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S.E.C. Registration Number

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(Company's Full Name)

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(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

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FORM TYPE
ANNUAL REPORT

09 **3rd Tues.**
Month Day

N.A.
Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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AS093-7946
SEC Reg. No.

ALLIANCE GLOBAL GROUP, INC.

TABLE OF CONTENTS

Description

SEC 17-A	2011 Annual Report
AACFS	Audited Consolidated Financial Statements with Statement of Management's Responsibility For Consolidated Financial Statements and Report of Independent Auditors
	Supplementary Schedules to the Financial Statements with Independent Auditors' Report

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, 2011**

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*

Title of Each Class	*Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding* ***As of March 31, 2012***
Common	**10,269,827,979**

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 Twelve Pesos and Sixty Centavos (P12.60) on the Philippine Stock Exchange on March 31, 2012, is P55,370,519,870.*

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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, into the quick service restaurant business. In 2008, the Company entered into integrated tourism development, including gaming activities, and, in 2011, it expanded this tourism estate development outside of Metro Manila, particularly in the Calabarzon and Visayan regions.

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***

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 (gin, vodka, tequila); (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, is one of the country's leading real estate conglomerates that specializes in the development of large-scale, mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment, and educational and training components under the "live-work-play-learn" concept. 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. In 2011, AGI made purchases from the market that slightly increased its effective interest by 0.8%. By end-2011, AGI held 57.5% effective interest in Megaworld.

  Megaworld is continuously recognized by award-giving bodies - in the past by Finance Asia, Euromoney and Asiamoney. In 2011, it was conferred as Alpha South East Asia Most Organized Investor Relations and Strongest Adherence to

Corporate Governance, World HRD Congress Best Employer, Asia's Best Managed Company by Finance Asia and Best in Investor Relations by Finance Asia.

- *Empire East Landholdings, Inc*. (''ELI''), a publicly listed domestic real estate company incorporated on July 15, 1994, specializes in multi-cluster condominium projects and multi-phase subdivision developments in key locations in Metro Manila and Laguna. It becomes a subsidiary under MEG in first half of 2011 when MEG increased its interest to majority which as at December 31, 2011 is at 61.1%, as compared to 48.4% a year ago.

- *Suntrust Properties, Inc*. (''SPI'') focuses in socialized or mass housing developments in Cavite and Laguna. In March 2011, MEG acquired 50% majority interest in SPI. MEG owns effectively 82.4% of SPI as at December 31, 2011.

- *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. In 2008, Travellers received the first Provisional License issued by the PAGCOR to participate in the development of a portion of the Bagong Nayong Pilipino Entertainment City Manila Project and the Newport City Project. Travellers operates its gaming activities in Resorts World Manila under the said license. It has P10 billion authorized capital stock, P5.7 billion is outstanding as of end-2010.

  Travellers is AGI's first integrated tourism vehicle in Metro Manila and it is being reported under equity method. It is a partnership with Malaysia-based Genting Group, one of the largest leisure and entertainment companies in the world. In August 2008, a 50%-50% deal was inked with Genting Hong Kong Limited ("GHL") 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; has significant experience in operating gaming, hotel and leisure activities at resorts and on cruise ships; and is listed in the Hong Kong Stock Exchange.

- *Global-Estate Resorts, Inc.* ("GERI"), formerly Fil-Estate Land, Inc., a publicly listed real estate domestic company, incorporated on May 18, 1994, is engaged in the horizontal development of residential subdivision lots, integrated residential, golf and other leisure-related properties. It has more than 1,000 hectares of properties located in key tourist spots outside Metro Manila, such as Tagaytay City, Nasugbu and Boracay. It has P10 billion auhorized capital stock, 83.56% of which is subscribed and paid-up as of December 31, 2011.

  AGI acquired majority interest in GERI in January 2011 which at December 31, 2011 is at 61.7%. AGI's acquisition was ratified by GERI's stockholders on June 30, 2011. GERI is to be AGI's vehicle for tourism projects outside Metro Manila. It is set to master-plan tourism-oriented communities in Boracay, Tagaytay and Batangas.

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***

<u>F&B.</u>

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.

The BaR Citrus Tequila made its debut in April 2011. It is made from real tequila and flavored with a hint of citrus flavor - the first locally manufactured product of its kind. At 70 proof, it targets the more experienced drinkers aged 25 years and above.

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 more than 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.

<u>R.E.</u>

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. 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 18 hectares of land in Quezon City, Metro Manila. 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 at least 20 high-rise

towers designed according to a specific theme and style. The office properties consist of at least 9 office buildings. The leisure and entertainment zone consists of Eastwood Mall, Eastwood Richmonde Hotel and Eastwood Citywalk, a dining and entertainment hub, Eastwood Citywalk 2, 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. The leisure and entertainment zone is devoted to bars, restaurants and specialty shops which are designated to complement the residential buildings in this development as well as the surrounding office areas in Bonifacio Global City.

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, is situated within Newport City.

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, Taguig. Bonifacio Uptown is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use on a parcel of land owned by NAPOLCOM. The Company will develop Bonifacio Uptown under a joint venture arrangement with the BCDA.

8. McKinley West is a development on a 34.5 hectare portion of the Joint United States Military Authority Group (JUSMAG) property owned by BCDA and located across from McKinley Hill in Taguig, Metro Manila. The development of McKinley West into a mixed-use project is another joint venture undertaking with the BCDA.

Megaworld also has other ongoing residential condominium projects in Makati and San Juan in Metro Manila. It has commenced development of its 54.5 hectare parcel of land in Mandurriao, Iloilo which is the site of the old Iloilo airport into a central business district in Iloilo, with BPO offices. The planned development will comprise of office buildings, educational facilities, residential projects, a hotel, a convention center as well as retail and recreational areas. A portion of the development will be registered as a special economic zone with the government, which will allow it to benefit from a tax holiday period as well as other incentives for investors.

ELI 's real estate portfolio is composed of multi-cluster condominium projects and multi-phase subdivision developments in key locations in Metro Manila and the South. ELI set the trend for transit-oriented developments (TOD) where condominium communities are directly linked to mass-transit systems for faster and more efficient mobility in the metro. Its projects include:

1. Laguna BelAir is ELI's flagship township project located outside of Metro Manila. The master-planned 156-hectare development is a complete setting featuring four

residential phases with American-inspired homes, recreational amenities, a retail block, a math-and-science school and a parish church.

2. Cambridge Village in Pasig-Cainta area is a 37-cluster condominium project in an 8.8 hectare of land.. Twenty-one clusters were already completed and two more are currently being delivered. Twelve clusters forming Central Park was launched in March 2010.

3. The Sonoma in Sta. Rosa, Laguna is in a 50-hectare property in which ELI looks to replicate the success of Laguna BelAir.

4. The Rochester in San Joaquin, Pasig City is a 2.9 hectare large-scale Asian-inspired exclusive community development.

5. San Lorenzo Place at EDSA corner Chino Roces Avenue in Makati City is ELI's first salvo in Makati CBD-based condominium development. The project's residential towers sit on a podium linked directly to the Magallanes Station of the MRT Line 3.
6. Pioneer Woodlands at EDSA corner Pioneer Avenue in Mandaluyong City is ELI's first transit-oriented development project. The 30-story tower Tower 1 is expected to be turned over to its buyers by end-2012.

7. Little Baguio Terraces in San Juan City is a four-tower project set between two LRT Line 2 stations.

8. Kasara Urban Resort Residences is the first resort-inspired community that is soon to rise in Pasig City near C5 Road. It is launched in August 2011.

Aside from the pre-selling projects, ELI's portfolio includes ready-for-occupancy (RFO) units available in its various high-rise development projects in Metro Manila. As of December end of 2011, all units at all units in California Garden Square were almost sold out with an acceptance rate and occupancy rate of 90% and 84%

GERI has a diversified portfolio of integrated projects, including horizontal residential subdivision lots and residential/commercial complexes; residential communities integrated with golf, resort and other leisure related and commercial complexes; residential, office and commercial high rise; business park; and low cost housing.

In the integrated tourism business,

1. Travellers' Resorts World Manila (RWM) had a soft opening in August 2009. The hotel zone now has four hotels – Marriott Manila, Maxims (the country's first all-suites hotel with 172 suites), Remington (targeted at budget travelers) and condotel Belmont. RWM houses gaming facilities, 24-hour cinemas, a 1,532-seat multi-purpose performance arts theater, an iconic shopping mall with restaurants and bars, and the aforementioned hotels. In 2011, the Genting Club and GameZoo Arcade opened in June and December, respectively, and Remington rolled out 309 of its 712 rooms in November.

2. GERI's Boracay Newcoast was rolled out in 2011. It is the first and only tourism estate in Boracay island.

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 12% in 2011 and by 1% in 2010 because of new accounts and increased distribution in Texas, Midwest, Southwest and Southeast. Its international volume grew by 31% in 2011 and 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 2011 and 2010.

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 329 restaurants nationwide as of end-2011, 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.
Another 70% proof product under the The BaR label, Citrus Tequila, was launched in April 2011. It is the first and only tequila product that is locally produced.

Pik-Nik introduced Cheese Curls and Cheese Balls. These products are also being produced under private labels.

R.E.
Megaworld will develop properties in Mactan, Cebu. The property is expected to comprise residential condominiums, offices, BPO facilities and leisure facilities. Eight Newtown Boulevard, the first luxury residential project, is launched in 2011.

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 2011. Premium Desserts (double sundae, sundae duo, Oreo McFlurry overload) is also a big blast in 2011.

Integrated Tourism
Travellers continues its Phase 2 expansion at RWM which includes the construction of a new convention centre, expanded retail offering and additional hotel room capacity. Travellers will also develop Resorts World Bayshore City ("Bayshore City") in PAGCOR's Entertainment City in Parañaque City.

GERI is embarking on tourism estates development in Boracay, Tagaytay and Batangas. Tourism estates are master-planned tourism-oriented communities designed to attract foreign and local visitors and increase tourist traffic. In 2011, GERI launched Boracay Newcoast, the first and only tourism estate in Boracay.

*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 “Gawin Mong Light” for Emperador.

The BaR flavored gin, vodka and tequila is the first fruity flavored clear spirit produced in the country. Other manufacturers followed suit. Tanduay introduced Boracay, a 50% proof flavored rum, while San Miguel offered Flavors, a 17.5% alcohol flavored spirit.

Pik-Nik is now the best selling brand in the USA with the best selling sku – the Original shoestring potato in 9 oz cans. 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. The group 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. The group 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. The group 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 more than 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 Malaysia and Vietnam; soda ash from China; and limestone, feldspar and cullets from domestic suppliers. These raw materials are mainly purchased from Arvin Marketing, Inc., SiO2 Resources Corporation, 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.

