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S.E.C. Registration Number

A L L I A N C E G L O B A L
G R O U P , I N C .

(Company's Full Name)

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E A S T W O O D C I T Y C Y B E R P A R K
B A G U M B A Y A N Q U E Z O N C I T Y

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

DINA INTING

Contact Person

709-2038 to 41

Company Telephone Number

1 2 3 1

Month Day
Fiscal Year

S E C F O R M 1 7 - A

FORM TYPE

09

Month

3rd Tues.

Day

N.A.

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

AS093-7946

SEC Reg. No.

ALLIANCE GLOBAL GROUP, INC.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. *For the fiscal year ended* **December 31, 2010**
2. *SEC Identification Number* **AS093046**
3. *BIR Tax Identification No.* **003-831-302-000**
4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**
5. **METRO MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. *(SEC Use Only)*
Industry classification code
7. **7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark
188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City**
Address of principal office
8. **(632) 7092038 to 41**
Registrant's telephone number, including area code
9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

| <i>Title of Each Class</i> | <i>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding As of March 31, 2011</i> |
|----------------------------|---|
|----------------------------|---|

| | |
|---------------|--|
| Common | 9,719,727,979 (Net of 550,100,000 shares acquired by AGI under the buy-back program of the Company) |
|---------------|--|

10. *Are any or all of these securities listed on Philippine Stock Exchange.* **Yes.**
11. (a) *AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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.*
(b) *AGI has been subject to such filing requirements for the past ninety (90) days.*
12. *The aggregate market value of the voting stock held by non-affiliates of AGI, based on the closing price of its common stock of Eleven Pesos and Ninety-Two Centavos (P11.92) on the Philippine Stock Exchange on March 31, 2011, is P40,803,135,104.*

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

a. Organization and Business Development In The Past Three Years

a.1. The Company

Alliance Global Group, Inc. (“AGI” or “the Company”) was incorporated in the Philippines on October 12, 1993 and began operations in 1994 as a glass-container manufacturer after it acquired a glass manufacturing plant in Canlubang, Laguna. After its listing on the Philippine Stock Exchange (PSE) in 1999, the Company obtained approval from the Securities and Exchange Commission (SEC) to broaden its primary business and become a holding company. Immediately, the Company began its diversification into the food and beverage and real estate industries, and, a few years later in 2005, into the quick service restaurant business. More recently, the Company has expanded its business to include integrated tourism development, including gaming activities.

Through its subsidiaries, associates and other controlled entities, the Company operates a diversified range of businesses that focus on developing products that cater to the growing middle class.

AGI was recognized as the No. 1 Most Admired ASEAN Enterprise for large-size companies under the growth category at the 2008 ASEAN Business and Investment Summit in Bangkok, Thailand. AGI was cited for its initiatives in its core businesses, including tourism. The ASEAN Business Awards aims to recognize successful ASEAN companies which have contributed to the growth of the Asean economy and showcase promising enterprises with the potential of becoming global players.

a.2. Business segments and subsidiaries

The Company's operating businesses are categorized into three segments, each managed separately and each representing a strategic business unit that offers different products and serves different markets. Discussed below are the profiles of the significant subsidiaries that fall into AGI's business segments: (Note: For a more comprehensive list, please refer to Note 1 to the Consolidated Financial Statements found elsewhere with this report)

Food and Beverage (F&B)

This segment covers the Company's investments in (1) distilled spirit manufacturing, marketing and distribution, presently under the labels of Emperador Brandy, Generoso brandy, and The Bar flavored alcoholic beverage; (2) operations of the foreign-based subsidiaries that handle the manufacture and international distribution of food products; (3) glass container manufacturing business that produces flint glass containers primarily for internal requirements; and (4) distribution of consumer products under international labels. Emperador Distillers, Inc. front runs this segment.

- *Emperador Distillers, Inc.* (“EDI”), a wholly-owned domestic subsidiary, is a leading manufacturer of distilled spirits. EDI was incorporated on June 6, 2003 and acquired the brandy manufacturing assets and related brands of

Consolidated Distillers of the Far East, Inc. (“Condis”) in January 2007. It has P2 billion authorized, fully subscribed, and paid up capital.

AGI acquired EDI on February 16, 2007 from The Andresons Group, Inc. (“TAGI”) and other individual stockholders.

- *Anglo Watsons Glass, Inc.* (“AWG”), a wholly-owned domestic subsidiary incorporated on July 22, 1999, handles the glass container manufacturing business. It substantially caters to the requirements of EDI at present. It has P400 million authorized capital, P100 million of which was subscribed and paid up.
- *Alliance Global Brands, Inc.* (“AGB”), a wholly-owned domestic subsidiary incorporated on December 22, 1999, handles marketing and distribution of internationally-known and branded consumer food products. It has a wholly-owned foreign-based subsidiary, *McKester Pik-Nik International Limited* (“MPIL”), which wholly owns a US corporation that produces and markets the Pik-Nik potato snack products internationally. Through the MPIL group, AGI first gained entry into the global market. Another wholly-owned domestic subsidiary of AGB, *Tradewind Estates, Inc.* (“TEI”), leases the manufacturing plant and equipment to, and provides the manpower requirement of, EDI. AGB has P5 billion authorized capital and P1.25 billion subscribed and paid-up capital.

Real Estate (RE)

This segment involves the Company’s investment in and development of real estate, lease of properties, hotel development and operations, and integrated tourism development.

- *Megaworld Corporation* (“MEG” or “Megaworld”), a publicly-listed real estate domestic company incorporated on August 24, 1989 and founded by Mr. Andrew L. Tan. Megaworld is one of the country’s leading real estate conglomerates that specializes in the development of large-scale, mixed-use planned communities under the “live-work-play-learn” concept. Megaworld is the country’s largest mid-income residential developer and the largest business process outsourcing (“BPO”) office developer and landlord. It also owns and operates Richmonde Hotel Ortigas in Ortigas Center, Pasig City and Eastwood Richmonde Hotel in Eastwood City, Quezon City through a wholly-owned subsidiary, *Prestige Hotels & Resorts, Inc.* Megaworld has P30.2 billion authorized capital stock and P25.8 billion paid-up capital (both common and preferred stock).

On February 16, 2007, AGI bolstered its presence in the real estate industry by acquiring, in a share-swap transaction with Mr. Andrew Tan, TAGI and Yorkshire Holdings, Inc., an additional 25% interest in Megaworld, which increased AGI’s equity to 46%. AGI further increased its effective ownership interest in Megaworld by 2% in 2008, and by another 9% in May 2009 when AGI and subsidiaries subscribed to Megaworld’s pre-emptive stock rights offering. By end-2009, AGI held 56.7% effective interest in Megaworld.

Megaworld was awarded Best Managed Philippine Company by Finance Asia in 2008 and 2009. In 2008, Megaworld was also awarded Small Cap Corporate of the Year by Asiamoney, and ranked second in Most Convincing and Coherent Strategy Company by Euromoney. In 2011, Alpha South East

Asia honored Megaworld as Most Organized Investor Relations and Strongest Adherence to Corporate Governance.

- *Travellers International Hotel Group, Inc.* (“Travellers”) is a domestic company incorporated on December 17, 2003 to engage in the business of hotels, restaurants, leisure parks, entertainment centers, investments in and operations of gaming activities and other related business. Travellers received the first Provisional License issued by the PAGCOR to participate in the development of a portion of the Newport City Project and the Bagong Nayong Pilipino Entertainment City Manila Project. Travellers has P10 billion authorized capital stock, P5.7 billion is outstanding as of end-2010.

AGI partnered with Malaysia-based Genting Group, one of the largest leisure and entertainment companies in the world, and, in August 2008, inked a 50%-50% deal with Genting Hong Kong Limited (“GHL”) (formerly Star Cruises Limited) whereby GHL eventually acquired 50% direct and indirect interest in Travellers. GHL is the third largest cruise operator in the world by number of lower berths and has significant experience in operating gaming, hotel and leisure activities at resorts and on cruise ships. It is listed in the Hong Kong Stock Exchange.

In January 2011, AGI acquired almost 60% interest in Global-Estate Resorts, Inc. (“GERI”), formerly Fil-Estate Land, Inc., a publicly listed real estate company, with more than 1,000 hectares of properties located in key tourist spots outside Metro Manila, such as Tagaytay City, Nasugbu and Boracay. GERI will be a vehicle for AGI’s tourism projects outside Metro Manila.

Quick Service Restaurant (QSR)

This segment represents the Company’s investment in the McDonald’s brand, in accordance with a master franchise agreement with McDonald’s USA. Golden Arches Development Corporation represents this segment.

- *Golden Arches Development Corporation* (“GADC”) is a domestic corporation engaged in the operations and franchising of quick service restaurant business under the McDonald’s brand and in accordance with the franchise agreement with McDonald’s Corporation, a company incorporated in Delaware and with principal offices in Chicago, Illinois, USA. GADC was incorporated on July 16, 1980. It has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI and the rest by its founder, Mr. George Yang and his family.

AGI acquired its 49% interest in GADC on March 17, 2005 from McDonald’s Restaurant Operations, Inc. (“MRO”), a subsidiary of McDonald’s Corporation, both foreign corporations incorporated in the USA.

- *Golden Arches Realty Corporation* (“GARC”) leases to GADC parcels of land where McDonald’s restaurants and warehouses are situated. It was incorporated on June 25, 2001 and, at present, has P1 million authorized capital stock and P816,400 issued and outstanding, 49% of which is held by AGI.

The Company and its subsidiaries have not been involved in any bankruptcy, receivership or similar proceedings. Likewise, there were no other material

reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

b. Business Description

AGI is a holding company with interests in the food and beverage business (manufacturing and trading of consumer products), real estate (investment in and development of real estate, lease of properties, hotel operations and tourism-oriented businesses), and quick service restaurant (McDonald's). Through its subsidiaries and associates, the Company focuses on providing and developing products and services that cater to the needs, demands and aspirations of the country's growing middle-income sector. The Company believes that it is well positioned to benefit from consumer demand driven by the expected growth of this sector.

b.1. Principal products or services and their markets

F&B. Brandy is currently being manufactured under the Emperador and Generoso labels. Emperador, at 72 proof, targets the relatively mature consumers 25 years old and above and is marketed in 1.75 liters, 750 ml and 375 ml bottles. Generoso, a lighter and sweeter brandy at 65 proof, is marketed to appeal to women and young drinkers aged 18 to 25 years. Generoso comes in 700 ml and 375 ml bottles. Emperador has been in the market for 19 years while Generoso was introduced in late 2006 only. A lighter brandy at 55 proof of extra smooth full body in 750 ml bottles, aptly labelled as Emperador Light, graced the market in December 2009. Emperador has won recognition as a trusted brand and has been recognized as the number one selling brandy in the world in terms of volume sold. Reader's Digest awarded Emperador as a Most Trusted Brand in 2004, 2006 and 2007.

A flavored alcoholic beverage under the brand name "The Bar" was soft launched in November 2008 with two variants in lemon-and-lime gin and orange vodka. It had its grand launch in April 2009. Two more variants followed - the apple vodka in 2009 and the strawberry vodka in May 2010. The Bar, with its fruity flavors, targets the dynamic and active young drinkers. It is offered at a more affordable price as compared to the premium-priced brandy products. This fruity drink is 50.6 proof and comes in 700 ml bottle.

A clear and pure spirit, The Bar Silver, was launched in the market in November 2010. It is intended to capture the customer preference for cocktail mixing. It has higher alcohol content at 70 proof.

Flint glass containers in the form of bottles and jars are produced based on customers' specifications. Flints are plain transparent glass that could be processed into a variety of shapes and sizes for use in wines, liquors, juices, soft drinks, food preserves, sauces and flavorings. At present, glass containers are produced and supplied primarily to EDI.

Pik-Nik is an all-American fresh-fried potato snack line than includes Shoestring Potatoes, Fabulous Fries, Ketchup Fries, and other delicious potato snacks manufactured and distributed internationally from USA. Pik-Nik is the market leader in shoestring potato snack in the USA and is made with no preservatives or artificial ingredients. The products are packed in resealable, foil-lined canisters so they stay fresh and crunchy right to the bottom of the can. These canisters, along with the specialized ingredients and production process, give the products excellent shelf life. Pik-Nik has been in the market for 70 years since it was first introduced in the USA in

the 1930s in San Jose, California. Now, it is being sold both in the USA and abroad, including the Philippines.

R.E. The real estate portfolio includes residential condominium units, subdivision lots and townhouses, and office, leisure and retail spaces as well as hotel spaces. Megaworld is primarily engaged in developing large-scale mixed-used communities called “townships” that integrate lifestyle convenience of having high quality residences in close proximity to office, commercial, educational, and leisure and entertainment facilities. In addition, there are other property-related activities such as project design, construction oversight and property management.

In aggregate, as of December 31, 2010, Megaworld owns or has development rights to approximately 230 hectares of land primarily in Metro Manila. Its township projects at present, in which the strategy is to lease all commercial and retail properties and sell all residential units, are as follows:

1. Eastwood City is Megaworld's first community township development on approximately 16 hectares of land in Quezon City, Metro Manila that integrates corporate, residential, education/training, leisure and entertainment components. It centered on the development of Eastwood City Cyberpark, the first PEZA-approved information technology (“IT”) park in the country to provide offices with the infrastructure to support BPO and other technology-driven businesses. Once the entire residential zone is completed, it is expected to contain 20 high-rise towers designed according to a specific theme and style. As of December 31, 2010, 16 towers have been completed. The office properties at Eastwood City consist of Grade A office buildings. According to Colliers International Research, in addition to other distinguishing characteristics, Grade A buildings are those which are located in a central business district and which meet minimum size and finish specifications. The leisure and entertainment zone consists of a dining and entertainment hub, an amusement center with a state-of-the-art cinema complex, a billiard and bowling center, and restaurants and specialty shops.
2. Forbes Town Center is a community township located on five hectares of land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, the Manila Polo Club and the prestigious Forbes Park residential subdivision. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties. Once completed, the residential zone is expected to consist of 13 towers comprising the Forbeswood Heights, Bellagio, Forbeswood Parklane, and 8 Forbes Town Road condominium projects. As of December 31, 2010, 10 towers have been completed.
3. The McKinley Hill is a community township located on approximately 50 hectares of land in Fort Bonifacio, Taguig, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centers. The residential zone consists of a subdivision project which is comprised of lots for the development of single-detached homes, several garden villa clusters with five or six-storey villas in each cluster, and residential condominiums. The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely be comprised of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system support. The leisure and entertainment zone will consist of bars, restaurants, specialty shops, cinemas and sports complex, which are expected to complement the office and residential areas in the community township. Three international

schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with *Les Roches* of Switzerland, will initially comprise the “learn” component of the township. McKinley Hill is likewise home to the British Embassy which relocated on a 1.2 hectare property within the development and a 5,200 square meter site for the Korean embassy.

4. Newport City is a community township located on 25 hectares of land at the Villamor Air Base, Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. The Newport City similarly integrates the live-work-play concept of Eastwood City, with the exception that it will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage. The residential zone, upon completion, will consist of 20 eight to nine-storey medium-rise buildings that are grouped in clusters of five to six buildings. A PEZA special economic cyberpark will be established in the commercial zone, as well as grade A office buildings. Tenants for the commercial area are expected to include multinational BPO companies, cargo logistics services and airline-related business. The leisure and entertainment zone is expected to consist of space which will be leased to tenants who will operate bars, restaurants, retail and tourist oriented shops, which are designed to complement the office and residential buildings in the community township.

The Company’s joint venture development, Resorts World Manila, which is a leisure-and-entertainment complex comprising gaming facilities, restaurants, hotels, and shopping outlets, among others, opened in August 2009. The hotel zone will have four hotels – Marriott Manila, Maxims (the country’s first all-suites hotel with 172 suites), Remington (targeted at budget travelers) and Hamilton. The property is situated within Newport City and houses gaming facilities, cinemas, a 1,532-seat performance arts theater, restaurants and bars, retail and shopping outlets and kiosks, an office building, and the aforementioned hotels.

5. Manhattan Garden City is a residential development project which will consist of 20 residential towers on a 5.7-hectare property at the Araneta Center in Quezon City. The Manhattan Garden City will be the Philippines’ first major transit-oriented residential community, having direct links to two light rail transport lines, the MRT-3 and the LRT- 2. The MRT-3 line runs north to south along the EDSA highway in Metro Manila while the LRT-2 line runs east to west along Aurora Boulevard across Metro Manila. All key areas along the transportation lines within Metro Manila will be easily accessible from the development. The amenities of the Araneta Center such as the Gateway Mall will be available to residents of Manhattan Garden City.
6. Cityplace is a mixed-used development on a 2.5-hectare lot in Binondo, Metro Manila. The development rights were acquired from the city government of Manila. It is expected to have 500 residential condominium units, a shopping center, BPO office space and a boutique hotel for business travelers. The development is also expected to include new green parks, a public car parking facility, new bypass roads and pedestrian overpasses to make the project environment and pedestrian-friendly.
7. Bonifacio Uptown is a community development on a 15.5 hectare property in the northern district of Fort Bonifacio in an area owned by NAPOLCOM; and

8. McKinley West is a development on a 34.5 hectare property across from McKinley Hill in an area owned by the Joint United States Military Advisory Group (“JUSMAG”).

Megaworld also has other ongoing residential condominium projects within Metro Manila. Travellers will also develop Resorts World Bayshore City (“Bayshore City”), a 40-hectare site in PAGCOR’s Entertainment City in Parañaque City.

QSR. McDonald’s is one of the best-known global brands. All McDonald’s restaurants in the Philippines are operated either by GADC or by independent entrepreneurs under a sub-franchise agreement or by affiliates under joint venture agreements with GADC. The McDonald’s System in the USA is adopted and used in the domestic restaurant operations, with prescribed standards of quality, service and cleanliness. Compliance with these standards is intended to maintain the value and goodwill of the McDonald’s brand worldwide.

McDonald’s restaurants offer varied menu of uniform and quality products, emphasizing value, prompt and courteous service and convenience. The menu includes the McDonald’s beef burgers variants (Burger McDo, Big Mac, Quarter Pounder, Cheese and Double cheese), chicken (Crispy Chicken Fillet sandwiches, McChicken, McNuggets), fish, (Filet-O-Fish), French fries, milk shakes, sundaes, beverages, and breakfast offerings. Products that cater to Philippine consumer preferences are also served, such as chicken with rice (Chicken McDo), spaghetti (McSpaghetti), and a Philippine breakfast menu. The Philippine menu is designed to appeal to a diverse target market across all ages. Demographically, the target markets are A, B, and broad C.

b.2. Foreign sales

F&B. Pik-Nik products are being sold locally in USA and exported to other countries at a ratio of approximately 60%-40%. The domestic volume in the USA expanded by 1% in 2010 and by 6% in 2009 because of new accounts and increased distribution in Texas, Midwest and Southeast. Its international volume grew by 16% in 2010 because of penetration in new areas in Asia, Saudi Arabia, and Latin America.

R.E. RE products are also being marketed internationally (see b.3. below) in North America, Europe, Asia and the Middle East through various brokers. Foreign sales contributed 4% to Megaworld’s consolidated sales and revenues in 2010 and 2009.

b.3 Distribution Methods

F&B. The brandy products are being marketed and distributed through sales offices nationwide that supply to wholesalers, traders, grocery outlets, convenient stores, and neighborhood stores. Direct sales units comprising cash vans and saturation units are being used.

The glass containers are delivered to the customers through the services of regular freight handlers who supply trucks for the exclusive use of AWG. Pik-Nik products are distributed principally through commissioned forward houses.

R.E. Property units are pre-sold prior to project completion, and often prior to start of construction, at various payment schemes, with down payment plans ranging from 50% to no money down. A typical payment scheme includes progressive payments

over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. Postdated checks are collected to cover the entire purchase price based on an amortization schedule. Each project has an in-house marketing and sales division which is staffed by a trained group of property consultants who exclusively market the projects. There are also outside agents. Both internal and external agents work on a commission basis, but in-house personnel have an additional allowance. Marketing services staff are also employed to provide auxiliary services for sales and promotional activities. An international marketing division based in Manila oversees a global network of sales offices which market the projects to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. Brokers in the different overseas markets sell the projects overseas through their respective marketing networks.

QSR. McDonald's products are sold through McDonald's restaurants nationwide. There are 309 restaurants nationwide as of end-2010, 56% of which are owned by GADC while 44%, franchised. The highest concentration is in NCR, followed by Southern Tagalog region. In selected areas, McDonald's products could be ordered and delivered round the clock through its "Dial8 McDo" telephone service.

b.4. New product or service

F&B. In addition to the three variants of The Bar, Strawberry vodka and Silver were introduced in 2010. The Bar Silver is a pure and clear spirit that is 70 proof.

QSR. New McDonald's product variations and promotions are introduced every now and then which normally last for about 3-6 months only, and this is part of the normal business promotions. Value offerings, such as P25 Everyday Mcsavers and P50 Mcsaver meals, remain the priority in 2010. Twister fries and premium desserts were also launched in 2010. In 2009, pineapple pie, crunchy chicken fillet and hamdesal were introduced plus strawberry cheesecake and buko pandan mclurry were offered for a limited period.

In early part of 2010, the "No Minimum and Fixed Delivery Charge of P40" was launched. Before this, delivery was charged at 10% for a minimum order of P150.

b.5. Competition

In general, the Company believes that the high quality of all the products it sells/offers can effectively compete with other companies in their respective areas of competition.

F&B. The Philippine spirits industry is dominated by brandy, gin and rum. Popularity of these spirits is strangely delineated geographically - gin in the northern provinces, rum in Viz-Min areas and brandy in Metro Manila and urban centers nationwide. Brandy has recorded the highest consistent sales growth among all the spirits in the industry. The growing brandy consumption has even encouraged the two traditional gin and rum giants to field their own brandy labels -- Gran Matador from San Miguel Corporation, and Barcelona and Guerrero from Tanduay Distillers, Inc. There is another local brandy, Napoleon, from another long-established local company, Destileria Limtuaco & Co., Inc. Don Pedro is an imported label that is being blended locally. There are also imported labels in the domestic market, like Fundador, Soberano, Carlos I, but they are significantly more expensive than the locally-produced products. EDI holds the lion share in the brandy market. EDI capitalizes primarily on the premium image and reputable quality of its brands and positions them in the market with such taglines as "Sa totoong tagumpay" for Emperador and "Masayang dalhin" for Generoso.

The Bar flavored gin and vodka enjoys the first-mover advantage as the first fruity flavored clear spirit produced in the country.

Pik-Nik has surpassed French's and Popeye potato sticks in most grocery outlets in the USA. Pik-Nik is now the best selling brand in the USA with the best selling sku – the Original shoestring potato in 9 oz cans. French's, the biggest branded competitor for Pik-Nik in the USA, folded and exited in September 2008. Other US-brands are available, like Lays and Pringles in chips form, although the latter is not from natural potato. A local brand, Oishi, has fielded string potato snacks from potato starch in the local market.

R.E. The real estate market in Metro Manila is principally split between the BPO office market and the residential market. Megaworld competes against a number of residential and commercial developers and real estate services companies to attract purchasers and tenants for its properties in Metro Manila. The principal bases of competition in the real estate development business are location, product, price, financing, completion, quality of construction, brand and service. Megaworld believes it has several competitive advantages in each of these categories due to the prime locations of its properties, innovative projects, a reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion. Megaworld considers Ayala Land, Inc. ("ALI") to potentially be its only significant competitor in community township developments, and Robinsons Land Corporation, ALI and SM Prime Holdings, Inc. in office and retail leasing business.

In terms of integrated tourism development, competition is from both Philippine and foreign owned hotels and resorts. With respect to the gaming business, competition comes from casinos operated by PAGCOR and three other companies who acquired gaming licenses from PAGCOR, and who are expected to similarly partner with international gaming companies.

QSR. McDonald's restaurants compete with a large and diverse group of restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and international companies, delicatessens, cafes, pizza parlors, supermarkets and convenience stores. GADC considers Jollibee Foods Corporation as

its main competitor. Jollibee, a home-grown brand with far greater number of restaurants nationwide than McDonald's, offers Filipino-influenced dishes of chicken, burgers, spaghetti, and other Filipino dishes. Another one is KFC, a global brand from USA whose most popular product is its Original Recipe fried chicken served with side dishes. Other competitors include Wendy's, Kenny Rogers, Shakey's and Pizza Hut. Since 2005, GADC has opened 100 new restaurants and initiated marketing campaigns such as new product launches, promotions, emotive television commercials, and discount coupons. GADC competes on the basis of taste, food quality and price of products, convenience of location, and customer service.

b.6. Sources and availability of raw materials

F&B. The raw materials for producing brandy are generally sourced from foreign suppliers, except for the distilled spirit or alcohol which is supplied mainly by Condis. The brandy concentrate and flavoring extracts are purchased from several high quality European suppliers. Metal closures, or caps, and labels are imported from Europe and China. Brand new bottles are manufactured and supplied by AWG. Carton boxes are sourced locally and recently supplied by Dowell Container and Packaging Corporation, Boxboard Container Corporation, and Twinpack Container Corporation. EDI has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of distilled spirit, flavoring, bottles or packaging material at satisfactory prices under its supply arrangements and believes its relationships with suppliers are good. When AWG is unable to manufacture enough glass bottles to meet EDI's requirements, AWG sources glass bottles from foreign manufacturers.

AWG is not dependent upon one or a limited number of suppliers for essential raw materials. It generally orders raw materials to meet its projected supply requirements for one year. It sources silica sand mainly from Vietnam; soda ash from China and Magadi (Africa); and limestone, feldspar and cullets from domestic suppliers. These raw materials are mainly purchased from Connell Bros Co., SiO₂ Resources Corporation, Arvin International Marketing, Inc., EB Torres Enterprises and Jesma Trading.

Pik-Nik uses only fresh potatoes from California and Oregon, pure vegetable oil, the finest seasonings and never any preservatives. The suppliers of potatoes for Pik-Nik have one-year contracts.

R.E. Megaworld has its own architectural and engineering teams comprised of approximately 150 personnel and also engages independent groups to carry out the design of its high profile development projects. Megaworld has a team of project managers who work closely with outside contractors in supervising the construction phase of each project. Megaworld's contracts with its construction companies typically contain warranties for quality and requirements for timely completion of the construction process. In the event of delay or poor quality of work, the relevant contractor or supplier may be required to pay a penalty. Megaworld also has established relationships with a number of architectural firms in the Philippines, such as Recio+Casas Architects and W.V. Coscolluella & Associates, and international firms such as Skidmore, Owings & Merrill in New York and Klages, Carter, Vail in California. Megaworld's principal raw materials are steel and cement which are commodities that are readily available in the market from a number of sources.

QSR. Suppliers for the McDonald's products are sourced using the McDonald's global supply chain, which allows the purchase of food, beverages and restaurant supplies at competitive prices and quality consistent with McDonald's products worldwide.

McDonald's has quality assurance laboratories around the world to ensure that its standards are consistently met. In addition, McDonald's works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement. GADC also contracts the services of third parties for its food supplies. GADC procures the services of a supply distribution center operated by Havi Food Services Philippines, Inc. that provides purchasing, warehousing, delivery, food preparation and other logistical support for the requirements of all of the McDonald's restaurants in the Philippines. GADC develops product specifications and continually monitors supplies to ensure compliance with McDonald's standards.

b.7. Customer dependence

The Company's businesses are not dependent upon a single or a few customers, the loss of which would not have a material adverse effect on the Company and its subsidiaries taken as a whole.

b.8. Transactions with and/or dependence on related parties

The Company and its subsidiaries, in the ordinary course of business, engage in transactions with affiliates. The Company's policy with respect to related party transactions is to ensure that these are entered on terms comparable to those available from unrelated third parties. Inter-company transactions between and among the Company and its subsidiaries are eliminated in consolidation and thus are no longer reflected in the consolidated financial statements. These primarily consisted of the following:

- Cash advances for financial requirements. Entities within the Group obtain advances from the parent and/or other entities and associates for working capital or investment purposes. There are also certain expenses that are paid in behalf of other entities.
- Lease of manufacturing facilities. AGI leases the glass manufacturing plant property to AWGI, and TEI leases the brandy manufacturing plant property to EDI.
- Lease of parcels of land. GARC leases out these lots to GADC.
- Lease of office spaces. MEG leases out office and parking spaces to AGI, subsidiaries, and affiliates.
- Purchase and sale of real estate, services and rentals. Real estate properties are bought or sold based on price lists in force with non-related parties. Services are usually on a cost-plus basis allowing a margin ranging 20%-30%.
- Supply of glass bottles. AWGI supplies the new bottle requirements of EDI.
- Receivables from subsidiaries/franchisees. GADC supplies restaurant equipment, food, paper and promotional items to all franchisees, including affiliated restaurants, at normal market prices through a third party service provider.

Major related party transactions have been disclosed in Note 28 to the consolidated financial statements appearing elsewhere in this report.

b.9. Licenses, trademarks, franchises

F&B. EDI owns registered trademarks which are of material importance to the success of its business since they have the effect of developing brand identification and maintaining consumer loyalty. EDI's principal trademark is Emperador Brandy, which it purchased from Condis in 2007, in addition to associated patents, copyrights and

goodwill and bottle designs for its brandy products. EDI's trademark for Emperador Brandy is for 10 years expiring in 2015 and renewable thereafter for a period of 10 years. Generoso Brandy is registered for 10 years up to December 2017. The trademark The Bar was acquired from The Bar Bottlers Corporation in 2008 and registered for 10 years up to December 2017.

The existing trademarks for Pik-Nik products are licensed and registered to the Company for 10 to 20-year periods and expire in 2015 but are renewable thereafter.

R.E. Megaworld owns the registered trademark over its name and logo which will expire in 2015 and is renewable for 10-year periods thereafter. However, although the brand is important, Megaworld does not believe that its operations or its subsidiaries' operations depend on its trademarks or any patent, license franchise, concession or royalty agreement.

QSR. GADC has nonexclusive rights as a franchisee to use and adopt the McDonald's intellectual property in the Philippines, including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, some of which, including the trademarks for "McDonald's," the golden arches logo, Ronald McDonald and "Big Mac." The license agreement contains provisions regulating GADC's use of such trademarks in accordance with McDonald's Corporation's franchise system. GADC's license agreement with McDonald's was renewed in March 2005 for a period of 20 years. It provides for a royalty fee based on a certain percentage of net sales from the operations of all Company's restaurants, including those operated by the franchisees. Individual sublicense arrangements granted to franchisees generally include a lease and a license to use the McDonald's System for a period of 3 to 20 years, with a co-terminus provision with the master franchise.

b.10. Government approval of principal products or services

F&B. The production, sale, distribution and advertisement of food products, locally manufactured and imported, are regulated by the Bureau of Food and Drugs (BFAD) to ensure the pure and safe supply and good quality of food available in the country and to protect the health of the citizens. R.A. 3720 covers both locally manufactured and imported products and establishes standards as well as quality measures for food. A comprehensive enforcement framework was set up, which is deemed as necessary to ensure a pure and safe supply of food in the country.

The Company has duly complied with the statutes and regulations implemented by the BFAD and has not received any notice of violation of these regulations from the BFAD. In connection with its obligations under these rules and regulations, AGI has instituted rigorous quality control procedures to ensure that its products meet or exceed the prescribed standards and measures.

R.E. A barangay clearance and development permit from the local government unit must be secured before commencing land development works. Before the start of structural construction activities, a building permit must be secured from the local government unit. A certificate of registration and a license to sell, both from HLURB, must be secured before launching any selling activities. All subdivision and condominium plans for residential, commercial, industrial and other development projects are required to be filed with and approved by the HLURB and the relevant local government unit of the area where the project is situated. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans, which affect significant areas

of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government body or agency.

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a requisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB surety bond, real estate mortgage or cash bond to guarantee the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations. Real estate dealers, brokers and salesmen are also required to register with the HLURB before they can sell lots or units in a registered subdivision or condominium project.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB, by itself or upon a verified complaint from an interested party, for reasons such as non-delivery of title to fully-paid buyers or involvement in fraudulent transactions. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

The Group complies with all regulations applicable to the development and sale of its projects.

