati, SH., notary in Surabaya, the stockholders agreed on the following, among others:

- Convert the long-term loan into MCBs amounting to US\$ 13,000,000 at 19 shares per US\$ 1 by issuing shares of the Company totaling 247,000,000 shares with par value of Rp 500 per share or amounting to Rp123,500,000,000.
- Approve the issuance of shares totaling 247,000,000 shares with nominal value of Rp 500 per share without preemptive rights for the stockholders.

On March 16, 2006 and March 22, 2006, the Company has issued new shares as a result of the conversion of the MCBs by the bondholders to 22,705,000 and 224,295,000 shares, respectively, or totaling 247,000,000 shares with Rp 500 nominal value per share. The Company has reported these transactions to Capital Market Supervisory Agency (Bapepam), Surabaya Stock Exchange, Jakarta Stock Exchange and PT. Kustodian Sentral Efek Indonesia (KSEI).

Based on the Extraordinary Meeting of Stockholders as stated in notarial deed No. 113 dated July 24, 2006 of Noor Irawati, SH., notary in Surabaya, the stockholders agreed to convert a portion of the Series A and B Bonds, and the full remaining balance of Series D and E Bonds (Note 14) totaling Rp 455,821,500,000, by issuing shares of the Company totaling 876,577,000 shares with par value of Rp 500 per share or amounting to Rp 438,288,500,000. The conversion resulted to an increase in paid-in capital amounting to Rp 438,288,500,000. The remaining Rp 17,533,000,000 was recognized as additional paid-in capital (Note 17).

The changes in the shares outstanding for 2006 are as follows:

	Number of shares
Balance as of December 31, 2005	420.000.000
Conversion of mandatory convertible bonds into shares	247.000.000
Conversion of Series A, B, D and E bonds into shares	876.577.000
Balance as of December 31, 2006	<u>1.543.577.000</u>

The Company has stated these changes in the paid-up capital stock in deed No. 86 dated August 15, 2006 of Noor Irawati, SH., notary in Surabaya. The amendments have been reported to and were received by Minister of Law and Human Rights based on its letter No. W10-HT.01.04-180 dated October 10, 2006.

#### 17. ADDITIONAL PAID-IN CAPITAL

	2007 Rp	2006 Rp
Sale of the Company's shares through public offering in 1989	18,900,000,000	18,900,000,000
Rights offering I to stockholders in 1991	50,000,000,000	50,000,000,000
Rights offering II to stockholders in 1994	115,500,000,000	115,500,000,000
Distribution of 35,000,000 bonus shares in 1992	(35,000,000,000)	(35,000,000,000)
Conversion of bonds into shares in 2006 (Note 16)	17,533,000,000	-
Total	<u>166,933,000,000</u>	<u>149,400,000,000</u>

18. SALES / REVENUES

	2007	2006
	Rp	Rp
Rental and service charges:		
Space rental	43,305,244,697	44,418,051,676
Service charges	15,842,924,202	16,774,281,680
Subtotal	59,148,168,899	61,192,333,356
Hotel revenues	19,308,592,401	18,211,614,523
Sale of land and buildings	-	749,317,889
Sale of condominiums	850,000,000	832,646,250
Other operating revenues:		
Electricity and water billing	10,093,012,342	10,727,984,053
Parking fee	1,166,386,500	1,127,760,000
Others	3,032,349,431	1,946,804,005
Subtotal	14,291,748,273	13,802,548,058
Total	93,598,509,573	94,788,460,076

The Company has insurance for business interruption with PT. Zurich Insurance Indonesia and PT. Asuransi AIU Indonesia amounting to US\$ 35,800,000 and US\$ 5,000,000 respectively as of March 31, 2007. And with PT. Zurich Insurance Indonesia and PT. Allianz Utama Indonesia amounting to US\$ 35,800,000 and US\$ 7,000,000, respectively as of March 31, 2006.

19. DIRECT COSTS AND COST OF SALES

	2007	2006
	Rp	Rp
Direct Costs		
Building expenses:		
Electricity, water and gas	17,712,352,361	18,524,280,312
Depreciation of property and equipment (Note 7)	10,186,667,622	9,835,996,506
Repairs and maintenance	3,040,256,760	2,933,450,701
Cleaning	1,109,693,605	1,211,007,636
Amortization of property and equipment under the BOT scheme (Note 8)	904,005,096	904,005,096
Land and building taxes	281,506,262	475,859,650
Insurance	572,819,990	758,488,628
Others	299,630,000	298,692,500
Total building expenses	34,106,931,696	34,941,781,029
Personnel expenses	7,298,367,080	7,672,246,682
Hotel departmental expenses	3,960,869,426	3,328,558,275
Total Direct Costs	45,366,168,202	45,942,585,986
Cost of sales - Land and buildings		661,060,512
Cost of sales - Condominiums	289,458,418	406,770,606
To Beban Pokok Penjualan	45,655,626,620	47,010,417,104