The group has its own architectural and engineering teams 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. The group 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 and abroad. Megaworld's top five contractors under construction contracts in 2011 were Monolith Construction Development Corporation, JD Bernardo Engineering & Construction, Inc. Millenium Erectors Corp., New Golden City Builders and A.M. Oreta & Co., Inc. RE'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 ₱14.68 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 15ºC]. The excise tax rate had increased by 8% annually from P11.65 in January 2007 to January 1, 2011 after which 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, 2011, the Group has a total workforce of 24,533 personnel categorized by business segment as follows:

Real Estate	1,851
Integrated tourism development	5,068
Food and Beverage	
Distilled spirits business	1,813
Others	281
Quick Service Restaurant	15,520
Total	24,533

The Group intends to hire additional employees if the present workforce becomes inadequate to handle operations. Approximately 8,913 new employees are anticipated to be hired within the ensuing 12 months primarily due to business expansion. 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 RE project structures resulting from such natural catastrophes could also give rise to claims 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, it is required that a number of permits and approvals be obtained for 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*. RE 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	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
One Eastwood Avenue Tower One	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
Manhattan Heights	Quezon City	Ownership
Two Central	Makati City	Joint Venture
Three Central	Makati City	Ownership

Description	Location	Owned/Leased/Limitations on Ownership
		Owned
Rental Properties (1)		
Paseo Center	Makati City	Owned
Forbes Town Center	Forbes Town,Taguig City	Joint Venture Ownership
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
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
Projects under Empire East:		
Completed Projects		
Little Baguio Gardens	San Juan, Metro Manila	Owned
Laguna BelAir 1 and 2	Don Jose, Sta. Rosa, Laguna	Joint Venture
Governors Place	Mandaluyong City	Joint Venture
Eastwood City	Bagumbayan, Quezon City	Owned
Kingswood Tower	Makati City	Joint Venture
Citibank Square	Eastwood, Quezon City	Joint Venture
Gilmore Heights	Gilmore Ave. cor. N. Domingo Sts., Quezon City	Joint Venture
San Francisco Gardens	Mandaluyong City	Joint Venture
Greenhills Garden Square	Santolan Road, Quezon City	Owned
Central Business Park	Manggahan, Pasig City	Owned
Xavier Hills	Quezon City	Joint Venture
California Garden Square	Libertad St., Mandaluyong City	Owned
Ongoing Projects		
Laguna BelAir 3	Biñan, Laguna	Owned
The Cambridge Village	Cainta, Rizal	Owned
Laguna BelAir 4	Don Jose, Sta. Rosa, Laguna	Joint Venture

Description	Location	Owned/Leased/Limitations on Ownership
Little Baguio Terraces	San Juan, Metro Manila	Owned
Pioneer Woodlands	Mandaluyong City	Joint Venture
San Lorenzo Place	Makati City	Joint Venture
The Rochester	Pasig City	Owned
The Sonoma	Sta. Rosa City	Joint Venture
Kasara Urban Resort Residences	Eagle St., Pasig City	Owned
Subdivisions, condominiums, condotels, townhouses and leisure development projects under GERI:		
8 Sto. Domingo Place	Quezon City	Joint Venture
Buenavida Village	Naga City	Owned
Buenavista Hills	Tagaytay	Joint Venture
Caliraya Springs	Cavinti, Laguna	Joint Venture
Camp John Hay Suites	Cam John Hay, Baguio City	Ltd Warranty Deeds
Camp John Hay Forest Cabins	Camp John Hay, Baguio City	Ltd Warranty Deeds
Cathedral Heights	Quezon City	Joint Venture
Capitol Plaza	Quezon City	Co-development
Central Park Place	Mandaluyong City	Joint Venture
Fairways & Bluewaters	Boracay, Aklan	Owned
Festival Villas	Dueñas, Iloilo	Owned
Forest Hills	Antipolo City	Joint Venture
Goldridge Estate	Guiguinto, Bulacan	Joint Venture
Holiday Homes	Gen. Trias, Cavite	Joint Venture
Magnificat Executive Village	Lipa, Batangas	Joint Venture
Mango Orchard Plantation	Naic, Cavite	Joint Venture
Monte Cielo De Naga	Naga City	Joint Venture
Monte Cielo De Penafrancia	Naga City	Joint Venture
Mountain Meadows	Cagayan De Oro	Joint Venture
Newcoast Village	Malay, Aklan	Owned
Newcoast Shophouse	Malay, Aklan	Joint Venture
Newcoast Boutique Hotel	Malay, Aklan	Joint Venture
Newcoast Oceanway Res.	Malay, Aklan	Owned
Newport Hills	Lian, Batangas	Joint Venture
Nasugbu Harbour Town	Nasugbu, Batangas	Joint Venture
Palacio Real	Calamba, Laguna	Joint Venture
Palmridge Point	Talisay, Batangas	Joint Venture
Parco Bello	Muntinlupa City	Joint Venture
Parklane Square	Las Piñas City	Joint Venture
Parkridge Estate	Antipolo City	Joint Venture
Paragon Plaza	Mandaluyong City	Joint Venture
Northpointe (Pines Royal Homes)	Baguio City	Joint Venture
Plaridel Heights	Plaridel, Bulacan	Joint Venture
Puerto Del Mar	Lucena City	Joint Venture
Puerto Real De Iloilo	Iloilo	Joint Venture
Queensborough North	Pampanga	Joint Venture
Residencia Lipa	Lipa, Batangas	Joint Venture
Renaissance 5000	OrtigasCtr, Pasig City	Joint Venture
Richgate Condominium	Baguio City	Owned
Richgate Square	Baguio City	Joint Venture
Richview Square Exp'n	Baguio City	Joint Venture
Riverina	San Pablo City	Joint Venture
Sherwood Hills	Carmona, Cavite	Joint Venture

Description	Location	Owned/Leased/Limitations on Ownership
Southlakes Garden	Laguna	Joint Venture
Southwoods Peak	Carmona, Cavite	Joint Venture
Suburbia North - Ph 2	Pampanga	Joint Venture
Sta. Barbara Heights	Sta. Barbara, Iloilo	Joint Venture
Tagaytay Twin Lakes	Laurel, Batangas	Joint Venture
Tierra Vista	Lipa, Batangas	Joint Venture
Windsor Heights	Tagaytay	Joint Venture
Woodsgate Expansion	Baguio City	Owned
West Tower	Makati City	Joint Venture
Villa Maria	Fairways & Bluewater, Boracay	Owned
Villa Margarita	Fairways & Bluewater, Boracay	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 3-40 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.

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:

	2010				2011				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
High	5.60	6.00	9.85	13.12	12.80	12.14	12.24	11.10	12.70
Low	4.05	4.95	5.30	8.70	10.52	9.50	8.00	8.30	12.56

(*Source: PSE Research Dept.)*

*b. **Shareholders***

As of March 31, 2012 the Company had 1,189 stockholders, including nominees, holding 10,269,827,979 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	38.41
2	PCD Nominee Corporation (Non-Filipino) *	2,970,283,101	28.92
3	PCD Nominee Corporation (Filipino)	1,140,223,927	11.10
4	Altavision Resources, Inc.	451,574,334	4.645
5	Andrew L. Tan	341,684,350	3.506
6	Yorkshire Holdings, Inc.	255,773,508	2.624
7	Asiagroup Holdings, Inc.	220,004,000	2.257
8	Globaland Holdings, Inc.	220,004,000	2.257
9	Grand Bel Air Holdings, Inc.	220,004,000	2.257
10	Le Bristol Holdings, Inc.	216,100,000	2.217
11	California Orchard Growers Investments, Inc.	120,000,000	1.231
12	Eastwood Property Holdings, Inc.	112,600,000	1.155
13	Andresons Global, Inc.	30,088,596	0.309
14	Forbes Town Properties & Holdings, Inc.	10,000,000	0.097
15	Apex Management & Development Group, Inc.	6,500,000	0.066
16	Kingson Uy Siok Sian	5,001,100	0.048
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 on page 44 for stockholders holding 5% or more. * PCD Nominee Corporations (Non-Filipino and Filipino) is comprised of several nominees and the participants with 5% or more are indicated in Security Ownership on page 44.

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 bought 550.10 million shares worth P1.63 billion under its buy-back program. These shares were re-issued or sold in 2011.

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. In August 2011, AGI declared P0.36 cash dividend payable to all stockholders of record as of 22 August 2011.

As of December 31, 2011, AGI has P3.88 billion unrestricted retained earnings available for dividend distribution.

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:

	2011	2010	2009
Revenue growth	48.6%	14.6%	7.6%
Sales growth	41.9%	15.6%	8.5%
Net profit growth	55.2%	39.5%	11.5%
Attributable to equity holders of parent	68.0%	44.0%	22.7%
Net profit rate	22.3%	21.3%	17.5%
Attributable to equity holders of parent	17.6%	15.5%	12.3%
Return on investment	6.7%	5.8%	5.3%
Current ratio	3.6:1	3.5:1	3.1:1

- 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 profit growth – measures the percentage change in net profit over a designated period of time.

- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on investment [or capital employed]– the ratio of net profit 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****:*

In Billion Pesos	RE	F&B	QSR	Corporate & Others	TOTAL
2011					
Revenues	29.65	18.49	11.91	6.05	66.10
EBIT	11.38	3.31	1.09	4.95	20.73
Interest expense	1.0		0.11	1.52	2.63
Tax	2.05	0.91	0.33	0.06	3.35
Net profit	**8.33**	**2.40**	**0.65**	**3.37**	**14.75**
Gain on acquisitions				3.13	3.13
Net profit before gain	8.33	2.40	0.65	0.24	11.62
Net profit to owners	**5.53**	**2.40**	**0.31**	**3.37**	**11.61**
Net profit to owners – before gain	5.53	2.40	0.31	0.24	8.48
2010					
Revenues	21.87	9.23	11.02	2.38	44.50
EBIT	8.43	2.19	1.27	1.57	13.46
Interest expense	0.54		0.13	0.71	1.38
Tax	1.61	0.55	0.38	0.04	2.58
Net profit	6.28	1.64	0.76	0.82	9.50
Net profit to owners	4.08	1.64	0.37	0.82	6.91

In Billion Pesos	RE	F&B	QSR	Corporate & Others	TOTAL
Year-on-Year change					
Revenues	35.6%	100.5%	8.02%	154.1%	48.55%
EBIT	34.9%	50.6%	-13.3%	215.4%	54.0%
Interest expense	83.6%		-12.9%	113.8%	90.3%
Tax	27.1%	64.1%	-11.6%	48.9%	29.7%
Net profit	32.7%	46.0%	-14.2%	311.6%	55.3%
Net profit before gain	32.7%	46.0%	-14.2%	-70.7%	22.3%
Net profit to owners	35.5%	46.0%	-15.0%	311.6%	68.0%

Note: % are computed using whole numbers, not the rounded off as presented in previous tables.

For the Year Ended December 31, 2011 vs. 2010

AGI's net profit for the year hit record level of P14.7 billion which was 55.3% higher than the P9.5 billion reported a year ago. This was on the back of strong operating results of its F&B and RE segments and consolidation income from acquisition of shares of a new subsidiary, GERI. Nonetheless, net profit jumped by 22.3% year-on-year without this P3.1 billion acquisition gain. (Income from acquisition of GERI represents the excess of the proportionate share in the net assets acquired over the acquisition cost paid. Refer to Note 12 of the Notes to Consolidated Financial Statements filed with this report.) Net profit attributable to owners of the parent company hit P11.6 billion, a 68.0% growth year-on-year.

Moreover, this year's net profit did not include MEG's P2B gain from sale of AGI shares, which, in consolidation, was taken out of the income statement and reclassified under equity section of the statement of financial position.

The revenues and net profit of selected subsidiaries are as follows:

In Billion Pesos				Contribution	Contribution
	2011	2010	Growth	2011	2010
Revenues					
MEG [net of P2 billion gain] [1,2]	26.63	20.43	30.3%	40..3%	45.9%
EDI	17.35	8.42	106.1%	26.3%	18.9%
GADC	11.9	11.02	8.0%	18.0%	24.8%
Travellers [2]	1.93	1.29	50.2%	2.9%	2.9%
GERI	1.05			1.6%	
Others	7.23	3.34	117.0%	10.9%	7.5%
Consolidated	66.10	44.50	48.6%	100.0%	100.0%

In Billion Pesos				Contribution	Contribution
Net Profit	2011	2010	Growth	2011	2010
MEG [net of P2 billion gain] [1]	6.15	4.97	23.7%	41.7%	52.4%
EDI	2.31	1.67	38.1%	15.6%	17.6%
Travellers [2]	1.93	1.29	50.23%	13.3%	13.6%
GADC	0.65	0.76	-14.2%	4.4%	8.0%
GERI	0.22			1.5%	
Others	3.48	0.81	330.3%	23.6%	8.51%
Consolidated	14.74	9.50	55.2%	100%	100%
Income from acquisition of GERI	3.13				
Consolidated - before acquisition income	11.61	9.50	22.3%		

1 In 2011, MEG realized P2 billion gain from sale of AGI shares that it held. In consolidation at AGI level, such gain was removed from the income statement and reclassified as additional paid-in capital in equity statement.