QSR. There are no special government approvals necessary for new food products apart from the standard Department of Trade and Industry permits.

b.11. Effect of existing or probable government regulations

F&B. In addition to VAT, the distilled spirits for domestic sales or consumption are subject to excise tax. The brandy products which are produced from locally processed distilled spirits from the juice, syrup or sugar of the cane are currently levied an excise tax of ₱13.59 per proof liter. [A proof liter is a liter of proof spirits, which are liquors containing one-half of their volume of alcohol with a specific gravity of 0.7939 at 15°C]. The excise tax rate had increased by 8% from P11.65 in January 2007 and increases by 8% every two years until January 1, 2011 when a new excise tax law is expected to be enacted.

R.E. There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with BP 220, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with PD 957, which set out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction. Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads, parks, playgrounds and recreational facilities.

Further, Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer; within the same or adjacent regions, whenever feasible, and in accordance with the

standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. Meg has benefited from providing low-income housing or projects of such types which are financially assisted by the government. These policies and programs may be modified or discontinued in the future. The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers.

Effective November 2005, sales of residential lots with a gross selling price of ₱1.5 million or less, and residential house and lots with a gross selling price of ₱2.5 million or less, are not subject to VAT.

Certain investment properties are registered with PEZA, and this provides significant benefits to tenants. PEZA requirements for registration of an IT park or building differ depending on whether it is located in or outside Metro Manila. These requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board, and the DENR. The PEZA is a government corporation that operates, administers, and manages designated special economic zones (“Ecozones”) around the country. Ecozones are areas earmarked by the government for development into balanced agricultural, industrial, commercial, and tourist/recreational regions. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. PEZA-registered enterprises located in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials.

b.12. Research and development

The regular research and development activities of the group for the past three years have not amounted to a significant percentage of revenues. There are no new products or design being developed that would require a material amount of the group’s resources.

b.13. Compliance with environmental laws

All development projects and industries located in areas surrounding the Laguna Lake are subject to regulatory and monitoring powers of the Laguna Lake Development Authority (LLDA). Since the glass plant and the brandy manufacturing complex are located in this area, permits to operate are being renewed with LLDA on a yearly basis.

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (“ECC”) prior to commencement. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement (“EIS”) to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination (“IEE”) to the proper DENR regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory. While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project’s environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological

and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund (“EGF”) when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The EGF is intended to meet any damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund (“EMF”) when an ECC is eventually issued. In any case, the establishment of an EMF must not be later than the initial construction phase of the project. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC; and applicable laws, rules and regulations.

Aside from the EIS and IEE, engineering geological and geo-hazard assessment are also required for ECC applications covering subdivisions, housing and other land development and infrastructure projects.

The Company and its subsidiaries have not incurred material costs to comply with environmental laws.

b.14. Number of employees

As of December 31, 2010, the Group has a total workforce of 20,947 personnel categorized by business segment as follows:

| | |
|---------------------------------------|---------------|
| Real Estate | 925 |
| <i>Integrated tourism development</i> | 3,618 |
| Food and Beverage | |
| Distilled spirits business | 1,032 |
| Others | 150 |
| Quick Service Restaurant | 15,222 |
| Total | <u>20,947</u> |

The Group intends to hire additional employees if the present workforce becomes inadequate to handle operations. Approximately 2,031 new employees are anticipated to be hired within the ensuing 12 months by GADC. None of the Company's or its subsidiaries' employees are represented by a labor union or covered by a collective bargaining agreement, other than production employees of AWG.

AWG's collective bargaining agreement will expire on January 20, 2015. The agreement provides for fixed rate wage increases, sick leave, vacation leave, union business leave, medical and dental services, bereavement benefits, separation pay, as well as other benefits such as family planning and employee welfare services. The employees also agree to follow certain grievance procedures and to refrain from strikes during the term of the agreement.

Megaworld maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. GADC has a funded, defined contribution retirement plan covering all regular full-time employees wherein employees are allowed to make voluntary contribution.

Employees of sub-franchisees do not form part of GADC's workforce except for certain members of the sub-franchisee management staff. Regular employees of GADC are beneficiaries of a bonus program, determined by, among others, the level of profits, performance appraisals and the employee's position and salary level.

b.15. Major Business Risks

Risks are integral part of business. Opportunity for advancement cannot be achieved without taking risks. This is why the Company and its subsidiaries adopted a policy whereby risks are identified before they cause significant trouble for the business. They carefully prepare structured/strategic plans to anticipate the inherent risks in their activities and set up methods to mitigate the effects of these risks. Risks are prioritized based on their impact to business, and probability of occurrence. There is a monitoring system that keeps track of the indicators and the actions/corrections undertaken. Feedbacks, both internal and external, are important for current and emerging risks.

The Group's risk management is coordinated with the Board of Directors and focuses on actively securing short-to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns. The Group does not actively engage in the trading of financial assets for speculative purposes.

The major risks that the present business face include:

- *Hazards and natural or other catastrophes.* The Company and its subsidiaries' assets are always exposed to losses or impairment through fire and natural or man-made disasters and accidents that may materially disrupt operations and result in losses. In particular, damage to Megaworld structures resulting from such natural catastrophes could also give rise to claims against Megaworld from third parties or for physical injuries or loss of property, while any damage to EDI's sole manufacturing and bottling facility could materially and adversely affect the ability of EDI to produce brandy in sufficient quantities, if at all. EDI and GADC also run the risk of contamination through tampering of ingredients, bottles or products that could result in product recall or food poisoning which in turn could create negative publicity that could adversely affect sales.

Safety precautionary measures have been undertaken and installed within the operating system. Adequate insurance policies are likewise taken to cover from these risks. However, there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. Any material uninsured loss or loss materially in excess of insured limits could materially and adversely affect the Company's business, financial condition and results of operations, while remaining liable for any project costs or other financial obligations related to the business.

- Regulatory developments.* The Philippine property, food and beverage and quick service restaurant industries are highly regulated. For example, in the property development industry, Megaworld is required to obtain a number of permits and approvals for its development plans at both the national and local levels. In the alcohol industry, there are restrictions on advertising, marketing and sales of alcoholic beverages to consumers and restrictions governing the operation of EDI's brandy manufacturing facilities. In the quick service restaurant industry, GADC is subject to retail trade and other industry specific regulations. The group's results of operations could be affected by the nature and extent of any new legislation, interpretation or regulations, including the relative time and cost involved in procuring approvals for projects. If the group fails to meet safety, health and environmental requirements, it may also be subject to administrative, civil and criminal proceedings initiated by the Government, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Company, as well as orders that could limit or halt its operations. The group, thus, keeps abreast of current happenings and immediately institute measures to contain any adverse effect on the group.
- Supply of raw materials and packaging materials.* Materials used in production demand high quality and specialty. The raw materials that EDI and GADC use, such as distilled spirit, brandy flavoring, chicken, beef and paper, are largely commodities and are subject to price volatility caused by changes in supply and demand, weather conditions, fuel costs for transportation and production, agricultural uncertainty and government controls. Megaworld sources construction materials such as lumber, steel and cement and may also experience shortages or increases in prices. Rising price changes will result in unexpected increases in production or construction costs and decreases in gross margins if such increased costs cannot be passed on to consumers or buyers. If these costs are passed on, any increase in prices could materially affect demand for and the relative affordability of such products. Purchasing, therefore, keeps posted about supply sufficiency in the market and always looks out for new potential sources.
- Consumer tastes, trends and preferences.* Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, leisure activity patterns and a downturn in economic conditions, which may reduce customers' willingness to purchase premium branded products or properties. In addition, concerns about health effects due to negative publicity regarding alcohol or fast food consumption, negative dietary effects, project location, regulatory action or any litigation or customer complaint against companies in the industry may have an adverse effect on results of operations. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for consumer products or projects and erosion of its competitive and financial position. Likewise, the launch and ongoing success of new products is uncertain as is their appeal to customers. Product innovation and responsiveness to changing consumer tastes and trends, therefore, have been important aspects of the group's ability to sell their products.
- Competition.* Each of the Company's primary business operations is subject to intense competition. Some competitors may have substantially greater financial and other resources than EDI, Megaworld or GADC, which may allow them to undertake more aggressive marketing and to react more quickly and effectively

to changes in the markets and in consumer preferences. In addition, the entry of new competitors into any of the Company's primary business segments may reduce the Company's sales and profit margins.

- *Interests of joint development partners.* Megaworld obtains a significant portion of its land bank through joint development agreements with landowners, as part of its overall land acquisition strategy and intends to continue to do so. A joint venture involves special risks where the venture partner may have economic or business interests or goals inconsistent with or different from those of Megaworld's.
- *Property portfolio concentration risks.* Substantially all of appraised value of Megaworld's assets are located in Metro Manila. The current projects are all located within Metro Manila and, in particular, within relatively short distances from the main business districts in Makati City and the Ortigas Center. A decrease in the property values or wealth in Metro Manila would have a material adverse effect on the business and results of operations of Megaworld. Megaworld, therefore, has looked for locations outside Metro Manila and has acquired land in Iloilo in the Visayas region.
- *Land for future development.* Megaworld's business is dependent, in large part, on the availability of large tracts of land suitable for development. As it and its competitors attempt to locate sites for development, it may become more difficult to locate parcels of suitable size in locations and at prices that are acceptable.
- *Philippine economic/political conditions.* The Company has derived substantially all of its revenues and operating profits from the Philippines and its businesses are highly dependent on the Philippine economy. Demand for, and prevailing prices of, developed land, house and lot units are directly related to the strength of the Philippine economy, the overall levels of business activity in the Philippines and the amount of remittances received from OFWs. The Company's branded consumer food and beverage products and quick service restaurant products are discretionary purchases by consumers, and demand for these products tend to decline during economic downturns when customers' disposable income declines. The Company's results of operations are expected to vary from period to period in accordance with fluctuations in the Philippine economy which is in turn influenced by a variety of factors, including political developments among others. Political instability in the Philippines could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material impact on the Company's business, financial condition and results of operation.

While the Philippine economy has generally registered positive economic growth in the period since 1999, with an all-time high of 7.3% in 2007, it continues to face a significant budget deficit, limited foreign currency reserves, a volatile peso exchange rate and a relatively weak banking sector. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth.

A further discussion on financial risk management objectives and policies is presented in the notes to the financial statements.

Item 2. Properties

The following are the principal properties owned or leased by the group, including those reserved for future developments:

| Description | Location | Owned/Leased/Limitations on Ownership |
|---|--|---------------------------------------|
| Lots & Facilities | | |
| Brandy manufacturing facility | Santa Rosa, Laguna | Owned |
| Glass manufacturing plant | Canlubang Industrial Estate, Calamba, Laguna | Owned |
| Warehouse Town – a warehouse complex | Caloocan City | Owned |
| Several parcels for McDonald's use | Various locations | Owned |
| Lot – Citiwood Heights | EDSA, Quezon City | Owned |
| Lot (site of old Iloilo airport) | Iloilo | Owned |
| Condominium Units & Subdivision Lots | | |
| Marina Square Suites | Manila | Owned |
| Paseo Parkview Suites | Makati City | Owned |
| 8 Wack Wack Road | Mandaluyong City | Owned |
| Golf Hills Terrace | Quezon City | Joint Venture Ownership |
| Corinthian Hills | Quezon City | Owned |
| McKinley Hill Village (Phase 1) | McKinley Hill, Taguig City | Joint Venture Ownership |
| Eastwood Lafayette 3 | Eastwood City, Quezon City | Owned |
| Eastwood Excelsior | Eastwood City, Quezon City | Owned |
| Eastwood Le Grand | Eastwood City, Quezon City | Owned |
| Eastwood Parkview | Eastwood City, Quezon City | Owned |
| Grand Eastwood Palazzo | Eastwood City, Quezon City | Owned |
| One Orchard Road | Eastwood City, Quezon City | Owned |
| Greenbelt Radissons | Makati City | Owned |
| Greenbelt Parkplace | Makati City | Joint Venture Ownership |
| Greenbelt Excelsior | Makati City | Joint Venture Ownership |
| Greenbelt Chancellor | Makati City | Owned |
| One Central | Makati city | Owned |
| Forbeswood Heights | Forbes Town, Taguig City | Joint Venture Ownership |
| The Bellagio | Forbes Town, Taguig City | Joint Venture Ownership |
| El Jardin Del Presidente 2 | Quezon City | Owned |
| The Venice | Taguig City | Owned |
| Eight Forbes Town | Taguig City | Joint Venture Ownership |
| Newport City | Pasay City | Joint Venture Ownership |
| City Place Binondo | Manila | Owned |
| McKinley West Village | Taguig City | Joint Venture Ownership |
| Manhattan Heights | Quezon City | Joint Venture Ownership |
| Two Central | Makati City | Owned |
| Rental Properties ⁽¹⁾ | | |
| Paseo Center | Makati City | Owned |
| Forbes Town Center | Forbes Town, Taguig City | Joint Venture Ownership |
| IBM Plaza (Paseo Center) | Makati City | Owned |
| IBM Plaza (Eastwood) | Eastwood City, Quezon City | Owned |
| Eastwood Corporate Plaza | Eastwood City, Quezon City | Owned |
| Eastwood Fashion Square | Eastwood City, Quezon City | Owned |
| Eastwood City Style Center | Eastwood City, Quezon City | Owned |
| Home Center | Eastwood City, Quezon City | Owned |
| Eastwood City Walk 1 and 2 | Eastwood City, Quezon City | Owned |
| ICITE | Eastwood City, Quezon City | Owned |
| Techno Plaza 1 | Eastwood City, Quezon City | Owned |
| 1800 Eastwood Avenue | Eastwood City, Quezon City | Owned |
| Eastwood Incubation Center | Eastwood City, Quezon City | Owned |

| Description | Location | Owned/Leased/Limitations on Ownership |
|--|----------------------------|---------------------------------------|
| Citibank Square | Eastwood City, Quezon City | Owned |
| CyberMall | Eastwood City, Quezon City | Owned |
| California Garden Square | Mandaluyong City | Owned |
| Eastwood Parkview Mall | Quezon City | Owned |
| McKinley Corporate Plaza | Taguig City | Owned |
| McKinley Parking Building | Taguig City | Owned |
| 8 Park Avenue | Taguig City | Owned |
| Two World Square | Taguig City | Owned |
| Three World Square | Taguig City | Owned |
| E2 Call Center | Quezon City | Owned |
| Woodridge Residences | Taguig City | Owned |
| 8/10 Upper McKinley Road | Taguig City | Owned |
| Hotels | | |
| Richmonde Hotel Ortigas ⁽²⁾ | Pasig City | Owned |
| Eastwood Richmode Hotel ⁽²⁾ | Quezon City | Owned |
| Marriott Hotel ⁽³⁾ | Pasay City | Owned |
| Maxims Hotel ⁽³⁾ | Pasay City | Owned |
| Remington Hotel ⁽³⁾ | Pasay City | Owned |

Notes:

- (1) Lease terms and rental rates vary depending on the property and the lessee.
- (2) The Richmonde Hotel Ortigas and Eastwood Richmonde Hotel are operated by a subsidiary of Megaworld.
- (3) Marriott Hotel, Maxims Hotel, Remington Hotel are part of RWM.

In addition, there are various operating lease agreements for McDonald's restaurant sites, offices and other facilities. These non-cancelable lease agreements are for initial terms of 5-40 years and, in most cases, provide for rental escalations, additional rentals based on certain percentages of sales and renewal options for additional periods of 5-25 years.

Item 3. Legal Proceedings

There are no material litigations or claims pending or, to the best knowledge of the Company, threatened against the Company or any of its subsidiaries or affiliates or any of their properties.

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

There are no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

In June 2010, the Company submitted for the approval by written assent of its stockholders of record as of 18 June 2010 the following amendments to its Articles of Incorporation:

1. Include the power to guarantee obligations, debts, or loans of a subsidiary as an additional Primary Purpose; and
2. Change the principal office stated in the Third Article to 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.

On 13 July 2010, the Company obtained the written assent of its stockholders representing at least two-thirds of its outstanding capital stock to the above amendments.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

a. Market Information

The Company's common shares are traded on the Philippine Stock Exchange. The closing price of the said shares as of March 31, 2011 was P11.92. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below:

| | 2009 | | | | 2010 | | | | 2011 |
|------|------|------|------|------|------|------|------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| High | 2.02 | 3.45 | 5.30 | 5.00 | 5.60 | 6.00 | 9.85 | 13.12 | 12.00 |
| Low | 1.24 | 1.48 | 2.65 | 3.90 | 4.05 | 4.95 | 5.30 | 8.70 | 11.72 |

(Source: PSE Research Dept.)

b. Shareholders

As of March 31, 2011, the Company had 911 stockholders holding 9,719,727,979 common shares and the Top Twenty Stockholders were as follows:

| Rank | Stockholder | No. of Shares Held | Per Cent to Total |
|------|--|--------------------|-------------------|
| 1 | The Andresons Group, Inc. * | 3,944,826,194 | 40.58 |
| 2 | PCD Nominee Corporation (Non-Filipino) | 2,297,392,663 | 23.64 |
| 3 | PCD Nominee Corporation (Filipino) | 1,859,242,565 | 19.12 |
| 4 | Alliance Global Group, Inc.* | 550,100,000 | 5.659 |
| 5 | Altavision Resources, Inc. | 451,574,334 | 4.645 |
| 6 | Andrew L. Tan | 341,684,350 | 3.506 |
| 7 | Yorkshire Holdings, Inc. | 255,773,508 | 2.624 |
| 8 | Asiagroup Holdings, Inc. | 220,004,000 | 2.257 |
| 9 | Globaland Holdings, Inc. | 220,004,000 | 2.257 |
| 10 | Grand Bel Air Holdings, Inc. | 220,004,000 | 2.257 |
| 11 | Le Bristol Holdings, Inc. | 216,100,000 | 2.217 |
| 12 | California Orchard Growers Investments, Inc. | 120,000,000 | 1.231 |
| 13 | Eastwood Property Holdings, Inc. | 112,600,000 | 1.155 |
| 14 | Andresons Global, Inc. | 30,088,596 | 0.309 |
| 15 | Forbes Town Properties & Holdings, Inc. | 10,000,000 | 0.097 |
| 16 | Apex Management & Development Group, Inc. | 6,500,000 | 0.066 |
| 17 | Arafor Trading and Development Corporation | 1,000,000 | 0.010 |
| 18 | Kausugan Development Corporation | 1,000,000 | 0.010 |
| 19 | Lucio W. Yan & /or Clara Y. Yan | 1,000,000 | 0.010 |
| 20 | First Centro, Inc. * | 364,200 | 0.003 |

Please refer to *Item 11* for stockholders holding 5% or more. PCD Nominee Corporations are comprised of several nominees holding less than 5% ownership each, except for two which are included in *Item 11*.

* Represent shares acquired through the buy-back program of the Company, and not included in the total number of shares outstanding of 9,719,727,979.

* Includes shares lodged with PCD.

In July 2008, the Company was authorized to buy-back its shares from the market. The buy-back program was undertaken to create and enhance shareholder value, since market prices at this time did not reflect the true value of the shares. The Company has

confidence in the long-term value of its businesses, including its latest venture in tourism-oriented projects. The program commenced on July 10, 2008 and continued for 18 months. The Company intended to buy back up to P3 billion worth of shares. As of December 31, 2010 and 2009, it had bought 550.10 million shares worth P1.63 billion under its buy-back program.

c. Dividends in the Two Most Recent Years and Subsequent Interim Period

It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend either in the form of cash or stock. The declaration of dividends depends upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company, with its capital unimpaired which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to the approval by both the Board of Directors and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose. In June 2010, AGI declared P0.06 cash dividend payable to all stockholders of record as of July 15, 2010 on August 10, 2010. There was no declaration of dividends in 2009.

d. Recent Sales or Issuance of Unregistered or Exempt Securities Within the Past Three Years

None.

Item 6. Management's Discussion and Analysis

a. Key Performance Indicators

Presented below are the top five (5) key performance indicators of the Company and subsidiaries:

| | 2010 | 2009 | 2008 |
|--|-------|-------|-------|
| Revenue growth | 14.6% | 7.6% | 18.6% |
| Sales growth | 15.6% | 8.5% | 8.7% |
| Net income growth | 39.5% | 11.5% | 21.3% |
| Attributable to equity holders of parent | 44.0% | 22.7% | 18.7% |
| Net income rate | 21.3% | 17.5% | 16.9% |
| Attributable to equity holders of parent | 15.5% | 12.3% | 10.8% |
| Return on investment | 4.2% | 3.7% | 3.5% |
| Current ratio | 3.4:1 | 3.1:1 | 3.5:1 |

- Sales/revenues growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net income growth – measures the percentage change in net income over a designated period of time.
- Net income rate– computed as percentage of net income to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on investment [or capital employed]– the ratio of net income to total assets - measures the degree of efficiency in the use of resources to generate net income.

- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

b. Discussion and Analysis of Operation

The following discussion and analysis must be read in conjunction with the submitted audited consolidated financial statements and the related notes thereto.

b.1. Results of operations:

For the Year Ended December 31, 2010 vs. 2009

AGI marked another record year as consolidated net profit soared to P9.5 billion, up by 39.5% from P6.8 billion a year ago, on the strong performances of all its major business units. Net profit attributable to owners of the parent company was 44.0% higher year-on-year, as it hit P6.9 billion this year from P4.8 billion in the previous year.

Revenues increased by 14.6% to P44.5 billion from P38.8 billion a year ago, primarily due to 22.5% growth in sales of consumer goods, 29.4% in rendering of services and 978.9% in share in net profits of associates and joint ventures. Segment-wise, RE made the highest contribution (49%) this year, followed by QSR (25%) and F&B (21%). RE current sales, in particular, represent 29.5% of total revenues while consumer product sales contributed 41.9% to total revenues. RE rental income comprised 6.1% of total revenues.

RE revenues came from P13.1 billion sales of residential lots, condominium, and office units; from P2.7 billion rental/lease of office/commercial spaces; hotel operations and finance and other income. RE sales increased by 4.3% (P535.7 million) and rental income went up by 34.7% (P693.8 million). The Group's registered sales were derived from the following projects: the Bellagio, Forbeswood Park Lane 1 and 2 and Eight Forbes Town in Fort Bonifacio; Eastwood Le Grand in Eastwood City; McKinley West, McKinley Hill Tuscan, Stamford, Morgan Suites, and The Venice Luxury Residences in Taguig City; Manhattan Parkview, Manhattan Heights and El Jardine Del Presidente in Quezon City; Newport City in Pasay; City Place in Binondo, Manila and One Central, Greenbelt Chancellor and Excelsior in Makati City. Property rental income went up due to high occupancy rates in both the BPO office spaces and retail developments, and partly due to escalation of rental prices.

The share in net profits of Travellers amounted to P1.6 billion in 2010 as compared to P2.7 million in 2009. Resorts World Manila opened in August 2009 and revenues were derived from the gaming, hotel, food and beverage, theatre, cinema operations and retail shopping mall and commercial office space rentals.

F&B sales climbed by 40.0% to P8.8 billion on the back of record-high sales of alcoholic drinks. EDI sales had surpassed its 2007 level. Emperador Brandy, especially Emperador Light, is enjoying brisk demand while The Bar, the first local flavored vodka and gin product, is enjoying its first mover advantage. Pik-Nik sales, on the other hand, grew by 18% this year, with its domestic (i.e., U.S.) and international sales showing 2.4% and 24.8% increases year-on-year.

QSR revenues grew by 13.7% from a year ago. Sales in particular, went up by 10.3% and revenue from franchised restaurants by 22.8%. The growth came from the expansion of its store chain and business extensions (delivery service, dessert centers,

midnight and breakfast daypart). Fourteen stores were opened while two were closed during the year, bringing the total number of stores nationwide to 309 by yearend. Product promotions were launched during the year to add selection variety and entice consumer patronage.

Finance and other income, which formed 11% of total revenues, slipped by 17.3% due to P1.6 billion gain on sale of PTL that was recorded in 2009. (Please refer to Note 24 to consolidated financial statements.)

Costs and expenses went up by 7.9% due to 18.6%, 8.4%, 34.0% and 7.6% rise in cost of goods sold, cost of real estate sales, deferred gross profit on real estate sales, and selling expenses, respectively, reflecting the robust sales. Operating expenses rose by 15.3% from increases in salaries, advertising and promotions, and depreciation.

Finance costs and other charges appeared to slide by 46.0% due to reversal of foreign currency losses, i.e. from P3.2 billion foreign currency losses in 2009 to P1.6 billion foreign currency gains in 2010 (reported under finance and other income in 2010). (Please refer to notes 22, 23 and 25 to the consolidated financial statements.)

Income tax expense totaled P2.6 billion this year from P2.0 billion a year ago. The 30% increase came substantially from the consumer goods businesses.

For the Year Ended December 31, 2009 vs. 2008

AGI marked another record year as it closed the year with consolidated net profit of P6.8 billion, up by 11.5% from P6.1 billion reported a year ago. Net profit after non-controlling interest was 22.7% higher year-on-year, as it hit P4.8 billion this year from P3.9 billion in the previous year.

Revenues increased by 7.6% to P38.8 billion from P36.1 billion a year ago, primarily due to 7.12% growth in sales of consumer goods, 35.9% in rendering of services and 69.7% in realized gross profit on prior year's real estate sales. Segment-wise, RE made the highest contribution (46%) this year, followed by QSR (25%) and F&B (16%). RE current sales, in particular, represent 32.4% of total revenues while consumer product sales contributed 39.2% to total revenues. RE rental income comprised 11.2% of total revenues.

RE revenues came from sale of residential lots, condominium, and office units; from rental/lease of office/commercial spaces; hotel operations and finance and other income. The 1.2% increase in RE current sales were attributable to the following projects: Tuscany, Morgan Suites and The Venice Luxury Residences in McKinley Hill; Parkway and Parkview in Manhattan City; Bellagio and Forbeswood Parklane in Forbes Town Center; Le Grand in Eastwood City; Pine Crest and Parkside Villas in Newport City. Property rental income went up by 54% due to high occupancy rates in both the BPO office spaces and retail developments, and partly due to escalation of rental prices.

F&B sales improved by 2.9% and this was attributed to the slight slide in sales of alcoholic drinks by about 1.4% year-on-year. The demand for the alcoholic drinks, being premium items, was affected by competition and inflation. Nevertheless, there is a growing demand for the new product, The Bar. Pik-Nik sales, on the other hand, climbed by 24.1% this year, with its domestic (i.e., U.S.) and international sales showing 18.5% and 3.7% increases year-on-year.

QSR revenues grew by 13.9% from a year ago. Sales in particular, went up by 13.4% and revenue from franchised restaurants by 22.9%. The improvement came from the expansion of its store chain. Seventeen stores were opened while eight were closed during the year, bringing the total number of stores nationwide to 296 by yearend. Product promotions were launched during the year to add selection variety and entice consumer patronage. These included Mcsaver meals, Ice Age 3 vertigration and Coke glass promos.

Finance and other income, which formed 15.4% of total revenues, grew by 2.1%. Interest income, fair value gains and gain on sale of investment in Travellers were included in this account. (Please refer to Note 24 to consolidated financial statements.)

Costs and expenses went up by 5.8% due to 38.0%, 20.4% and 11.7% rise in finance costs and other charges, selling expenses and deferred gross profit on RE sales. Foreign currency losses of P3.2 billion appeared to be the biggest component of finance costs and other charges, however, P1.02 billion gains were reported as part of fair value gains under finance and other income. Selling expenses rose because of higher QSR and RE sales which translated into higher commissions and advertising expenses in RE and higher royalty fees in QSR business. Costs of goods and general and administrative expenses were maintained at almost last year's level while costs of real estate sales improved by 2%. (Please refer to notes 22, 23 and 25 to the consolidated financial statements.)

Income tax expense totaled P2.0 billion this year from P1.6 billion a year ago. The 23% increase came principally from RE business.

b.2. Liquidity and Capital Resources

Consolidated total assets amounted to P164 billion at yearend 2010 from P128 billion at beginning of the year, or a 28% increase.

For most of the balance sheet accounts, there is a corresponding note to the consolidated financial statements where details, breakdown or composition of the accounts could be found. Please refer to those notes accompanying the consolidated financial statements. In summary:

Cash and cash equivalents increased by P16.1 billion – from P31.1 billion at the beginning of the year to end at P47.3 billion. Cash flows from operating, financing and investing activities during the year were presented in the consolidated statements of cash flows.

Current and non-current trade and other receivables increased by P4.6 billion or 16% due to robust RE sales.

Financial assets at fair value through profit or loss increased by P11.6 billion due to temporary investments in marketable debt securities of funds.

Inventories increased by P334 million or 4% due to increase in residential and condominium units for sale which represent the completed portion of costs attributed to ongoing projects.

Advances to landowners and joint ventures swelled by P1.5 billion or 124% due to increased advances to RE joint venture partners as pre-development expenses for joint RE developments. The advances represent mutually agreed-upon amounts paid to landowners for pre-development expenses; these advances are repaid upon completion of the project.

Land for future development rose by P213 million or 17% due to acquisition of additional land.

Available-for-sale financial assets went up by P642 million or 66% due to increase in investment in securities of funds and the improvement in market value of such securities.

Investment property increased by P595 million or 6% due to new RE buildings and condominiums held for lease.

Trade and other payables increased by P1.4 billion or 12% due to increased RE activities and F&B production.

The increases in customers' deposits, reserve for property development, deferred income on real estate sales, deferred tax liabilities and other non-current liabilities, all of which are related to RE segment, are attributed to the pumping up of RE development and lease activities.

Total interest-bearing loans and borrowings, including bonds payable, increased by P20.9 billion to P40.2 billion from P19.2 billion because of \$500 million 7-year notes issued by Alliance Global Group Cayman. These notes are carried at P20.6 billion as of end-2010.

The increase in redeemable preferred shares represents the accretion of interest in the carrying value which amounted to P372 million as of end-2010.

The acquisition of additional ownership interest in Megaworld in its preemptive rights offering in 2009 resulted in dilution gain of P1.2 billion recognized from minority interest.

The changes in equity components are presented in detail in the consolidated statements of changes in equity.

Treasury shares are AGI shares acquired but not cancelled which are presented at their acquisition cost. These include the shares held by AGI under its buy-back program. AGI shares held by certain subsidiaries are also considered as treasury shares. The fair value gains (losses) on the shares held by subsidiaries were eliminated in full and were not recognized in the consolidated financial statements.

The decrease in revaluation reserves of P164 million represent the change in fair value of available-for-sale financial assets.

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2010 and 2009 amounted to P91.4 billion and P60.8 billion, respectively, while current liabilities for the same respective years-end remained low at P26.4 billion and P19.9 billion, respectively. Thus, current ratios were at 3.5:1 and 3.1:1 as of respective year-ends. Debt-to-equity ratios were at 1.25:1 and 0.9:1 in 2010 and 2009, respectively, while interest-bearing-debt-to-equity ratios were 0.69:1 and 0.37:1 at the end of these respective periods.

b.3. Prospects for the future

AGI remains focused on its business programs and intends to continue to adopt prudent measures to ensure financial sustainability and look for new opportunities that will enhance the overall profitability of the group while maintaining established markets.

In 2011, all the business segments are expected to sustain their growth momentum. The RE segment which includes Megaworld and Travellers is expected to be the prime contributor to revenues and net income. Within the next four years, the tourism-oriented projects under Travellers and GERI are expected to contribute a sizable portion of profit to the Group.

b.4. Others

There are no other known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. The Company does not have nor anticipate having any cash flow or liquidity problems within the next twelve months. AGI and its subsidiaries are not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no other known events that will trigger direct or contingent financial obligation that is currently considered material to the Company, including any default or acceleration of an obligation. There are no other material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities or other persons created during the reporting period.

There are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There are also no known events that will cause material change in the relationship between costs and revenues.

There are no other significant elements of income or loss that did not arise from continuing operations.

The business has no seasonal aspects that had a material effect on the financial condition and results of operations of the Group.

Item 7. Financial Statements

The audited consolidated financial statements, together with Statement of Management's Responsibility & Auditors' Report, and supplementary schedules are attached.

The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS), on the historical cost basis except for the measurement of certain financial assets and liabilities. The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The estimation and judgments are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results may ultimately vary from those estimates.

The consolidated financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated.

Item 8. Information on Independent Accountant and other Related Matters

a. External Audit Fees and Services

a.1. Audit and audit-related services

Punongbayan & Araullo ("P&A") has been appointed as the principal accountant since 2003. In compliance with SEC Rule 68 paragraph 3 (b) (iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years. For 2009 and 2010 audit engagement, the lead engagement partner is Mr. Leonardo D. Cuaresma, Jr.