20. OPERATING EXPENSES

	2007 Rp	2006 Rp
General and administrative:		
Office expenses	646,743,618	536,308,345
Hotel operator's fees	655,924,961	640,978,696
Professional fees	460,639,472	144,451,976
Transportation services	208,974,741	211,447,196
Amortization of debt issuance cost (Note 14)	2,130,103,630	-
Shares administration and reporting	134,187,500	-
Bank charges	253,955,869	204,375,210
Security expenses	152,800,000	95,770,733
Entertainment	106,359,000	305,647,295
Office equipment	428,136,859	156,304,076
Others	2,211,954,309	1,602,281,829
Subtotal	<u>7,389,779,959</u>	<u>3,897,565,356</u>
Marketing:		
Events	241,987,349	165,781,090
Advertising and promotion	357,292,497	129,811,760
Others	1,141,539,410	1,095,519,094
Subtotal	<u>1,740,819,256</u>	<u>1,391,111,944</u>
Total	<u>9,130,599,215</u>	<u>5,288,677,300</u>

21. INTEREST INCOME

	2007 Rp	2006 Rp
Time deposits:		
Bank Internasional Indonesia	443,536,253	1,432,539,762
Bank Danamon Indonesia	278,149,227	1,122,463,672
UBS AG Singapura	11,434,515,030	-
Bank Mega	1,671,421,413	856,124,403
Bank Mandiri	620,998,375	611,370,360
Bank DBS Indonesia	52,925,590	-
Bank Lippo	5,200,982	60,975,518
Bank Halim	4,023,869	-
Others	-	229,812,732
Current accounts	<u>70,511,965</u>	<u>114,422,130</u>
Total	<u>14,581,282,704</u>	<u>4,427,708,577</u>

22. GAIN (LOSS) ON FOREIGN EXCHANGE - NET

In 2007, the Company and its subsidiaries were stated the net loss on foreign exchange amounting to Rp3,703,513,687 and in 2006 were stated the net gain foreign exchange amounting to Rp 73.220.914.078.

23. INTEREST EXPENSE

	2007	2006
	Rp	Rp
Interest expense on:		
Bonds payable I	2,052,133,112	2,706,315,424
Senior Secured Notes	30,089,400,000	-
Total	<u>32,141,533,112</u>	<u>2,706,315,424</u>

24. EARNINGS PER SHARE

The computation of basic earnings per share is based on the following data:

	2007	2006
	Rp	Rp
Earnings for computation of basic earning per share	13,345,289,557	115,952,685,265
Number of share	1,543,577,000	667,000,000
Earning per share	9	174

25. COMMITMENTS

- a. The Company entered into a build, operate and transfer (BOT) agreement with Bank Mandiri to construct a shopping center and an office building with its facilities in Tunjungan Plaza II/ Menara Mandiri.

The significant terms and conditions of the BOT agreement are as follows:

- The Company will construct a 35,130-square-meter-building (17-storey) to be called Tunjungan Plaza II/Menara Mandiri on 5,320 square meters of land owned by Bank Mandiri, located in Jalan Basuki Rachmad, Surabaya.
- The agreement is valid for 20 years, starting from the handover of the land by Bank Mandiri, and will end on March 22, 2012.
- Tunjungan Plaza II/Menara Mandiri will be owned by Bank Mandiri, but the bank will grant the Company the right to manage and operate Tunjungan Plaza II/Menara Mandiri for a period of 20 years.

- b. The agreements relating to the operations of Sheraton Surabaya Hotel & Towers are as follows:

- Management agreement with Indo Pacific Sheraton (IPS) Hongkong, to operate and manage the Hotel. As provided in the agreement, incentive fee in 2006 and 2005 shall be computed at 3% of Adjusted Gross Operating Profit ("AGOP"), as defined in the agreement, if Gross Operating Profit ("GOP"), as defined in the agreement, is less than 40%; or 4.25% of AGOP if GOP is equal to or higher than 40% of Total Revenues (TR), as defined in the agreement. The operating term of this contract commenced on March 31, 1996 and terminates on December 31, 2016.
- Management support and service agreement with IPS Netherlands B.V. to manage and operate the Hotel. As provided in the agreement, management support and service fee shall be computed at 3% each of AGOP, if GOP is less than 40%; or 4.25% of AGOP if GOP is equal to or higher than 40% of TR. Since January 1, 2000, royalty fee shall be computed at 2% of TR. The operating term of this contract commenced on March 31, 1996 and terminates on December 31, 2016.

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