2 This represents 40% equity share in Travellers net profit. Another 10% is already included in MEG's income statements.

In Billion Pesos	2011	2010	Change
REVENUES			
Sales and services	53.66	37.82	41.9%
Sale of goods	28.90	18.66	54.9%
Real estate sales	16.36	13.11	24.8%
Rendering of services	5.18	3.76	37.5%
Realized gross profit on prior year's RE sales	2.00	1.36	47.4%
Interest income on real estate sales	1.22	0.93	30.6%
Share in net profits of associates and joint ventures	2.54	1.73	46.5%
Finance and other income	6.77	4.95	37.0%
	62.97	44.50	41.5%
Income from acquisition of a subsidiary	3.13		
TOTAL	66.10	44.50	48.6%

RE	29.65	21.87	35.6%
F&B	18.49	9.23	100.5%
QSR	11.91	11.02	8.0%
Others	6.05	2.38	154.1%
TOTAL	66.10	44.50	48.6%

Revenues jumped 48.6% to P66.1 billion from P44.5 billion a year ago, primarily due to 54.9% growth in sales of consumer goods, 37.5% in rendering of services and 46.5% in share in net profits of associates and joint ventures. Segment-wise, RE made the highest contribution (45%) this year, followed by F&B (28%) and QSR (18%). RE current sales, in particular, represent 24.8% of total revenues while consumer product sales contributed 43.7% to total revenues. RE rental income comprised 5.8% of total revenues.

RE revenues come from sales of lots, condominium and office units, and golf club and resort shares; rental/lease of office and commercial spaces and hotel operations, and finance and other income. RE portfolio targets a wider spectrum through projects of newly-consolidated subsidiaries GERI, ELI and SPI.

Megaworld launched eight projects in 2011 – One Eastwood Avenue in Eastwood City, Quezon City; 101 Newport Boulevard and Belmont Luxury Hotel in Newport City, Pasay City; One Uptown Residence in Global City; Tower 1 of The Viceroy in McKinley Hill, For Bonifacio; second tower of Manhattan Heights in Araneta Center; Greenbelt Hamilton in Makati City; and Eight Newtown Boulevard, Megaworld's first luxury residential project in Mactan, Cebu.

ELI booked sales from its mid-rise to high-rise condominiums located in key place in Metro Manila and single-detached homes in progressive suburban areas.

GERI launched projects in Boracay New Coast, the first integrated tourism estate in Boracay. It is not yet expected to contribute significantly in short-term. Its real estate sales in 2011 came from sale of condominium units, residential lots and commercial lot outside of Metro Manila.

The Group's RE revenues were derived mostly from the following projects: (MEG) Eight Forbes Town in Fort Bonifacio; Eastwood Le Grand in Eastwood City; McKinley West, Morgan Suites, and The Venice Luxury Residences in Taguig City; Newport City, Newport Palm Tree Villas, and 81 Newport Boulevard in Pasay; (GERI) Eight Sto. Domingo Place in Quezon City; Magnificat Executive Village in Lipa, Batangas; Riverina in Laguna; Monte Cielo De Naga in Naga City; and Sta. Barbara Heights in Iloilo City; and commercial lots in Carmona, Cavite; (ELI) California Gardens Square, Little Baguio Terraces, Pioneer Woodlands, The Cambridge Village, San Lorenzo Place, Kasara Urban Resort Residences, Laguna Bel Air Projects, Suntrust Aurora Gardens, The Gentri Heights and The Sonoma. Rental income from office and retail tenants grew due to high occupancy in both the BPO offices and retail spaces, and escalation of rental prices.

RE revenues also included P2.4 billion share in net profit of Travellers, as compared to P1.6 billion a year ago [inclusive of equity share reported under MEG]. Travellers reported net profit of P4.8 billion this year, a 50% growth from P3.2 billion a year ago. Comparatively, revenues grew to P26.3 billion from P14.9 billion while operating expenses increased to P9.1 billion from P5.4 billion due to new hires to support the expanding operations as well as marketing and advertising efforts to promote the integrated resort. 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 revenues doubled last year's results due to invigorating demand for the distilled spirits products. Emperador Brandy and The BaR flavored alcoholic drinks continued to enjoy *spirited* sales during the year. The BaR variants - the pricey Citrus Tequila, the popular Strawberry Vodka and the pure Silver, which were launched in the market in April this year, May and November last year, respectively - provided incremental growth that pushed up sales further. The demand for Emperador Light, with its catchy 'Gawing mong light' campaign, swelled and this boosted sales.

Pik-Nik had a good year also and performed at above the industry average. Sales rose by 23% from a year ago, with its USA sales gaining 11% while international sales outside of USA expanded by 38%. The weak US dollar has been beneficial for exports and Pik-Nik profited through increased export volumes.

QSR revenues grew by 9.6%. Product sales generated from company-operated restaurants, in particular, went up by 8.8% and revenue from franchised restaurants by 19.9%. The growth came primarily from the opening of new restaurants during the year plus the increase in business extensions (24-hour delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart) and the re-imaging of company-owned restaurants. Twenty-one new restaurants were opened from a year ago, bringing the total number of stores nationwide to 329 stores, 185 of which are company-owned. The new stores contributed 2.3% to total system sales.

Aggressive advertising and promotional campaigns continued to support McDelivery, McSaver Meals, P25 McSavers (sundae, floats, fries and Burger McDo), Breakfast and Premium Desserts.

Income from the acquisition of a subsidiary represents primarily the excess of proportionate share in the consolidated net assets of GERI, the acquiree, over the acquisition cost paid for the shares of stock.

Share in net profits includes P2.4 billion, which represents the Group's equity in Travellers' net income of P4.8 billion for the current year.

Finance and other income, which represented 10.2% of total revenues, grew by 37.0% due to higher interest earnings which, on the other hand, soared by 85.9%.

In Billion Pesos	2011	2010	Change
COSTS AND EXPENSES			
Cost of sales and services	35.96	25.02	43.7%
Goods sold	21.74	13.20	64.7%
Real estate sales	10.32	8.61	19.8%
Deferred gross profit on real estate sales	3.09	2.43	27.2%
Services	0.81	0.78	3.9%
Operating expenses	8.24	5.26	56.6%
Selling expenses	3.59	2.22	61.7%
General and administrative	4.65	3.04	52.8%
Finance costs and other charges	3.78	2.13	77.5%
TOTAL	47.98	32.41	48.0%

RE	19.25	13.98	37.8%
F&B	15.19	7.03	116.1%
QSR	10.92	9.89	10.5%
Others	2.62	1.51	72.2%
TOTAL	47.98	32.41	48.0%

Costs and expenses went up by 48.0% to P48.0 billion from P32.4 billion due to 64.7%, 19.8%, 27.2% and 61.7% rise in cost of goods sold, cost of real estate sales, deferred gross profit on real estate sales, and selling expenses, respectively, reflecting robust sales and service rendition. The higher sales translated into higher commissions, advertising and promotions, freight, royalty and fuel expenses.

The top three cost components in the manufacture of alcoholic drinks were raw materials, depreciation and amortization, and factory supplies representing 90% of cost. In the QSR, these were food and paper, rental and utilities and personnel costs, representing about 84% of cost.

General and administrative expenses rose by 52.8% because depreciation, salaries and employee benefits increased, particularly in RE business. GERI expended P419 million during the year.

Finance costs and other charges, which represented 7.9% of total costs and expenses, went up by 77.5% to P3.8 billion from P2.1 billion a year ago, due to interest on interest-bearing notes and bonds which comparably increased this year. P1.5 billion was recorded this year for the AGI Cayman bonds, as compared to P 567 million a year ago.

Tax expense totaled P3.4 billion from P2.6 billion a year ago as a result of increased sales and profits.

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 Tuscany, 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.)

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.

b.2. ***Liquidity and Capital Resources***

Consolidated total assets amounted to P220 billion at yearend 2011 from P164 billion at beginning of the year, or a 34% increase, primarily due to increased activity in RE segment which included the acquired assets from newly-consolidated subsidiaries.

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 P1.9 billion – to end at P49.1 billion from P47.3 billion at the beginning of the year. The increase came significantly from operations, sale of treasury shares and issuance of MEG bonds. Cash flows from operating, financing and investing activities during the year were presented in the consolidated statements of cash flows.

Current trade and other receivables went up by P7.9 billion or 45.4% and noncurrent portion up by P4.9 billion or 31.2% due to increased real estate sales, plus the receivables added to the balances from GERI and ELI.

Financial assets at fair value through profit or loss decreased by P2.4 billion or 17%, primarily due to reduction in investments in bonds and marketable securities. Financial assets classified in this category are held for selling in the short term and are measured at fair value. The fair value loss on the reduction in market prices was included under Finance and Other Charges in consolidated statements of comprehensive income. The Group does not actively engage in the trading of financial assets for speculative purposes.

Inventories increased by P20.8 billion or 256.4% due to increase in residential and condominium units for sale which represent the completed portion of costs attributed to ongoing projects, and golf and resort shares for sale.

Property development costs soared by P6.9 billion or 181.6% due to increased development activity on ongoing RE projects, plus those in ELI and GERI.

Land for future development leaped by P7.9 billion or 535.4% due to addition to the Group's land bank of property that belong to GERI, SPI and ELI.

Advances to landowners and joint ventures went up by P2.2 billion or 80.0% 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.

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Property and equipment went up by P1.4 billion or 27.9% from the property of GERI and ELI, and capital expenditures for new McDonald's stores, kiosks and ongoing renovations. Investment property increased by P3.1 billion or 30.6% primarily due to the property added from the newly consolidated subsidiaries.

Investments in and advances to associates and other related parties decreased by P4.8 billion or 20.3% primarily due to transfer of investment in ELI which become a subsidiary this year. The reduction was partly offset by GERI's P750 million account balance as of year-end.

Deferred tax assets increased by P360.3 million or 116.2% as a result of P333 million from GERI.

Available-for-sale financial assets increased by P3.8 billion or 238.4% due to financial assets added during the year. These financial assets include 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. These financial assets are reported at fair values by reference to published prices in an active market. The valuation account is under equity section of the statement of financial position. These financial assets are not intended to be traded in the short-term.

Other current assets swelled by P2.0 billion or 206.6% due to assets from GERI, ELI and SPI which substantially are input taxes and advances from suppliers. Other non-current assets, on the other hand, grew by P257 million or 31.6% which was attributable to increases in MEG's and GERI's accounts.

The increases in customers' deposits, reserve for property development, deferred tax liabilities, deferred income on real estate sales, trade and other payables, and other current and non-current liabilities, all of which are related to RE segment, were attributed to pumping up of RE development and lease activities as well as vigorous marketing and pre-selling campaigns. The reserve pertains to cost to complete the development of various projects while the deferred income represents unearned revenue.

Interest-bearing loans and borrowings dropped by P1.3 billion due to net payments made during the period. Bonds payable climbed up by P5.2 billion due to MEG's seven-year $200 million bonds issued in April 2011.

Advances from related parties went down by P114 million or 33.8% partly due to reduction of MEG's liabilities, including those brought about by the consolidation of associates.

The increase in redeemable preferred shares represents the accretion of interest in the carrying value which amounted to P46 million as of end-2011.

The acquisition of additional ownership interest in Megaworld from purchases in the open market resulted in dilution gain of P93.3 million 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 and are carried at their acquisition cost. The AGI shares held by certain subsidiaries are 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. AGI, the parent company, does not hold any of its own shares as of year-end.

Additional paid-in capital (APIC) went up by P6.3 billion from the gain realized on reissuance/sale of treasury shares during the year. This included the P2.0 billion gain realized by MEG which was reclassified from profit or loss (in MEG) to APIC (in AGI consolidation).

The decrease in revaluation reserves of P1.5 billion represent the unrealized change in fair value of available-for-sale financial assets.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign currency denominated financial statements of certain subsidiaries into the Philippine pesos, the Group's presentation currency.