The respective fees billed by P&A for each of the last two fiscal years totaled P1,330,000 and P1,070,000 for the audit of 2010 and 2009 annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements. In addition, P&A billed P7.5 million for services relating to an international notes offering in 2010.

a.2. Tax fees and all other fees

There were no separate tax fees billed and no other products and services provided by P&A to AGI for the last two fiscal years.

a.3. Audit Committee's approval

All the above services have been approved by the Audit Committee through the internal policies and procedures of approval. The Committee is composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members.

b. Changes in and disagreements with accountants on accounting and financial disclosure

P&A, as principal auditors, issued an unqualified opinion on the consolidated financial statements. As such, there had been no disagreements with them on any accounting principles or practices, financial disclosures, and auditing scope or procedure.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

a. Directors, executive officers and significant employees:

| <i>Name, Age Citizenship</i> | <i>Position Held, Term of Office</i> | <i>Present Directorship(s) in other companies</i> | <i>Business experience for the past five (5) years</i> |
|---|--|--|--|
| ANDREW L. TAN, 61 Filipino | Chairman of the Board, Sep 2006 – present; Director/Vice Chairman of the Board, Aug 2003 - Sep 2006 | Chairman/President , Megaworld Corporation; Megaworld Land, Inc.; Mactan Oceanview Properties & Holdings, Inc.; Megaworld Newport Property Holdings, Inc.; Richmonde Hotel Group International Limited; Megaworld Globus Asia, Inc.; Megaworld Homes, Inc.; The Bar Beverage, Inc.; Emperador Brandy, Inc.; Yorkshire Holdings, Inc.; Chairman , Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.); Emperador Distillers, Inc.; Alliance Global Brands, Inc.; Consolidated Distillers of the Far East, Inc.; Eastwood Cyber One Corporation; Empire East Land Holdings; Inc.; Forbes Town Properties & Holdings, Inc.; Gilmore Property Marketing Associates, Inc.; Megaworld Cayman Islands, Inc.; Megaworld Central Properties, Inc.; Megaworld Foundation, Inc.; Megaworld Newport Property Holdings, Inc., Raffles & Company, Inc.; Sonoma Premier Land, Inc.; Sherman Oak Holdings, Inc.; Suntrust Properties, Inc.; The Andresons Group, Inc.; Townsquare Development Inc.; Travellers International Hotel Group, Inc., and Adams Properties, Inc.; Vice Chairman/Treasurer , Golden Arches Development Corporation; Golden Arches Realty Corporation; Director , Andresons Global, Inc.; Asian Travellers, Ltd.; Choice Gourmet Banquet, Inc.; Emperador International Limited; Venezia Universal Limited. | Real estate; distillery; marketing |
| SERGIO R. ORTIZ-LUIS, JR., 67 Filipino | Independent Director/Vice-Chairman of the Board, Sept. 2007-present; | President , Employers Confederation of the Philippines (ECOP); Philippine Exporters Confederation, Inc., (PHILEXPORT); Commissioner , Social Security System; Honorary Chairman , Philippine Chamber of Commerce & Industry; Chairman , Integrated Concepts & Solutions, Inc.; Vice Chairman , Export Development Council; Director , Waterfront Philippines, Inc.; Manila Exposition Complex, Inc.; Universal LRT Corp.; Holy Angel Memorial. | Organizational Development |

| | | | |
|--|---|--|--|
| <p>KINGSON U. SIAN, 49 Filipino</p> | <p>Director & President, Feb 20, 2007-present</p> | <p>Senior Vice President & Executive Director, Megaworld Corporation; Chairman & President, Asia Finest Hotels & Resorts, Inc.; Megaworld Resort Estates, Inc.; Prestige Hotels & Resorts, Inc. Director/President, Adams Properties, Inc.; Eastwood Cyber One Corporation; Eastwood Locator's Assistance Center, Inc.; Forbestown Properties Holdings, Inc.; Travellers International Hotel Group, Inc.; Director, Asia E-Commerce, Inc.; Citywalk Building Administration, Inc.; Eastwood Corporate Plaza Building Administration, Inc.; Eastwood City Estates Association, Inc.; Forbes Town Commercial Center Administration, Inc.; ICITE Building Administration, Inc.; Paseo Center Building Administration, Inc.; Techno Plaza One Building Administration, Inc.; World Café, Inc.; Senior Vice President & Chief Executive Officer, Megaworld Land, Inc</p> | <p>Real estate marketing; business development</p> |
| <p>WINSTON S. CO, 53 Filipino</p> | <p>Director, up to present; Vice-chairman, Nov1999-Aug2003; Chairman, 1998-October 1999</p> | <p>Chairman & President, New Town Land Partners, Inc., Chairman, Anglo Watsons Glass, Inc.; Director/President, Emperador Distillers, Inc.; Director, Alliance Global Brands, Inc.; Forbes Town Properties & Holdings, Inc.; McKester Pik-Nik International Limited; Raffles & Company, Incorporated; The Bar Beverage, Inc.; Senior Vice President, The Andresons Group, Inc.</p> | <p>Finance and marketing</p> |
| <p>KATHERINE L. TAN, 59 Filipino</p> | <p>Director/Treasurer Feb 20, 2007-present</p> | <p>Chairman & President, Andresons Global, Inc., Choice Gourmet Banquet, Inc.; Director/President, Consolidated Distillers of the Far East, Inc.; Raffles and Company, Inc., The Andresons Group, Inc., Director/Treasurer, Alliance Global Brands, Inc.; Emperador Brandy, Inc., Emperador Distillers, Inc.; Newtown Land Partners, Inc.; Yorkshire Holdings, Inc.; Director, Emperador International Limited; Kenrich Corporation; McKester Pik-Nik International Limited; Megaworld Corporation; Megaworld Cayman Islands, Inc.; Venezia Universal Limited; The Bar Beverage, Inc.,</p> | <p>Finance; marketing</p> |
| <p>ALEJO L. VILLANUEVA, JR., 69 Filipino</p> | <p>Independent Director, 2001-present</p> | <p>Chairman, Ruru Courier Systems, Inc.; Vice Chairman, Public Relations Counsellors Foundation of the Philippines, Inc.; Director, Empire East Land Holdings, Inc., and First Capital Condominium Corporation</p> | <p>Training, organizational development, consultancy</p> |

| | | | |
|--------------------------------------|---|--|---|
| RENATO M. PIEZAS, 43 Filipino | Director, 2002-present | Director and Corporate Secretary , Anglo Watsons Glass, Inc.; Eastwood Cinema 2000, Inc.; Corporate Secretary , Eastin Holdings, Inc.; Forbestown Properties & Holdings, Inc.; Mactan Oceanview and Holdings, Inc.; Townsquare Development Inc., and Yorkshire Holdings, Inc.; Director , Forbestown Center, Inc. | Marketing and business development |
| DINA D. INTING, 51, Filipino | First Vice President - Finance, January 1996 –present | Director/Corporate Secretary , Alliance Global Brands, Inc. up to March 25, 2007 | Financial management and comptrollership |
| DOMINIC V. ISBERTO, 36, Filipino | Corporate Secretary, September 14, 2007-present | Corporate Secretary , Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.); Eastwood City Estates Association, Inc.; and Suntrust Properties, Inc. | Legal documentation, Corporate Counsel and corporate affairs mgmt |
| ROLANDO D. SITATELA, 50, Filipino | Asst. Corporate Secretary, August 30, 2002-present | Director , Asia Finest Cuisine, Inc.; Corporate Secretary , ERA Real Estate Exchange, Inc.; ERA Real Estate, Inc.; Oceanic Realty Group International, Inc., Suntrust Home Developers, Inc.; Asst. Corporate Secretary , Megaworld Corporation; Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.) | Legal documentation and corporate affairs mgmt |

Directors are elected annually by the stockholders to serve until the election and qualification of their successors. Two independent directors, Messrs. Sergio Ortiz-Luis, Jr. and Alejo Villanueva, Jr., were elected in the last annual stockholders' meeting on October 5, 2010.

The Company does not have significant employees, i.e., persons who are not executive officers but expected to make significant contribution to the business.

b. Family Relationships

Chairman Andrew L. Tan is married to Treasurer/Director Katherine L. Tan. Their sons, Kevin Andrew L. Tan and Kendrick Andrew L. Tan, are currently serving as directors of Anglo Watsons Glass, Inc., Newtown Land Partners, Inc., and Yorkshire Holdings, Inc. Kevin Andrew L. Tan is also a director and Corporate Secretary of Alliance Global Brands, Inc. and a director of Emperador Distillers, Inc. while Kendrick Andrew L. Tan is the Corporate Secretary and Executive Director of Emperador Distillers, Inc.

c. Involvement in Legal Proceedings

The Company has no knowledge of any of the following events that occurred during the past five (5) years up the date of this report that are material to an evaluation of the ability or integrity of any director or executive officer:

- o 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 years prior to that time;
- o Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

- o Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- o Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

Name and Principal Position

Andrew L. Tan, Chairman (CEO)
 Kingson U. Sian, President (COO)
 Katherine L. Tan, Treasurer
 Dina D. Inting, FVP-Finance
 Dominic V. Isberto, Corporate Secretary
 Rolando D. Siatela, Asst. Corporate Secretary

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they principally handle. Hence, for years 2010 and 2009, no compensation was received from AGI, the holding company, and neither will there be for 2011, except for an allowance for Mr. Kingson Sian which started in February 2007. In a board resolution passed in November 2007, members of the Company's Board of Directors receive per diem allowance for attendance in board meetings. Prior to this date, there was no compensation paid to directors for serving as such.

There were no warrants or stock options held by the CEO, the named executive officers, and all officers and directors as a group.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) *Security Ownership of Record and Beneficial Owners owning more than 5% of the Company's outstanding common stock as of March 31, 2011:*

| <i>Title of Class</i> | <i>Name and Address of Record Owner & Relationship w/ Issuer</i> | <i>Name of Beneficial Owner & Relationship w/ Record Owner</i> | <i>Citizenship</i> | <i>No. of Shares</i> | <i>Percent Owned</i> |
|-----------------------|--|---|--------------------|----------------------|----------------------|
| Common | THE ANDRESONS GROUP, INC. 7/F 1880 Eastwood Avenue, Eastwood City Bagumbayan, Quezon City, ¹ It is solely a stockholder of the issuer; its chairman is also AGI's chairman. | Mr. Andrew L. Tan, Chairman of the Board, is the principal stockholder. | Filipino | 3,944,826,194 | 40.58% |
| Common | HONGKONG AND SHANGHAI BANKING CORP LTD (Non- Filipino) ² 30/F Discovery Suites, ADB | Rose Tantoco, Senior Vice President, or Nilo Dicen, Vice President, of Securities Services, is authorized to | Non-Filipino | 1,159,210,652 | 11.92% |

¹ Includes shares lodged with PCD

² Participants of the PCD Nominee Corporation. According to them, no one client or account beneficially owned 5% or more of AGI shares.

| | | | | | |
|--------|---|--|--------------|-------------|-------|
| | Avenue., Ortigas Center, Pasig City. No relationship with Issuer. | appoint proxy to vote the shares. | | | |
| Common | UBS SECURITIES PHILIPPINES, INC. – Clients 19/F Ayala Tower One, Ayala Ave., Makati City No relationship with issuer. | Ms. Robrina Go, President and Maria Lourdes de Guzman, Chief Operating Officer, is authorized to appoint proxy to vote for the shares. | Filipino | 871,950,000 | 8.97% |
| Common | DEUTSCHE BANK MANILA – Clients 23/F Ayala Tower One, Ayala Ave., Makati City No relationship with issuer. | Soledad Velasco, Head – Securities and Custody Operations, or Carlos Dela Torre, Deputy Head, is authorized to appoint proxy to vote for the shares. | Non-Filipino | 560,743,995 | 5.77% |

(2) *Security Ownership of Management as of March 31, 2011:*

| <i>Title</i> | <i>Name of Beneficial Owner</i> | <i>Citizenship</i> | <i>Amount</i> | <i>Percent</i> |
|---|--|--------------------|---------------|----------------|
| Common | Andrew L. Tan (<i>Chairman of the Board</i>) | Filipino | 341,684,350 | 3.5064% |
| Common | Sergio R. Ortiz-Luis, Jr. (<i>Director</i>) | Filipino | 1 | 0.00000% |
| Common | Winston S. Co (<i>Director</i>) | Filipino | 2,728 | 0.00003% |
| Common | Kingson U. Sian (<i>Director</i>) | Filipino | 1,100 | 0.00% |
| Common | Katherine L. Tan (<i>Director</i>) | Filipino | 1 | 0.00% |
| Common | Alejo L. Villanueva, Jr (<i>Director</i>). | Filipino | 1 | 0.00% |
| Common | Renato M. Piezas (<i>Director</i>) | Filipino | 1,100 | 0.00001% |
| Common | Dina D. Inting (<i>FVP-Finance</i>) | Filipino | 2,758 | 0.00003% |
| Directors and Executive Officers as a Group | | | 341,692,039 | 3.5064% |

Item 12. Certain Relationships and Related Transactions

Except for the material related party transactions described in the notes to the consolidated financial statements of the Company for the years 2009, 2008 and 2007 (*please see elsewhere in here*), there has been no material transaction during the last two years, nor is there any material transaction currently proposed, to which the Company was or is to be a party, in which any director or executive officer, any nominee for election as director, stockholder of more than ten percent (10%) of the Company's voting shares, and any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any such director or officer or stockholder of more than ten percent (10%) of the Company's voting shares had or is to have a direct or indirect material interest

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the rules and principles of good corporate governance in the entire organization in accordance with the Code of Corporate Governance promulgated by SEC.

Audit Committee

The Company's Audit Committee is responsible for ensuring that all financial reports comply with internal financial management and accounting standards, performing oversight financial management functions, pre-approving all audit plans, scope and frequency and performing direct interface functions with internal and external auditors. This Committee has three members, two of whom are independent directors. An independent director serves as the head of the committee.

Compensation and Remuneration Committee

The Company's Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, as well as providing oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Company's culture, strategy and control environment. This Committee consists of three members, including at least one independent director.

Nomination Committee

The Company's Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the Board of Directors in accordance with qualifications prescribed by law and the Company's Manual of Corporate Governance. This Committee has three voting members, including at least one independent director.

Evaluation System

The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions of its Manual of Corporate Governance. The Compliance Officer, who is directly reporting to the Chairman of the Board, has established an evaluation system to measure or determine the level of compliance by the Company with its Manual. A Self-Rating System on Corporate Governance was implemented and submitted to SEC and PSE in July 2003.

Deviations from Manual and Sanctions Imposed

In 2010, the Company substantially complied with its Manual of Corporate Governance and did not materially deviate from its provisions.

No sanctions have been imposed on any director, officer or employee on account of non-compliance.

Plan to Improve Corporate Governance

Pursuant to SEC Memorandum Circular No. 6, Series of 2009, the Company has revised its Manual of Corporate Governance to make its provision compliant with the Revised Code of Corporate Governance. Among the measures undertaken by the Company in order to fully comply with the provisions of the leading practices on good corporate governance adopted in its Manual on Corporate Governance are monitoring and evaluation of the internal control system for corporate governance. The Company

likewise maintains an active website where its Annual Reports, Quarterly Reports, Financial Statements and other disclosures are uploaded for easy access and reference by the investing public. The Company is committed to good corporate governance and continues to improve and enhance the evaluation system for purposes of determining the level of compliance by the Company with its Manual on Corporate Governance.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(b) Reports on SEC Form 17-C Filed During the Last Six Months of the Report Period (June 1 to December 31, 2010)

| Date | Disclosures |
|------------------|--|
| 3 June 2010 | Board Approval of Amendment of Articles |
| 28 June 2010 | Declaration of Cash Dividend |
| 13 July 2010 | 1. Press Release re: AGI to build new 540 room Hamilton Hotel in Newport City 2. Stockholders' Approval of Amendments of Articles of Inc. |
| 5 August 2010 | SEC Approval of Amendments of Articles of Inc. |
| 11 August 2010 | 1. Press Release: AGI First Half Profits rise 2. Guarantee of Issuance – notes by AGI Cayman 3. Resetting of Annual Meeting : record date 27 August 2010 |
| 13 August 2010 | Press Release re: AGI Cayman issues US\$500M Global Bond |
| 5 October 2010 | a. Results of Annual Stockholders' Meeting b. Results of Organizational Meeting of the Board of Directors c. Press Release re: AGI Forecast Earnings Rise of 38% in 2010 |
| 18 October 2010 | Press Release re: AGI Subsidiary EDI posts record 9 month income |
| 28 October 2010 | Press Release re: Travellers International Hotel issued US\$300M bond |
| 15 November 2010 | Press Release re: AGI Net Income jumps 7.55B in 9 months |
| 3 December 2010 | Approval of Sale of Treasury Shares |
| 6 December 2010 | Press Release re: AGI allots 7B Tourism Projects |
| 22 December 2010 | Press Release re: AGI Buys Into Fil-Estate Land, Inc. |

SIGNATURES

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

Alliance Global Group, Inc.
Issuer

By:


ANDREW L. TAN
Chairman & CEO
 (Principal Executive Officer)


KINGSON U. SIAN
President & COO
 (Principal Operating Officer)

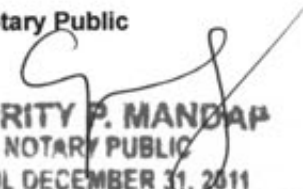

DINA D.R. INTING
FVP - Finance
 (Principal Financial Officer & as
 Principal Accounting Officer & Comptroller)


DOMINIC V. ISBERTO
Corporate Secretary

SUBSCRIBED AND SWORN to before me ^{APR 14 2011} this 14, 2011 affiants exhibiting to me their Passports/SSS No., as follows:

| NAMES | PASSPORT/SSS NO. | DATE OF ISSUE | PLACE OF ISSUE |
|--------------------|------------------|----------------------------|----------------|
| Andrew L. Tan | XX0777629 | March 19, 2008 to 2013 | Manila |
| Kingson U. Sian | XX1996220 | September 10, 2008 to 2013 | Manila |
| Dominic V. Isberto | ZZ223532 | March 22, 2007 to 2012 | Manila |
| Dina D. Inting | SSS 03-5204775-3 | | |

Doc No. 292
 Page No. 60
 Book No. I
 Series of 2011.

Notary Public

CHARITY P. MANDAP
 NOTARY PUBLIC
 UNTIL DECEMBER 31, 2011
 ISP NO. 840310 PPLM Chapter / 12.20.10
 PTR NO. 0042312 / Makati City / 12.30.10
 ROLL NO. 58735
 Appointment No. M-534
 19F Enterprise Center
 Makati City



Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Financial Statements and
Independent Auditors' Report

Alliance Global Group, Inc. and Subsidiaries

December 31, 2010 and 2009

ALLIANCE GLOBAL

ALLIANCE GLOBAL GROUP, INC.
7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez Jr. Avenue
Bagumbayan, 1110 Quezon City
Tel. Nos. 7092038-41
Fax Nos. 7091966

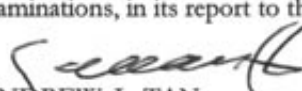
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS


The management of *Alliance Global Group, Inc.* is responsible for all information and representations contained in the consolidated financial statements as at December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards 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 auditors: (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 consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon the completion of such examinations, in its report to the Board of Directors and the stockholders.

Chairman : 
of the Board : ANDREW L. TAN

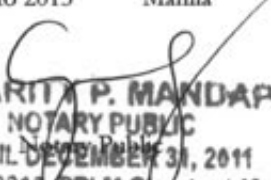
President : 
: KINGSON U. SIAN

First Vice President: 
for Finance : DINA D.R. INTING

SUBSCRIBED AND SWORN to before me this **APR 04 2011** affiants exhibiting to me their
Passport/SSS No., as follows: **MAKATI CITY**

| Names | PassportNo./SSS No. | Date | Place of Issue |
|------------------|---------------------|----------------------------|----------------|
| Andrew L. Tan | XX0777629 | March 19, 2008 to 2013 | Manila |
| Kingson U. Sian | XX1996220 | September 10, 2008 to 2013 | Manila |
| Dina D.R. Inting | SSS 03-5204775-3 | | |

Doc. No. 285
Page No. 14
Book No. 1
Series of 2011


CHARITA P. MANDAP
NOTARY PUBLIC
UNTIL ~~DECEMBER 31, 2011~~
IBP NO. 840310 PPLM Chapter / 12.26.10
PTR NO. 0042312 / Makati City / 12.30.10
ROLL NO. 58735

Appointment No. M-534
19F Enterprise Center
Makati City



Report of Independent Auditors

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886-5511
F +63 2 886-5506; +63 2 886-5507
www.punongbayan-araullo.com

The Board of Directors and Stockholders Alliance Global Group, Inc. and Subsidiaries

7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited the accompanying consolidated financial statements of Alliance Global Group, Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

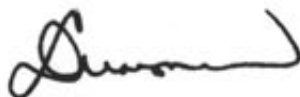
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alliance Global Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO



By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647

TIN 109-227-862

PTR No. 2641858, January 3, 2011, Makati City

Partner's SEC Accreditation No. 007-AR-2 (until Feb. 1, 2012)

BIR AN 08-002511-7-2008 (until Nov. 24, 2011)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 29, 2011

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009
(Amounts in Philippine Pesos)

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|---------------------------------|---------------------------------|
| <u>A S S E T S</u> | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | P 47,264,487,187 | P 31,145,329,040 |
| Trade and other receivables - net | 6 | 17,533,261,797 | 15,088,937,770 |
| Financial assets at fair value through profit or loss | 7 | 13,705,592,182 | 2,138,671,132 |
| Inventories - net | 8 | 8,124,448,257 | 7,790,351,318 |
| Property development costs | 2 | 3,798,108,537 | 3,720,702,927 |
| Other current assets | 9 | 986,661,326 | 930,915,341 |
| | | <hr/> | <hr/> |
| Total Current Assets | | 91,412,559,286 | 60,814,907,528 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 6 | 15,687,307,294 | 13,538,300,935 |
| Available-for-sale financial assets | 11 | 1,609,030,965 | 966,756,842 |
| Advances to landowners and joint ventures | 10 | 2,708,026,497 | 1,208,026,496 |
| Land for future development | 2 | 1,482,561,015 | 1,269,561,000 |
| Investments in and advances to associates and other related parties | 12 | 23,821,886,376 | 23,748,923,803 |
| Property, plant and equipment - net | 13 | 5,128,522,733 | 4,953,385,820 |
| Investment property - net | 14 | 9,976,978,748 | 9,381,736,357 |
| Intangible assets - net | 15 | 11,290,486,753 | 11,378,085,052 |
| Deferred tax assets | 27 | 310,119,631 | 265,760,166 |
| Other non-current assets - net | 9 | 813,465,175 | 811,272,952 |
| | | <hr/> | <hr/> |
| Total Non-current Assets | | 72,828,385,187 | 67,521,809,423 |
| | | | |
| TOTAL ASSETS | | <u>P 164,240,944,473</u> | <u>P 128,336,716,951</u> |

| | Notes | <u>2010</u> | <u>2009</u> |
|--|--------|---------------------------------|---------------------------------|
| <u>LIABILITIES AND EQUITY</u> | | | |
| CURRENT LIABILITIES | | | |
| Interest-bearing loans and borrowings | 17 | P 1,586,752,515 | P 2,266,848,820 |
| Bonds payable | 18 | 3,416,062,159 | - |
| Trade and other payables | 16 | 12,372,689,846 | 11,014,010,815 |
| Customers' deposits | 2 | 1,020,277,628 | 967,358,726 |
| Income tax payable | | 364,251,263 | 237,832,123 |
| Reserve for property development | 2 | 3,640,068,354 | 2,468,349,023 |
| Deferred income on real estate sales | 2 | 2,220,540,650 | 1,515,687,720 |
| Other current liabilities | 20 | 1,827,830,542 | 1,398,259,397 |
| | | <u>26,448,472,957</u> | <u>19,868,346,624</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing loans and borrowings | 17 | 8,580,458,712 | 8,337,348,304 |
| Bonds payable | 18 | 26,571,051,933 | 8,608,407,826 |
| Customers' deposits | 2 | 1,201,422,709 | 913,800,498 |
| Advances from related parties | 28 | 338,605,308 | 661,008,979 |
| Retirement benefit obligation | 26 | 383,657,948 | 356,762,247 |
| Reserve for property development | 2 | 2,487,557,735 | 2,023,028,273 |
| Deferred tax liabilities | 27 | 3,314,202,355 | 2,672,496,931 |
| Redeemable preferred shares | 19 | 371,866,226 | 330,916,959 |
| Deferred income on real estate sales | 2 | 1,588,240,851 | 1,217,863,024 |
| Other non-current liabilities | 20 | 1,241,505,132 | 1,245,831,397 |
| | | <u>46,078,568,909</u> | <u>26,367,464,438</u> |
| Total Liabilities | | <u>72,527,041,866</u> | <u>46,235,811,062</u> |
| EQUITY | | | |
| Equity attributable to owners of the parent company: | | | |
| Capital stock | 29 | 10,269,827,979 | 10,269,827,979 |
| Additional paid-in capital | 29 | 27,175,173,772 | 27,157,647,455 |
| Treasury shares | 29 | (3,194,861,260) | (4,334,613,117) |
| Revaluation reserves | 11, 12 | (61,488,392) | 29,487,721 |
| Accumulated translation adjustments | 2 | (530,783,788) | (73,570,226) |
| Dilution gain | 15, 29 | 1,196,566,827 | 1,196,566,827 |
| Retained earnings | | 23,393,036,949 | 17,059,492,891 |
| | | <u>58,247,472,087</u> | <u>51,304,839,530</u> |
| Non-controlling interest | | <u>33,466,430,520</u> | <u>30,796,066,359</u> |
| Total Equity | | <u>91,713,902,607</u> | <u>82,100,905,889</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>P 164,240,944,473</u> | <u>P 128,336,716,951</u> |

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

| | Notes | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------|------------------------|------------------------|--------------------------|
| REVENUES | | | | |
| Sale of goods | 2 | P 18,653,030,580 | P 15,230,594,412 | P 14,218,216,295 |
| Real estate sales | 2 | 13,110,567,020 | 12,574,801,962 | 12,430,321,088 |
| Finance and other income | 24 | 4,944,687,276 | 5,977,105,798 | 5,854,200,603 |
| Rendering of services | 21 | 3,763,512,740 | 2,908,585,719 | 2,139,809,355 |
| Share in net profits of associates and joint ventures - net | 12 | 1,733,993,598 | 160,724,354 | 101,830,925 |
| Realized gross profit on prior years' real estate sales | 2 | 1,355,982,007 | 1,277,434,472 | 752,681,262 |
| Interest income on real estate sales | 6 | 933,424,160 | 714,213,230 | 612,320,924 |
| | | <u>44,495,197,381</u> | <u>38,843,459,947</u> | <u>36,109,380,452</u> |
| COSTS AND EXPENSES | | | | |
| Cost of goods sold | 22 | 13,202,219,880 | 11,132,470,997 | 11,033,176,102 |
| Cost of real estate sales | 22 | 8,606,609,164 | 7,940,756,662 | 8,082,125,043 |
| General and administrative expenses | 23 | 3,044,267,452 | 2,503,256,614 | 2,494,331,694 |
| Deferred gross profit on real estate sales | 22 | 2,431,379,388 | 1,815,065,914 | 1,624,410,655 |
| Selling expenses | 23 | 2,218,215,525 | 2,061,700,540 | 1,712,010,259 |
| Finance costs and other charges | 25 | 2,128,298,982 | 3,941,301,749 | 2,855,805,536 |
| Cost of services | 22 | 782,687,736 | 656,764,678 | 595,136,687 |
| | | <u>32,413,768,127</u> | <u>30,051,317,154</u> | <u>28,396,995,976</u> |
| PROFIT BEFORE TAX | | 12,081,429,254 | 8,792,142,793 | 7,712,384,476 |
| TAX EXPENSE | 27 | <u>2,584,871,206</u> | <u>1,984,145,570</u> | <u>1,606,782,802</u> |
| NET PROFIT | | <u>9,496,558,048</u> | <u>6,807,997,223</u> | <u>6,105,601,674</u> |
| OTHER COMPREHENSIVE INCOME | | | | |
| Translation adjustments | 2 | (513,180,970) | (159,173,728) | 599,390,970 |
| Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary | 12 | (403,955,684) | - | - |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | 11 | 253,353,722 | 1,750,608,063 | (2,164,354,170) |
| Share in other comprehensive income of associates and joint venture | 12 | 73,176,649 | - | - |
| Deferred tax income (expense) relating to components of other comprehensive income | 27 | 55,817,408 | 25,795,486 | (11,728,077) |
| Reduction in revaluation reserves due to available-for-sale financial assets sold by subsidiaries | | (13,400,800) | 276,543,393 | (51,926,367) |
| | | <u>(548,189,675)</u> | <u>1,893,773,214</u> | <u>(1,628,617,644)</u> |
| TOTAL COMPREHENSIVE INCOME | | P 8,948,368,373 | P 8,701,770,437 | P 4,476,984,030 |
| Net profit attributable to: | | | | |
| Owners of the parent company | | P 6,908,586,791 | P 4,796,309,746 | P 3,908,833,964 |
| Non-controlling interest | | <u>2,587,971,257</u> | <u>2,011,687,477</u> | <u>2,196,767,710</u> |
| | | P 9,496,558,048 | P 6,807,997,223 | P 6,105,601,674 |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent company | | P 6,360,397,116 | P 6,690,082,960 | P 2,280,216,320 |
| Non-controlling interest | | <u>2,587,971,257</u> | <u>2,011,687,477</u> | <u>2,196,767,710</u> |
| | | P 8,948,368,373 | P 8,701,770,437 | P 4,476,984,030 |
| Earnings Per Share for the Net Income Attributable to Owners of the Parent Company - | | | | |
| Basic and Diluted | 30 | P 0.7108 | P 0.4921 | P 0.3858 |

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

| | Notes | 2010 | 2009 | 2008 |
|---|-------|-------------------------|-------------------------|-------------------------|
| EQUITY ATTRIBUTABLE TO OWNERS | | | | |
| OF THE PARENT COMPANY | | | | |
| Capital Stock | 29 | P 10,269,827,979 | P 10,269,827,979 | P 10,269,827,979 |
| Additional Paid-in Capital | 29 | | | |
| Balance at beginning of year | | 27,157,647,455 | 27,157,647,455 | 27,157,647,455 |
| Sale of treasury shares | | 17,526,317 | - | - |
| Balance at end of year | | 27,175,173,772 | 27,157,647,455 | 27,157,647,455 |
| Treasury Shares - at cost | 29 | | | |
| Balance at beginning of year | | (4,334,613,117) | (3,487,548,482) | (1,395,127,506) |
| Reduction representing the shares held by a deconsolidated subsidiary | 12 | 840,875,009 | - | - |
| Net sale (purchase) of treasury shares | | 298,876,848 | (847,064,635) | (2,092,420,976) |
| Balance at end of year | | (3,194,861,260) | (4,334,613,117) | (3,487,548,482) |
| Revaluation Reserves | | | | |
| Balance at beginning of year | | 29,487,721 | (1,997,417,235) | 218,863,302 |
| Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary | 12 | (403,955,684) | - | - |
| Net unrealized fair value gains (losses) on available-for-sale financial assets - net of tax | 11 | 253,203,722 | 1,750,361,563 | (2,164,354,170) |
| Share in other comprehensive income of associates and joint venture | 12 | 73,176,649 | - | - |
| Reduction in revaluation reserves due to available-for-sale financial assets sold by subsidiaries | | (13,400,800) | 276,543,393 | (51,926,367) |
| Balance at end of year | | (61,488,392) | 29,487,721 | (1,997,417,235) |
| Accumulated Translation Adjustments | 2 | | | |
| Balance at beginning of year | | (73,570,226) | 59,561,516 | (528,101,377) |
| Currency translation adjustments during the year | | (457,213,562) | (133,131,742) | 587,662,893 |
| Balance at end of year | | (530,783,788) | (73,570,226) | 59,561,516 |
| <i>Balance carried forward</i> | | P 33,657,868,311 | P 33,048,779,812 | P 32,002,071,233 |

| | Notes | 2010 | 2009 | 2008 |
|--|-------|-------------------------|-------------------|------------------|
| <i>Balance brought forward</i> | | P 33,657,868,311 | P 33,048,779,812 | P 32,002,071,233 |
| Dilution Gain | 29 | | | |
| Balance at beginning of year | | 1,196,566,827 | 45,023,383 | 45,023,383 |
| Dilution gain recognized during the year | 15 | - | 1,151,543,444 | - |
| Balance at end of year | | 1,196,566,827 | 1,196,566,827 | 45,023,383 |
| Retained Earnings | | | | |
| Appropriated for capital expenditures | | 446,297,286 | 446,297,286 | 446,297,286 |
| Unappropriated | | | | |
| Balance at beginning of year | | 16,613,195,605 | 11,816,885,859 | 8,354,349,181 |
| Net profit for the year | | 6,908,586,791 | 4,796,309,746 | 3,908,833,964 |
| Cash dividends | 29 | (575,042,733) | - | - |
| Appropriation during the year | | - | - | (446,297,286) |
| Balance at end of year | | 22,946,739,663 | 16,613,195,605 | 11,816,885,859 |
| Total Retained Earnings | | 23,393,036,949 | 17,059,492,891 | 12,263,183,145 |
| | | 58,247,472,087 | 51,304,839,530 | 44,310,277,761 |
| NON-CONTROLLING INTEREST | | | | |
| Balance at beginning of year | | 30,796,066,359 | 32,971,852,114 | 21,650,983,047 |
| Share in consolidated net profits | | 2,587,971,257 | 2,011,687,477 | 2,196,767,710 |
| Dividend from investee | | (472,722,210) | (280,405,180) | (263,980,746) |
| Treasury shares retirement (additions) | | 555,115,114 | 10,260,350 | (706,580,033) |
| Non-controlling interest in disposed investments | | - | (3,315,484,644) | - |
| Effects of decrease in ownership interest | | - | (1,139,542,163) | - |
| Non-controlling interest in additional investments | | - | 537,698,405 | 10,093,255,886 |
| Deposit for future subscription to shares of stock of a subsidiary | | - | - | 1,406,250 |
| Balance at end of year | | 33,466,430,520 | 30,796,066,359 | 32,971,852,114 |
| TOTAL EQUITY | | P 91,713,902,607 | P 82,100,905,889 | P 77,282,129,875 |

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

| | Notes | 2010 | 2009 | 2008 |
|---|--------|---------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax | | P 12,081,429,254 | P 8,792,142,793 | P 7,712,384,476 |
| Adjustments for: | | | | |
| Interest income | 24 | (2,093,764,085) | (1,896,421,610) | (2,545,342,840) |
| Share in net profits of associates and a joint venture | 12 | (1,733,993,598) | (160,724,354) | (101,830,925) |
| Interest expense | 25 | 1,341,679,352 | 715,198,019 | 912,102,027 |
| Depreciation and amortization | 22, 23 | 1,107,119,465 | 1,004,790,281 | 829,750,950 |
| Fair value losses (gains) - net | 24, 25 | 745,023,420 | (2,262,564,790) | 1,757,177,853 |
| Gain on sale of investment in available-for-sale financial assets | 24 | (629,194,471) | (18,050,807) | (2,306,450) |
| Amortization of trademarks | 23 | 101,257,277 | 101,257,277 | 100,632,276 |
| Dividend income | 24 | (60,673,664) | (44,247,127) | (49,680,085) |
| Unrealized foreign currency losses - net | | 40,566,552 | 882,727,051 | 181,514,868 |
| Net losses from disposal of property, plant and equipment and restaurant closings | | 11,741,865 | 36,835,105 | 35,504,331 |
| Gain on sale of investment in shares of stock | 24 | - | (1,581,815,465) | (2,809,732,873) |
| Impairment losses | 13 | - | 17,223,697 | 43,871,277 |
| Operating income before working capital changes | | 10,911,191,367 | 5,586,350,070 | 6,064,044,885 |
| Increase in trade and other receivables | | (4,632,202,817) | (7,955,887,344) | (5,998,086,863) |
| Decrease (increase) in financial assets at fair value through profit or loss | | (12,311,944,470) | 2,009,125,111 | (1,324,696,825) |
| Increase in inventories | | (334,096,939) | (49,201,137) | (1,001,370,701) |
| Increase in property development costs | | (77,405,610) | (899,303,033) | (84,024,319) |
| Increase in other current assets | | (261,382,861) | (182,715,694) | (233,107,252) |
| Increase in trade and other payables | | 1,544,647,202 | 3,926,825,499 | 1,978,101,236 |
| Increase in reserve for property development | | 1,636,248,793 | 669,276,522 | 1,228,583,888 |
| Increase in deferred income on real estate sales | | 1,075,230,757 | 537,798,066 | 871,380,840 |
| Increase (decrease) in customers' deposits | | 340,541,113 | (141,642,137) | (369,415,856) |
| Increase in retirement benefit obligations | | 26,895,701 | 3,160,767 | 120,972,012 |
| Increase (decrease) in other liabilities | | 466,194,147 | 240,075,185 | (211,184,377) |
| Cash generated from (used in) operations | | (1,616,083,617) | 3,743,861,875 | 1,041,196,668 |
| Cash paid for taxes | | (1,655,469,231) | (1,101,202,177) | (1,276,179,878) |
| Net Cash From (Used in) Operating Activities | | (3,271,552,848) | 2,642,659,698 | (234,983,210) |
| <i>Balance carried forward</i> | | (P 3,271,552,848) | P 2,642,659,698 | (P 234,983,210) |

| | Notes | 2010 | 2009 | 2008 |
|---|--------|-------------------------|-------------------------|-------------------------|
| <i>Balance brought forward</i> | | (P 3,271,552,848) | P 2,642,659,698 | (P 234,983,210) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from redemption of preferred shares | 12 | 2,580,000,000 | - | - |
| Reductions (additions) to: | | | | |
| Property, plant and equipment and investment property | 13, 14 | (2,205,852,055) | (2,781,962,534) | (11,108,125,580) |
| Available-for-sale financial assets | 11 | (13,079,652) | 1,214,965,229 | (1,739,300,115) |
| Interest received | | 2,063,749,964 | 2,056,942,231 | 1,111,400,509 |
| Net increase in advances to landowners and joint ventures | | (1,500,000,001) | (872,978,395) | (165,664,462) |
| Net increase in investments in and advances to associates and other related parties | | (538,205,454) | 971,113,556 | (256,459,630) |
| Decrease (increase) in other non-current assets | | (529,561,191) | 115,206,575 | 96,917,788 |
| Cash dividends received | | 514,353,664 | 44,247,127 | 49,680,085 |
| Proceeds from sale of property, plant and equipment | | 396,355,110 | 30,108,230 | 10,676,527 |
| Net decrease in land for future development | | (213,000,015) | 540,182,589 | 390,037,313 |
| Acquisition of computer software | 15 | (23,247,261) | - | - |
| Proceeds from sale of investment | 24 | - | 4,024,413,366 | 2,994,450,000 |
| Payments made for the subscribed common stocks of an associate | | - | (1,583,687,182) | (1,967,194,514) |
| Acquisition of trademarks | 15 | - | - | (12,500,000) |
| Payments for leasehold rights | 15 | - | - | (3,500,000) |
| Net Cash From (Used in) Investing Activities | | 531,513,109 | 3,758,550,792 | (10,599,582,079) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Net increase in interest-bearing loans and borrowings | | 20,953,367,436 | 5,559,668,323 | 6,752,829,014 |
| Interest paid | | (1,510,974,590) | (1,033,901,036) | (621,518,550) |
| Dividends paid | 29 | (575,042,733) | - | - |
| Net increase (decrease) in advances from related parties | | (322,403,671) | (210,190,242) | 224,115,240 |
| Sale of treasury shares | | 316,403,165 | - | - |
| Acquisition of treasury shares | | - | (847,064,635) | (2,092,420,976) |
| Proceeds from issuance of capital stock | | - | - | 10,094,000,000 |
| Net Cash From Financing Activities | | 18,861,349,607 | 3,468,512,410 | 14,357,004,728 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 16,121,309,868 | 9,869,722,900 | 3,522,439,439 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 31,145,329,040 | 27,601,662,533 | 24,066,590,081 |
| CASH AND CASH EQUIVALENTS OF A DECONSOLIDATED SUBSIDIARY | | (2,151,721) | (6,326,056,393) | - |
| BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES | | - | - | 12,633,013 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u>P 47,264,487,187</u> | <u>P 31,145,329,040</u> | <u>P 27,601,662,533</u> |

Supplemental Information on Noncash Investing and Financing Activities:

In the normal course of business, the Group enters into noncash transactions such as exchanges or purchases on account of real estate and other assets. Other noncash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development (see Note 14).

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company or AGI) was incorporated in the Philippines on October 12, 1993, and is authorized to carry out a general mercantile and commercial business of holding, importing and exporting, manufacturing, buying and distributing products of all classes and descriptions, either as principal or distributor, selling and disposing of real and personal properties, including debt and equity securities of any corporation.

Currently, the Company operates primarily as a holding company with ownership interests in the following subsidiaries, associates and jointly controlled entities (collectively, together with the Company, hereinafter referred to as the Group):

| Subsidiaries/Associates/Jointly Controlled Entity | Explanatory Notes | Percentage of Effective Ownership | | |
|---|-------------------|-----------------------------------|------|------|
| | | 2010 | 2009 | 2008 |
| Subsidiaries | | | | |
| Real Estate | | | | |
| Megaworld Corporation (Megaworld) | (a) | 57% | 57% | 48% |
| New Town Land Partners, Inc. (NTLPI) | (c) | 100% | 100% | 100% |
| First Centro, Inc. (FCI) | | 100% | 100% | 100% |
| Adams Properties, Inc. (Adams) | (d) | 60% | 60% | 60% |
| Megaworld Resort Estates, Inc. (MREI) | (e) | 78% | 78% | 73% |
| Megaworld Land, Inc. (MLI) | (f) | 57% | 57% | 48% |
| Prestige Hotels and Resorts, Inc. | (f) | 57% | 57% | 48% |
| Mactan Oceanview Properties and Holdings, Inc. | (f) | 57% | 57% | 48% |
| Megaworld Cayman Islands, Inc. (MCII) | (f) | 57% | 57% | 48% |
| Richmonde Hotel Group International (RHGI) | (f) | 57% | 57% | 48% |
| Eastwood Cyber One Corporation (ECOC) | (f) | 57% | 57% | 48% |
| Forbes Town Properties and Holdings, Inc. | (f) | 57% | 57% | 48% |
| Megaworld Newport Property Holdings, Inc. | (f) | 57% | 57% | 48% |
| Oceantown Properties, Inc. | (f) | 57% | 57% | 48% |
| Piedmont Property Ventures, Inc. | (f, u) | 57% | 57% | 48% |
| Stonehaven Land, Inc. | (f, u) | 57% | 57% | 48% |
| Streamwood Property Inc. | (f, u) | 57% | 57% | 48% |
| Megaworld-Daewoo Corporation | (f) | 34% | 34% | 29% |
| Megaworld Central Properties, Inc. | (f) | 29% | 29% | 24% |
| Megaworld Globus Asia, Inc. | (f) | 28% | 28% | 24% |
| Townsquare Development, Inc. (TDI) | (f, g) | 47% | 47% | 44% |
| Philippine International Properties, Inc. | (f, u) | 28% | 28% | 24% |
| Oceanic Realty Group International, Inc. | (i) | 100% | 100% | 100% |
| ERA Real Estate Exchange, Inc. (EREEI) | (i) | 100% | 100% | 100% |

| Subsidiaries/Associates/Jointly Controlled Entity | Explanatory Notes | Percentage of Effective Ownership | | |
|---|-------------------|-----------------------------------|------|------|
| | | 2010 | 2009 | 2008 |
| Subsidiaries | | | | |
| Real Estate | | | | |
| First Oceanic Property Management, Inc. (FOPMI) | (i) | 100% | 100% | 100% |
| Citylink Coach Services, Inc. | (j) | 100% | 100% | 100% |
| Travellers International Hotel Group, Inc. (Travellers) | (b) | - | - | 52% |
| APEC Assets Limited (APEC) | (q) | - | - | 52% |
| Bright Leisure Management, Inc. | (q) | - | - | 52% |
| GrandVenture Management Services, Inc. | (q) | - | - | 52% |
| GrandServices, Inc. | (q) | - | - | 52% |
| Food and Beverage | | | | |
| Emperador Distillers, Inc. (EDI) | | 100% | 100% | 100% |
| Anglo Watsons Glass, Inc. (AWGI) | | 100% | 100% | 100% |
| Tradewind Estates, Inc. (TEI) | (c) | 100% | 100% | 100% |
| Great American Foods, Inc. (GAFI) | (k) | 100% | 100% | 100% |
| McKester America, Inc. (MAI) | (k) | 100% | 100% | 100% |
| The Bar Beverage, Inc. (TBBI) | (l, v) | 100% | 100% | 100% |
| Quick Service Restaurant | | | | |
| Golden Arches Development Corporation (GADC) | | 49% | 49% | 49% |
| Golden Arches Realty Corporation (GARC) | (m) | 49% | 49% | 49% |
| Clark Mac Enterprises, Inc. | (m) | 49% | 49% | 49% |
| Advance Foods Concepts Manufacturing, Inc. | (m) | 37% | 37% | 37% |
| Davao City Food Industries, Inc. | (m) | 37% | 37% | 37% |
| Golden Laoag Foods Corporation | (m) | 38% | 38% | 38% |
| First Golden Laoag Ventures | (m) | 34% | 34% | 34% |
| Retiro Golden Foods, Inc. | (m) | 34% | 34% | 34% |
| Corporate and Others | | | | |
| Alliance Global Brands, Inc. (AGBI) | | 100% | 100% | 100% |
| McKester Pik-nik International Limited (MPIIL) | (c) | 100% | 100% | 100% |
| Emperador International Ltd. (EIL) | (l) | 100% | 100% | 100% |
| Venezia Universal Ltd. (Venezia) | | 100% | 100% | 100% |
| Travellers Group, Ltd. | (o, v) | 100% | 100% | 100% |
| Alliance Global Group Cayman Islands, Inc. (AG Cayman) | (p) | 100% | - | - |
| Premium Travellers, Ltd. (PTL) | (n) | - | - | 100% |
| Associates | | | | |
| Sonoma Premiere Land, Inc. (SPLI) | (r) | 56% | 56% | 54% |
| Gilmore Property Marketing Associates Inc. (GPMIAI) | (f, h) | 37% | 47% | 44% |
| Alliance Global Properties, Inc. (AGPL) | (s) | 30% | 25% | - |
| Empire East Land Holdings, Inc. (EELHI) | (t) | 27% | 27% | 23% |
| Suntrust Home Developers, Inc. (SHDI) | (t) | 24% | 24% | 20% |
| Palm Tree Holdings and Development Corporation (PTHDC) | (t) | 23% | 23% | 19% |
| Jointly Controlled Entities | | | | |
| Travellers | (b) | 46% | 46% | - |
| Golden City Food Industries, Inc. (GCFII) | (u) | 24% | 24% | 24% |

Explanatory notes:

- (a) Became a subsidiary in 2007; AGI's percentage of effective ownership also includes indirect interests through FCI and NTLPI totaling 24% in 2010 and 2009, and 22% in 2008 (see Note 15). Megaworld is presently engaged in the real estate business, hotel operations and marketing services; its shares are publicly listed in the Philippine Stock Exchange (PSE).
- (b) A joint venture through common control with Genting Hong Kong Limited. Travellers is primarily engaged in the business of hotels, restaurants, leisure parks, entertainment centers and other tourism-related businesses (see Note 12.2).
- (c) Wholly owned subsidiaries of AGBI.
- (d) Subsidiary acquired in 2008; holds 25% interest in Travellers in 2010, 2009 and 2008.
- (e) A subsidiary acquired in 2007; AGI directly owns 49% plus effective indirect interest by AGI through Megaworld of 29% in 2010 and 2009, and 24% in 2008.

- (f) Subsidiaries of Megaworld; Percentage ownership represents effective interest of AGI through Megaworld which increased in 2009.
- (g) Formerly wholly owned subsidiary of MREI. Reduced ownership interest of MREI to 60% in 2008 which resulted to 47% indirect interest of the Company as of December 31, 2010 and 2009, and 44% as of December 31, 2008.
- (h) Formerly wholly owned subsidiary of MREI. Reduced ownership interest of MREI to 60% in 2008; it further decreased to 29% in 2010, which resulted to 37%, 47% and 44% indirect interest of the Company in 2010, 2009 and 2008, respectively.
- (i) Wholly owned subsidiaries of FCI.
- (j) Wholly owned subsidiary of FOPMI.
- (k) Wholly owned subsidiaries of MPIL.
- (l) Wholly owned subsidiaries of EDI.
- (m) Subsidiaries of GADC; Percentage ownership represents effective interest of AGI.
- (n) Holding entity that owned 7% of Travellers' stockholdings; sold to a third party in 2009 (see Note 12.2).
- (o) Subsidiary acquired in December 2008.
- (p) A finance subsidiary of the Company incorporated under the laws of the Cayman Islands (see Note 18).
- (q) Wholly owned subsidiaries of Travellers.
- (r) Formerly named Galleria Corsinni Holdings, Inc.; Consolidated with EELHI due to its management's control of the financial and operating policies of SPLI.
- (s) Newly acquired associate of Megaworld in 2009 through 44% ownership interest of RHGI. Acquisition of 5% ownership interest of AG Cayman in 2010 resulted to 30% increase in effective interest of the Company as of December 31, 2010.
- (t) Associates of Megaworld.
- (u) Incorporated joint venture of GADC.
- (v) Has not yet started commercial operations as of December 31, 2010.

Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, AGGCII, AGPL and APEC, the foregoing companies were incorporated in the Philippines and operate within the country. MPIL, EIL, RHGI, Venezia, TGL and APEC were incorporated and operate in the British Virgin Islands; MCII, AG Cayman and AGPL in the Cayman Islands; and GAFI and MAI in the United States of America (USA).

The Company's shares and those of Megaworld, EELHI and SHDI are listed in the Philippine Stock Exchange (PSE).

The Company's registered office and primary place of business is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

The consolidated financial statements for the year ended December 31, 2010 (including comparative for the years ended December 31, 2009 and 2008) were authorized for issue by the Board of Directors (BOD) on March 29, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow:

(b) Presentation of Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in one statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or reclassifies items in the financial statements. In 2010, as there were no retrospective application of accounting policy, retrospective restatement and reclassification in the financial statements, only one comparative period was presented in the consolidated statement of financial position.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Company's functional and presentation currency. Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, AGGCII, AGPL and APEC, whose functional currency is the U.S. dollar, all entities in the Group have Philippine peso as their functional currency (see also Note 2.18).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2010 that are Relevant to the Group

In 2010, the Group adopted the following new revisions, interpretation and annual improvements to existing standards that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after July 1, 2009 or January 1, 2010.

| | | |
|---------------------------------------|---|--|
| PAS 27 (Revised) | : | Consolidated and Separate Financial Statements |
| PFRS 3 (Revised) | : | Business Combinations |
| Philippine Interpretation IFRIC 17 | : | Distribution of Non-cash Assets to Owners |
| Various Standards | : | 2009 Annual Improvements to PFRS |

Discussed below are the effects on the consolidated financial statements of the new and amended standards.

- (i) PAS 27 (Revised), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the consolidated financial statements as there were no transactions with non-controlling interests during the year.
- (ii) PFRS 3 (Revised 2007), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The revised standard has no impact on the consolidated financial statements since there are no business acquisitions for the year ended December 31, 2010.
- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*. IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Group's adoption of this interpretation did not have a material impact on the consolidated financial statements because it did not distribute non-cash assets to stockholders during the year.

(iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not also have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
- PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.
- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) (b) *Effective in 2010 that are not Relevant to the Group*

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's financial statements:

| | | |
|--|---|--|
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement – Eligible Hedged Items |
| PFRS 1 (Amendment) | : | Additional Exemptions for First-time Adopters |
| PFRS 2 (Amendment) | : | Group Cash-settled Share-based Payment Transactions |
| PAS 39 and Philippine Interpretation IFRIC 9 | : | Embedded Derivatives – Amendments to IFRIC 9 and PAS 39 |
| Philippine Interpretation IFRIC 18 | : | Transfers of Assets from Customers |
| Other Amendments to Various Standards | : | 2009 Annual Improvements to PFRS |

(c) *Effective Subsequent to 2010*

There are new PFRS and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Among those pronouncements, management has initially determined the following, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* – (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on the Group's consolidated financial statements because it does not usually make substantial advance contributions to its retirement fund.
- (iii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction in progress, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in the consolidated financial statements.
- (iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
 - the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39;
 - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on the Group's consolidated financial statements as management does not intend to extinguish in the subsequent periods financial liabilities through equity swap.

- (v) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its consolidated financial statements as they only affect disclosures and the Group usually provides adequate information in its consolidated financial statements in compliance with disclosure requirements.
- (vi) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PFRS 9 is the first part of Phase 1 of the project to replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety by the end of 2010. The main phases are (with a separate project dealing with derecognition):

Phase 1: Classification and Measurement
Phase 2: Impairment Methodology
Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Group. However, it does not expect to implement the amendments until 2013 when all chapters of the PAS 39 replacement have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

- (vii) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its consolidated financial statements.

2.3 Consolidated Financial Statements, Investments in Associates, Interest in a Joint Venture and Non-controlling Interests

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the financial statements of the Company, and its subsidiaries as enumerated in Note 1, as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented as deduction in the consolidated statement of changes in equity at cost. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital. The financial statements of subsidiaries are prepared for the same reporting period as the Company's, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries and associates, interest in a joint venture, and transactions with non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see also Note 2.10).

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associates is included in the amount recognized as investment in associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the carrying amount of the Group's investment. Changes resulting from the profit or loss generated by the associate are shown as Share in Net Profits (Losses) of Associates in the Group's consolidated statement of comprehensive income and therefore affect the net results of operations of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of the associate's assets and liabilities.

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale financial assets, are recognized in consolidated other comprehensive income or equity of the Group, as applicable. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeded the accumulated share of losses that has previously not been recognized.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) *Interest in a Joint Venture*

For interest in a jointly controlled operation, the Group recognizes in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustment or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

For interest in a jointly controlled entity, the Group recognizes in its consolidated financial statements its interest using the equity method. Under the equity method, the interest in a jointly controlled entity is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share in the profit or loss of the joint venture after the date of acquisition. Unrealized gains arising from transactions with jointly controlled entity are eliminated to the extent of the Group's interest in joint venture against the related investment. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

(d) *Transactions with Non-controlling Interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities which may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Upon adoption in 2010 of PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*, the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence. It has applied the new policy prospectively as required by the standards beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the Group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Also previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

2.4 Financial Assets

Financial assets include cash and cash equivalents and other financial instruments. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The Group's relevant financial assets are categorized as follows:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held-for-trading or are designated by the entity to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realized within 12 months from the end of the reporting period.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at FVTPL may not be subsequently reclassified.

The Group's financial assets included in this category consist mainly of investments in marketable debt securities and derivative assets (see Note 2.13).

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when money, goods or services are provided directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value due to impairment is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables include Cash and Cash Equivalents, Trade and Other Receivables and Advances to Associates and Other Related Parties. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(c) *AFS Financial Assets*

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in the non-current assets section in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with unrealized changes in fair value recognized as other comprehensive income or loss, net of any effects arising from income taxes. Gains or losses are recognized as profit or loss in the consolidated statement of comprehensive income when they are sold or when the investment is impaired.

In the case of impairment, the cumulative gain or loss previously recognized in other comprehensive income is transferred to profit or loss in the consolidated statement of comprehensive income. If circumstances change, impairment losses on AFS equity instruments are not reversed through the profit or loss. On the other hand, if in a subsequent period the fair value of an AFS financial instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through other comprehensive income.

The Group's AFS financial assets include investments in marketable equity securities where the Group held no significant influence and whose shares are not listed in the stock exchange and investments in marketable debt securities designated by management at initial recognition.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs and Other Charges or Finance and Other Income in the consolidated statement of comprehensive income.

A financial asset is presented net of a financial liability when the Group: (a) currently has a legally enforceable right to set off the recognized amounts; and, (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Noncompounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

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

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method, except for food, paper and promotional items which use the first-in, first-out method. Finished goods and work-in-process include the cost of direct materials and labor and a proportion of manufacturing. The cost of raw materials include all costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

2.6 Real Estate Transactions

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to the Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs incurred during the development of the real estate properties are also capitalized by the Group as part of the Property Development Costs account.

The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the cost of real estate property sold with a corresponding credit to the Reserve for Property Development account.

Property Development Costs and Residential and Condominium Units for Sale under Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale. Considering the Group's pricing policy for real estate units for sale, cost is considerably lower than the net realizable value.

The Group recognizes the effect of revisions in the total project cost estimates in the period in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined.

2.7 Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. Land held for use in production or administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in current operations.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---------------------------------|----------------|
| Buildings and land improvements | 5 to 40 years |
| Condominium units | 10 to 25 years |
| Machinery and equipment | 2 to 12 years |
| Fixtures and other equipment | 3 to 7 years |
| Transportation equipment | 5 years |

Leasehold improvements are amortized over the life of the assets of 5 to 40 years or the term of the lease, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and ready for operational use.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets. The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income in the period the item is derecognized.

2.8 Asset Retirement Obligation

GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also GADC's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, tradenames, patents, and other similar intellectual property rights belonging to McDonald's Corporation (McDonald's) upon the termination or expiration of lease contract. The present value of the restoration cost at the inception of the contract is recognized as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The outstanding asset retirement obligation (ARO) as at the end of the reporting period is presented as part of Other Non-current Liabilities in the consolidated statement of financial position.

2.9 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and carried at cost net of accumulated depreciation and any impairment in value (see Note 2.19). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the period of retirement or disposal.

2.10 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting (previously called "purchase method").

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

Prior to January 1, 2010, certain items are treated as follows as opposed to how they are now treated (see Note 2.2) based on the changes in accounting policy of the Group as a result of the adoption of the revised PFRS 3 and PAS 27:

- (a) Transaction costs directly attributable to business acquisition formed part of the acquisition costs. These costs are now required to be expensed.
- (b) The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets. There is now an option to measure this at fair value.
- (c) Business combinations achieved in stages were accounted for as separate steps or acquisitions. Any additional shares acquired of interest did not affect previously recognized goodwill. Currently, business combination achieved in stages requires the acquirer to measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.
- (d) Contingent consideration was recognized if, and only if, payment was probable; i.e. the Group had a present obligation, the economic outflow was more likely than not, and a reliable estimate is determinable. Subsequent adjustment to the contingent consideration was recognized as an adjustment to goodwill. Changes in the fair value of contingent consideration as a result of additional information that existed after the acquisition date are now accounted for as follows:
 - (i) Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.
 - (ii) Contingent consideration classified as an asset or liability that:
 - is a financial instrument and is within the scope of PFRS 9 or PAS 39 is measured at fair value, with any resulting gain or loss recognized either in profit or loss or in other comprehensive income in accordance with PFRS 9 or PAS 29, as applicable.
 - Is not within the scope of PFRS 9 or PAS 39 is accounted for in accordance with PAS 37 or other PFRS, as appropriate.

2.11 2.11 Trademarks

Trademarks acquired and used in the production are accounted for under the cost model. These are included under Intangible Assets account in the consolidated statement of financial position. The cost of the trademarks is the amount of cash paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful life of 10 years. In addition, trademarks are subject to impairment testing as described in Note 2.19.

2.12 Leasehold Rights

Leasehold rights, which are included under Intangible Assets account in the consolidated statement of financial position, are stated at cost, which includes the purchase price and other direct costs, less accumulated amortization and any impairment in value. Leasehold rights are amortized on a straight-line basis over the term of the lease.

When leasehold rights are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

2.13 Financial Liabilities

The categories of financial liabilities relevant to the Group are more fully described below.

(a) Financial Liabilities at FVTPL

Financial liabilities are classified in this category if they are held for trading or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group occasionally uses derivative financial instruments, such as foreign exchange forward contracts, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

(b) Financial Liabilities at Amortized Costs

This category pertains to financial liabilities that are not held-for-trading or not designated as FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities, which include interest-bearing loans and borrowings, bonds payable, trade and other payables, advances from related parties, redeemable preferred shares and other liabilities, are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as expense in the consolidated statement of comprehensive income under the caption Finance Costs and Other Charges.

Interest-bearing loans and borrowings and bonds payable are raised for support of long-term funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, advances from related parties and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Obligations under finance lease (included as part of Other Liabilities account) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Note 2.17).

Redeemable preferred shares, which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as liability in the consolidated statement of financial position; the liability is subsequently measured at amortized cost. The corresponding accretion of the liability and the dividends paid on those shares are charged as part of Interest Expense under Finance Costs and Other Charges in the consolidated statement of comprehensive income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the BOD.

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

2.14 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.15 Revenue and Expense Recognition

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

- (a) *Sale of residential and condominium units* – For financial reporting purposes, revenues from transactions covering sales of residential and condominium units are recognized under the percentage-of-completion method. Under this method, realization of gross profit is recognized by reference to the stage of development of the properties, i.e., revenue is recognized in the period in which the work is performed. The unrealized gross profit on a period's sales is presented as Deferred Gross Profit on Real Estate Sales in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the reporting period is shown as Deferred Income on Real Estate Sales (current and non-current liabilities) in the consolidated statement of financial position.

The sale is recognized when a certain percentage of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

For tax reporting purposes, a modified basis of computing the taxable income for the period based on collections from sales is used by certain subsidiaries.

Any adjustments relative to sales are recorded in the current period as they occur.

- (b) *Sale of undeveloped land* – Revenues on sale of undeveloped land are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership on the undeveloped land have passed to the buyer and the amount of revenue can be measured reliably.
- (c) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- (d) *Franchise fees* – Revenue from franchised restaurants (including the restaurant operated by a joint venture) includes continuing rental, royalty and management fees as well as initial fees. Continuing fees are recognized in the period earned. Initial fees are recognized upon opening of a restaurant when the subsidiary has substantially performed all services required by the franchise agreement.
- (e) *Rental and hotel income* – Revenue is recognized when the performance of mutually agreed tasks has been performed. Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the lease terms.

Advance rentals and refundable rental deposits are recorded as deferred rental income, measured at amortized cost using the effective interest rate method.

- (f) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

- (g) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

Costs and expenses are recognized in profit or loss upon utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.16).

Costs of residential and condominium units sold before completion of the projects include the acquisition cost of the land, development costs incurred to date and estimated costs to complete the project, determined based on estimates made by the project engineers (see Note 2.6).

2.16 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

2.17 Leases

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

- (a) *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

2.18

2.18 *Functional Currency and Foreign Currency Transactions*

(a) *Functional and Presentation Currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency.

(b) *Transactions and Balances*

Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

(c) *Translation of Financial Statements of Foreign Subsidiaries and an Associate*

The operating results and financial position of MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, AG Cayman, AGPL and APEC which are measured using the U.S. dollars, their functional currency, are translated to Philippine pesos, the Company's functional currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
- (ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized in other comprehensive income and in a separate component of equity under Accumulated Translation Adjustments.

When a foreign operation is sold, such exchange differences are recognized in consolidated profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.19 Impairment of Non-financial Assets

The Group's investments in associates and interest in joint ventures, property, plant and equipment, investment property, land for future development and intangible assets are subject to impairment testing. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs-to-sell, and value-in-use, based on an internal evaluation of discounted cash flow. Impairment losses recognized for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist.

2.20 Employee Benefits

(a) Post-employment Defined Benefit Plan

Retirement benefit cost is actuarially determined using the projected unit credit method as computed by actuaries covering all regular full-time employees of each of the respective entities within the Group as applicable.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with an entity, even if plan assets for funding the defined benefit plan have been acquired.

The liability recognized in the consolidated statement of financial position for defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately.

Past service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) Post-employment Defined Contribution Plan

The Group also contributes to a defined contribution plan. Under a defined contribution plan, an entity has no legal or constructive obligation to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting period are discounted to present value.

(d) Share-based Payment Transactions

Certain employees of GADC received remuneration in the form of stock options on the shares of McDonald's. The cost of the stock options was measured by reference to the fair value of the stock options, which was the compensation charged by McDonald's for participating in the plan on the date of grant.