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2011 and 2010 amounted to P128.6 billion and P91.4 billion, respectively, while current liabilities for the same respective years-end remained low at P36.2 billion and P26.4 billion, respectively. Thus, current ratios were at 3.6:1 and 3.5:1 as of respective year-ends. Debt-to-equity ratios were at 0.8:1 in both years, while interest-bearing-debt-to-controlling-equity ratios were 0.60:1 and 0.69:1 at the beginning and end of the year.

The Group's net cash position will provide the financial muscle to pursue strategic activities.

(In Billions)	December 30, 2011	December 31, 2010
Cash and equivalents	49.15	47.26
Interest-bearing debt [bonds included]	44.02	40.15
Net cash	5.13	7.11
Cash and cash equivalents to interest-bearing debt	112%	118%
Interest-bearing debt to controlling equity	0.60%	0.69%

*b.3. **Prospects for the future***

AGI remains vigilant on delivering its business goals and intends to continue to adopt prudent measures to ensure financial sustainability. It is always on the lookout for new opportunities that will enhance the overall profitability of the group while maintaining established markets. AGI has a proven track record of creating value over time and is confident in its ability to deliver sustainable profitable growth and value for its stakeholders.

In 2012, 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. The tourism-oriented projects under GERI are expected to contribute a sizable portion of profit to the Group in the next three or four years.

*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 Maters

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. From 2009 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 P1,472,500 and P1,330,000 for the audit of 2011 and 2010 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*:**

Name, Age Citizenship	*Position Held, Term of Office*	*Present Directorship(s) in other companies*	*Business experience for the past five (5) years*
ANDREW L. TAN, 62 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.; Richmonde Hotel Group International Limited; Megaworld Globus Asia, Inc.; Megaworld Homes, Inc.; The Bar Beverage, Inc.; Emperador Brandy, Inc.; Yorkshire Holdings, Inc.; Philippine International Properties, Inc.; ***Chairman***, Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.); 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.; 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	Real estate; distillery; marketing

		International Limited; Venezia Universal Limited; Travellers International Hotel Group, Inc.; Bonifacio West Development Corporation; Twin Lakes Corporation & Fairways & Bluewater Resort Golf & Country Club, Inc.	
SERGIO R. ORTIZ-LUIS, JR., 68 Filipino	Independent Director/Vice-Chairman of the Board, Sept. 2007-present;	***President,*** Philippine Exporters Confederation, Inc., (PHILEXPORT); ***Honorary Chairman- Treasurer***, Philippine Chamber of Commerce & Industry; ***Vice Chairman***, Export Development Council; ***Director***, Employers Confederation of the Philippines (ECOP), Philippine Estate; Manila Exposition Complex, Inc.; Holy Angel Memorial Park, Philippine International Trading; ***Independent Director***, AB Capital, Waterfront Philippines, Inc.	Organizational Development
KINGSON U. SIAN, 50 Filipino	Director & President, Feb 20, 2007-present	***Senior Vice President & Executive Director***, Megaworld Corporation; ***Chairman & President,*** Asia Finest Hotels & Resorts, Inc.; Megaworld Resort Estates, Inc.; Prestige Hotels & Resorts, Inc.; Manila Bayshore Property Holdings, 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	Real estate marketing; business development
WINSTON S. CO, 53 Filipino	Director, up to present; Vice-chairman, Nov1999-Aug2003;Chairman, 1998-October 1999	***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.	Finance and marketing
KATHERINE L. TAN, 60 Filipino	Director/Treasurer Feb 20, 2007-present	***Chairman & President,*** Andresons Global, Inc., Choice Gourmet Banquet, Inc.; ***Director/President***, Consolidated Distillers of the Far East, Inc.; Raffles and Company,	Finance; marketing

		Inc., The Andresons Group, Inc., ***Director/Treasurer***, Alliance Global Brands, Inc.; Emperador Brandy, Inc., Emperador Distillers, Inc; Yorkshire Holdings, Inc.; ***Director,*** Empire East Land Holdings, Inc. Emperador International Limited; Kenrich Corporation; McKester Pik-Nik International Limited; Megaworld Corporation; Megaworld Cayman Islands, Inc.; Venezia Universal Limited; The Bar Beverage, Inc.; ***Treasurer***, Newtown Land Partners, Inc.	
ALEJO L. VILLANUEVA, JR., 70 Filipino	Independent Director, 2001-present	***Chairman,*** Ruru Courier Systems, Inc.; ***Vice Chairman,*** Public Relations Counsellors Foundation of the Philippines, Inc.; ***Independent Director,*** Empire East Land Holdings, Inc.; ***Director,*** First Capital Condominium Corporation,	Training, organizational development, consultancy
RENATO M. PIEZAS, 45 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, 53, 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, 37, Filipino	Corporate Secretary, September 14, 2007-present	***Corporate Secretary***, Global-Estate Resorts, Inc.; Twin Lakes Corporation; Eastwood City Estates Association, Inc.; and Suntrust Properties, Inc.; ***Asst. Corporate Secretary***, Adams Properties, Inc.	Legal documentation, Corporate Counsel and corporate affairs management
ROLANDO D. SITATELA, 51, 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 of*** Megaworld Corporation; Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.), Suntrust Properties, Inc.	Legal documentation and corporate affairs management

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 September 20, 2011.

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:

- 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;
- 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;
- 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
- 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 2011 and 2010,, no compensation was received from AGI, the holding company, and neither will there be for 2012, 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.

On July 27, 2011, the Board of Directors of the Company approved an Executive Stock Option Plan (the "Plan") and this was approved on September 20, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the Plan is to enable the key Company executives and senior officers who are largely responsible for its further growth and development to obtain an ownership interest in the Company, thereby encouraging long-term commitment to the Company. The Plan is being administered by the Compensation and Remuneration Committee (the "Committee") of the Board, composed of the following: Winston S. Co, Chairman, and Renato M. Piezas and Alejo L. Villanueva, Jr., Independent Director, as members.

Under the Plan, the Company shall initially reserve for exercise of stock options up to approximately three percent (3%) of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within ten (10) years from the adoption of the Plan and may be exercised within seven (7) years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine (9) months immediately preceding the date of grant. The options shall vest within three (3) years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three (3) year period. The Company shall receive cash for the stock options.

On December 19, 2011, 46.5 million options were granted to key executives and senior officers, including the CEO and President, at an exercise price of P9.175 with a market price of P10.28 on the date of grant. As of 31 December 2011, no options have vested. An Option Holder may exercise in whole or in part his vested Option provided, that, an Option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said Option's Life Cycle. As of this time, the Company cannot determine if options can be exercised with less than forty percent (40%) of the total price of the shares so purchased. The Company does not provide or arrange for loans to enable to qualified participant to exercise their options.

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:

Title of Class	*Name and Address of Record Owner &Relationship w/ Issuer*	*Name of Beneficial Owner & Relationship w/ Record Owner*	*Citizenship*	*No. of Shares*	*Percent Owned*
Common	THE ANDRESONS GROUP, INC. 7/F 1880 Eastwood Avenue, Eastwood City Bagumbayan, Quezon City,[1]	THE ANDRESONS GROUP, INC. (TAGI)	Filipino	3,944,826,194	38.41%
Common	PCD NOMINEE CORPORATION G/FMakati Stock Exchange Building 6767 Ayala Avenue, Makati City [2]	HONGKONG AND SHANGHAI CORP. LTD. (Non-Filipino) HSBC Securities Services 12th Floor, The Enterprise	Non-Filipino	2,054,049,930	20.00%

[1] Mr. Andrew L. Tan is the Chairman of the Board of TAGI, is authorized to appoint proxy to vote for the shares.

		Center, Tower I, 6766 Ayala Avenue corner Paseo de Roxas, Makati City.			
Common	YORKSHIRE HOLDINGS, INC. 28/F The World Centre 330 Sen. Gil Puyat Avenue, Makati City, Metro Manila [3]	YORKSHIRE HOLDINGS, INC. (YHI)	Filipino	1,583,459,842	15.41%
Common	PCD NOMINEE CORPORATION G/F Makati Stock Exchange Building 6767 Ayala Avenue, Makati City[4]	DEUTSCHE BANK MANILA-CLIENTS A/C 26/F Ayala Tower One Ayala Triangle, Makati City	Non-Filipino	784,214,693	7.63%

(2) *Security Ownership of Management as of March 31, 2012:*

Title	*Name of Beneficial Owner*	*Citizenship*	*Amount*	*Percent*
Common	Andrew L. Tan *(Chairman of the Board)*	Filipino	341,684,350	3.33%
Common	Sergio R. Ortiz-Luis, Jr. *(Director)*	Filipino	1	0.00%
Common	Winston S. Co *(Director)*	Filipino	2,728	0.00%
Common	Kingson U. Sian *(Director)*	Filipino	5,001,100	0.04%
Common	Katherine L. Tan *(Director)*	Filipino	1	0.00%
Common	Alejo L. Villanueva, Jr *(Director)*.	Filipino	1	0.00%
Common	Renato M. Piezas *(Director)*	Filipino	1,100	0.00%
Common	Dina D. Inting *(FVP-Finance)*	Filipino	2,758	0.00%
Directors and Executive Officers as a Group			346,692,039	346,692,039

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 2011, 2010 and 2009 (*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

[2] HSBC is a participant of the PCD Nominee Corporation. The beneficial owners of the shares held by HSBC are not known to the Company.
[3] Mr. Andrew L. Tan, Chairman of YHI is authorized to appoint proxy to vote for the shares which includes direct and indirect beneficial ownership through Altavision Resources, Inc., Asiagroup Holdings, Inc., Globaland Holdings, Inc. Grand Belair Holdings, Inc., and Le Bristol holdings, Inc.
[4] Deutsche Bank is a participant of the PCD Nominee Corporation. The beneficial owners of the shares held by Deutsche Bank are not known to the Company.

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 2011, 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 complaint 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, 2011)

Date	Disclosures
05 July 2011	Press Release re: AGI unit to put up to 5th Hotel in Resorts World Manila
27 July 2011	a. Board Approval of Executive Stock Option Plan b. Notice of Annual Stockholders' Meeting
05 August 2011	Declaration of Cash Dividend
10 August 2011	Press Release: AGI Group of Company to remit more than 12B in taxes to help drive in national growth
15 August 2011	Press Release re: AGI reports record earnings of P9.5B in first-half 2011
20 September 2011	a. Results of Annual Stockholders' Meeting b. Results of Organizational Meeting of the Board of Directors c. Press Release re: AGI aims to be the leader in the US$7B Tourism Industry
19 December 2011	Granted Stock Options

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 this APR 23 2012, 2012 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		

Notary Public

CHARITY P. MANDAP
Notary Public for Makati City
Commission No. M-251
Until December 31, 2013
Roll No. 58735
IBP No. 873670; 12/14/2011; PPLM Chapter
PTR No. 3220005; 1/31/2012; Makati City
19F Floor, The Enterprise Center, Ayala Ave. Makati City

Doc No. 32
Page No. 8
Book No. 1
Series of 2012.

Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

Consolidated Financial Statements and Independent Auditors' Report

Alliance Global Group, Inc. and Subsidiaries

December 31, 2011 and 2010

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 the preparation and fair presentation of the consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements, including the additional components attached therein, and submits the same to the stockholders.

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, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

ANDREW L. TAN
Chairman of the Board

KINGSON U. SIAN
President

DINA D.R. INTING
First Vice President for Finance
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 23 2012, affiants exhibiting to me their Passport/SSS No., as follows:

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. 31
Page No. 8
Book No. II
Series of 2012.