The cost of the stock options is recognized as employee benefits in profit or loss, with a corresponding increase in liability, over a period beginning on the date of grant and ending on the date on which the qualified employees become fully entitled to the award (vesting date). The cumulative expense recognized for the stock options at each reporting date until the vesting date reflects the extent to which the vesting period has expired, without regard to the number of awards that will ultimately vest.

2.21 Income Taxes

Tax expense comprises the sum of deferred tax and current tax recognized in profit or loss plus deferred tax recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.22 Related Party Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance or reissuance of capital stock. Any transaction costs associated with such issuances of shares are deducted from APIC, net of any related income tax benefits. This account also includes gain on sale of the Company's shares held by subsidiaries, which are treated as treasury shares in the consolidated financial statements (see Note 2.3).

Treasury shares are the Company's own stock reacquired by the Company or its subsidiaries but not cancelled and are carried at cost.

Revaluation reserves comprise of fair value gains or losses recognized on AFS financial assets and share in other comprehensive income of associates and joint ventures attributable to the Group.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency denominated financial statements of certain subsidiaries into the Group's presentation currency (see Note 2.18).

Dilution gain or loss arises when an investor exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the investee's offer price at the time the rights are exercised. This also includes the Company's share in previous period's profit (loss) as a result of the current increase (decrease) in equity ownership over its subsidiaries.

Retained earnings include all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income.

2.24 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.25 Segment Reporting

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) *Impairment of AFS Financial Assets*

The Group follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flows.

(b) *Distinction Between Investment Property and Owner-occupied Property*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied property generates cash flows that are attributable not only to property but also to other assets used in the production or supply process.

(c) *Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment is exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) *Impairment of Trade and Other Receivables*

The Group maintains an allowance for impairment of receivables at a level considered adequate, where objective evidence of impairment exists. 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 Group's relationship with the customer, the customer's payment behavior and known market factors. The Group identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables, and establishes a provision considering, among others, historical collection and write-off experience.

The carrying value of trade and other receivables and an analysis of allowance for impairment on such receivables are presented in Note 6.

(b) *Determining the Net Realizable Values of Inventories and Real Estate Properties*

In determining the net realizable values of inventories and real estate properties, management takes into account the most reliable evidence available at the times the estimates are made. Net realizable value of real estate properties is one of the key variables used in analyzing property development costs, investment property and land for future development for possible impairment. The Group's core business is subject to changes in market factors that directly affect the demand for inventories and real estate properties such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of inventories and real estate properties is affected by price changes in the costs incurred necessary to make a sale. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial year.

The amounts of allowance for inventory obsolescence made by management are based on a number of factors, which include, among others, age and status of inventories and the Group's past experience.

The net realizable value of inventories and an analysis of allowance for obsolescence on such inventories are presented in Note 8.

(c) *Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets*

The Group estimates the useful lives of property, plant and equipment, investment property and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets 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. The carrying amounts of property, plant equipment, investment property and intangible assets are analyzed in Notes 13, 14 and 15, respectively. Actual results, however, may vary due to changes in factors mentioned above. Based on management assessment, no change in the estimated useful lives of the assets is necessary as of December 31, 2010 and 2009.

(d) *Valuation of Investment Property*

Investment Property is measured using the cost model. The fair value disclosed in Note 14 is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as, the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(e) *Recognition of Asset Retirement Obligation*

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which the Group is liable. The estimated cost was initially based on a recent cost to dismantle facilities. This was adjusted to consider estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with maturity similar to the term of the lease.

ARO amounted to P20.8 million and P18.1 million as of December 31, 2010 and 2009, respectively (see Note 20).

(f) *Revenue Recognition Using the Percentage-of-Completion Method*

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed to date as a proportion of the total budgeted cost of the project.

(g) *Determining Reserve for Property Development Costs*

In determining the reserve for property development costs, the Group takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of property development costs is affected by price changes in the different market segments as well as the trends in the real estate industry.

(b) *Classification of Preferred Shares as Liability*

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument.

(i) *Valuation of Financial Assets Other than Trade and Other Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and other comprehensive income. The carrying amounts of financial assets at FVTPL and AFS financial assets are disclosed in Notes 7 and 11, respectively.

(j) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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 asset to be utilized. An analysis of the carrying amount of deferred tax assets, which management assessed to be fully utilizable in the coming years, is presented in Note 27.1.

(k) *Impairment of Non-financial Assets*

Except for goodwill and intangible assets with indefinite useful lives which are reviewed annually for impairment, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on Property, Plant and Equipment and Intangible Assets are discussed in Notes 13 and 15, respectively.

(l) *Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. The assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The net movement in the estimated present value of the retirement benefit obligation is presented in Note 26.2.

4. SEGMENT INFORMATION

4.1 *Business Segments*

The Group is organized into three major business segments, namely food and beverage, real estate, and quick service restaurant. Entities not classified under the three main business segments are retained as part of corporate and investments. Presented below is the basis of the Group in reporting its primary segment information.

- (a) The *Food and Beverage* segment includes the manufacture and distribution of distilled spirits, glass containers and potato snacks products.
- (b) The *Real Estate* segment is engaged in the development of real estate, leasing of properties, hotel operations and tourism-oriented businesses.
- (c) The *Quick Service Restaurant* includes operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement with McDonald's Corporation, USA.

4.2 *Segment Assets and Liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment, intangible assets and investment property. Segment liabilities include all operating liabilities and consist principally of trade and other payables, interest-bearing loans and borrowings, customers' deposits and bonds payable.

4.3 *Intersegment Transactions*

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

The following tables present revenue and profit information regarding business segments for the years ended December 31, 2010, 2009 and 2008 and certain asset and liability information regarding segments as at December 31, 2010, 2009 and 2008 (amounts in millions).

2010

| | Quick Service Resaurant | Food and Beverage | Real Estate | Corporate and Others | Eliminations | Consolidated |
|---|----------------------------|----------------------|------------------|-------------------------|----------------|------------------|
| TOTAL REVENUES | | | | | | |
| Sales to external customers | P 10,593 | P 8,767 | P 18,456 | P - | P - | P 37,816 |
| Intersegment sales | - | 571 | 2 | 8 | (581) | - |
| Finance and other income | | | | | | |
| Interest income | 62 | 142 | 835 | 1,036 | - | 2,093 |
| Foreign currency gains (losses) | 38 | 316 | 4 | 1,314 | - | 1,672 |
| Other income | 367 | - | 823 | 29 | - | 1,219 |
| Share in net profits of associates and joint venture | 2 | - | 1,732 | - | - | 1,734 |
| Total revenues | <u>P 11,062</u> | <u>P 9,796</u> | <u>P 20,579</u> | <u>P 3,678</u> | <u>(P 581)</u> | <u>P 44,534</u> |
| RESULTS | | | | | | |
| Segment results | <u>P 1,263</u> | <u>P 2,166</u> | <u>P 7,149</u> | <u>P 3,633</u> | <u>P -</u> | <u>P 14,211</u> |
| Finance costs and other charges | | | | | | |
| Finance costs | (126) | - | (517) | (699) | - | (1,342) |
| Fair value gains (losses) | - | 31 | - | (776) | - | (745) |
| Other charges | - | - | (28) | (14) | - | (42) |
| Profit before tax | 1,137 | 2,197 | 6,604 | 2,144 | - | 12,082 |
| Tax expense | (378) | (556) | (1,613) | (38) | - | (2,585) |
| Net profit | <u>P 759</u> | <u>P 1,641</u> | <u>P 4,991</u> | <u>P 2,106</u> | <u>P -</u> | <u>P 9,497</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | | | |
| Total assets | <u>P 8,001</u> | <u>P 6,561</u> | <u>P 109,056</u> | <u>P 40,623</u> | <u>P -</u> | <u>P 164,241</u> |
| Total liabilities | <u>P 4,173</u> | <u>P 2,005</u> | <u>P 38,425</u> | <u>P 27,925</u> | <u>P -</u> | <u>P 72,527</u> |
| OTHER SEGMENT INFORMATION | | | | | | |
| Capital expenditures | P 833 | P 315 | P 1,058 | P - | P - | P 2,206 |
| Depreciation and amortization | 443 | 214 | 448 | 2 | - | 1,107 |

2009

| | <u>Quick Service Resaurant</u> | <u>Food and Beverage</u> | <u>Real Estate</u> | <u>Corporate and Others</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|------------------------------------|------------------------------|------------------------|---------------------------------|---------------------|---------------------|
| TOTAL REVENUES | | | | | | |
| Sales to external customers | P 9,542 | 6,264 | P 16,900 | P - | P - | P 32,706 |
| Intersegment sales | - | 387 | 4 | 8 | (399) | - |
| Finance and other income | | | | | | |
| Fair value gains (losses) | - | 435 | - | 1,828 | - | 2,263 |
| Interest income | 46 | 29 | 698 | 1,123 | - | 1,896 |
| Other income | 105 | - | 118 | 1,595 | - | 1,818 |
| Share in net profits of associates and joint venture | <u>1</u> | <u>-</u> | <u>159</u> | <u>-</u> | <u>-</u> | <u>160</u> |
| Total revenues | <u>P 9,694</u> | <u>P 7,115</u> | <u>P 17,879</u> | <u>P 4,554</u> | <u>(P 399)</u> | <u>P 38,843</u> |
| RESULTS | | | | | | |
| Segment results | <u>P 833</u> | <u>P 1,364</u> | <u>P 6,067</u> | <u>P 4,469</u> | <u>P -</u> | <u>P 12,733</u> |
| Finance costs and other charges | | | | | | |
| Foreign currency gains (losses) | 20 | (511) | (8) | (2,690) | - | (3,189) |
| Finance costs | (105) | - | (556) | (54) | - | (715) |
| Other charges | <u>-</u> | <u>-</u> | <u>(23)</u> | <u>(14)</u> | <u>-</u> | <u>(37)</u> |
| Profit before tax | 748 | 853 | 5,480 | 1,711 | - | 8,792 |
| Tax expense | <u>(234)</u> | <u>(261)</u> | <u>(1,441)</u> | <u>(48)</u> | <u>-</u> | <u>(1,984)</u> |
| Net profit | <u>P 514</u> | <u>P 592</u> | <u>P 4,039</u> | <u>P 1,663</u> | <u>P -</u> | <u>P 6,808</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | | | |
| Total assets | <u>P 7,218</u> | <u>P 7,307</u> | <u>P 107,157</u> | <u>P 6,655</u> | <u>P -</u> | <u>P 128,337</u> |
| Total liabilities | <u>P 3,696</u> | <u>P 1,288</u> | <u>P 35,763</u> | <u>P 5,489</u> | <u>P -</u> | <u>P 46,236</u> |
| OTHER SEGMENT INFORMATION | | | | | | |
| Capital expenditures | P 399 | P 75 | P 2,308 | P - | P - | P 2,782 |
| Depreciation and amortization | 403 | 323 | 377 | 3 | - | 1,106 |

2008

| | <u>Quick Service Resaurant</u> | <u>Food and Beverage</u> | <u>Real Estate</u> | <u>Corporate and Others</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|------------------------------------|------------------------------|------------------------|---------------------------------|---------------------|---------------------|
| TOTAL REVENUES | | | | | | |
| Sales to external customers | P 8,424 | P 5,760 | P 15,434 | P 535 | P - | P 30,153 |
| Intersegment sales | - | 375 | 5 | 8 | (388) | - |
| Finance and other income | | | | | | |
| Gain on sale of investments | - | - | 300 | 2,510 | - | 2,810 |
| Interest income | 33 | 72 | 1,791 | 649 | - | 2,545 |
| Other income | 132 | 1 | 352 | 14 | - | 499 |
| Share in net profits of associates and joint venture | <u>2</u> | <u>-</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>102</u> |
| Total revenues | <u>P 8,591</u> | <u>P 6,208</u> | <u>P 17,982</u> | <u>P 3,716</u> | <u>(P 388)</u> | <u>P 36,497</u> |
| RESULTS | | | | | | |
| Segment results | <u>P 547</u> | <u>P 1,218</u> | <u>P 5,646</u> | <u>P 3,222</u> | <u>P -</u> | <u>P 10,633</u> |
| Finance costs and other charges | | | | | | |
| Fair value gains (losses) | - | (497) | (4) | (903) | - | (1,404) |
| Finance costs | (120) | - | (767) | (25) | - | (912) |
| Foreign currency gains (losses) | (92) | (10) | (177) | 97 | - | (182) |
| Other charges | <u>(7)</u> | <u>-</u> | <u>(63)</u> | <u>(353)</u> | <u>-</u> | <u>(423)</u> |
| Profit before tax | 328 | 711 | 4,635 | 2,038 | - | 7,712 |
| Tax expense | <u>(163)</u> | <u>(256)</u> | <u>(1,054)</u> | <u>(134)</u> | <u>-</u> | <u>(1,607)</u> |
| Net profit | <u>P 165</u> | <u>P 455</u> | <u>P 3,581</u> | <u>P 1,904</u> | <u>P -</u> | <u>P 6,105</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | | | |
| Total assets | <u>P 6,627</u> | <u>P 6,756</u> | <u>P 94,244</u> | <u>P 4,464</u> | <u>P -</u> | <u>P 112,091</u> |
| Total liabilities | <u>P 3,477</u> | <u>P 269</u> | <u>P 24,995</u> | <u>P 6,068</u> | <u>P -</u> | <u>P 34,809</u> |
| OTHER SEGMENT INFORMATION | | | | | | |
| Capital expenditures | P 793 | P 117 | P 10,188 | P 10 | P - | P 11,108 |
| Depreciation and amortization | 379 | 302 | 247 | 2 | - | 930 |

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

| | <u>2010</u> | <u>2009</u> |
|---------------------------|--------------------------------|-------------------------|
| Cash on hand and in banks | P 10,152,310,851 | P 7,764,292,576 |
| Short-term placements | <u>37,112,176,336</u> | <u>23,381,036,464</u> |
| | <u>P 47,264,487,187</u> | <u>P 31,145,329,040</u> |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 90 days at prevailing market rates.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|-------------------------------|--------------------------------|
| Current: | | | |
| Trade receivables | 28.2 | P15,573,254,522 | P 11,720,327,230 |
| Advances to contractors and suppliers | | 783,257,562 | 606,142,172 |
| Due from employees and related parties | 28.4 | 599,189,589 | 905,573,601 |
| Accrued interest receivable | | 280,615,568 | 65,662,710 |
| Others | 24 | 389,624,716 | 1,881,058,864 |
| | | 17,625,941,957 | 15,178,764,577 |
| Allowance for impairment | | (92,680,160) | (89,826,807) |
| | | <u>P17,533,261,797</u> | <u>P 15,088,937,770</u> |
| Non-current: | | | |
| Trade | | P 15,631,550,547 | P 13,537,274,512 |
| Others | | 55,756,747 | 1,026,423 |
| | | <u>P15,687,307,294</u> | <u>P 13,538,300,935</u> |

A reconciliation of the allowance for impairment at beginning and end of the reporting periods is shown below.

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|----------------------------|----------------------------|
| Balance at beginning of period | | P 89,826,807 | P 95,462,080 |
| Impairment losses during the period | 23 | 9,135,462 | 2,055,436 |
| Reversals due to recovery and collection of accounts | 24 | (6,282,109) | (6,753,327) |
| Write-off of trade receivables previously provided with allowance | | - | (937,382) |
| Balance at end of period | | <u>P 92,680,160</u> | <u>P 89,826,807</u> |

The installment period of real estate sales contracts ranges from one to five years. The title to the real estate properties remains with the Group until the receivables are fully collected. These trade receivables are noninterest-bearing and are carried at amortized cost using the effective interest rate of 10%. Interest income from amortization amounted to P933.4 million, P714.2 million and P612.3 million for the years ended December 31, 2010, 2009 and 2008 and are presented as Interest Income on Real Estate Sales account in the consolidated statements of comprehensive income.

Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. Impairment losses are presented as part of Other Operating Expenses - Others (see Note 23). Reversals of previously impaired receivables but subsequently recovered and collected in the reporting period shown are as part of Miscellaneous under Finance and Other Income (see Note 24).

In 2009, MPIL sold its entire interest in PTL amounting to U.S.\$50.0 million (approximately P2.3 billion) (see Note 24). The uncollected amount relating to this sale amounting to P1.4 billion as of December 31, 2009 is shown as part of Others under the Trade and Other Receivables in the current assets section above. This amount was collected in full in 2010.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following:

| | <u>2010</u> | <u>2009</u> |
|--|--------------------------------|-------------------------------|
| Investments in marketable debt securities | P 13,676,059,689 | P 1,468,089,528 |
| Derivative assets | <u>29,532,493</u> | <u>670,581,604</u> |
| | <u>P 13,705,592,182</u> | <u>P 2,138,671,132</u> |

Investments in marketable debt securities are measured at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2010 and 2009. The net changes in fair values of these financial assets are presented as part of Fair Value Gains – Net under Finance and Other Income or Fair Value Losses – Net under Finance Costs and Other Charges in the consolidated statements of comprehensive income (see Notes 24 and 25).

A portion of the investments in marketable debt securities placed with certain banks are covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.\$40.3 million (P1.9 billion) as of December 31, 2010 and nil as of December 31, 2009.

The Derivative Assets represent foreign currency forward option contract with certain banks maturing with certain currencies against the U.S. dollar in 2010 and 2009. As of December 31, 2010 and December 31, 2009, the option has a positive value of U.S.\$0.8 million (P29.5 million) and U.S.\$14.5 million (P670.6 million), respectively, with changes in foreign currency value charged against profit or loss and are recorded as part of Fair Value Losses – Net under Finance Costs and Other Charges, and Fair Value Gains – Net under Finance and Other Income, respectively (see Notes 24 and 25).

8. INVENTORIES

The details of inventories are shown below.

| | <u>2010</u> | <u>2009</u> |
|---|-------------------------------|------------------------|
| At cost: | | |
| Residential and condominium units for sale | P 6,302,312,329 | P 5,735,690,005 |
| Finished goods | 740,777,249 | 1,131,690,348 |
| Work-in-process | 8,659,375 | 5,514,118 |
| Raw materials | <u>343,016,444</u> | <u>615,823,332</u> |
| | 7,394,765,397 | 7,488,717,803 |
| At net realizable value – Supplies and other consumables | <u>729,682,860</u> | <u>301,633,515</u> |
| | <u>P 8,124,448,257</u> | <u>P 7,790,351,318</u> |

The carrying amounts of supplies and other consumables are net of allowance for inventory write-down of P26.4 million and P38.1 million as of December 31, 2010 and 2009. A reconciliation of the allowance for inventory writedown at the beginning and end of the reporting periods is shown below.

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|--------------------------------------|--------------|----------------------------|---------------------|
| Balance at beginning of year | | P 38,063,600 | P 50,417,968 |
| Reversal of write-down | 24 | (14,088,537) | (22,601,674) |
| Additional losses during the year | 23 | <u>2,378,466</u> | <u>10,247,306</u> |
| Balance at end of year | | <u>P 26,353,529</u> | <u>P 38,063,600</u> |

The additional losses on inventories of P2.4 million and P10.2 million for the years ended December 31, 2010 and 2009, respectively, were recognized to reduce the inventories of paper and promotional items, restaurant equipment and construction materials (shown under Supplies and Other Consumables) to their net realizable value. Also, the reversals of inventory write-down amounting to P14.1 million and P22.6 million for the years ended December 31, 2010 and 2009, respectively, were recognized from disposal to third parties of previously written down items. The additional losses are shown as part of Others under Other Operating Expenses (see Note 23) while the reversals are shown as part of Miscellaneous under Finance and Other Income in the consolidated statements of comprehensive income (see Note 24).

9. OTHER ASSETS

The details of this account are shown below.

| | <u>2010</u> | <u>2009</u> |
|----------------------------|-----------------------------|----------------------|
| Current: | | |
| Prepayments | P 535,782,680 | P 446,803,850 |
| Creditable withholding tax | 205,636,876 | 195,798,817 |
| Input VAT | 155,017,682 | 237,860,048 |
| Others | <u>90,224,088</u> | <u>50,452,626</u> |
| | <u>P 986,661,326</u> | <u>P 930,915,341</u> |

| | <u>2010</u> | <u>2009</u> |
|---------------------------|-----------------------------|----------------------|
| Non-current: | | |
| Refundable deposits – net | P 410,249,962 | P 319,570,050 |
| Deferred input VAT – net | 136,897,693 | 95,556,043 |
| Claims for tax refund | 112,282,175 | 112,282,175 |
| Prepaid rent | 26,038,753 | 64,564,663 |
| Others | <u>127,996,592</u> | <u>219,300,021</u> |
| | <u>P 813,465,175</u> | <u>P 811,272,952</u> |

10. ADVANCES TO LANDOWNERS AND JOINT VENTURES

Megaworld enters into numerous joint venture agreements for the joint development of various projects. The joint venture agreements stipulate that Megaworld's joint venturer shall contribute parcels of land and Megaworld shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium to be constructed on the properties. Costs incurred for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6).

Megaworld also grants non-interest bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, in addition to providing specified portion of total project development costs, Megaworld also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants. Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the owner's share in saleable lots or in the form of cash to be derived from the sales of the landowner's share in the saleable lots and residential and condominium units.

The total amount of advances made by Megaworld, less repayments, is presented as part of the Advances to Landowners and Joint Ventures account in the consolidated statements of financial position.

The net commitment for cash advances under the joint venture agreements amount to:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|--------------------------------|-----------------------|
| Total commitment for cash advances | P 1,500,000,000 | P 958,720,120 |
| Total cash advances granted | <u>(1,500,000,000)</u> | <u>(958,720,120)</u> |
| Net commitment | <u>P -</u> | <u>P -</u> |

On the other hand, the net commitment for construction expenditures amounts to:

| | <u>2010</u> | <u>2009</u> |
|--|--------------------------------|-------------------------|
| Total commitment for construction expenditures | P 7,911,278,595 | P 6,999,089,356 |
| Total expenditures incurred | <u>(5,505,759,467)</u> | <u>(4,014,820,948)</u> |
| Net commitment | <u>P 2,405,519,128</u> | <u>P 2,984,268,408</u> |

Megaworld's interests on jointly-controlled operations and projects range from 72% to 95% in both 2010 and 2009. The list of Megaworld's jointly controlled projects are as follows:

- McKinley Hills
- Newport City
- Manhattan Parkway Residences
- Greenbelt Excelsior
- Forbeswood Heights
- Forbeswood Parklane 1 & 2

As of December 31, 2010 and 2009, Megaworld has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|-------------------------------|-----------------------------|
| Investment in debt instruments | P 933,563,138 | P 148,299,890 |
| Investment in equity instruments | <u>675,467,827</u> | <u>818,456,952</u> |
| | <u>P 1,609,030,965</u> | <u>P 966,756,842</u> |

The fair values of AFS financial assets have been directly determined by reference to published prices in an active market. The changes in the fair value arising from the investments in AFS financial assets are reported as Net Unrealized Fair Value Gains (Losses) on AFS financial Assets under Other Comprehensive Income in the consolidated statements of comprehensive income which amounted to P253.3 million gain in 2010, P1.8 billion gain in 2009 and P2.2 billion loss in 2008.

12. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND OTHER RELATED PARTIES

12.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties and interest in a joint venture, which are carried at equity, are as follows:

| | <u>2010</u> | <u>2009</u> |
|---|-------------------------|-------------------------|
| Investments of Megaworld in associates - | | |
| Acquisition costs: | | |
| EELHI | P 5,726,128,415 | P 5,726,128,415 |
| AGPL | 2,463,056,417 | 1,583,687,182 |
| SHDI | 875,445,000 | 875,445,000 |
| GPMAI | 98,806,194 | - |
| PTHDC | <u>64,665,000</u> | <u>64,665,000</u> |
| | <u>9,228,101,026</u> | <u>8,249,925,597</u> |
| Accumulated share in net profits: | | |
| Balance at beginning of year | 1,395,263,541 | 1,237,848,368 |
| Share in net profits | <u>120,216,625</u> | <u>157,415,173</u> |
| Balance at end of year | <u>1,515,480,166</u> | <u>1,395,263,541</u> |
| Share in other comprehensive income | <u>70,676,649</u> | <u>-</u> |
| | <u>10,814,257,841</u> | <u>9,645,189,138</u> |
| Investment of AG Cayman in AGPL | | |
| Acquisition cost | 285,460,560 | - |
| Share in net profits for the period | <u>2,384,559</u> | <u>-</u> |
| | <u>287,845,119</u> | <u>-</u> |
| Investment of FCI in SPLI | | |
| Acquisition cost | <u>200,000,000</u> | <u>200,000,000</u> |
| Accumulated share in net losses: | | |
| Balance at beginning of year | (2,141,285) | (1,507,216) |
| Share in net losses | <u>(570,662)</u> | <u>(634,069)</u> |
| Balance at end of year | <u>(2,711,947)</u> | <u>(2,141,285)</u> |
| | <u>197,288,053</u> | <u>197,858,715</u> |
| Investment in Travellers, a joint venture | | |
| Acquisition cost | 11,889,855,913 | 11,889,855,913 |
| Redemption | <u>(2,580,000,000)</u> | <u>-</u> |
| | <u>9,309,855,913</u> | <u>11,889,855,913</u> |
| Accumulated share in net profits: | | |
| Balance at beginning of year | 2,715,201 | - |
| Share in net profits | 1,610,323,409 | 2,715,201 |
| Dividends received | <u>(453,680,000)</u> | <u>-</u> |
| Balance at end of year | <u>1,159,358,610</u> | <u>2,715,201</u> |
| Share in other comprehensive income | <u>2,500,000</u> | <u>-</u> |
| | <u>10,471,714,523</u> | <u>11,892,571,114</u> |
| <i>Balance carried forward</i> | P 21,771,105,536 | P 21,735,618,967 |

| | <u>2010</u> | <u>2009</u> |
|---|--------------------------------|--------------------------------|
| <i>Balance brought forward</i> | <u>P 21,771,105,536</u> | <u>P 21,735,618,967</u> |
| Investment of GADC in GCFII, a joint venture – acquisition cost | <u>10,000,000</u> | <u>10,000,000</u> |
| Accumulated share in net profits: | | |
| Balance at beginning of year | 4,096,910 | 7,868,861 |
| Share in net profits | 1,639,667 | 1,228,049 |
| Dividends received | <u>-</u> | (5,000,000) |
| Balance at end of year | <u>5,736,577</u> | <u>4,096,910</u> |
| | <u>15,736,577</u> | <u>14,096,910</u> |
| Advances to associates and other related parties (see Note 28.5) | <u>2,035,044,263</u> | <u>1,999,207,926</u> |
| | <u>P23,821,886,376</u> | <u>P 23,748,923,803</u> |

The total share in net profits of P1.7 billion, P160.7 million and P101.8 million for the years ended December 31, 2010, 2009 and 2008, respectively, is shown as Share in Net Profits of Associates and Joint Ventures in the consolidated statements of comprehensive income.

In 2010, the Company also recognized its share in other comprehensive income of certain associates and joint venture amounting to P73.2 million.

The total accumulated Share in Net Profits of P2.7 billion and P1.4 billion as of December 31, 2010 and 2009, respectively, which forms part of the Group's Retained Earnings, is not available for dividend declaration.

12.2 Investment in Travellers

In early part of 2008, the Company and Genting Hongkong Limited (GHL) (formerly Star Cruises Limited) agreed to pursue a strategic working arrangement through Travellers, with the objective of collaborating in the joint development of a portion of two large-scale tourism projects in Metro Manila. Travellers was issued a provisional license by the Philippine Amusement and Gaming Corporation (PAGCOR) authorizing it to participate in the development of a portion of the Newport City Project (Site B) and the Bagong Nayong Pilipino Entertainment City Manila Project (Site A), which is part of a larger scale integrated tourism project envisioned by PAGCOR.

As of December 31, 2008, the Company held 52.2% direct and indirect ownership interest in Travellers. In 2009, Travellers became an associate following the reduction of the Company's effective ownership interest to 46% mainly due to the sale by MPIL of its entire interest in PTL, which in turn held ownership interest in Travellers (see Note 24).

In August 2010, Travellers amended its Articles of Incorporation to convert 9.9 billion or 99% of its common shares to redeemable, voting and participating preferred shares at the same P1 par value per share. This was approved by the Securities and Exchange Commission on October 14, 2010. Consequently, the investment of the Group in Travellers was converted to 60 million common shares and 5.9 billion preferred shares. As this was just a conversion of shares and did not change the Group's 46% effective ownership on Travellers, no gain or loss from the transaction was recorded in the Company's books. In November 2010, Travellers redeemed 2.6 billion preferred shares held by the Group at par value. As of December 31, 2010, the preferred shares redeemed by Travellers were fully paid.

12.3 Investment in AGPL

In February 2009, RHGI acquired 44.34% ownership in AGPL. In October 2010, AGPL issued additional shares of stocks to which RHGI subscribed to less than its proportionate share, and this resulted in the decrease in RHGI's ownership interest to 39.44%.

In November 2010, AG Cayman, a wholly owned subsidiary of the Company, subscribed to 6.5 million shares at a cost of P285.5 million representing 4.90% ownership in AGPL. This brings the effective ownership of the Group in AGPL to 30.0%.

AGPL is considered as an associate due to Megaworld's significant influence, but not control, on AGPL.

12.4 Investment in EELHI and SHDI

The acquisition cost of EELHI includes nominal goodwill of P466.1 million related to additional investments made by Megaworld in 2007.

EELHI and SHDI are listed in the PSE. The total quoted or market value of investment in these associates amounted to P3.3 billion and P2.7 billion as of December 31, 2010 and 2009, respectively. The related book values of the investments in 2010 and 2009 were substantially in excess of cost and market values, hence, no impairment losses were deemed necessary.

In October 2010, EELHI gained control over GPMAI from TDI following EELHI's additional subscription to 27.0 million new shares of GPMAI. Accordingly, GPMAI was deconsolidated and treated as an associate in the 2010 consolidated financial statements. The deconsolidation resulted in the reversal of P404.0 million revaluation reserves as shown in the 2010 statement of comprehensive income and reduction of treasury shares amounting to P840.9 million representing the shares held by GPMAI.