Notary Public

CHARITY P. MANDAP
Notary Public for Makati City
Commission No. M-251
Until December 31, 2013
Roll No. 58735
IBP No. 873670; 12/14/2011; PPLM Chapter
PTR No. 3220605; 1/31/2012; Makati City
19th Floor, The Enterprise Center, Ayala Ave. Makati

Punongbayan & Araullo

Report of Independent Auditors

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
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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, 2011 and 2010, 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, 2011, 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, 2011 and 2010, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2011 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. 3174799, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-3 (until Jan. 18, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-7-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

April 17, 2012

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 49,147,857,784**	P 47,264,487,187
Trade and other receivables - net	6	**25,492,119,918**	17,533,261,797
Financial assets at fair value through profit or loss	7	**11,313,946,985**	13,705,592,182
Inventories - net	8	**28,952,674,354**	8,124,448,257
Property development costs	2	**10,696,529,365**	3,798,108,537
Other current assets	9	**3,025,158,564**	986,661,326
Total Current Assets		**128,628,286,970**	91,412,559,286
NON-CURRENT ASSETS			
Trade and other receivables	6	**20,576,511,215**	15,687,307,294
Available-for-sale financial assets	11	**5,444,323,686**	1,609,030,965
Advances to landowners and joint ventures	10	**4,876,467,682**	2,708,026,497
Land for future development	2	**9,419,790,279**	1,482,561,015
Investments in and advances to associates and other related parties	12	**18,994,274,815**	23,821,886,376
Property, plant and equipment - net	13	**6,560,730,099**	5,128,522,733
Investment property - net	14	**13,033,771,373**	9,976,978,748
Intangible assets - net	15	**11,257,148,522**	11,290,486,753
Deferred tax assets	27	**670,407,846**	310,119,631
Other non-current assets - net	9	**1,070,572,748**	813,465,175
Total Non-current Assets		**91,903,998,265**	72,828,385,187
TOTAL ASSETS		**P 220,532,285,235**	P 164,240,944,473

	Notes	2011	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	17	**P 2,906,873,289**	P 1,586,752,515
Bonds payable	18	**-**	3,416,062,159
Trade and other payables	16	**17,093,308,119**	12,372,689,846
Customers' deposits	2	**4,243,036,370**	1,020,277,628
Income tax payable		**520,771,936**	364,251,263
Reserve for property development	2	**5,331,262,967**	3,640,068,354
Deferred income on real estate sales	2	**3,967,374,256**	2,220,540,650
Other current liabilities	20	**2,191,916,904**	1,827,830,542
Total Current Liabilities		**36,254,543,841**	26,448,472,957
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	17	**5,960,519,598**	8,580,458,712
Bonds payable	18	**35,156,343,267**	26,571,051,933
Customers' deposits	2	**456,003,854**	1,201,422,709
Advances from related parties	28	**224,177,805**	338,605,308
Retirement benefit obligation	26	**591,342,731**	383,657,948
Reserve for property development	2	**4,337,575,073**	2,487,557,735
Deferred tax liabilities	27	**5,590,007,701**	3,314,202,355
Redeemable preferred shares	19	**417,656,730**	371,866,226
Deferred income on real estate sales	2	**2,160,283,199**	1,588,240,851
Other non-current liabilities	20	**3,378,728,233**	1,241,505,132
Total Non-current Liabilities		**58,272,638,191**	46,078,568,909
Total Liabilities		**94,527,182,032**	72,527,041,866
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	**33,501,908,751**	27,175,173,772
Treasury shares	29	**(1,018,752,369)**	(3,194,861,260)
Revaluation reserves	11, 12	**(1,542,070,301)**	(61,488,392)
Accumulated translation adjustments	2	**(392,143,385)**	(530,783,788)
Dilution gain	15, 29	**1,289,847,712**	1,196,566,827
Share options	29	**1,890,149**	-
Retained earnings		**31,372,319,070**	23,393,036,949
		73,482,827,606	58,247,472,087
Non-controlling interest		**52,522,275,597**	33,466,430,520
Total Equity		**126,005,103,203**	91,713,902,607
TOTAL LIABILITIES AND EQUITY		**P 220,532,285,235**	P 164,240,944,473

See Notes to Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
REVENUES				
Sale of goods	2	P 28,895,852,414	P 18,653,030,580	P 15,230,594,412
Real estate sales	2	16,360,035,889	13,110,567,020	12,574,801,962
Finance and other income	24	6,774,534,203	4,944,687,276	5,977,105,798
Rendering of services	21	5,176,383,503	3,763,512,740	2,908,585,719
Income from acquisition of a subsidiary	12	3,131,993,894	-	-
Share in net profits of associates and joint ventures - net	12	2,540,046,652	1,733,993,598	160,724,354
Realized gross profit on prior years' real estate sales	2	1,999,416,035	1,355,982,007	1,277,434,472
Interest income on real estate sales	6	1,218,788,823	933,424,160	714,213,230
		66,097,051,413	44,495,197,381	38,843,459,947
COSTS AND EXPENSES				
Cost of goods sold	22	21,745,640,504	13,202,219,880	11,132,470,997
Cost of real estate sales	22	10,315,106,663	8,606,699,164	7,940,756,662
General and administrative expenses	23	4,652,978,037	3,044,267,452	2,503,256,614
Finance costs and other charges	25	3,776,827,484	2,128,298,982	3,941,301,749
Selling expenses	23	3,587,090,746	2,218,215,525	2,061,700,540
Deferred gross profit on real estate sales	22	3,091,703,036	2,431,379,388	1,815,065,914
Cost of services	22	813,634,297	782,687,736	656,764,678
		47,982,980,767	32,413,768,127	30,051,317,154
PROFIT BEFORE TAX AND PREACQUISITION INCOME		18,114,070,646	12,081,429,254	8,792,142,793
PREACQUISITION INCOME	12	17,326,952	-	-
NET PROFIT BEFORE TAX		18,096,743,694	12,081,429,254	8,792,142,793
TAX EXPENSE	27	3,353,004,489	2,584,871,206	1,984,145,570
NET PROFIT		14,743,739,205	9,496,558,048	6,807,997,223
OTHER COMPREHENSIVE INCOME				
Net unrealized fair value gains (losses) on available-for-sale financial assets	11	(763,784,267)	253,353,722	1,750,608,063
Addition in revaluation reserves due to available-for-sale financial assets of a consolidated subsidiary		(695,198,619)	-	-
Translation adjustments	2	142,483,039	(513,180,970)	(159,173,728)
Reduction in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		(20,862,198)	(13,400,800)	276,543,393
Deferred tax income (expense) relating to components of other comprehensive income	27	(3,842,636)	55,817,408	25,795,486
Share in other comprehensive income of associates and joint venture	12	(736,825)	73,176,649	-
Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary	12	-	(403,955,684)	-
		(1,341,941,506)	(548,189,675)	1,893,773,214
TOTAL COMPREHENSIVE INCOME		P 13,401,797,699	P 8,948,368,373	P 8,701,770,437
Net profit attributable to:				
Owners of the parent company		P 11,608,209,438	P 6,908,586,791	P 4,796,309,746
Non-controlling interest		3,135,529,767	2,587,971,257	2,011,687,477
		P 14,743,739,205	P 9,496,558,048	P 6,807,997,223
Total comprehensive income attributable to:				
Owners of the parent company		P 10,266,267,932	P 6,360,397,116	P 6,690,082,960
Non-controlling interest		3,135,529,767	2,587,971,257	2,011,687,477
		P 13,401,797,699	P 8,948,368,373	P 8,701,770,437
Earnings Per Share for the Net Income Attributable to Owners of the Parent Company -	30			
Basic		P 1.1776	P 0.7108	P 0.4921
Diluted		P 1.1773	P 0.7108	P 0.4921

See Notes to Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
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		**27,175,173,772**	27,157,647,455	27,157,647,455
Sale of treasury shares		**6,326,734,979**	17,526,317	-
Balance at end of year		**33,501,908,751**	27,175,173,772	27,157,647,455
Treasury Shares - at cost	29			
Balance at beginning of year		**(3,194,861,260)**	(4,334,613,117)	(3,487,548,482)
Net sale (purchase) of treasury shares		**2,922,650,004**	298,876,848	(847,064,635)
Addition representing the shares held by a consolidated subsidiary	12	**(746,541,113)**	-	-
Reduction representing the shares held by a deconsolidated subsidiary	12	**-**	840,875,009	-
Balance at end of year		**(1,018,752,369)**	(3,194,861,260)	(4,334,613,117)
Revaluation Reserves				
Balance at beginning of year		**(61,488,392)**	29,487,721	(1,997,417,235)
Net unrealized fair value gains (losses) on available-for-sale financial assets - net of tax	11	**(763,784,267)**	253,203,722	1,750,361,563
Reduction representing the shares held by a consolidated subsidiary	12	**(695,198,619)**	-	-
Increase (decresase) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries		**(20,862,198)**	(13,400,800)	276,543,393
Share in other comprehensive income (loss) of associates and joint venture	12	**(736,825)**	73,176,649	-
Reduction in revaluation reserves due to available-for-sale financial assets of a deconsolidated subsidiary	12	**-**	(403,955,684)	-
Balance at end of year		**(1,542,070,301)**	(61,488,392)	29,487,721
Accumulated Translation Adjustments	2			
Balance at beginning of year		**(530,783,788)**	(73,570,226)	59,561,516
Currency translation adjustments during the year		**138,640,403**	(457,213,562)	(133,131,742)
Balance at end of year		**(392,143,385)**	(530,783,788)	(73,570,226)
Balance carried forward		**P 40,818,770,675**	P 33,657,868,311	P 33,048,779,812

	Notes	2011	2010	2009
Balance brought forward		P 40,818,770,675	P 33,657,868,311	P 33,048,779,812
Dilution Gain	29			
Balance at beginning of year		1,196,566,827	1,196,566,827	45,023,383
Dilution gain recognized during the year	15	93,280,885	-	1,151,543,444
Balance at end of year		1,289,847,712	1,196,566,827	1,196,566,827
Share Options	29	1,890,149	-	-
Retained Earnings				
Appropriated				
Balance at beginning of year		446,297,286	446,297,286	446,297,286
Reversal of appropriation during the year		(146,297,286)	-	-
Balance at end of year		300,000,000	446,297,286	446,297,286
Unappropriated				
Balance at beginning of year		22,946,739,663	16,613,195,605	11,816,885,859
Net profit for the year		11,608,209,438	6,908,586,791	4,796,309,746
Cash dividends declared during the year	29	(3,628,927,317)	(575,042,733)	-
Reversal of appropriation during the year		146,297,286	-	-
Balance at end of year		31,072,319,070	22,946,739,663	16,613,195,605
Total Retained Earnings		31,372,319,070	23,393,036,949	17,059,492,891
Total		73,482,827,606	58,247,472,087	51,304,839,530
NON-CONTROLLING INTEREST				
Balance at beginning of year		33,466,430,520	30,796,066,359	32,971,852,114
Non-controlling interest in additional investments		16,510,139,979	-	537,698,405
Share in consolidated net profits		3,135,529,767	2,587,971,257	2,011,687,477
Dividend from investee		(589,824,669)	(472,722,210)	(280,405,180)
Treasury shares retirement		-	555,115,114	10,260,350
Non-controlling interest in disposed investments		-	-	(3,315,484,644)
Effects of decrease in ownership interest		-	-	(1,139,542,163)
Balance at end of year		52,522,275,597	33,466,430,520	30,796,066,359
TOTAL EQUITY		P 126,005,103,203	P 91,713,902,607	P 82,100,905,889