12.5 Summarized Financial Information

The aggregated amounts of assets, liabilities, revenues and net profit (loss) of the associates and jointly controlled entities are as follows as of December 31, 2010 and December 31, 2009 (in thousands):

| | <u>Assets</u> | <u>Liabilities</u> | <u>Revenues</u> | <u>Net Profit (Loss)</u> |
|--------------|----------------------------|----------------------------|----------------------------|------------------------------|
| 2010: | | | | |
| Travellers | P 40,779,935 | P 26,822,878 | P 14,876,965 | P 3,220,647 |
| EELHI | 27,824,625 | 8,280,011 | 2,252,537 | 250,266 |
| AGPL | 6,352,873 | 7,847 | 205,631 | 95,519 |
| PTHDC | 1,137,581 | 1,005,298 | 64 | (178) |
| GPMAI | 748,620 | 157,144 | 252,108 | 165,840 |
| SHDI | 574,745 | 463,771 | 8,263 | 4,731 |
| SPLI | 536,673 | 45,513 | 1 | (1,886) |
| GCFII | 39,874 | 8,457 | 70,363 | 3,279 |
| | <u>P 77,994,926</u> | <u>P 36,790,919</u> | <u>P 17,665,932</u> | <u>P 3,738,218</u> |

| | <u>Assets</u> | <u>Liabilities</u> | <u>Revenues</u> | <u>Net Profit (Loss)</u> |
|------------|---------------------|---------------------|--------------------|------------------------------|
| 2009: | | | | |
| EELHI | P 25,401,749 | P 7,459,495 | P 2,171,237 | P 155,035 |
| Travellers | 23,125,566 | 7,186,796 | 2,305,037 | 5,430 |
| AGPL | 2,786,358 | 8,289 | 242,641 | 182,882 |
| PTHDC | 1,142,754 | 1,010,292 | 350 | 22 |
| SHDI | 569,631 | 463,451 | 7,988 | 3,917 |
| SPLI | 522,930 | 29,884 | 2 (| 1,585) |
| GCFII | <u>34,166</u> | <u>6,144</u> | <u>61,678</u> | <u>2,290</u> |
| | <u>P 53,583,154</u> | <u>P 16,164,351</u> | <u>P 4,788,933</u> | <u>P 347,991</u> |

13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment at the beginning and end of the reporting periods are shown below.

| | <u>Land and Land Improvements</u> | <u>Buildings and Leasehold Improvements</u> | <u>Machinery and Equipment</u> | <u>Transportation Equipment</u> | <u>Condominium Units, Fixtures and Other Equipment</u> | <u>Construction in Progress</u> | <u>Total</u> |
|---|---|---|--|-------------------------------------|--|---|-------------------------|
| December 31, 2010 | | | | | | | |
| Cost | P 726,872,020 | P 3,931,521,266 | P 3,316,556,395 | P 343,850,050 | P 1,038,563,106 | P 107,264,422 | P 9,464,627,259 |
| Accumulated depreciation, amortization and impairment | (68,848,502) | (1,773,620,119) | (1,643,372,883) | (139,159,619) | (711,103,403) | - | (4,336,104,526) |
| Net carrying amount | <u>P 658,023,518</u> | <u>P 2,157,901,147</u> | <u>P 1,673,183,512</u> | <u>P 204,690,431</u> | <u>P 327,459,703</u> | <u>P 107,264,422</u> | <u>P 5,128,522,733</u> |
| December 31, 2009 | | | | | | | |
| Cost | P 711,585,231 | P 3,636,552,458 | P 3,357,590,485 | P 308,059,920 | P 990,527,745 | P 91,461,781 | P 9,095,777,620 |
| Accumulated depreciation, amortization and impairment | (62,091,448) | (1,568,161,705) | (1,754,420,721) | (127,683,821) | (630,034,105) | - | (4,142,391,800) |
| Net carrying amount | <u>P 649,493,783</u> | <u>P 2,068,390,753</u> | <u>P 1,603,169,764</u> | <u>P 180,376,099</u> | <u>P 360,493,640</u> | <u>P 91,461,781</u> | <u>P 4,953,385,820</u> |
| January 1, 2009 | | | | | | | |
| Cost | P 3,454,163,026 | P 4,741,595,274 | P 2,693,910,049 | P 274,530,245 | P 789,681,746 | P 5,270,363,731 | P 17,224,244,071 |
| Accumulated depreciation, amortization and impairment | (56,562,113) | (1,719,808,588) | (1,337,631,878) | (89,842,121) | (448,528,780) | - | (3,652,373,480) |
| Net carrying amount | <u>P 3,397,600,913</u> | <u>P 3,021,786,686</u> | <u>P 1,356,278,171</u> | <u>P 184,688,124</u> | <u>P 341,152,966</u> | <u>P 5,270,363,731</u> | <u>P 13,571,870,591</u> |

A reconciliation of the carrying amounts at the beginning and end of the reporting periods of property, plant and equipment is shown below.

| | Land and Land Improvements | Buildings and Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Condominium Units, Fixtures and Other Equipment | Construction in Progress | Total |
|---|----------------------------------|---|-------------------------------|-----------------------------|---|--------------------------------|------------------------|
| Balance at January 1, 2010, net of accumulated depreciation and amortization | P 649,493,783 | P 2,068,390,753 | P1,603,169,764 | P 180,376,099 | P 360,493,640 | P 91,461,781 | P 4,953,385,820 |
| Additions | 14,583,113 | 338,962,902 | 703,981,855 | 53,236,411 | 61,884,983 | 41,936,203 | 1,214,585,467 |
| Disposals – net | - | (35,695,040) | (362,754,046) | (2,767,707) | (40,522) | (619,563) | (401,876,879) |
| Reclassifications – net | 703,676 | 14,588,416 | 102,359,281 | 2,675,742 | (10,088,398) | (25,513,999) | 84,724,719 |
| Depreciation and amortization charges for the year | (6,757,054) | (228,345,884) | (373,573,342) | (28,830,114) | (84,790,000) | - | (722,296,394) |
| Balance at December 31, 2010, net of accumulated depreciation amortization and impairment | <u>P 658,023,518</u> | <u>P2,157,901,147</u> | <u>P 1,673,183,512</u> | <u>P 204,690,431</u> | <u>P 327,459,703</u> | <u>P 107,264,422</u> | <u>P 5,128,522,733</u> |
| Balance at January 1, 2009, net of accumulated depreciation and amortization | P3,397,600,913 | P 3,021,786,686 | P1,356,278,171 | P 184,688,124 | P 341,152,966 | P5,270,363,731 | P 13,571,870,591 |
| Additions | 395,705 | 173,433,090 | 160,881,181 | 44,064,795 | 56,870,728 | 85,053,428 | 520,698,927 |
| Reclassifications – net | 383,358,268 | (866,085,059) | 466,853,468 | (21,855) | 51,352,499 | (35,211,121) | 246,200 |
| Disposals – net | - | (45,232,956) | (12,126,772) | (1,755,115) | (50,889) | (3,937,683) | (63,103,415) |
| Impairment losses | - | (9,989,744) | (7,233,953) | - | - | - | (17,223,697) |
| Reduction in net book value due to deconsolidation of a subsidiary | (3,125,000,000) | (347,925) | (2,535,748) | (3,406,461) | - | (5,224,806,574) | (8,356,096,708) |
| Depreciation and amortization charges for the year | (6,861,103) | (205,173,332) | (358,946,583) | (43,193,382) | (88,831,664) | - | (703,006,078) |
| Balance at December 31, 2009, net of accumulated depreciation amortization and impairment | <u>P 649,493,783</u> | <u>P2,068,390,753</u> | <u>P1,603,169,764</u> | <u>P 180,376,099</u> | <u>P 360,493,640</u> | <u>P 91,461,781</u> | <u>P 4,953,385,820</u> |

Impairment losses P17.2 million and P43.9 million for the years ended December 31, 2009 and 2008, respectively, were recognized as part of Other Operating Expenses – Others (see Note 23), to write down specific assets to their recoverable amounts. There was no impairment loss in 2010. The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consists of property and equipment from GADC-owned restaurant outlets. In determining value in use for the cash-generating unit, the estimated cash flows were discounted using the pretax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset.

Net book values of property, plant and equipment was also reduced in 2009 due to deconsolidation of a subsidiary (see Note 12.2).

14. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation at the beginning and end of the reporting periods are shown below.

| | <u>Land</u> | <u>Buildings</u> | <u>Condominium Units</u> | <u>Total</u> |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| December 31, 2010 | | | | |
| Cost | P 1,556,549,367 | P 6,115,342,255 | P 3,958,470,342 | P 11,630,361,964 |
| Accumulated depreciation | <u>-</u> | <u>(1,050,190,287)</u> | <u>(603,192,929)</u> | <u>(1,653,383,216)</u> |
| Net carrying amount | <u>P 1,556,549,367</u> | <u>P 5,065,151,968</u> | <u>P 3,355,277,413</u> | <u>P 9,976,978,748</u> |
| December 31, 2009 | | | | |
| Cost | P 1,571,008,989 | P 5,874,427,287 | P 3,224,344,697 | P 10,669,780,973 |
| Accumulated depreciation | <u>-</u> | <u>(845,065,021)</u> | <u>(442,979,595)</u> | <u>(1,288,044,616)</u> |
| Net carrying amount | <u>P 1,571,008,989</u> | <u>P 5,029,362,266</u> | <u>P 2,781,365,102</u> | <u>P 9,381,736,357</u> |
| January 1, 2009 | | | | |
| Cost | P 1,432,856,846 | P 4,128,960,013 | P 2,865,320,562 | P 8,427,137,421 |
| Accumulated depreciation | <u>-</u> | <u>(690,355,147)</u> | <u>(302,621,153)</u> | <u>(992,976,300)</u> |
| Net carrying amount | <u>P 1,432,856,846</u> | <u>P 3,438,604,866</u> | <u>P 2,562,699,409</u> | <u>P 7,434,161,121</u> |

A reconciliation of the carrying amounts at the beginning and end of the reporting periods of investment property is shown below.

| | <u>Land</u> | <u>Buildings</u> | <u>Condominium Units</u> | <u>Total</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Balance at January 1, 2010, net of accumulated depreciation | | | | |
| | P 1,571,008,989 | P 5,029,362,266 | P 2,781,365,102 | P 9,381,736,357 |
| Additions | - | 257,140,943 | 734,125,645 | 991,266,588 |
| Reclassifications – net | - | (6,329,787) | - | (6,329,787) |
| Investment Property of a deconsolidated subsidiary | (14,459,622) | - | - | (14,459,622) |
| Depreciation charges for the year | <u>-</u> | <u>(215,021,454)</u> | <u>(160,213,334)</u> | <u>(375,234,788)</u> |
| Balance at December 31, 2010, net of accumulated depreciation | <u>P 1,556,549,367</u> | <u>P 5,065,151,968</u> | <u>P 3,355,277,413</u> | <u>P 9,976,978,748</u> |
| Balance at January 1, 2009, net of accumulated depreciation | | | | |
| | P 1,432,856,846 | P 3,438,604,866 | P 2,562,699,409 | P 7,434,161,121 |
| Additions | 138,152,143 | 1,751,918,758 | 371,192,706 | 2,261,263,607 |
| Disposals – net | - | (3,839,920) | - | (3,839,920) |
| Reclassifications – net | - | - | (12,168,571) | (12,168,571) |
| Depreciation charges for the year | <u>-</u> | <u>(157,321,438)</u> | <u>(140,358,442)</u> | <u>(297,679,880)</u> |
| Balance at December 31, 2009, net of accumulated depreciation | <u>P 1,571,008,989</u> | <u>P 5,029,362,266</u> | <u>P 2,781,365,102</u> | <u>P 9,381,736,357</u> |

Certain properties held for lease by Megaworld with a net book value of P0.8 billion as of December 31, 2010 and 2009 are used as collateral for ECOC's Interest-bearing Loan (see Note 17).

Rental income earned from the investment property amounted to P2.9 billion, P2.2 billion, and P1.4 billion for the years ended December 31, 2010, 2009 and 2008 respectively, and shown as Rental income under Rendering of Services in the consolidated statements of comprehensive income (see Note 21).

The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P103.4 million, P108.2 million and P124.2 million in 2010, 2009 and 2008, respectively, are presented as part of Cost of Services in the 2010 and 2009 statements of comprehensive income (see Note 22). The operating lease commitments of the Group as a lessor are fully disclosed in Note 31.1.

The fair market values of these properties amounted to P53.8 billion and P36.1 billion as of December 31, 2010 and December 31, 2009, respectively. These are internally determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property. As the investment property does not have an active market, the underlying interest rates were determined by reference to the market interest rate of comparable financial instrument.

15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated depreciation at the beginning and end of the reporting periods are shown below.

| | <u>Goodwill</u> | <u>Trademarks</u> | <u>Leasehold Rights</u> | <u>Computer Software</u> | <u>Total</u> |
|--|-------------------------|----------------------|-------------------------|--------------------------|-------------------------|
| December 31, 2010 | | | | | |
| Cost | P 10,621,712,819 | P 1,012,572,767 | P 63,609,697 | P 23,247,261 | P 11,721,142,544 |
| Accumulated amortization and impairment losses | - | (394,819,561) | (30,670,172) | (5,166,058) | (430,655,791) |
| Net carrying amount | <u>P 10,621,712,819</u> | <u>P 617,753,206</u> | <u>P 32,939,525</u> | <u>P 18,081,203</u> | <u>P 11,290,486,753</u> |
| December 31, 2009 | | | | | |
| Cost | P 10,621,712,819 | P 1,012,572,767 | P 63,609,697 | P - | P 11,697,895,283 |
| Accumulated amortization and impairment losses | - | (293,562,284) | (26,247,947) | - | (319,810,231) |
| Net carrying amount | <u>P 10,621,712,819</u> | <u>P 719,010,483</u> | <u>P 37,361,750</u> | <u>P -</u> | <u>P 11,378,085,052</u> |
| January 1, 2009 | | | | | |
| Cost | P 10,621,712,819 | P 1,012,572,767 | P 63,959,709 | P 11,698,245,295 | P 11,698,245,295 |
| Accumulated amortization and impairment losses | - | (192,305,007) | (22,274,492) | (214,579,499) | (214,579,499) |
| Net carrying amount | <u>P 10,621,712,819</u> | <u>P 820,267,760</u> | <u>P 41,685,217</u> | <u>P 11,483,665,796</u> | <u>P 11,483,665,796</u> |

A reconciliation of the carrying amounts at the beginning and end of the reporting periods of intangible assets is shown below.

| | <u>Goodwill</u> | <u>Trademarks</u> | <u>Leasehold Rights</u> | <u>Computer Software</u> | <u>Total</u> |
|--|--------------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------------|
| Balance at January 1, 2010, net of accumulated amortization and impairment losses | P 10,621,712,819 | P 719,010,483 | P 37,361,750 | P - | P 11,378,085,052 |
| Additions | - | - | - | 23,247,261 | 23,247,261 |
| Amortization for the year | - | (101,257,277) | (4,422,225) | (5,166,058) | (110,845,560) |
| Balance at December 31, 2010, net of accumulated amortization and impairment losses | <u>P 10,621,712,819</u> | <u>P 617,753,206</u> | <u>P 32,939,525</u> | <u>P 18,081,203</u> | <u>P 11,290,486,753</u> |
| Balance at January 1, 2009, net of accumulated amortization and impairment losses | P 10,621,712,819 | P 820,267,760 | P 41,685,217 | P - | P 11,483,665,796 |
| Disposals and reclassifications | - | - | (219,144) | - | (219,144) |
| Amortization for the year | - | (101,257,277) | (4,104,323) | - | (105,361,600) |
| Balance at December 31, 2009, net of accumulated amortization and impairment losses | <u>P 10,621,712,819</u> | <u>P 719,010,483</u> | <u>P 37,361,750</u> | <u>P -</u> | <u>P 11,378,085,052</u> |

Goodwill pertains to excess of cost over fair value of net assets at the time of acquisition of investments in shares of stocks of subsidiaries and other controlled entities. Goodwill is primarily related to growth expectations, expected future profitability and expected cost of synergies. Goodwill has been allocated to cash-generating units.

Trademarks to manufacture and sell distilled spirits, including brand names “Emperador Brandy” and “Generoso Brandy” were acquired from Consolidated Distillers of the Far East, Inc. (Condis) in January 2007. In 2008, EDI acquired another trademark “The Bar” from The Bar Bottlers Corporation for P12.5 million. The amortization of these trademarks amounted to P101.3 million both for the years ended December 31, 2010 and 2009, and P100.6 million for the year ended December 31, 2008 and are shown as part of Other Operating Expenses (see Note 23).

The amortization of leasehold rights and computer software amounted to P9.6 million, P4.1 million and P4.5 million in 2010, 2009 and 2008, respectively, and are shown as part of Depreciation and Amortization under Cost of Goods Sold and Services in the consolidated statements of comprehensive income (see Note 22).

In January 2007, NTLPI and FCI, which held 20.08% and 0.86% interest in Megaworld, respectively, at that time, subscribed to Megaworld’s stock rights offering to maintain their percentages of ownership in Megaworld. The exercise of the stock rights resulted in goodwill amounting to P1.1 million.

In February 2007, in a share swap transaction with The Andresons Group, Inc. (TAGI) and other related parties, AGI acquired 25% ownership interest in Megaworld for P16.8 billion. The acquisition brought the total effective ownership of the Company in Megaworld to 46%, and also gave the Company the management control over the financial and operating policies of Megaworld. Thus, Megaworld is consolidated effective February 2007. The acquisition of the additional interest in Megaworld was accounted for as a business combination under the purchase method of accounting. The transaction resulted in goodwill amounting to P7.6 billion.

In 2009, Megaworld offered pre-emptive stock rights to eligible shareholders at a rate of one right share for every four common shares held as of May 4, 2009 for an exercise price of P1 per share. Subscribers to the stock rights were also given four additional stock warrants, at no cost, for every five stock rights subscribed. The warrants are exercisable within 24 to 60 months after issuance and entitle the holder to subscribe to one common share of Megaworld at an exercise price of P1 per share. AGI, NTLPI and FCI subscribed to this rights offering of Megaworld. This further increased the Company's effective ownership interest over Megaworld to 56.7% as of December 31, 2009. The effect of increase in equity ownership resulted to a Dilution Gain of P1.2 billion which is directly recognized in the Equity section (see Note 29) of the 2009 consolidated statement of financial position.

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's intangible assets as of December 31, 2010, 2009 and 2008.

The Company has no contractual commitments for the acquisition of additional trademarks or leasehold rights.

16. TRADE AND OTHER PAYABLES

This account consists of:

| | Notes | <u>2010</u> | <u>2009</u> |
|------------------------|------------------|--------------------------------|--------------------------------|
| Trade | 28.3 | P 8,538,178,004 | P 7,914,804,567 |
| Accrued expenses | 28.1 | 1,794,402,235 | 1,254,294,040 |
| Retention payable | | 1,211,950,863 | 1,022,182,625 |
| Due to related parties | 23, 28.1 28.4 | 387,109,057 | 369,125,968 |
| Output VAT payable | | 7,160,560 | 37,126,694 |
| Others | | 433,889,127 | 416,476,921 |
| | | <u>P 12,372,689,846</u> | <u>P 11,014,010,815</u> |

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered by management to be a reasonable approximation of their fair values due to their short duration.

17. INTEREST-BEARING LOANS AND BORROWINGS

This account includes the outstanding balances of the following loans and borrowings:

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---------------|--------------|-------------------------------|-------------------------------|
| Current: | | | |
| Local | | P 1,478,778,570 | P 1,068,157,143 |
| Foreign | | <u>107,973,945</u> | <u>1,198,691,677</u> |
| | | <u>P 1,586,752,515</u> | <u>P 2,266,848,820</u> |
| Non-current: | | | |
| Local | | P 8,000,390,474 | P 7,611,866,637 |
| Foreign | | 53,988,238 | 171,081,667 |
| Related party | 28.1 | <u>526,080,000</u> | <u>554,400,000</u> |
| | | <u>P 8,580,458,712</u> | <u>P 8,337,348,304</u> |

The balances as of December 31, 2010 and 2009 of local borrowings include the following:

- (a) Unsecured corporate notes were issued by Megaworld to several financial institutions in the aggregate principal amount of P1.4 billion in February 2009. These will mature in seven years from the issue date and principal repayments on this loan started in February 2010. Interest is paid semi-annually based on a 9.0% annual interest rate.
- (b) An unsecured long-term loan amounting to P500.0 million was obtained by Megaworld from a local bank in May 2009. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month Philippine Dealing System Treasury Fixing Rate (PDSTF-R) plus a certain spread, subject to semi-annual repricing.
- (c) A financing deal with a local bank was signed by Megaworld in 2008 in which Megaworld may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). Megaworld had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loans were used to fund the development of Megaworld's various real estate projects. The loans are payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments. Interest is payable every quarter based on the PDSTF-R plus a certain spread.
- (d) Loans were obtained by Megaworld from a local bank amounting to P950.0 million in 2003 and P403.0 million in 2006. The loans are payable for a term of 10 years inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus a certain spread. Collateral for the loans consisted of a mortgage over certain investment property of Megaworld (see Note 14).

The total current and non-current portions of foregoing Megaworld's loans as of December 31, 2010 amounted to P1.2 billion and P6.1 billion, respectively, and as of December 31, 2009 amounted to P736.7 million and P7.3 billion, respectively.

- (e) A P2.2 billion bank loan was obtained by the Company in June 2010 mainly to fund the outstanding balance of the subscription to Megaworld stock rights in May 2009. The bank loan bears interest payable quarterly in arrears at a rate based on applicable Philippine Dealing System Treasury Fixing rate (PDST-F) plus a certain spread. The principal amount is payable in 16 equal quarterly amortizations beginning September 1, 2011. The loan is secured by 2.1 billion shares of Megaworld held by NTLPI. The provisions of the loan agreement include, among others, covenants requiring the Company not to permit any material change in ownership or control and declare or pay dividends if the Company is in default.

The current and non-current portions of these loans amounted to P275.0 million and P1.9 billion, respectively, as of December 31, 2010.

- (f) A P2.0 billion loan was obtained by the Company from the same local bank, to partially fund the Company's share buy-back program. The loan was fully paid in 2010 and was subject to interest based on PDST-F rate plus a certain spread. The loan was secured by 2.3 billion shares of stock of Megaworld held by NTLPI.

The balances as of December 31, 2010 and 2009 of foreign borrowings include the following:

- (a) Venezia was granted U.S. dollar-denominated current loans to fund the acquisition of financial assets which are maintained in the same bank amounting to P1.1 billion as of December 31, 2009 and nil as of December 31, 2010.
- (b) ECOC has amount payable pertaining to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S.\$25.0 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.\$20.0 million (P1.1 billion) was made on October 15, 2002. The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every year at LIBOR rate plus a certain spread. Collaterals for the loan consisted of a mortgage over ECOC's investment property (see Note 14) and a full guarantee from Megaworld.

The total current and non-current portions of foregoing ECOC's loans as of December 31, 2010 amounted to P108.0 million and P54.0 million, respectively, and as of December 31, 2009 amounted to P114.1 million and P171.1 million, respectively.

The Group complied with loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total finance costs attributable to these loans amounted to P148.3 million, P384.8 million and P528.4 million for the years ended December 31, 2010, 2009 and 2008, respectively, and are presented as part of Interest Expense under Finance Costs and Other Charges in the consolidated statements of comprehensive income (see Note 25). Interest charges capitalized for the years ended December 31, 2010 and 2009 amounted to P413.3 million and P208.0 million, respectively. There were no interest charges capitalized in 2008. The rate used in determining the amount of interest charges qualified for capitalization is 8.29%.

18. BONDS PAYABLE

This account consists of the following bonds payables:

| | <u>2010</u> | <u>2009</u> |
|--------------|--------------------------------|-------------------------------|
| Current: | | |
| MCII | <u>P 3,416,062,159</u> | <u>P -</u> |
| Non-current: | | |
| AG Cayman | <u>P 21,571,051,933</u> | <u>P -</u> |
| Megaworld | <u>5,000,000,000</u> | <u>5,000,000,000</u> |
| MCII | <u>-</u> | <u>3,608,407,826</u> |
| | <u>P 26,571,051,933</u> | <u>P 8,608,407,826</u> |

On August 4, 2006, MCII issued five-year term bonds totalling U.S.\$100 million at a discount of U.S.\$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007. The net proceeds from the issuance of these bonds amounted to U.S.\$97 million.

On November 18, 2009, Megaworld issued a P5.0 billion fixed rate unsecured bonds with a term of five years and six months and which bear an interest of 8.46% per annum. The bonds were issued at par and will be redeemed at 100% of the face value on maturity date. The proceeds received are intended to finance Megaworld's capital expenditures from 2009 until 2011 mainly for the development of its real estate projects. Interest charges capitalized arising from these bonds amounted to P423.0 million and P50.5 million in 2010 and 2009, respectively.

In 2010, AG Cayman issued a US\$500 million seven-year bonds with interest at a rate of 6.5% per annum payable semi-annually in arrears on February 18 and August 18 of each year commencing February 2011. The bonds are listed in the Singapore Exchange Securities Trading Limited. Subject to certain exceptions, the bonds may be redeemed by AG Cayman at their principal amount plus any accrued and unpaid interest, if certain changes affecting taxes of the Cayman Islands or the Philippines would require AG Cayman or the Company to pay additional amounts and the withholding rate or deduction would be in excess of 20%. Also, AG Cayman is required to make an offer to purchase the bonds outstanding at a price equal to 101% of the principal amount plus any accrued and unpaid interest upon the occurrence of certain events constituting a change of control, a definition of which includes a disposition of all or substantially all of the assets of the Company and its restricted subsidiaries to any person. The bonds are unconditionally and irrevocably guaranteed by the Company which, together with certain subsidiaries, is required to comply with certain covenants but such are subject to significant exceptions and qualifications as defined in the terms and conditions of the bonds. The net proceeds of the bonds are intended to finance capital and project expenditures, refinance certain existing indebtedness of the Company's subsidiaries, and for general corporate purposes.

Interest expense from the bonds payable amounting to P847.1 million, P291.8 million and P350.2 million for the years ended December 31, 2010, 2009 and 2008, respectively, are presented as part of Interest expense under Finance Costs and Other Charges in the consolidated statements of comprehensive income (see Note 25).

19. REDEEMABLE PREFERRED SHARES

The preferred shares pertain to GADC's redeemable preferred shares issued in March 2005 to McDonald's Restaurant Operations, Inc. (MRO), a company incorporated in the U.S.A. and is a subsidiary of McDonald's. These preferred shares with par value per share of P61,066 each have the following features:

| <u>Class</u> | <u>Voting</u> | <u>No. of Shares Authorized and Issued</u> | <u>Total Par Value (undiscounted)</u> | <u>Additional payment in the event of GADC's liquidation</u> |
|--------------|---------------|--|---|--|
| A | No | 778 | P 47,509,348 | U.S.\$1,086 per share or the total peso equivalent of U.S.\$845,061 |
| B | Yes | 25,000 | 1,526,650,000 | U.S.\$1,086 per share or the total peso equivalent of U.S.\$27,154,927 |

- (a) Redeemable at the option of the holder after the beginning of the 19th year from the date of issuance for a total redemption price equivalent to the peso value on the date that the shares were issued;
- (b) Has preference as to dividend declared by the BOD, but in no event shall the dividend exceed P1 per share; and,
- (c) Further, the holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy, or winding up of GADC.

The redeemable preferred shares are recognized at fair value on the date of issuance. The fair values of the redeemable preferred shares on the date of issuance were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar maturities (18 years). Based on the terms of subscription, the difference between the fair values of the redeemable preferred shares on the date of issuance and the subscription amounts were recognized as a credit to profit and loss in 2005. The accretion of the redeemable preferred shares in 2010, 2009 and 2008 totaling P40.9 million, P36.2 million and P33.5 million, respectively, were recognized as part of Interest Expense under Finance Costs and Other Charges (see Note 25).

As of December 31, 2010 and 2009, the carrying value of the redeemable preferred shares amounted to P371.9 million and P330.9 million, respectively, as shown in the consolidated statements of financial position.

20. OTHER LIABILITIES

The breakdown of this account is as follows:

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|-------------------------------|------------------------|
| Current: | | | |
| Unearned income | | P 939,203,207 | P 917,778,341 |
| Deferred rent | | 797,618,036 | 429,664,920 |
| Derivative liabilities | 33.1 | 85,792,964 | 50,235,997 |
| Obligation under finance lease | | 317,500 | 525,121 |
| Others | | <u>4,898,835</u> | <u>55,018</u> |
| | | <u>P 1,827,830,542</u> | <u>P 1,398,259,397</u> |
| Non-current: | | | |
| Deferred rent | | P 729,706,009 | P 671,470,237 |
| Accrued rent | | 114,644,321 | 116,861,547 |
| Security deposits – net | 21 | 80,134,988 | 73,109,578 |
| ARO | | 20,840,010 | 18,071,961 |
| Payable to MRO under stock option plan | 26.3 | 9,435,245 | 9,474,062 |
| Obligation under finance lease | | - | 235,488 |
| Others | 28.3 | <u>286,744,559</u> | <u>356,608,524</u> |
| | | <u>P 1,241,505,132</u> | <u>P 1,245,831,397</u> |

The Derivative Liabilities under Other Current Liabilities represent currency forward options contract with a certain bank maturing with certain currencies against U.S. dollar in 2010 and 2009. As of December 31, 2010 and 2009, the option has a negative fair value of U.S.\$2.0 million (P85.8 million) and U.S.\$1.1 million (P50.2 million), respectively, with movements in fair value charged against profit or loss and is recorded as part of Fair Value Losses – Net under Finance Costs and Fair Value Gains – Net under Finance and Other Income in the 2010 and 2009 consolidated statements of comprehensive income, respectively (see Notes 24 and 25).

21. RENDERING OF SERVICES

The details of revenues from rendering of services are presented below.

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------|------------------------------|-----------------------|-----------------------|
| Rental income | 14, 31.1 | P2,864,773,291 | P2,152,477,767 | P1,444,822,212 |
| Revenue from franchised McDonald's restaurants – Royalty and management fees | | 534,048,123 | 419,654,038 | 362,590,339 |
| Hotel operations | | 232,757,023 | 216,143,646 | 246,919,573 |
| Management fees | | 126,289,657 | 106,192,002 | 85,477,231 |
| Others | | <u>5,644,646</u> | <u>14,118,266</u> | <u>-</u> |
| | | <u>P3,763,512,740</u> | <u>P2,908,585,719</u> | <u>P2,139,809,355</u> |

Individual sublicense arrangements granted to franchisees and affiliated restaurants generally include a lease and a license to use the McDonald's system in the Philippines and, in certain cases, the use of restaurant facility, generally for a period of 3 to 20 years provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated. The franchise agreements provide for payment of initial fees, as well as continuing rental based on a certain percentage of sales to GADC. The franchisees pay for the related occupancy costs including real property taxes, insurance and maintenance. The franchisees also generally pay a refundable, noninterest-bearing security deposit (see Note 20).

22. COST OF GOODS SOLD AND SERVICES

The components of cost of goods sold and services are as follows:

| | Notes | 2010 | 2009 | 2008 |
|--|------------|--------------------------------|--------------------------------|--------------------------------|
| <i>Cost of Goods Sold</i> | | | | |
| Direct materials used | | P 4,577,701,227 | P 3,092,609,172 | P 3,273,642,457 |
| Cost of inventories | | 3,897,293,313 | 3,722,658,317 | 3,655,260,512 |
| Rentals | 31.2 | 1,428,030,119 | 1,236,814,951 | 1,293,684,880 |
| Salaries and employee benefits | 26 | 1,161,505,819 | 1,134,570,022 | 1,065,115,306 |
| Change in work in process and finished goods | 8 | 592,014,887 | 583,719,384 | 328,944,923 |
| Depreciation and amortization | 13, 14, 15 | 462,136,420 | 439,377,369 | 412,059,783 |
| Outside services | | 340,403,889 | 210,155,202 | 207,918,491 |
| Repairs and maintenance | | 255,497,606 | 157,736,597 | 150,244,543 |
| Indirect materials and other consumables | | 132,636,618 | 110,118,128 | 151,217,677 |
| Utilities | | 71,607,358 | 44,208,246 | 42,734,729 |
| Supplies | | 31,983,856 | 21,612,517 | 2,270,147 |
| Taxes and licenses | | 1,456,263 | 1,268,407 | 1,098,297 |
| Other direct and overhead costs | | <u>249,952,505</u> | <u>377,622,685</u> | <u>448,984,357</u> |
| | | <u>P 13,202,219,880</u> | <u>P 11,132,470,997</u> | <u>P 11,033,176,102</u> |
| <i>Cost of Real Estate Sales</i> | | <u>P 8,606,699,164</u> | <u>P 7,940,756,662</u> | <u>P 8,082,125,043</u> |
| <i>Deferred Gross Profit on Real Estate Sales</i> | | <u>P 2,431,379,388</u> | <u>P 1,815,065,914</u> | <u>P 1,624,410,655</u> |
| <i>Cost of Services</i> | | | | |
| Rental | | P 392,679,284 | P 297,066,013 | P 245,554,744 |
| Salaries and employee benefits | 26 | 133,086,060 | 109,673,478 | 89,241,056 |
| Hotel operations | | 124,463,666 | 103,017,443 | 110,169,420 |
| Depreciation and amortization | 13, 14, 15 | 110,713,764 | 132,025,361 | 135,126,316 |
| Other direct and overhead costs | | <u>21,744,962</u> | <u>14,982,383</u> | <u>15,045,151</u> |
| | | <u>P 782,687,736</u> | <u>P 656,764,678</u> | <u>P 595,136,687</u> |

23. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

| | Notes | 2010 | 2009 | 2008 |
|--|--------|-------------------------------|-------------------------------|-------------------------------|
| Salaries and employee benefits | 26 | P 1,059,407,946 | P 856,987,096 | P 654,606,964 |
| Advertising and promotions | | 1,030,345,887 | 898,370,092 | 828,802,229 |
| Depreciation and amortization | 13, 14 | 534,269,281 | 433,387,551 | 282,564,851 |
| Royalty | | 500,674,808 | 563,926,914 | 368,885,345 |
| Commissions | | 480,121,490 | 485,327,031 | 418,773,750 |
| Freight and handling | | 231,858,380 | 174,370,727 | 171,269,292 |
| Transportation and travel | | 213,915,832 | 204,589,888 | 249,022,651 |
| Utilities | | 181,695,818 | 103,958,834 | 129,460,770 |
| Taxes and licenses | | 157,909,450 | 162,489,030 | 226,350,025 |
| Rental | | 156,495,957 | 150,625,625 | 169,092,798 |
| Professional fees and outside services | | 107,150,723 | 66,052,879 | 53,692,965 |
| Amortization of trademarks | 15 | 101,257,277 | 101,257,277 | 100,632,277 |
| Representation and entertainment | | 45,485,236 | 33,801,652 | 30,296,903 |
| Communication and office expenses | | 29,095,952 | 30,248,262 | 1,027,608 |
| Repairs and maintenance | | 29,727,260 | 24,884,646 | 40,998,981 |
| Impairment losses | 6, 13 | 9,135,462 | 19,279,133 | 109,267,672 |
| Insurance | | 3,921,136 | 8,025,219 | 4,041,012 |
| Write-down of inventories | 8 | 2,378,466 | 10,247,306 | 31,906,987 |
| Management fees | | - | - | 52,970,763 |
| Others | | 387,636,616 | 237,127,992 | 282,678,110 |
| | | <u>P 5,262,482,977</u> | <u>P 4,564,957,154</u> | <u>P 4,206,341,953</u> |

These are classified in the consolidated statements of comprehensive income as follows:

| | 2010 | 2009 | 2008 |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| General and administrative expenses | P 3,044,267,452 | P 2,503,256,614 | P 2,494,331,694 |
| Selling expenses | <u>2,218,215,525</u> | <u>2,061,700,540</u> | <u>1,712,010,259</u> |
| | <u>P 5,262,482,977</u> | <u>P 4,564,957,154</u> | <u>P 4,206,341,953</u> |

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in restaurant operations in the Philippines. The license agreement, as renewed in March 2005 for another 20 years, provides for a royalty fee, presented as Royalty, based on a certain percentage of net sales from the operations of all GADC's restaurants, including those operated by the franchisees. The balance of royalty fees and other advances payable to McDonald's as of December 31, 2010 and 2009 amounted to P81.0 million and P70.1 million, respectively, and is shown as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Notes 16 and 28.4).