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax and preacquisition income		**P 18,114,070,646**	P 12,081,429,254	P 8,792,142,793
Adjustments for:				
Interest income	24	**(3,892,785,803)**	(2,092,835,957)	(1,896,421,610)
Income from acquisition of subsidiary	12	**(3,131,993,894)**	-	-
Interest expense	25	**2,632,864,022**	1,341,679,352	715,198,019
Share in net profits of associates and a joint venture	12	**(2,540,046,652)**	(1,733,993,598)	(160,724,354)
Depreciation and amortization	22, 23	**1,317,131,749**	1,107,119,465	1,004,790,281
Fair value losses (gains) - net	24, 25	**1,143,963,462**	745,023,420	(2,262,564,790)
Amortization of trademarks	23	**101,257,277**	101,257,277	101,257,277
Unrealized foreign currency losses - net		**46,676,793**	40,566,552	882,727,051
Dividend income	24	**(6,334,455)**	(60,673,664)	(44,247,127)
Share-based employee compensation	29	**1,890,149**	-	-
Gain on sale of investment in available-for-sale financial assets	24	**-**	(629,194,471)	(18,050,807)
Net losses from disposal of property, plant and equipment and restaurant closings		**-**	11,741,865	36,835,105
Gain on sale of investment in shares of stock	24	**-**	-	(1,581,815,465)
Impairment losses	13	**-**	-	17,223,697
Operating income before working capital changes		**13,786,693,294**	10,912,119,495	5,586,350,070
Increase in trade and other receivables		**(3,478,862,355)**	(4,633,130,945)	(7,955,887,344)
Decrease (increase) in financial assets at fair value through profit or loss		**1,525,508,760**	(12,311,944,470)	2,009,125,111
Increase in inventories		**(14,159,651,072)**	(334,096,939)	(49,201,137)
Decrease (increase) in property development costs		**7,512,713,385**	(77,405,610)	(899,303,033)
Increase in other current assets		**(996,528,996)**	(261,382,861)	(182,715,694)
Increase in trade and other payables		**806,600,482**	1,544,647,202	3,926,825,499
Increase in reserve for property development		**2,108,040,773**	1,636,248,793	669,276,522
Increase in deferred income on real estate sales		**893,416,853**	1,075,230,757	537,798,066
Increase (decrease) in customers' deposits		**(451,569,934)**	340,541,113	(141,642,137)
Increase in retirement benefit obligations		**96,607,472**	26,895,701	3,160,767
Increase in other liabilities		**377,709,621**	466,194,147	240,075,185
Cash generated from (used in) operations		**8,020,678,283**	(1,616,083,617)	3,743,861,875
Cash paid for taxes		**(2,289,786,284)**	(1,655,469,231)	(1,101,202,177)
Net Cash From (Used in) Operating Activities		**5,730,891,999**	(3,271,552,848)	2,642,659,698
Balance carried forward		**P 5,730,891,999**	(P 3,271,552,848)	P 2,642,659,698

	Notes	2011	2010	2009
Balance brought forward		P 5,730,891,999	(P 3,271,552,848)	P 2,642,659,698
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Available-for-sale financial assets	11	(5,310,387,640)	(13,079,652)	1,214,965,229
Investment property	13, 14	(3,094,691,656)	(991,266,588)	(2,261,263,607)
Land for future development		(2,505,276,888)	(213,000,015)	540,182,589
Property, plant and equipment		(1,586,114,275)	(1,214,585,467)	(520,698,927)
Investments in and advances to associates and other related parties		(576,254,724)	(538,205,454)	971,113,556
Other non-current assets		51,060,132	(529,561,191)	115,206,575
Intangible assets	15	(1,958,633)	(23,247,261)	-
Interest received		3,802,145,437	2,063,749,964	2,056,942,231
Net increase in advances to landowners and joint ventures		(519,453,120)	(1,500,000,001)	(872,978,395)
Proceeds from sale of property, plant and equipment		68,522,266	396,355,110	28,381,199
Proceeds from disposals of investment property		27,416,980	-	1,727,031
Cash dividends received		6,334,455	514,353,664	44,247,127
Proceeds from redemption of preferred shares	12	-	2,580,000,000	-
Payments made for the subsribed common stocks of an associate		-	-	(1,583,687,182)
Proceeds from sale of investment		-	-	4,024,413,366
Net Cash From (Used in) Investing Activities		(9,638,657,666)	531,513,109	3,758,550,792
CASH FLOWS FROM FINANCING ACTIVITIES				
Sale of treasury shares		7,756,302,757	316,403,165	-
Dividends paid	29	(3,628,927,317)	(575,042,733)	-
Net increase in interest-bearing loans and borrowings		3,097,653,189	20,953,367,436	5,559,668,323
Interest paid		(2,564,340,097)	(1,510,974,590)	(1,033,901,036)
Net decrease in advances from related parties		(1,094,657,099)	(322,403,671)	(210,190,242)
Acquisition of treasury shares		-	-	(847,064,635)
Net Cash From Financing Activities		3,566,031,433	18,861,349,607	3,468,512,410
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(341,734,234)	16,121,309,868	9,869,722,900
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		47,264,487,187	31,145,329,040	27,601,662,533
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		2,225,104,831	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 49,147,857,784	P 47,264,487,187	P 31,145,329,040

Supplemental Information on Non-cash 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 non-cash 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, 2011, 2010 AND 2009
(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):

		Percentage of Effective Ownership of AGI		
Subsidiaries/Associates/Jointly Controlled Entity	Explanatory Notes	**2011**	2010	2009
Subsidiaries				
Real Estate				
Megaworld Corporation (Megaworld)	(a)	**58%**	57%	57%
New Town Land Partners, Inc. (NTLPI)	(b)	**100%**	100%	100%
First Centro, Inc. (FCI)		**100%**	100%	100%
Oceanic Realty Group International, Inc.	(c)	**100%**	100%	100%
ERA Real Estate Exchange, Inc.	(c)	**100%**	100%	100%
Megaworld Resort Estates, Inc. (MREI)	(d)	**79%**	78%	78%
Adams Properties, Inc. (Adams)	(e)	**60%**	60%	60%
Megaworld Land, Inc.	(f)	**58%**	57%	57%
Prestige Hotels and Resorts, Inc.	(f)	**58%**	57%	57%
Mactan Oceanview Properties and Holdings, Inc.	(f)	**58%**	57%	57%
Megaworld Cayman Islands, Inc. (MCII)	(f, u)	**58%**	57%	57%
Richmonde Hotel Group International (RHGI)	(f, k)	**58%**	57%	57%
Eastwood Cyber One Corporation (ECOC)	(f)	**58%**	57%	57%
Forbes Town Properties and Holdings, Inc.	(f)	**58%**	57%	57%
Megaworld Newport Property Holdings, Inc.	(f)	**58%**	57%	57%
Oceantown Properties, Inc.	(f)	**58%**	57%	57%
Piedmont Property Ventures, Inc.	(f, bb)	**58%**	57%	57%
Stonehaven Land, Inc.	(f, bb)	**58%**	57%	57%
Streamwood Property, Inc.	(f, bb)	**58%**	57%	57%
Suntrust Properties, Inc.	(f)	**48%**	-	-
Townsquare Development, Inc. (TDI)	(f)	**47%**	47%	47%
Empire East Land Holdings, Inc. (EELHI)	(n)	**35%**	-	-
Valle Verde Properties, Inc.	(g)	**35%**	-	-
Empire East Communities, Inc.	(g)	**35%**	-	-
Sherman Oak Holdings, Inc.	(g)	**35%**	-	-
Eastwood Property Holdings, Inc.	(g)	**35%**	-	-
Megaworld-Daewoo Corporation	(f)	**35%**	34%	34%
Megaworld Central Properties, Inc.	(f)	**30%**	29%	29%
Megaworld Globus Asia, Inc.	(f)	**29%**	28%	28%
Philippine International Properties, Inc.	(f, bb)	**28%**	28%	28%

Subsidiaries/Associates/Jointly Controlled Entity	Explanatory Notes	Percentage of Effective Ownership of AGI 2011	2010	2009
Subsidiaries				
Real Estate				
Global Estate Resorts, Inc. (GERI)	(h)	**62%**	-	-
Fil-Estate Properties, Inc. (FEPI)	(i)	**62%**	-	-
Aklan Holdings Inc.	(i)	**62%**	-	-
Blu Sky Airways, Inc.	(i)	**62%**	-	-
Fil-Estate Subic Development Corp.	(i)	**62%**	-	-
Fil-Power Construction Equipment Leasing Corp.	(i)	**62%**	-	-
Golden Sun Airways, Inc.	(i)	**62%**	-	-
La Compaña De Sta. Barbara, Inc.	(i)	**62%**	-	-
MCX Corporation	(i)	**62%**	-	-
Pioneer L-5 Realty Corp.	(i)	**62%**	-	-
Prime Airways, Inc.	(i)	**62%**	-	-
Sto. Domingo Place Development Corp.	(i)	**62%**	-	-
Fil-Power Concrete Blocks Corp.	(i)	**62%**	-	-
Fil-Estate Golf and Development, Inc	(i)	**62%**	-	-
Golforce, Inc.	(i)	**62%**	-	-
Fil-Estate Urban Development Corp. (FEUDC)	(i)	**62%**	-	-
Novo Sierra Holdings Corp. (NSHC)	(i, bb)	**62%**	-	-
Megaworld Global-Estate, Inc. (MGEI)	(j, bb)	**60%**	-	-
Fil-Estate Industrial Park, Inc. (FEIPI)	(i)	**49%**	-	-
Sherwood Hills Development Inc. (SHDI)	(i)	**34%**	-	-
Fil-Estate Ecocentrum Corp. (FEEC)	(i)	**34%**	-	-
Philippine Aquatic Leisure Corp. (PALC)	(i)	**34%**	-	-
Twin Lakes Corp. (TLC)	(i, bb)	**33%**	-	-
Sonoma Premiere Land, Inc. (SPLI)	(l)	**61%**	-	-
Gilmore Property Marketing Associates Inc. (GPMAI)	(f, m)	**67%**	-	-
Manila Bayshore Property Holdings, Inc. (MBPHI)	(o, bb)	**52%**	-	-
First Oceanic Property Management, Inc. (FOPMI)	(p)	**-**	100%	100%
Citylink Coach Services, Inc. (CCSI)	(q)	**-**	25%	25%
Food and Beverage				
Emperador Distillers, Inc. (EDI)		**100%**	100%	100%
Anglo Watsons Glass, Inc. (AWGI)		**100%**	100%	100%
Tradewind Estates, Inc. (TEI)	(b)	**100%**	100%	100%
Great American Foods, Inc. (GAFI)	(r)	**100%**	100%	100%
McKester America, Inc. (MAI)	(r)	**100%**	100%	100%
The Bar Beverage, Inc. (TBBI)	(s, bb)	**100%**	100%	100%
Quick Service Restaurant				
Golden Arches Development Corporation (GADC)		**49%**	49%	49%
Golden Arches Realty Corporation (GARC)	(t)	**49%**	49%	49%
Clark Mac Enterprises, Inc. (CMEI)	(t)	**49%**	49%	49%
Golden Laoag Foods Corporation (GLFC)	(t)	**38%**	38%	38%
Advance Food Concepts Manufacturing, Inc. (AFCMI)	(t)	**37%**	37%	37%
Davao City Food Industries, Inc. (DCFII)	(t)	**37%**	37%	37%
First Golden Laoag Ventures (FGLV)	(t)	**34%**	34%	34%
Retiro Golden Foods, Inc. (RGFI)	(t)	**34%**	34%	34%
Corporate and Others				
Alliance Global Brands, Inc. (AGBI)		**100%**	100%	100%
McKester Pik-nik International Limited (MPIL)	(b, k)	**100%**	100%	100%
Emperador International Ltd. (EIL)	(s, k)	**100%**	100%	100%
Venezia Universal Ltd. (Venezia)	(k)	**100%**	100%	100%
Travellers Group Ltd. (TGL)	(k, bb)	**100%**	100%	100%
Alliance Global Group Cayman Islands, Inc (AG Cayman)	(u)	**100%**	100%	-
Greenspring Investment Holdings Properties Ltd. (Greenspring)	(k)	**100%**	-	-
Laguna Bel-Air School, Inc. (LBASI)	(g)	**25%**	-	-

Associates/Jointly Controlled Entity	Explanatory Notes	Percentage of Effective Ownership of AGI 2011	2010	2009
Associates				
Alliance Global Properties, Inc. (AGPL)	(u, v)	**30%**	30%	25%
Suntrust Home Developers, Inc. (SHDI)	(w)	**25%**	24%	24%
FOPMI	(p)	**25%**	-	-
CCSI	(q)	**25%**	-	-
Palm Tree Holdings and Development Corporation (PTHDC)	(w)	**23%**	23%	23%
Oceanfront Properties, Inc. (OPI)	(x)	**31%**	-	-
Fil-Estate Network, Inc. (FENI)	(x)	**12%**	-	-
Fil-Estate Sales, Inc. (FESI)	(x)	**12%**	-	-
Fil-Estate Realty and Sales Associates, Inc. (FERSAI)	(x)	**12%**	-	-
Fil-Estate Realty Corp. (FERC)	(x)	**12%**	-	-
Nasugbu Properties, Inc. (NPI)	(x)	**9%**	-	-
SPLI	(l)	**-**	56%	56%
GPMAI	(f, m)	**-**	37%	47%
EELHI	(n)	**-**	27%	27%
Jointly Controlled Entities				
Travellers International Hotel Group, Inc. (Travellers)	(y)	**46%**	46%	46%
Golden City Food Industries, Inc. (GCFII)	(aa)	**24%**	24%	24%

Explanatory notes:

(a) AGI's percentage of effective ownership also includes indirect interests through FCI and NTLPI. 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) Wholly owned subsidiaries of AGBI.