24. FINANCE AND OTHER INCOME

The details of this account are as follows:

| | Notes | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------|-------------------------------|-------------------------------|-------------------------------|
| Interest income | 5, 7 | P 2,093,764,085 | P 1,896,421,610 | P 2,545,342,840 |
| Foreign currency gains – net | | 1,672,679,514 | - | - |
| Gain on sale of investment in AFS financial assets | 11 | 629,194,471 | 18,050,807 | 2,306,450 |
| Dividend income | | 60,673,664 | 44,247,127 | 49,680,085 |
| Gain on sale of investment in shares of stock | 11 | - | 1,581,815,465 | 2,809,732,873 |
| Fair value gains – net | 7, 20 | - | 2,262,564,790 | - |
| Miscellaneous | 6, 8 | 488,375,537 | 174,005,999 | 447,138,355 |
| | | <u>P 4,944,687,276</u> | <u>P 5,977,105,798</u> | <u>P 5,854,200,603</u> |

In 2009, MPIL sold its entire interest in PTL amounting to U.S.\$50.0 million (approximately P2.3 billion), of which U.S.\$30 million (P1.4 billion) remains uncollected as of December 31, 2009 and recorded as part of Others under Trade and Other Receivables in the current assets section of the 2009 consolidated statement of financial position (see Note 6). This remaining balance was collected in full in 2010. The sale resulted in the recognition by MPIL of gain amounting to U.S.\$33.2 million (approximately P1.6 billion) and presented as part of the 2009 Gain on Sale of Investment in Shares of Stock above.

Also, on July 31, 2008, MPIL sold its entire interest in Asian Travellers Ltd. (ATL) including all the latter's obligations for a total price of U.S.\$85 million (approximately P3.8 billion). MPIL recognized gain on sale of U.S.\$56.4 million (approximately P2.5 billion), which is shown as part of the 2008 Gain on Sale of Investment in Shares of Stock.

In 2008, FCI sold 40% of its interest in SPLI to EELHI for P500.0 million resulting in a gain on sale of investment of P300.0 million, presented as part of the 2008 Gain on Sale of Investment in Shares of Stock above.

In 2008, RHGI entered into contracts wherein it sold certain European bond put option and knock out options. In consideration of these contracts, RHGI received premiums amounting to U.S.\$2.1 million (P93.1 million) in 2008 which are shown as part of Miscellaneous Income above.

25. FINANCE COSTS AND OTHER CHARGES

The details of this account are as follows:

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| Interest expense | 17, 18 | | | |
| | 19, 28 | P 1,341,679,352 | P 715,198,019 | P 912,102,027 |
| Fair value losses – net | 7, 20 | 745,023,420 | - | 1,757,177,853 |
| Foreign currency losses – net | | - | 3,189,241,810 | 181,514,868 |
| Miscellaneous | | 41,596,210 | 36,861,920 | 5,010,788 |
| | | <u>P 2,128,298,982</u> | <u>P 3,941,301,749</u> | <u>P 2,855,805,536</u> |

26. SALARIES AND EMPLOYEE BENEFITS

26.1 *Salaries and Employees Benefits*

Expenses recognized for salaries and employee benefits are presented below.

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| Short-term employee benefits | | P 2,317,332,243 | P 2,067,140,328 | P 1,667,196,012 |
| Post-employment defined benefit | 26.2 | 32,451,822 | 32,173,465 | 138,628,570 |
| Share-based payments | 26.3 | 4,215,760 | 1,916,803 | 3,138,744 |
| | | <u>P 2,353,999,825</u> | <u>P 2,101,230,596</u> | <u>P 1,808,963,326</u> |

These are classified in the consolidated statements of comprehensive income as follows:

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| Cost of goods sold | 22 | P 1,161,505,819 | P 1,134,570,022 | P 1,065,115,306 |
| Cost of services | 22 | 133,086,060 | 109,673,478 | 89,241,056 |
| Other operating expenses | 23 | 1,059,407,946 | 856,987,096 | 654,606,964 |
| | | <u>P 2,353,999,825</u> | <u>P 2,101,230,596</u> | <u>P 1,808,963,326</u> |

26.2 *Post-employment Defined Benefit*

Megaworld maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular and full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. GADC has a funded, defined contribution retirement plan covering all regular and full-time employees, which allows voluntary employee contribution. The retirement plans of TEI, AWGI, EDI and FOPMI are unfunded. Actuarial valuations are generally made every two years to update the retirement benefit costs and the amount of accruals.

The Company and other subsidiaries within the Group have not accrued any retirement benefit obligation as each entity has less than 10 employees. The Group's management believes that the non-accrual of the estimated retirement benefits will not have any material effect on the Group's consolidated financial statements.

The amounts of retirement benefit obligation are determined as follows:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------|-----------------------------|----------------------|
| Present value of the obligation | P 569,197,034 | P 299,746,134 |
| Fair value of plan assets | (217,035,332) | (174,808,586) |
| Deficiency of plan assets | 352,161,702 | 124,937,548 |
| Unrecognized actuarial gains | <u>31,496,246</u> | <u>231,824,699</u> |
| Retirement benefits obligation | <u>P 383,657,948</u> | <u>P 356,762,247</u> |

The movements in the present value of retirement benefit obligation recognized in the books are as follows:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|-----------------------------|----------------------|
| Balance at beginning of year | P 299,746,134 | P 197,466,214 |
| Actuarial losses (gains) | 198,075,959 | 52,232,401 |
| Current service and interest costs | 80,288,686 | 52,441,369 |
| Benefits paid by the plan | (8,913,745) | (2,393,850) |
| Balance at end of year | <u>P 569,197,034</u> | <u>P 299,746,134</u> |

The movement in the fair value of plan assets is presented below.

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|-----------------------------|----------------------|
| Balance at beginning of year | P 174,808,586 | P 119,552,759 |
| Contributions paid into the plan | 32,000,000 | 34,000,000 |
| Expected return on plan assets | 10,488,544 | 7,147,014 |
| Actuarial gains (losses) | 6,006,697 | 15,529,613 |
| Benefits paid by the plan | (6,268,495) | (1,420,800) |
| Balance at end of year | <u>P 217,035,332</u> | <u>P 174,808,586</u> |

The Group expects to contribute P20.0 million to its retirement benefit plans in 2011.

The plan assets of Megaworld and GADC consist of the following:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|-----------------------------|----------------------|
| Cash and cash equivalents | P 55,911,014 | P 47,952,743 |
| Loans and receivables | 8,846,683 | 1,276,621 |
| Investments in: | | |
| Unit investment trust fund | 79,030,372 | 55,606,936 |
| Other securities and debt instruments | 52,621,384 | 61,680,966 |
| Long-term equity investments | 20,625,879 | 7,458,157 |
| Preferred shares | - | 833,163 |
| | <u>P 217,035,332</u> | <u>P 174,808,586</u> |

Actual returns on plan assets amounts to P16.5 million in 2010 while actual loss on plan assets amounted to P22.7 million in 2009.

The amounts of retirement benefits expense recognized as part of salaries and employee benefits in the consolidated statements of comprehensive income are as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|----------------------|
| Current service cost | P 28,599,498 | P 29,247,718 | P 94,754,109 |
| Interest cost | 27,921,925 | 23,193,651 | 50,268,105 |
| Expected return on plan assets | (9,608,714) | (7,147,014) | (11,680,000) |
| Net actuarial losses (gains) recognized during the year | (<u>14,460,887</u>) | (<u>13,120,890</u>) | <u>5,286,356</u> |
| | <u>P 32,451,822</u> | <u>P 32,173,465</u> | <u>P 138,628,570</u> |

The amounts of retirement benefit expense are allocated as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------|---------------------|---------------------|----------------------|
| Cost of goods sold and services | P 8,753,867 | P 8,265,505 | P 1,895,674 |
| Other operating expenses | <u>23,697,955</u> | <u>23,907,960</u> | <u>136,732,896</u> |
| | <u>P 32,451,822</u> | <u>P 32,173,465</u> | <u>P 138,628,570</u> |

In determining the retirement benefit obligation, the following actuarial assumptions were used:

| | <u>2010</u> | <u>2009</u> |
|--|----------------|----------------|
| Discount rates | 7.30%-11.30% | 8.33% - 37.55% |
| Expected rate of return on plan assets | 5.90%-10.00% | 5.90% - 6.00% |
| Expected rate of salary increases | 5.00% - 10.00% | 5.00% - 10.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The discount rates assumed were based on the yields of long-term government bonds, as of the valuation dates. The applicable period used approximate the average years of remaining working lives of the Group's employees.

26.3 Stock Option Benefits

The Company's stock option benefit expense pertains to the amount of compensation recognized by GADC over the vesting period of the options granted prior to 2005. GADC's participation in the stock option plan of McDonald's ceased in 2005 when GADC underwent a change in ownership structure. All options granted prior to the GADC equity restructuring in 2005 will continue to be exercisable until the expiration of the exercise period which is generally 10 to 13 years from the grant date.

The fair value of each option is estimated on the date of grant based on the billings from McDonald's. The total amount to be paid by GADC is recognized as expense over the vesting period.

Stock option benefits expense, included as part of Salaries and Employee Benefits (see Note 26.1) amounted to P4.2 million in 2010, P1.9 million in 2009 and P3.1 million in 2008. The accumulated liability to MRO relating to the fair value of options vested amounted to P9.4 million and P9.5 million as of December 31, 2010 and 2009, respectively, and is included as part Other Non-current Liabilities account (see Note 20).

27. TAXES

27.1 Current and Deferred Taxes

The tax expense reported in the consolidated statements of comprehensive income for the year ended December 31 are as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------------------------|-------------------------------|-------------------------------|
| <i>Reported in consolidated profit or loss</i> | | | |
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 30% in 2010 and 2009 and at 35% in 2008 | P 1,787,997,188 | P 759,124,982 | P 921,328,452 |
| Final tax at 20% and 7.5% | 162,005,883 | 142,146,071 | 223,358,548 |
| Preferential tax rate at 5% | 19,479,041 | 15,866,373 | 14,373,247 |
| Minimum corporate income tax (MCIT) at 2% | 1,426,009 | 245,489,292 | 2,006,719 |
| Capital gains tax | - | - | 29,990,000 |
| Others | - | 3,869 | 460,477 |
| | <u>1,970,908,121</u> | <u>1,162,630,587</u> | <u>1,191,517,443</u> |
| Deferred tax expense: | | | |
| Deferred tax relating to origination and reversal of temporary differences | 613,963,085 | 821,514,983 | 414,561,554 |
| Deferred tax resulting from reduction in RCIT rate | <u>-</u> | <u>-</u> | <u>703,805</u> |
| | <u>613,963,085</u> | <u>821,514,983</u> | <u>415,265,359</u> |
| | <u>P 2,584,871,206</u> | <u>P 1,984,145,570</u> | <u>P 1,606,782,802</u> |
| <i>Reported in consolidated other comprehensive income</i> | | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | <u>P 55,817,408</u> | <u>P 25,795,486</u> | <u>(P 11,728,077)</u> |

The reconciliation of tax on consolidated pretax income computed at the applicable statutory rates to consolidated tax expense is as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------------------------|-------------------------------|-------------------------------|
| Tax on consolidated pretax income at 30% in 2010 and 2009 and 35% in 2008 | P 4,113,538,792 | P 2,414,103,573 | P 2,430,682,472 |
| Adjustment for income subjected to different tax rates | (241,959,126) | (167,652,045) | (333,097,485) |
| Tax effects of: | | | |
| Dividend income not subject to RCIT | (1,063,054,219) | (136,489,843) | (130,407,114) |
| Income not subject to RCIT | (608,225,961) | (286,629,231) | (937,741,492) |
| Nondeductible expenses | 266,990,758 | 68,418,123 | 497,034,604 |
| Unrecognized deferred tax asset on net operating loss carryover (NOLCO) | 72,319,872 | 56,990,382 | 71,456,929 |
| Nondeductible interest expense | 67,960,142 | 54,316,902 | 115,818,042 |
| Additional deduction with the use of Optional Standard Deduction (OSD) | (8,753,069) | (7,324,333) | (5,976,408) |
| Interest income subjected to final tax | (4,550,237) | (3,347,483) | (2,485,647) |
| Gross income generated from PEZA-registered activities | (2,131,070) | (2,189,434) | (2,661,008) |
| Applied NOLCO and MCIT without deferred tax asset recognized in prior years | (838,642) | (537,731) | 11,057,802 |
| Tax benefit arising from unrecognized deferred tax asset | (72,055) | (10,243,907) | - |
| Reduction in RCIT rate | - | - | (119,886,417) |
| Net deferred tax assets derecognized | - | - | 15,871,724 |
| Expenses directly charged to APIC | - | - | (4,330,375) |
| Net deferred tax liabilities derecognized | - | - | 1,790,801 |
| Others | (6,353,979) | 4,730,597 | (343,626) |
| Tax expense reported in profit or loss | <u>P 2,584,871,206</u> | <u>P 1,984,145,570</u> | <u>P 1,606,782,802</u> |

The net deferred tax assets and liabilities as of December 31 presented in the consolidated statements of financial position relate to the following:

| | <u>2010</u> | <u>2009</u> |
|---|-----------------------------|-----------------------------|
| Deferred tax assets: | | |
| Retirement benefit obligation | P 210,226,431 | P 139,079,839 |
| Accrued rent | 44,527,871 | 19,346,464 |
| Allowance for impairment | 29,573,787 | 30,972,584 |
| Allowance for inventory write-down | 7,794,505 | 11,308,335 |
| NOLCO | 5,276,694 | 44,055,674 |
| Unrealized income – net | 2,198,319 | 1,242,406 |
| MCIT | 383,833 | 377,203 |
| Reversal of allowance for claims for tax refund | - | 1,889,808 |
| Others | <u>10,138,191</u> | <u>17,487,853</u> |
| Deferred tax assets | <u>P 310,119,631</u> | <u>P 265,760,166</u> |

| | <u>2010</u> | <u>2009</u> |
|---|-----------------------------------|-----------------------------------|
| Deferred tax liabilities: | | |
| Uncollected gross profit | P 2,697,434,301 | P 2,294,929,189 |
| Capitalized interest | 443,717,090 | 222,651,148 |
| Translation adjustments | (70,281,317) | (14,313,909) |
| Accrued retirement cost for tax purposes | (43,301,756) | (33,170,257) |
| Unrealized foreign currency losses | 42,543,552 | 30,933,376 |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | 181,905,947 | 128,753,934 |
| Uncollected rental income | 22,231,649 | - |
| Others | <u>39,952,889</u> | <u>42,713,450</u> |
| Deferred tax liabilities | <u>P 3,314,202,355</u> | <u>P 2,672,496,931</u> |

The deferred tax expense (income) reported in the consolidated statement of comprehensive income is shown below.

| | <u>Consolidated Profit or Loss</u> | | | <u>Consolidated Other Comprehensive Income</u> | | |
|---|------------------------------------|----------------------|----------------------|--|---------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Deferred tax expense (income): | | | | | | |
| Uncollected gross profit | P 402,504,512 | P 767,095,402 | P 359,278,205 | P - | P - | P - |
| Capitalized interest | 221,065,942 | 114,550,647 | (25,692,471) | - | - | - |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | 53,152,013 | (24,633,305) | 2,592,215 | - | - | - |
| Retirement benefit obligation | (10,131,499) | (74,389) | (6,330,792) | - | - | - |
| Allowance for impairment losses | (3,289,396) | 24,859 | 1,484,167 | - | - | - |
| Retirement benefits | (2,851,139) | (2,092,557) | 2,858,454 | - | - | - |
| NOLCO | 1,363,089 | (4,657,130) | 10,756,691 | - | - | - |
| Accrued rent | 149,927 | 140,151 | 9,967,934 | - | - | - |
| MCIT | (6,630) | (12,050) | 595,307 | - | - | - |
| Unrealized foreign currency gains - net | - | - | 16,538,584 | - | - | - |
| Uncollected rental income | - | (32,091,485) | 15,639,661 | - | - | - |
| Difference between the tax reporting base and financial reporting base of leased assets | - | - | 32,345,673 | - | - | - |
| Unrealized gross profit from estate sales | - | - | (952,922) | - | - | - |
| Translation adjustments | - | - | - | 55,967,408 | 26,041,986 | (11,728,077) |
| Fair value adjustments on AFS | - | - | - | (150,000) | (246,500) | - |
| Others | <u>(47,993,734)</u> | <u>3,264,840</u> | <u>(3,815,347)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Deferred Tax Expense (Income) | <u>P 613,963,085</u> | <u>P 821,514,983</u> | <u>P 415,265,359</u> | <u>P 55,817,408</u> | <u>P 25,795,486</u> | <u>(P 11,728,077)</u> |

The details of NOLCO, which can be claimed as deduction from the respective entities' future taxable income within three years from the year the loss was incurred, are shown below.

| <u>Year Incurred</u> | <u>Amount</u> | <u>Valid Until</u> |
|----------------------|-----------------------------|--------------------|
| 2010 | P 128,671,023 | 2013 |
| 2009 | 129,440,283 | 2012 |
| 2008 | <u>105,290,609</u> | 2011 |
| | <u>P 363,401,915</u> | |

The Group is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. The details of MCIT, which can be applied as deduction from the entities' respective future regular income tax payable within three years from the year the MCIT was paid, are shown below.

| <u>Year Incurred</u> | | <u>Amount</u> | <u>Valid Until</u> |
|----------------------|---|------------------|--------------------|
| 2010 | P | 1,048,992 | 2013 |
| 2009 | | 785,454 | 2012 |
| 2008 | | <u>1,985,021</u> | 2011 |
| | P | <u>3,819,467</u> | |

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2010, 2009 and 2008 for which the related deferred tax assets have not been recognized by certain entities within the Group:

| | <u>2010</u> | | <u>2009</u> | | <u>2008</u> | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>Amount</u> | <u>Tax Effect</u> | <u>Amount</u> | <u>Tax Effect</u> | <u>Amount</u> | <u>Tax Effect</u> |
| NOLCO | P 345,812,935 | P 103,743,881 | P 687,145,569 | P 206,143,671 | P 827,972,332 | P 248,391,700 |
| Allowance for impairment | 30,845,288 | 9,253,586 | 32,853,901 | 9,856,170 | 31,187,143 | 9,356,143 |
| Accrued rent | 7,304,966 | 2,191,490 | 7,297,358 | 2,189,207 | 7,262,845 | 2,178,854 |
| MCIT | 1,548,560 | 1,548,560 | 3,219,396 | 3,219,396 | 2,879,514 | 2,879,514 |
| Retirement benefit obligation | 615,395 | 184,619 | 5,903,645 | 1,771,094 | 679,757 | 203,927 |
| ARO | 444,387 | 133,316 | 670,822 | 201,247 | 443,932 | 133,180 |
| Allowance for inventory write-down | <u>371,846</u> | <u>111,554</u> | <u>369,149</u> | <u>110,745</u> | <u>678,712</u> | <u>203,614</u> |
| | <u>P 386,943,377</u> | <u>P 117,167,006</u> | <u>P 737,459,840</u> | <u>P 223,491,530</u> | <u>P 871,104,235</u> | <u>P 263,346,932</u> |

27.2 Itemized or Optional Standard Deduction

In July 2008, Republic Act (RA) 9504 became effective giving corporate taxpayers an option to claim itemized standard deduction or OSD equivalent to 40% of gross income. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. The Group opted to continue to claim itemized deductions for the years ended December 31, 2010 and 2009, except for AWGI which opted to use OSD in computing RCIT.

27.3 Change in Applicable Tax Rate

In accordance with RA 9337, RCIT rate was reduced from 35% to 30% effective January 1, 2009; and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

28. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Company's key management personnel and others as described below.

28.1 Long-term Notes Payable to Related Parties

GADC has loan agreement with MRO. The principal amount of the loan of U.S.\$12.0 million is payable in full on March 17, 2025, and bears annual interest at 10.0% or U.S.\$1.2 million, payable every year. Accrued interest payable as of December 31, 2010 and 2009 included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position amounts to P15.1 million and P13.7 million, respectively (see Note 16).

GADC also had two interest-bearing notes with MPRC amounting to P57.4 million and P366.7 million representing unpaid advances obtained in prior years from MPRC on land and equipment purchased for various stores and a warehouse and unpaid rentals and interest due to MPRC, respectively. The loans had an interest rate of 8.4% from March 1, 2005 to March 17, 2006; thereafter, interest accrued at six-month PHIBOR rate plus 2.0%, which MPRC will reset on March 18 of each year. Total interest charged by MPRC on these loans amounted to P5.4 million and P25.8 million in 2009 and 2008 and was shown as part of Interest Expense under Finance Costs and Other Charges in the 2009 and 2008 consolidated statements of comprehensive income (see Note 25). GADC paid the entire amount due upon maturity in 2009.

Rentals and interest payable to MPRC (included as part of Due to Related Parties under the Trade and Other Payables account in the consolidated statements of financial position – see Notes 16 and 28.4) amounted to P4.9 million and P6.1 million as of December 31, 2010 and 2009, respectively.

28.2 Interest in a Joint Venture

GADC has a 50.0% interest in GCFII operating under a joint venture agreement. GCFII was granted by GADC the right to adopt and use the McDonald's system of restaurant operations. Receivables from GCFII, included as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position, consisting of rental, royalty fees, management fees and inventories supplied amounted to P6.9 million and P5.2 million as of December 31, 2010 and December 31, 2009, respectively (see Note 6).

Megaworld also entered into numerous joint venture agreements for the joint development of various projects (see Note 10).

28.3 Sales and Purchases of Goods, Real Estate, Rendering of Services and Rentals

The following data pertain to sales and purchases of goods, real estate, rendering of services and rentals to related parties:

| | Amount of Transactions | | | Outstanding Payables (Receivables) | |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------------------|------------------------|
| | 2010 | 2009 | 2008 | 2010 | 2009 |
| Purchases of goods | P 2,406,419,911 | P 1,780,762,139 | P 2,163,707,877 | P 785,270,842 | P 38,822,560 |
| Rendering of services and rentals | (145,403,604) | (148,894,780) | (155,326,569) | (84,088,445) | (81,408,167) |
| Sale of goods | - | - | (2,227,253,776) | - | - |
| Purchase of services | - | - | 249,097,491 | - | - |
| Acquisition of building structure | - | - | 2,000,000,000 | 1,500,000,000 | 1,500,000,000 |
| | <u>P 2,261,016,307</u> | <u>P 1,631,867,359</u> | <u>P 2,030,225,023</u> | <u>P 2,201,182,397</u> | <u>P 1,457,414,393</u> |

28.3.1 Purchases of Goods

EDI sources its raw materials such as alcohol, molasses, flavorings and other supplies from Condis and Andresons Global Inc., both related parties through common ownership of certain stockholders of the Company. The related unpaid balance as of December 31, 2010 and 2009 is shown as part of Trade Payables under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

28.3.2 Rendering of Services

Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20% to 30%. There are no outstanding payables for services obtained from the associates as of December 31, 2010 and 2009. The outstanding balances pertain to unpaid commissions presented as part of Others under Other Non-current Liabilities in the consolidated statements of financial position (see Note 20).

28.3.3 Acquisition of Building Structure

In 2008, the Company incurred a liability to TAGI, a related party through common ownership, on the acquisition of the building structure in Newport City. As of December 31, 2010 and 2009, the Company has outstanding payable amounting to P1.5 billion and is presented as part of Trade Payables under Trade and Other Payables account (see Note 16).

28.4 Due from/to Related Parties

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other related parties. The outstanding balances of Due from/to Related Parties are presented under Trade and Other Receivables (see Note 6) and Trade and Other Payables (see Note 16) accounts, respectively, in the consolidated statements of financial position as follows:

| | <u>2010</u> | <u>2009</u> |
|--|-----------------------------|-----------------------------|
| <i>Due from related parties</i> | | |
| Condis | P 503,070,715 | P 808,717,162 |
| Officers and employees | 84,783,430 | 47,457,418 |
| Goldsquare, Inc. | - | 5,175,502 |
| Other related parties | <u>11,335,444</u> | <u>44,223,519</u> |
| | <u>P 599,189,589</u> | <u>P 905,573,601</u> |
| <i>Due to related parties</i> | | |
| TAGI | P 192,000,000 | P 192,000,000 |
| McDonald's | 80,997,678 | 70,050,307 |
| Cane and Grapes | 42,137,715 | 42,137,715 |
| EELHI | 6,999,014 | 19,741,679 |
| MPRC | 4,912,991 | 6,104,946 |
| Condis | 116,334 | 4,635,927 |
| Other related parties | <u>59,945,325</u> | <u>34,455,394</u> |
| | <u>P 387,109,057</u> | <u>P 369,125,968</u> |

28.5 Advances to/from Associates and Other Related Parties

Entities within the Group grant advances to associates and other entities for working capital purposes. The outstanding balances of Advances to Associates and Other Related Parties, which is shown as part of Investments in Associates and Interest in a Joint Venture account in the consolidated statements of financial position, are as follows (these mainly represent advances granted by Megaworld) (see Note 12.1):

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-------------------------------|-------------------------------|
| Advances to Associates: | | |
| PTHDC | P 1,004,986,820 | P 1,009,986,216 |
| EELHI | 394,211,729 | 378,888,334 |
| SHDI | 338,598 | - |
| AGPL | - | 211,708,104 |
| | <u>1,399,198,549</u> | <u>1,600,582,654</u> |
| Advances to other related parties | <u>635,507,116</u> | <u>398,625,272</u> |
| | <u>P 2,035,044,263</u> | <u>P 1,999,207,926</u> |

In addition, unconsolidated entities within the Group pay certain expense on behalf of other entities. The outstanding balances from these transactions amounting to P338.6 million and P356.8 million as of December 31, 2010 and 2009, respectively, are presented as Advances from Related Parties account in the consolidated statements of financial position.

28.6 Key Management Personnel Compensation

The compensation of key management personnel is broken down as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--------------------------------------|-----------------------------|----------------------|----------------------|
| Short-term employee benefits | P 204,366,837 | P 183,335,624 | P 147,576,915 |
| Retirement benefits expense (income) | <u>13,565,788</u> | (3,958,700) | <u>6,848,057</u> |
| | <u>P 217,932,625</u> | <u>P 179,376,924</u> | <u>P 154,424,972</u> |

29. EQUITY

29.1 Capital Stock

Capital stock consists of:

| | <u>Shares</u> | | | <u>Amount</u> | | |
|------------------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Common shares – P1 par value | | | | | | |
| Authorized | <u>12,950,000,000</u> | <u>12,950,000,000</u> | <u>12,950,000,000</u> | <u>P12,950,000,000</u> | <u>P12,950,000,000</u> | <u>P12,950,000,000</u> |
| Issued and outstanding: | 10,269,827,979 | 10,269,827,979 | 10,269,827,979 | P10,269,827,979 | P 10,269,827,979 | P10,269,827,979 |
| Treasury stock – at cost | (976,768,100) | (1,150,462,965) | (882,695,965) | (3,194,861,260) | (4,334,613,117) | (3,487,548,482) |
| Total outstanding | <u>10,096,126,114</u> | <u>9,119,358,014</u> | <u>9,387,132,014</u> | <u>P 7,074,966,719</u> | <u>P 5,935,214,862</u> | <u>P 6,782,279,497</u> |

29.2 Additional Paid-in Capital

APIC consists mainly of the P21.9 billion APIC in 2007 that came from the stock rights offering, share swap transaction and international offering and was net of P462.4 million direct costs pertaining to issuance, legal and underwriting fees. In 2010, the Group sold 68.4 million treasury shares resulting to an increase in APIC by P17.5 million.

29.3 Treasury Shares at Cost

In 2008, the Company's BOD authorized the buy-back of up to P3.0 billion worth of the Company's shares of common stock within an 18-month period commencing on July 10, 2008. The program was undertaken to create and enhance shareholder value as the BOD believed that market prices at that time did not reflect the true value of the shares. The Company has confidence in the long-term value of its businesses. As of December 31, 2010 and December 31, 2009, the Company has bought back 550.1 million shares for P1.6 billion under the buy-back program.

This account also includes the Company's common shares held and acquired by certain subsidiaries aggregating to P1.6 billion (426.7 million shares) and P2.7 billion (600.4 million shares) as of December 31, 2010 and 2009, respectively. The changes in market values of these shares recognized as fair value gains (losses) by subsidiaries in their respective financial statements were eliminated in full and were not recognized in the consolidated statements of comprehensive income. Also in 2010, the balance of Treasury shares was reduced representing the shares held by a deconsolidated subsidiary (see Note 12).

29.4 Dilution Gain (Loss)

The Company's ownership interest in Megaworld was diluted when Megaworld undertook a pre-emptive stock rights offering in 2007 and an international stock offering in 2006. The effect of dilution in the Company's share in Megaworld's net assets was recorded directly in the consolidated equity amounting to P352.2 million gain in 2007 and P307.1 million loss in 2006. Additional dilution gain of P1.2 billion was recognized as a result of increase in equity ownership interest over Megaworld in 2009 (see Note 15).

29.5 Dividends

On June 28, 2010, the Company declared dividends amounting to P583.2 million which were fully paid during the year. The amount presented in the 2010 statement of changes in equity is net of P8.2 million paid to subsidiaries.

30. EARNINGS PER SHARE

Basic and diluted EPS were computed as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|----------------------|-----------------------|
| Net profit attributable to owners of the parent company | P 6,908,586,791 | P4,796,309,746 | P3,908,833,964 |
| Divided by the weighted average number of subscribed and outstanding common shares | <u>9,719,727,979</u> | <u>9,747,218,938</u> | <u>10,132,816,160</u> |
| | P 0.7108 | P 0.4921 | P 0.3858 |

There were no dilutive potential common shares as of December 31, 2010, 2009 and 2008, hence, diluted EPS is equal to the basic EPS.

31. COMMITMENTS AND CONTINGENCIES

31.1 Operating Lease Commitments – Group as Lessor

Megaworld is a lessor under several operating leases covering real estate properties for commercial use. The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P2.0 billion for the consolidated balances.

Future minimum lease payments under this lease as of December 31 are as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------------------------|-------------------------|-------------------------|
| Within one year | P 3,145,772,222 | P 3,000,082,437 | P 2,001,508,184 |
| After one year but not more than five years | 14,998,070,516 | 10,809,294,660 | 7,582,583,273 |
| More than five years | <u>4,731,453,360</u> | <u>3,410,016,874</u> | <u>1,922,768,964</u> |
| | <u>P 22,875,296,098</u> | <u>P 17,219,393,971</u> | <u>P 11,506,860,421</u> |

GADC has entered into various commercial property lease agreements with its franchisees and other third parties covering restaurant sites, equipment and other facilities. These non-cancellable leases have remaining non-cancellable lease terms between 3 to 20 years. All leases include a clause for rental escalations, additional rentals based on certain percentage of sales, and renewal options for additional periods of 3 to 20 years.