(c) Wholly owned subsidiaries of FCI.

(d) A subsidiary of which AGI directly owns 49%, while Megaworld owns 51%, which is equivalent to effective ownership interest by AGI through Megaworld of 30% as of December 31, 2011 and 29% as of December 31, 2010.

(e) Adams holds 25% of Travellers shares.

(f) Subsidiaries of Megaworld; Percentage ownership represents effective interest of AGI through Megaworld which slightly increased in 2011.

(g) Subsidiaries of EELHI.

(h) Became a subsidiary in 2011; GERI is presently engaged in the real estate business; its shares are publicly listed in the PSE (see Note 12.5).

(i) Subsidiaries of GERI; Percentage ownership represents effective interest of AGI through GERI.

(j) A subsidiary which GERI directly owns 60% while Megaworld owns 40%, which is equivalent to effective ownership interest by AGI through GERI and Megaworld of 60%.

(k) Foreign corporations operating under the Business Companies Act of the British Virgin Islands.

(l) Formerly named Galleria Corsinni Holdings, Inc.; Consolidated with EELHI due to its management's control of the financial and operating policies of SPLI. In 2011, it became a subsidiary of Megaworld.

(m) In November 2011, MREI acquired 100% ownership in GPMAI which resulted in Megaworld's indirect interest of 51% as of December 31, 2011. Consequently, GPMAI became a subsidiary of Megaworld through EELHI. Aside from Megaworld's interest, the Company has 49% ownership in GPMAI through 49% direct ownership of MREI, which in turn owned 60% of TSDI. TSDI owned 48% of GPMAI.

(n) Formerly an associate of Megaworld. On various dates in 2011, Megaworld acquired an additional 12.75% ownership in EELHI, thereby making EELHI a subsidiary of the Company. As of December 31, 2011, Megaworld's ownership in EELHI stands at 61.13%.

(o) MBPHI was incorporated in October 2011 and has not yet started commercial operations as of December 31,2011. MBPHI is 50% owned by Megaworld and 50% owned by Travellers. Megaworld has 55% effective ownership of MBPHI since it owned 10% of Travellers.

(p) Formerly wholly owned subsidiary of FCI. It became a wholly owned subsidiary of SHDI in 2011.

(q) Wholly owned subsidiary of FOPMI.

(r) Wholly owned subsidiaries of MPIL. Operate in the United States of America (USA).

(s) Wholly owned subsidiaries of EDI.

(t) Subsidiaries of GADC; Percentage ownership represents effective interest of AGI.

(u) Finance subsidiaries of the Company incorporated under the laws of the Cayman Islands.

(v) 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.

(w) Associates of Megaworld.
(x) Associates of GERI; Percentage ownership represents effective interest of AGI through GERI.
(y) 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).
(z) Wholly owned subsidiaries of Travellers.
(aa) Incorporated joint venture of GADC.
(bb) Has not yet started commercial operations as of December 31, 2011.

Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, AGPL, AG Cayman and Greenspring, the foregoing companies were incorporated in the Philippines and operate within the country.

The Company's shares and those of Megaworld, GERI, EELHI and SHDI are listed in the 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, 2011 (including comparative for the years ended December 31, 2010 and 2009) were authorized for issue by the Board of Directors (BOD) on April 17, 2012.

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 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 Standard (PAS 1), *Presentation of Financial Statements*. The Group presents all items of income and expense in a single consolidated statement of comprehensive income. Two comparative periods are presented for the consolidated 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 2011, 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 (see Note 2.18).

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2011 that are Relevant to the Group*

In 2011, the Group adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after February 1, 2010, July 1, 2010 or January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issue
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 14 (Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below are relevant information about these new and amended standards.

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any change on the Group's disclosures of related parties in its consolidated financial statements.

(ii) PAS 32 (Amendment*), Financial Instruments: Presentation – Classification of Rights Issues* (effective from February 1, 2010). The amendment addresses the accounting for rights issues (e.g., rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. In particular, rights (and similar derivatives) to acquire a fixed number of an entity's own equity instruments for a fixed price stated in a currency other than the entity's functional currency, would be classified as equity instruments, provided the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment has no effect on the financial statements as the Group has no rights issues denominated in a currency other than the Group's functional currency.

(iii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayment 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 surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.

(iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. 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, *Financial Instruments: Recognition and Measurement*;

- 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.

The adoption of the interpretation did not have a material effect on the Group's consolidated financial statements as it did not extinguish financial liabilities through equity swap during the year.

(v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to continue presenting each item of other comprehensive income in the consolidated statement of changes in equity.

- PAS 34 (Amendment), *Interim Financial Reporting – Significant Events and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report.

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* (effective from July 1, 2010). These amendments clarify that the consequential amendments made to PAS 21, PAS 28 and PAS 31 arising from the amendment to PAS 27 (2008), *Consolidated and Separate Financial Statements* apply prospectively, to be consistent with the related PAS 27 transition requirements. These amendments have no impact on the Group's financial statements since there is no disposal of foreign operations, loss of significant influence over an associate and loss of control over a jointly controlled entity at the time of the adoption of the amendment on PAS 27.

- PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances. It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent ownership present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of NCI are measured at fair value unless PFRS requires another measurement basis. This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. The Group already provides adequate information in its consolidated financial statements in compliance with the disclosure requirements.

(b) *Effective in 2011 that are not Relevant to the Group*

The following amendment and improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2010 or January 1, 2011 but are not relevant to the Group's consolidated financial statements:

PFRS 1 (Amendment)	:	First Time Adoption of PFRS Limited Exemption from PFRS 7 Comparative Disclosures
2010 Annual Improvements to PFRS		
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS
Philippine Interpretation IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits

(c) *Effective Subsequent to 2011 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standard Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets,* is accordingly withdrawn. This amendment is not expected to have a significant effect on the Group's consolidated financial statements as its investment property are carried in the Group's consolidated financial statements using the cost model.

(iii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since most of the Group's other comprehensive income, which includes unrealized fair value gains and losses on available-for-sale (AFS) financial assets, can be reclassified to profit or loss when specified conditions are met.

(iv) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Group is using the corridor approach and its unrecognized actuarial losses as of December 31, 2011 amounted to P300.5 million which will be retrospectively recognized as loss in other comprehensive income in 2013.

(v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and plans to conduct a comprehensive study in early 2012 of the potential impact of this standard to assess the impact of all changes.

(vi) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

(vii) Consolidation Standards (effective from January 1, 2013)

The Group is currently reviewing the impact of the following consolidation standards on its consolidated financial statements in time for their adoption in 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 11, *Joint Arrangements*. This standard provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard replaces the three categories under PAS 31, mainly, jointly controlled entities, jointly controlled operations and jointly controlled assets, with two new categories – joint operations and joint ventures. Moreover, this also eliminates the option of using proportionate consolidation for joint ventures.

- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Revised), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11.

(viii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. 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 the 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 progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.

2.3 Basis of Consolidation

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, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, 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.

Financial statements of entities in the Group that are prepared as of a date different from that of the date of these consolidated financial statements were adjusted to recognize the effects of significant transactions or events that occur between that date of their reporting period and the date of these consolidated financial statements. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

The Group accounts for its investments in subsidiaries and associates, interests in joint ventures, and transactions with non-controlling interest 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 AFS 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) Interests in Joint Ventures

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 Interest

The Group's transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of 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 interest 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 at the date when control is lost, 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. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. 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 (HTM) investments and 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.

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

More detailed descriptions of the Group's relevant financial assets are as follows:

(a) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading in the short-term or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. Derivatives, if any, fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

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.

(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 the Group provides money, goods or services 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 loss, if any. 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 assets' 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 category 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 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. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in Revaluation Reserves is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses on AFS equity instruments is not recognized 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 profit or loss.

The Group's AFS financial assets include investments in marketable equity securities where the Group held no significant influence and shares that 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: (i) currently has a legally enforceable right to set off the recognized amounts; and, (ii) 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 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.

Non-compounding 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.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial 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 raw materials, direct labor and a proportion of manufacturing overhead based on normal operating capacity. The cost of raw materials include all costs directly attributable to acquisitions, 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 Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans, if any, incurred during the development of the real estate properties are also capitalized by the Group as part of Property Development Costs (see Note 2.16). Once a revenue transaction occur on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential and Condominium Units for Sale under Inventories account.

The cost of real estate property sold before completion of the development, if any, 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 Sales presented in the consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for Property Development account.

Land for Future Development, Property Development Costs, Residential and Condominium Units For Sale (under Inventories account) 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.

The Group recognizes the effect of revisions in the total project cost estimates in the year 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. As no finite useful life for land can be determined, related carrying amount are not depreciated. Land held for use in production or administration is stated at cost less any impairment in value.

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.

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. This includes cost of construction, applicable borrowing costs (see Note 2.16) and other direct costs. The account is not depreciated until such time that the assets are completed and available for 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 asset's carrying value, including the related accumulated depreciation and impairment losses, is derecognized upon sale, 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 year 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 upon the termination or expiration of lease contract. The present value of these costs 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 50 years.

The cost of an asset comprises its purchase price and any directly attributable expenditure. Expenditures for additions, major improvements and renewals are capitalized; while expenditures for repairs and maintenance are charged to expense as incurred. When investment properties are sold, retired or otherwise disposed of, its cost and related accumulated depreciation and any impairment losses are derecognized and any resulting gain or loss is reflected in profit or loss for the period.

An investment property 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 the profit or loss in the year the item is derecognized.

2.10 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

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.

If the business combination is achieved in stages, the acquirer is required to remeasure 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.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.11 Trademarks and Computer Software

Trademarks and Computer Software, which are included under Intangible Assets account in the consolidated statement of financial position, are carried at cost less accumulated amortization and any impairment in value. The cost of the asset is its acquisition price and other direct costs. Capitalized costs are amortized on a straight-line basis over the estimated useful life of 10 and 3 years for trademarks and computer software, respectively. In addition, the assets are subject to impairment testing as described in Note 2.19.

Costs associated with maintaining computer software and any costs associated with research activities are recognized as expense in profit or loss as incurred.

When trademarks and computer software 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.

2.12 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, Obligations under Finance Lease, Security Deposits and Payable to MRO under Stock Option Plan are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs and Other Charges in the statement of comprehensive income.

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, Obligations under Finance Lease, Security Deposits and Payable to MRO under Stock Option Plan 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 classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

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 and Contingencies

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. 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 assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. 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 to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the 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 the revenue can be reliably measured when it is probable that future economic benefits will flow to the Group. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *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.