Total lease income amounted to P764.8 million (including variable rent of P345.7 million) in 2010, P629.1 million (including variable rent of P247.1 million) in 2009 and P557.0 million (including variable rent of P183.3 million) in 2008; lease income from franchisees amounted to P336.6 million in 2010, P263.1 million in 2009 and P449.5 million in 2008, shown as part of Rental Income under Rendering of Services in the consolidated statements of comprehensive income (see Note 21).

Future minimum rentals receivable under existing sublicense agreements as of the reporting periods are as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|------------------------|------------------------|
| Within one year | P 167,676,150 | P 184,014,720 | P 182,700,905 |
| After one year but not more than five years | 410,053,785 | 515,792,666 | 577,371,718 |
| More than five years | <u>231,488,839</u> | <u>318,889,205</u> | <u>401,898,268</u> |
| | <u>P 809,218,774</u> | <u>P 1,018,696,591</u> | <u>P 1,161,970,891</u> |

31.2 Operating Lease Commitments – Group as Lessee

GADC has various operating lease agreements for restaurant sites, offices and other facilities. These lease agreements are for initial terms of five to 40 years and, in most cases, provide for rental escalations, additional rentals based on certain percentages of sales, and renewal options for additional periods of five to 25 years.

Lease expense amounted to P1.1 billion (including variable rent of P609.0 million) in 2010, P942.8 million (including variable rent of P196.9 million) in 2009 and P836.1 million (including variable rent of P156.2 million) in 2008 and are shown as part of Rentals under Cost of Goods Sold in the consolidated statements of comprehensive income (see Note 22).

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|----------------------|------------------------|
| Within one year | P 201,134,887 | P 159,372,249 | P 212,666,563 |
| After one year but not more than five years | 480,027,250 | 494,473,874 | 647,080,821 |
| More than five years | <u>306,604,316</u> | <u>303,950,298</u> | <u>303,950,299</u> |
| | <u>P 987,766,453</u> | <u>P 957,796,421</u> | <u>P 1,163,697,683</u> |

31.3 Others

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on their consolidated financial statements.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS financial assets, interest-bearing loans and borrowings, bonds payable, trade receivables and payables and derivative asset and liabilities which arise directly from the Group's business operations. The financial debts were issued to raise funds for the Group's capital expenditures.

The Group does not actively engage in the trading of financial assets for speculative purposes.

The Group is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

32.1 Market Risk

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine peso, its functional currency. The currency exchange risk arises from the U.S. dollar-denominated cash and cash equivalents, loans and bonds which have been used to fund new projects. Foreign currency denominated financial assets and liabilities, translated into Philippine peso at period-end closing rate are as follows:

| | 2010 | | 2009 | |
|-----------------------|-----------------------|-------------------------|-----------------------|------------------------|
| | U.S. Dollars | Pesos | U.S. Dollars | Pesos |
| Financial assets | \$ 898,537,017 | P 39,424,291,079 | \$ 355,915,684 | P 16,498,827,442 |
| Financial liabilities | (574,083,347) | (25,193,647,690) | (172,914,498) | (8,015,624,468) |
| | <u>\$ 324,453,670</u> | <u>P 14,230,643,389</u> | <u>\$ 183,001,186</u> | <u>P 8,483,202,974</u> |

The sensitivity of the consolidated income before tax for the period in regards to the Group's financial assets and the US dollar – Philippine peso exchange rate assumes +/-14% and +/-14% changes of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2010 and 2009, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous year and 12 months, respectively, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting periods.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated income before tax would have decreased by P2.0 billion and P1.2 billion for the years ended December 31, 2010 and 2009, respectively. Conversely, if the Philippine peso had weakened against the U.S. dollar by the same percentage, then consolidated income before tax would have increased by the same amount.

The Group periodically reviews the trend of the foreign exchange rates and, as a practical move, increases its U.S. dollar-denominated time deposits in times when the Philippine peso is depreciating or decreases its U.S. dollar-denominated time deposits in times when the Philippine peso is appreciating.

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

(b) Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. At present, the Group is exposed to changes in market interest rates through bank borrowings and cash and cash equivalents, which are subject to variable interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. The long-term borrowings are usually at fixed rates. All other financial assets and liabilities are subject to variable interest rates.

The sensitivity of the consolidated income before tax for the period to a reasonably possible change in interest rates of +/-1.49% and +/-0.70% for Philippine peso and US dollar in 2010 and +/-3.32% for Philippine peso and +/-2.88% for US dollar in 2009 with effect from the beginning of the period. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous year and 12 months, respectively, estimated at 95% level of confidence.

The sensitivity analysis is based on the Group's financial instruments held at December 31, 2010 and 2009, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P0.6 billion and P0.9 billion for the years ended December 31, 2010 and 2009, respectively. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

32.2 Credit Risk

Generally, the Group's credit risk is attributable to accounts receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets. The carrying values of these financial assets subject to credit risk are disclosed in Note 33.1.

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Franchisees are subject to stringent financial, credit and legal verification process. In addition, accounts receivable are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant portion of sales, advance payments are received to mitigate credit risk.

With respect to credit risk arising from the other financial assets of the Group, composed of cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Trade and other receivables past due but not impaired can be shown as follows:

| | <u>2010</u> | <u>2009</u> |
|-----------------------|-------------------------------|------------------------|
| Not more than 30 days | P 3,926,830,184 | P 3,645,124,714 |
| 31 to 60 days | 1,736,931,713 | 1,465,951,346 |
| Over 60 days | <u>1,102,622,632</u> | <u>510,489,105</u> |
| | <u>P 6,766,384,529</u> | <u>P 5,621,565,165</u> |

32.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, preferred shares and finance leases.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets. In addition, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

As at December 31, 2010, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Within | 6 to 12 | 1 to 5 | Later than |
| | 6 Months | Months | Years | 5 Years |
| Trade and other payables | P 9,991,786,855 | P 2,190,224,738 | P - | P - |
| Obligation under finance lease | - | 317,500 | - | - |
| Interest-bearing loans and borrowings | 1,410,007,889 | 5,208,315,040 | 20,750,853,298 | 25,423,137,000 |
| Bonds payable | - | 3,416,062,159 | 5,000,000,000 | - |
| Derivative liabilities | - | 85,792,964 | - | - |
| Redeemable preferred shares | - | - | - | 1,574,159,348 |
| Security deposits | - | 34,811,012 | 38,914,886 | 22,258,486 |
| Payable to MRO stock option | - | 6,302,395 | 3,132,850 | - |
| Advances from related parties | <u>91,898,094</u> | <u>48,737,051</u> | <u>289,868,257</u> | <u>-</u> |
| | <u>P 11,493,692,838</u> | <u>P 10,990,562,859</u> | <u>P 26,082,769,291</u> | <u>P 27,019,554,834</u> |

As at December 31, 2009, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current | |
|---------------------------------------|-------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Within | 6 to 12 | 1 to 5 | Later than |
| | 6 Months | Months | Years | 5 Years |
| Trade and other payables | P 8,997,833,485 | P 1,590,826,698 | P - | P - |
| Obligation under finance lease | - | 525,121 | 235,488 | - |
| Interest-bearing loans and borrowings | 375,836,450 | 1,977,105,722 | 6,234,174,971 | 2,896,850,000 |
| Bonds payable | - | - | 8,608,407,826 | - |
| Derivative liabilities | - | 50,235,997 | - | - |
| Redeemable preferred shares | - | - | - | 1,574,159,348 |
| Security deposits | - | 28,517,352 | 31,732,595 | 20,803,148 |
| Payable to MRO stock option | - | 7,120,911 | 2,353,151 | - |
| Advances from related parties | <u>83,664,281</u> | <u>266,121,538</u> | <u>625,936,481</u> | <u>-</u> |
| | <u>P 9,457,334,216</u> | <u>P 3,920,453,339</u> | <u>P 15,502,840,512</u> | <u>P 4,491,812,496</u> |

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

32.4 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the equity as of December 31, 2010 and 2009 are summarized as follows:

| | <u>Observed Volatility Rates</u> | | <u>Impact on Equity</u> | |
|---|----------------------------------|-----------------|----------------------------|------------------------------|
| | <u>Increase</u> | <u>Decrease</u> | <u>Increase</u> | <u>Decrease</u> |
| 2010 | | | | |
| Investment in equity securities in property company | +51.54% | -51.54% | <u>P368,994,696</u> | <u>(P368,994,696)</u> |
| 2009 | | | | |
| Investment in equity securities in property company | +61.55% | -61.55% | <u>P 374,532,633</u> | <u>(P 374,532,633)</u> |

The maximum additional estimated loss in 2010 and 2009 is to the extent of the carrying value of the securities held as of these reporting dates with all other variables held constant. The estimated change in quoted market price is computed based on volatility of local index for property and bank sectors listed at PSE for the previous three months at 95% confidence level.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

33. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

33.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below (amounts in thousands).

| | <u>Notes</u> | <u>2010</u> | | <u>2009</u> | |
|-----------------------------|--------------|----------------------------|----------------------------|------------------------|---------------------|
| | | <u>Carrying Values</u> | <u>Fair Values</u> | <u>Carrying Values</u> | <u>Fair Values</u> |
| Financial assets | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | P 47,264,487 | P 47,264,487 | P 31,145,329 | P 31,145,329 |
| Trade and other receivables | 6 | 33,220,569 | 33,220,569 | 28,627,239 | 28,627,239 |
| Refundable deposits - net | 9 | <u>410,250</u> | <u>410,250</u> | <u>319,570</u> | <u>319,570</u> |
| | | <u>P 80,895,306</u> | <u>P 80,895,306</u> | <u>P 60,092,138</u> | <u>P 60,092,138</u> |

| | Notes | 2010 | | 2009 | |
|--|-------|---------------------|---------------------|---------------------|---------------------|
| | | Carrying | Fair | Carrying | Fair |
| | | Values | Values | Values | Values |
| Financial assets at FVTPL: | | | | | |
| Investments in marketable | | | | | |
| debt securities | 7 | P 13,676,060 | P 13,676,060 | P 1,468,089 | P 1,468,089 |
| Derivative asset | 7 | <u>29,532</u> | <u>29,532</u> | <u>670,582</u> | <u>670,582</u> |
| | | <u>P 13,705,592</u> | <u>P 13,705,592</u> | <u>P 2,138,671</u> | <u>P 2,138,671</u> |
| AFS Financial Assets: | | | | | |
| Debt securities | 11 | P 933,563 | P 933,563 | P 148,300 | P 148,300 |
| Equity securities | 11 | <u>675,468</u> | <u>675,468</u> | <u>818,457</u> | <u>818,457</u> |
| | | <u>P 1,609,031</u> | <u>P 1,609,031</u> | <u>P 966,757</u> | <u>P 966,757</u> |
| Financial Liabilities | | | | | |
| Financial liabilities at FVTPL – | | | | | |
| Derivative liabilities | 20 | <u>P 85,793</u> | <u>P 85,793</u> | <u>P 50,236</u> | <u>P 50,236</u> |
| Financial liabilities at amortized cost: | | | | | |
| Current: | | | | | |
| Interest-bearing | | | | | |
| loans and borrowings | 17 | P 1,586,753 | P 1,586,753 | P 2,266,849 | P 2,266,849 |
| Bonds payable | 18 | 3,416,062 | 3,416,062 | - | - |
| Trade and other payables | 16 | 12,372,690 | 12,372,690 | 11,014,011 | 11,014,011 |
| Other financial liabilities | 20 | <u>318</u> | <u>318</u> | <u>525</u> | <u>525</u> |
| | | <u>17,375,823</u> | <u>17,375,823</u> | <u>13,281,385</u> | <u>13,281,385</u> |
| Non-current: | | | | | |
| Interest-bearing | | | | | |
| loans and borrowings | 17 | 8,580,459 | 8,580,459 | 8,337,348 | 8,337,348 |
| Bonds payable | 18 | 26,571,052 | 26,571,052 | 8,608,408 | 8,608,408 |
| Advance from related parties | 28 | 338,605 | 338,605 | 661,009 | 661,009 |
| Redeemable preferred shares | 19 | 371,866 | 371,866 | 330,917 | 330,917 |
| Other financial liabilities | 20 | <u>89,570</u> | <u>89,570</u> | <u>82,819</u> | <u>82,819</u> |
| | | <u>35,951,552</u> | <u>35,951,552</u> | <u>18,020,501</u> | <u>18,020,501</u> |
| | | <u>P 53,413,168</u> | <u>P 53,413,168</u> | <u>P 31,352,122</u> | <u>P 31,352,122</u> |

See Notes 2.4 and 2.13 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 32.

33.2 Fair Value Hierarchy

The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
-
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The breakdown of the Group's financial assets and liabilities measured at fair value in its consolidated statements of financial position as of December 31, 2010 and 2009 is as follows:

December 31, 2010

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------|-------------------------------|-------------------|---------------------------|-------------------------------|
| Financial assets at FVTPL | P13,676,059,689 | P - | P - | P13,676,059,689 |
| Derivative assets | 29,532,493 | - | - | 29,532,493 |
| AFS financial assets | 1,606,087,475 | - | 2,943,490 | 1,609,030,965 |
| Derivative liabilities | (85,792,964) | - | - | (85,792,964) |
| | <u>P15,225,886,693</u> | <u>P -</u> | <u>P 2,943,490</u> | <u>P15,228,830,183</u> |

December 31, 2009

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------|-------------------------------|-------------------|---------------------------|-------------------------------|
| Financial assets at FVTPL | P 2,138,671,132 | P - | P - | P 2,138,671,132 |
| AFS financial assets | 963,813,352 | - | 2,943,490 | 966,756,842 |
| Derivative liabilities | (50,235,997) | - | - | (50,235,997) |
| | <u>P 3,052,248,487</u> | <u>P -</u> | <u>P 2,943,490</u> | <u>P 3,055,191,977</u> |

34. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and to maintain strong and healthy financial position to support its current business operations and drive its expansion and growth in the future.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

It monitors capital using the debt to equity ratio as shown below.

| | <u>2010</u> | <u>2009</u> |
|--|------------------------------|-----------------------|
| Total liabilities | P72,527,041,866 | P 46,235,811,062 |
| Equity attributable to owners of the parent company | <u>58,247,472,087</u> | <u>51,304,839,530</u> |
| Debt-to-equity ratio | <u>P 1.25:1</u> | <u>P 0.90:1</u> |

The Group has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both periods.

35. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to 2010, the Company subscribed to 5.0 billion common shares of Global-Estate Resorts, Inc. (GERI, formerly Fil-Estate Land, Inc.) to be issued from a P5.0 billion increase in authorized capital stock of GERI at a par price of P1.0 per share. GERI is engaged in the acquisition and development of real estate properties. The subscription is in line with the Company's strategy of investing in tourism projects outside of Metro Manila and will enable the development of more than 1,000 hectares of tourism-oriented communities in the country's prime tourism spots such as Tagaytay, Nasugbu and Boracay.

**Report of Independent Auditors
to Accompany SEC Schedules
filed Separately from the Basic
Financial Statements**

**The Board of Directors and Stockholders
Alliance Global Group, Inc. and Subsidiaries**
7th Floor, 1880 Eastwood Avenue
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited the consolidated financial statements of Alliance Global Group, Inc. (the Company) and subsidiaries and the separate financial statements of the Company for the year ended December 31, 2010, on which we have rendered our reports on February 25, 2011 and March 29, 2011, respectively. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) of the Company and subsidiaries as of December 31, 2010 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: **Leonardo D. Cuaresma, Jr.**
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 2641858, January 3, 2011, Makati City
Partner's SEC Accreditation No. 007-AR-2 (until Feb. 1, 2012)
BIR AN 08-002511-7-2008 (Nov. 25, 2008 to 2011)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 29, 2011

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2010

**Independent Auditors' Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements**

**Supplementary Schedules to Consolidated Financial Statements
(Form 17-A, Item 7)**

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| A. Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments) | 1 |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates) | 2 |
| C. Noncurrent Marketable Equity Securities, Other Long-term Investments in Stocks and Other Investments | 3 |
| D. Indebtedness to Unconsolidated Subsidiaries and Related Parties | 4 |
| E. Intangible Assets - Other Assets | 5 |
| F. Long-term Debt | 6 |
| G. Indebtedness to Related Parties (Long-term Loans from Related Companies) | N/A |
| H. Guarantees of Securities of Other Issuers | N/A |
| I. Capital Stock | 7 |

**Supplementary Schedule to Parent Financial Statements
(SEC Circular 11)**

| | |
|--|---|
| J. Reconciliation of Parent Company Retained Earnings for Dividend Declaration | 8 |
|--|---|

Alliance Global Group, Inc. and Subsidiaries
Schedule A - Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)
December 31, 2010

| Name of Banks | Amount | Interest Income |
|--|--------------------------------|-----------------------------|
| Cash - Short Term Placements | | |
| a | b | c |
| Banco de Oro | P 8,548,084,109 | P 305,215,921 |
| BPI | 6,325,650,986 | 107,434,561 |
| Deutsche Bank | 5,740,671,805 | 93,422 |
| HSBC - HK | 3,560,818,437 | - |
| ING Bank | 3,500,000,000 | - |
| Credit Suisse | 2,657,891,322 | - |
| Citibank | 1,768,396,946 | 126,288,879 |
| MBTC | 1,069,178,300 | 2,199,534 |
| CBC | 842,710,749 | 13,617,696 |
| RCBC | 698,897,390 | 50,014,597 |
| Landbank | 603,459,996 | 5,113,662 |
| PNB | 581,216,603 | 2,344,915 |
| HSBC | 312,314,712 | 5,368 |
| Union Bank | 303,484,955 | 16,107,200 |
| Planters Bank | 273,076,849 | 7,335,421 |
| PS Bank | 116,224,918 | 4,109,805 |
| Allied Bank | 97,043,333 | 3,076,526 |
| Eastwest | 50,000,000 | - |
| Orix Metro | 48,082,531 | 201,596 |
| Bank of Commerce | 11,041,420 | 438,768 |
| Others | 3,930,975 | 133,815 |
| Maybank | - | 1,585,402 |
| Asiatrust | - | 990,401 |
| Total Cash Equivalents | P 37,112,176,336 | P 646,307,489 |
| Financial Assets at Fair Value Through Profit or Loss | | |
| HSBC HK | P 9,099,291,448 | P - |
| Bank of Singapore | 2,594,897,950 | - |
| Citibank | 1,778,026,515 | - |
| UBS | 233,376,269 | - |
| | <u>13,705,592,182</u> | <u>-</u> |
| Total | <u>P 50,817,768,518</u> | <u>P 646,307,489</u> |

Alliance Global Group, Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2010

| <i>Name and Designation of Debtor</i> | <i>Balance at the beginning of period</i> | <i>Additions</i> | <i>Deductions</i> | | <i>Ending Balance</i> | | <i>Balance at the end of period</i> |
|---|---|------------------|--------------------------|----------------------------|-----------------------|--------------------|-------------------------------------|
| | | | <i>Amounts collected</i> | <i>Amounts written off</i> | <i>Current</i> | <i>Not current</i> | |
| Advances to Officers and Employees: | | | | | | | |
| Philipp Cando Vice President - Operations, Megaworld Corporation | P - | P 812,581 | (P 190,548) | P - | P 622,033 | P - | P 622,033 |
| Garry V. De Guzman Vice President - Legal Affairs, Megaworld Corporation | 455,360 | - | (229,898) | - | 225,462 | - | 225,462 |
| Monica V. Solomon Vice President - Corporate Management, Megaworld Corporation | 457,834 | - | (130,810) | - | 327,024 | - | 327,024 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>P 913,194</u> | <u>P 812,581</u> | <u>(P 551,256)</u> | <u>-</u> | <u>P 1,174,520</u> | <u>-</u> | <u>P 1,174,520</u> |
| Loans to Directors: | <u>P -</u> | <u>P -</u> | <u>P -</u> | <u>P -</u> | <u>P -</u> | <u>P -</u> | <u>P -</u> |

Alliance Global Group, Inc. and Subsidiaries
Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments
December 31, 2010

| Name of Issuing entity and description of Investee | Percentage of Ownership | Beginning Balance | | Additions | | Deductions | | Ending Balance | | | | | | | | |
|--|-------------------------|---|----------------|--|----------|---------------------------------------|----------|---|----------------|--------------------|------------|----------------------|----------|----------------------|----------|-----------------------|
| | | Number of shares or principal amount of bonds and notes | Amount in Peso | Equity in earnings (losses) of investee for the period | Other | Distribution of earnings by investees | Other | Number of shares or principal amount of bonds and notes | Amount in Peso | | | | | | | |
| Investment in Associates: | | | | | | | | | | | | | | | | |
| Empire East Land Holdings, Inc. | 27.00% | 5,077,256,249 | P | 7,790,800,059 | (P | 22,322,249 | P | 70,676,649 | P | - | P | - | P | 5,077,256,249 | P | 7,839,154,459 |
| Alliance Global Properties, Ltd. | 30.00% | 33,257,878 | | 2,544,146,246 | | 40,057,184 | | 285,460,560 | | - | | - | | 39,761,878 | | 2,869,663,989.78 |
| Suntrust Home Developers, Inc. | 24.00% | 768,334,992 | | 119,522,597 | | 2,009,668 | | - | | - | | - | | 768,334,992 | | 121,532,264.96 |
| Palm Tree Holdings and Development Corp. | 23.00% | 47,559,995 | | 70,089,471 | (| 71,262 | | - | | - | | - | | 47,559,995 | | 70,018,208.40 |
| Sonoma Premiere Land, Inc. | 56.00% | 200,000,000 | | 197,858,715 | (| 570,662 | | - | | - | | - | | 200,000,000 | | 197,288,053 |
| Gilmore Property Marketing Associates, Inc. | 37.00% | - | | - | | 102,927,843.85 | | 98,806,194 | | - | | - | | 995,750,000 | | 201,734,038 |
| | | 6,126,409,114 | P | 10,722,417,088 | P | 19,102,678 | P | 356,137,209 | P | - | P | - | P | 6,132,913,114 | P | 11,299,391,013 |
| Interest in Joint Ventures and Other Long-Term Investments: | | | | | | | | | | | | | | | | |
| Interest in Joint Venture | | | | | | | | | | | | | | | | |
| Travellers International Hotel Group, Inc. | 46.00% | 6,000,000,000 | P | 11,892,571,114 | P | 1,610,323,409 | P | 2,500,000 | (P | 453,680,000 | (P | 2,580,000,000 | | 3,420,000,000 | P | 10,471,714,523 |
| Golden City Food Industries, Inc. (At equity) | 24.00% | - | | 14,096,910 | | 1,639,667 | | - | | - | | - | | - | | 15,736,577 |
| | | - | P | 11,906,668,024 | P | 1,611,963,076 | P | 2,500,000 | (P | 453,680,000 | (P | 2,580,000,000 | P | 3,420,000,000 | P | 10,487,451,100 |
| Total | | | P | 22,629,085,112 | P | 1,631,065,754 | P | 358,637,209 | (P | 453,680,000 | (P | 2,580,000,000 | P | 9,552,913,114 | P | 21,786,842,113 |

Alliance Global Group, Inc. and Subsidiaries
Schedule D - Indebtedness of Unconsolidated Subsidiaries and Related Parties (Other than Affiliates)
December 31, 2010

| <i>Name of Related Parties</i> | | <i>Balance at beginning</i> | | <i>Balance at the end of period</i> |
|--|----------|-----------------------------|----------|-------------------------------------|
| <i>Associates</i> | | | | |
| Palm Tree Holdings and Development Corporation (PTHDC) | P | 1,009,986,216 | P | 1,004,986,820 |
| Suntrust Home Developers, Inc.* (SHDI) | | - | | - |
| Empire East Land Holdings, Inc. (EELHI) | | 378,888,334 | | 394,211,729 |
| Alliance Global Properties, Ltd. | | 211,708,104 | | 338,598.00 |
| <i>Other Related Parties:</i> | | | | |
| Suntrust Properties, Inc. (SPI) | | 25,462,573 | | - |
| Eastwood Property Holdings, Inc. (EPHI) | | 102,645,243 | | - |
| Asia's Finest Cuisine, Inc. (AFCI) | | 28,488,454 | | - |
| Goldsquare, Inc. (GI) | | - | | 23,480,089 |
| Eastwood Cinema (EC) | | 7,662,497 | | - |
| Empire East Properties, Inc. (EEPI) | | 405,000 | | 405,000.00 |
| Eastwood Locator | | 139,431 | | - |
| Others | | 233,822,074 | | 611,622,027.00 |
| | P | 1,999,207,926 | P | 2,035,044,263 |

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Intangible Assets - Other Assets
December 31, 2010

| <i>Description</i> | <i>Beginning balance</i> | <i>Additions at cost</i> | <i>Deduction</i> | | | <i>Ending balance</i> |
|---------------------------------|--------------------------|--------------------------|-------------------------------------|----------------------------------|---|-------------------------|
| | | | <i>Charged to cost and expenses</i> | <i>Charged to other accounts</i> | <i>Other changes additions (deductions)</i> | |
| Intangible Assets | | | | | | |
| Goodwill | P 10,621,712,819 | - | - | P - | P - | P 10,621,712,819 |
| Trademarks | 719,010,483 | - | (101,257,277) | - | - | 617,753,206 |
| Leasehold rights | 37,361,750 | - | (4,422,225) | - | - | 32,939,525 |
| Computer Software | <u>-</u> | <u>23,247,261</u> | <u>(5,166,058)</u> | <u>-</u> | <u>-</u> | <u>18,081,203</u> |
| | <u>P 11,378,085,052</u> | <u>23,247,261</u> | <u>(P 110,845,560)</u> | <u>P -</u> | <u>P -</u> | <u>P 11,290,486,753</u> |
| Other current assets | | | | | | |
| Prepayments | P 446,803,850 | P 88,978,830 | - | P - | P - | P 535,782,680 |
| Input VAT | 237,860,048 | - | - | - | (32,223,172) | 205,636,876 |
| Creditable withholding tax | 195,798,817 | - | - | - | (40,781,135) | 155,017,682 |
| Others | <u>50,452,626</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>39,771,462</u> | <u>90,224,088</u> |
| | <u>P 930,915,341</u> | <u>P 88,978,830</u> | <u>-</u> | <u>P -</u> | <u>(P 33,232,845)</u> | <u>P 986,661,326</u> |
| Other non-current assets | | | | | | |
| Deposits | P 319,570,050 | P 90,679,912 | P - | P - | P - | P 410,249,962 |
| Input VAT | 95,556,043 | 41,341,650 | - | - | - | 136,897,693 |
| Prepaid rent | 64,564,663 | - | (38,525,910) | - | - | 26,038,753 |
| Claim for tax refund | 112,282,175 | - | - | - | - | 112,282,175 |
| Others | <u>219,300,021</u> | <u>-</u> | <u>(91,303,429)</u> | <u>-</u> | <u>-</u> | <u>127,996,592</u> |
| | <u>P 811,272,952</u> | <u>P 132,021,562</u> | <u>(P 129,829,339)</u> | <u>P -</u> | <u>-</u> | <u>P 813,465,175</u> |

Alliance Global Group, Inc. and Subsidiaries
Schedule F - Long-Term Debt
December 31, 2010

| <i>Title of issue and type of obligation</i> | <i>Amount authorized by indenture</i> | <i>Amount shown under caption "Current portion of long-term debt" in related statement of financial position</i> | <i>Amount shown under caption "Long-Term Debt" in related statement of financial position</i> |
|--|---------------------------------------|--|---|
| Loans: | | | |
| McDonald's Restaurant Operations, Inc. | \$ 12,000,000 | P - | P 526,080,000 |
| Interest bearing loans | P 8,640,000,000 | 1,478,778,570 | 8,000,390,474 |
| Foreign borrowings | \$ 25,000,000 | 107,973,945 | 53,988,238 |
| | | <u>1,586,752,515</u> | <u>8,580,458,712</u> |
| Bonds Payable: | | | |
| Issuer: | | | |
| Megaworld Cayman Islands, Inc. | \$ 100,000,000 | 3,416,062,159 | - |
| Megaworld Corporation | P 5,000,000,000 | - | 5,000,000,000 |
| AG Cayman | \$ 500,000,000 | - | 21,571,051,933 |
| | | <u>3,416,062,159</u> | <u>26,571,051,933</u> |
| | | P 5,002,814,674 | P 35,151,510,645 |

a Payable in full on March 17, 2025, and bears interest at 10%, payable every six months.

b Interest-bearing loans include:

A P2.2 billion bank loan was obtained by the Company in June 2010 mainly to fund the outstanding balance of the subscription to Megaworld stock rights in May 2009.

c Interest-bearing loans also include loans obtained by Megaworld which includes the following:

1.) Unsecured corporate notes to several financial institutions in the aggregate principal amount of P1.4 billion which will mature in seven years from the issue date. The principal repayments on this loan shall commence on February 2010 and interest shall be paid semi-annually based on a 9.0% annual interest rate.

2.) Unsecured long-term loan from a local bank amounting to P500.0 million

3.) A P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion) where proceeds of loan were used to fund the development of Megaworld's various real estate projects.

4.) Loans obtained from a local bank in 2003 and 2006 amounting to P950.0 million and P403.0 million, respectively payable for a term of 10 years.

d The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every six months at a LIBOR rate plus certain spread. Collateral for the loan consisted of a first ranking mortgage over ECOC's investment property and a full guarantee from Megaworld.

e The bonds payable represent the five-year term bonds issued by Megaworld on August 4, 2006 at a discount of U.S. \$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007.

f On November 18, 2009, Megaworld issued a P5.0 billion fixed rate unsecured bonds with a term of five years and six months and which bear an interest of 8.46% per annum. The bonds were issued at par and will be redeemed at 100% of the face value on maturity date.

g These guaranteed notes were issued in 2010 - US\$500 million seven-year bonds with interest at a rate of 6.5% per annum payable semi-annually in arrears on February 18 and August 18 of each year commencing February 2011. The bonds are listed in the Singapore Exchange Securities Trading Limited.

Alliance Global Group, Inc. and Subsidiaries
Schedule I - Capital Stock
December 31, 2010

| <i>Title of Issue</i> | <i>Number of shares authorized</i> | <i>Number of shares issued and outstanding as shown under the related balance sheet caption</i> | <i>Number of shares reserved for options, warrants, conversion and other rights</i> | <i>Number of shares held by</i> | | |
|------------------------------|------------------------------------|---|---|---------------------------------|--|---------------|
| | | | | <i>Related parties</i> | <i>Directors, officers and employees</i> | <i>Others</i> |
| Common shares - P1 par value | 12,950,000,000 | 10,269,827,979 | - | 5,954,954,136 | 341,692,039 | 3,423,081,804 |
| Buy-back program | | 550,100,000 | | | | |
| | | <u>9,719,727,979</u> | | | | |

ALLIANCE GLOBAL GROUP, INC.
7th Floor Eastwood Avenue, Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City

**Reconciliation of Parent Company Retained Earnings for Dividend Declaration
December 31, 2010**

**UNAPPROPRIATED RETAINED EARNINGS
AT BEGINNING OF YEAR**

P 2,225,798,369

Net Income Realized for the Year

Net income per audited financial statements 3,224,093,119

Change in Retained Earnings for the Year

Dividends declared (583,183,679)

Treasury shares (1,630,097,879)

(2,213,281,558)

**RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION AT END OF YEAR**

P 3,236,609,930

Alliance Global Group, Inc. and Subsidiaries
AGING SCHEDULE OF TRADE AND OTHER RECEIVABLES
UNDER CURRENT ASSETS
December 31, 2010
(Amounts in Philippine Pesos)

| | | | |
|--------------------------------|----------|------------------------------|--|
| Trade Receivables | | | |
| Current | P | 10,859,557,427 | |
| 1 to 30 days | | 3,926,830,184 | |
| 31 to 60 days | | 1,736,931,713 | |
| Over 60 days | | <u>1,102,622,632</u> | |
| Total | | 17,625,941,956 | |
| Less: Allowance for Impairment | | <u>92,680,160</u> | |
| Balance at end of year | P | <u>17,533,261,796</u> | |