(b) *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 year's sales is presented as Deferred Gross Profit on Real Estate Sales in the consolidated statement of income; the cumulative unrealized gross profit as of the end of the year 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 buyer are initially recorded as part of Customers' Deposits account in the consolidated statement of financial position.

Any adjustments relative to previous years' sales are recorded in the current year as they occur.

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

(c) *Sale of undeveloped land and golf and resort shares for sale* – Revenues on sale of undeveloped land and golf and resort shares for sale are recognized using the full accrual method. Under the full accrual method, revenue is recognized when the risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

(d) *Franchise fees* – Revenue from franchised McDonald's restaurants (including the restaurant operated by a joint venture) includes continuing rental, royalty and management fees. Continuing fees are recognized in the period earned.

(e) *Rental and hotel income* – Revenue is recognized when the performance of mutually agreed tasks has been performed. Rental income is recognized on a straight-line basis over the lease terms.

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

(f) *Construction contracts* – Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered using the cost recovery and percentage-of-completion methods. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Unearned income pertains to advances received from customers arising from the construction contracts (see Note 20).

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

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

Cost and expenses (other than cost of real estate sales) are recognized in profit or loss upon utilization of the services or receipt of the goods 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, applicable borrowing costs (see Note 2.16) 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 statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss.

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 (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

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 in profit or loss on a straight-line basis over the lease term.

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 Greenspring 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 end of the reporting period;

(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 partially disposed of or sold, such exchange differences are recognized in the consolidated statement of comprehensive income 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 Joint Ventures, Property, Plant and Equipment, Investment Property 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 the Group, 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 post-employment plans 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 DBO is calculated annually by independent actuaries using the projected unit credit method. 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 approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or 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 post-employment 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

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations 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 their 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.

(e) Share-based Employee Remuneration

The Company and GERI grant share options to key executive officers and employees eligible under a stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss and the corresponding share option is presented as Share Options account in the equity section of the statement of financial position.

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number that ultimately vested on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as Additional Paid-in Capital (APIC), and the cost of the stock option under Share Options account is reclassified to APIC.

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not 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. These are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. 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 entities in the Group, regardless whether a price is charged. Costs related to these transactions are shouldered by either entity.

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. These include: (i) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (ii) associates; and, (iii) 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.

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. Excess of proceeds over acquisition cost of treasury shares is also added to APIC.

Treasury shares are AGI shares reacquired by the Company or its subsidiaries but not cancelled and are carried at cost (see Note 2.3).

Revaluation reserves represent 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 (see Note 2.4).

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.

Share options represent the value of share options during vesting period upon recognition of share-based remuneration expense in profit or loss (see Note 2.20).

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 potentially dilutive shares.

2.25 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker (CODM). The CODM is responsible for allocating resources and assessing performance of the operating segments.

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 of the Group used for segment reporting are the same as those used in its consolidated financial statements. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.26 Events After the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

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*

In determining when an investment is other-than-temporarily impaired, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health of and near-term business outlook for the investee. Based on its recent evaluation, management concluded that the assets are not materially impaired as of December 31, 2011 and 2010.

(b) *Distinction Between Investment Property, Owner-Occupied Properties and Land for Future Development*

In determining whether an asset qualifies as investment property, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process while Land for Future Development are properties intended solely for future development.

(c) *Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. In distinguishing each lease agreement as either an operating or finance lease, management looks 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 year:

(a) *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 using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts.

(b) 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 is one of the key variables used in analyzing property development costs, residential and condominium units for sale, golf and resort shares for sale 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 the carrying amounts of these assets is also 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, 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 inventory write-down are presented in Note 8.

Considering the Group's pricing policy, the net realizable values of certain real estate properties are higher than their related costs.

(c) 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, 2011 and 2010.

(d) Fair Value of Investment Property

The Group estimates the fair value of investment property as disclosed in Note 14 to the consolidated financial statements either by: (i) using the fair value of similar properties in the same location and condition; or, (ii) using the discounted cash flows valuation technique since the information on current or recent prices of certain 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) *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 (see Note 2.8). 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.

The carrying amount of ARO is presented in Note 20.

(f) *Allowance for Impairment of Trade and Other Receivables*

The Group maintains an adequate amount of allowance for impairment of receivables, where objective evidence of impairment exists. The Group evaluates the amount of allowance based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' payment behavior, average age of accounts, and historical loss experience.

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

(g) *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 (see Note 19).

(h) *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.

Management estimates the fair value of financial instruments where active market quotes are not available based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying amounts of financial assets at FVTPL and AFS financial assets are disclosed in Notes 7 and 11, respectively.

(i) 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.

(j) Impairment of Non-financial Assets

Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. An impairment review on all other non-financial assets is 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.

(k) 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. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase, and employee turnover. 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 amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 26.2.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group is organized into three major business segments, namely real estate, quick service restaurant and food and beverage. 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 *Real Estate* segment is engaged in the development of real estate, leasing of properties, hotel operations and tourism-oriented businesses.

(b) The *Quick Service Restaurant* includes operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement with McDonald's Corporation, USA.

(c) The *Food and Beverage* segment includes the manufacture and distribution of distilled spirits, glass containers and potato snacks products.

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 tables in below and in the succeeding pages present revenue and profit information regarding business segments for the years ended December 31, 2011, 2010 and 2009 and certain asset and liability information regarding segments as at December 31, 2011, 2010 and 2009 (amounts in millions).

2011

	Real Esatate	Quick Service Restaurant	Food and Beverage	Corporate and Others	Eliminations	Consolidated
TOTAL REVENUES						
Sales to external customers	P 23,908	P 11,607	P 18,135	P -	P -	P 53,650
Intersegment sales	-	-	678	8	(686)	-
Finance and other income						
Interest income	2,097	42	73	1,681	-	3,893
Foreign currency gains (losses)	66	-	283	1,221	-	1,570
Other income	1053	257	2	3,132	-	4,444
Share in net profits of associates						
and joint ventures	2,524	2	-	14	-	2,540
Total revenues	P 29,648	P 11,908	P 19,171	P 6,056	(P 686)	P 66,097
RESULTS						
Segment results	P 11,405	P 1,095	P 3,364	P 6,027	P -	P 21,891
Finance costs and other chargevzs						
Finance costs	(1,000)	(110)	-	(1,523)	-	(2,633)
Fair value losses	(8)	-	(57)	(1,079)	-	(1,144)
Other charges	(17)	-	-	-	-	(17)
Profit before tax	10,380	985	3,307	3,425	-	18,097
Tax expense	(2,050)	(334)	(913)	(56)	-	(3,353)
Net profit	P 8,330	P 651	P 2,394	P 3,369	P -	P 14,744
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 156,611	P 8,535	P 8,370	P 47,016	P -	P 220,532
Total liabilities	P 61,041	P 4,710	P 2,614	P 26,162	P -	P 94,527
OTHER SEGMENT INFORMATION						
Capital expenditures	P 3,111	P 1,458	P 89	P 23	P -	P 4,681
Depreciation and amortization	593	538	281	6	-	1,418

2010

	Real Esatate	Quick Service Restaurant	Food and Beverage	Corporate and Others	Eliminations	Consolidated
TOTAL REVENUES						
Sales to external customers	P 18,456	P 10,593	P 8,767	P -	P -	P 37,816
Intersegment sales	2	-	571	8	(581)	-
Finance and other income						
Interest income	853	62	142	1,036	-	2,093
Foreign currency gains (losses)	4	(1)	316	1,314	-	1,633
Other income	823	367	-	29	-	1,219
Share in net profits of associates and joint ventures	1,732	2	-	-	-	1,734
Total revenues	P 21,870	P 11,023	P 9,796	P 2,387	(P 581)	P 44,495
RESULTS						
Segment results	P 7,149	P 1,263	P 2,166	P 3,633	P -	P 14,211
Finance costs and other charges						
Finance costs	(517)	(126)	-	(699)	-	(1,342)
Foreign currency gains (losses)	-	-	31	(776)	-	(745)
Other charges	(28)	-	-	(14)	-	(42)
Profit before tax	6,604	1,137	2,197	2,144	-	12,082
Tax expense	(1,613)	(378)	(556)	(38)	-	(2,585)
Net profit	P 4,991	P 759	P 1,641	P 2,106	P -	P 9,497
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 109,056	P 8,001	P 6,561	P 40,623	P -	P 164,241
Total liabilities	P 38,425	P 4,173	P 2,005	P 27,925	P -	P 75,527
OTHER SEGMENT INFORMATION						
Capital expenditures	P 1,058	P 833	P 315	P -	P -	P 2,206
Depreciation and amortization	448	443	214	2	-	1,107

2009

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

	2011	2010
Cash on hand and in banks	**P 6,174,959,791**	P10,152,310,851
Short-term placements	**42,972,897,993**	37,112,176,336
	P 49,147,857,784	P47,264,487,187

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:

	Notes	2011	2010
Current:			
Trade receivables	28.2	**P22,150,403,603**	P 15,573,254,522
Advances to contractors and suppliers		**1,640,581,706**	783,257,562
Due from employees and related parties	28.4	**1,017,267,863**	599,189,589
Accrued interest receivable		**422,649,493**	280,615,568
Others		**876,375,428**	389,624,716
		26,107,278,093	17,625,941,957
Allowance for impairment		**(615,158,175)**	(92,680,160)
		P 25,492,119,918	P 17,533,261,797
Non-current:			
Trade		**P20,574,670,583**	P 15,631,550,547
Others		**14,065,568**	55,756,747
		20,588,736,151	15,687,307,294
Allowance for impairment		**(12,224,936)**	-
		P 20,576,511,215	P 15,687,307,294

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. Certain receivables from trade customers are covered by postdated checks. 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. The title to the real estate properties remains with the Group until the receivables are fully collected.

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

	Notes	2011	2010
Balance at beginning of year		**P 92,680,160**	P 89,826,807
Allowance carried from new subsidiaries		**541,491,879**	-
Impairment losses during the year	23	**23,247,378**	9,135,462
Reversals due to recovery and collection of accounts	24	**(8,492,490)**	(6,282,109)
Write-off of trade receivables previously provided with allowance		**(21,543,816)**	-
Balance at end of year		**P 627,383,111**	P 92,680,160

Impairment losses are presented as part of Other Operating Expenses (see Note 23). Reversals of previously impaired receivables due to subsequent recovery and collection in the reporting period are shown as part of Miscellaneous under Finance and Other Income (see Note 24).

The installment period of real estate sales contracts averages from one to five years. These trade receivables are noninterest-bearing and are carried at amortized cost using the effective interest rate of 10.0%. Interest income from amortization amounted to P1,218.8 million, P933.4 million and P714.2 million for the years ended December 31, 2011, 2010 and 2009 and are presented as Interest Income on Real Estate Sales account in the consolidated statements of comprehensive income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following:

	2011	2010
Marketable debt securities	**P 11,313,946,985**	P 13,676,059,689
Derivative assets	**-**	29,532,493
	P 11,313,946,985	P 13,705,592,182

Marketable debt securities, which bear interest ranging from 3.25% to 11.75% per annum (see Note 24), are measured at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2011 and 2010. 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 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.$132.4 million (P5,818.8 million) as of December 31, 2011 and U.S.$40.3 million (P1,900.0 million) as of December 31, 2010.

Derivative Assets represent foreign currency forward option contract with certain banks maturing with certain currencies against the U.S. dollar in 2011 and 2010. As of December 31, 2011 the option has a nil value while as of December 31, 2010, the option has a positive value of U.S.$0.8 million (P29.5 million) 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 in 2011 and Fair Value Gains – Net under Finance and Other Income in 2010 (see Notes 24 and 25).

8. INVENTORIES

The details of inventories are shown below.

	2011	2010
At cost:		
Residential and condominium units for sale	**P 24,681,989,351**	P 6,302,312,329
Finished goods	**660,690,295**	740,777,249
Work-in-process	**6,545,020**	8,659,375
Raw materials	**1,117,698,915**	343,016,444
	26,466,923,581	7,394,765,397
At net realizable value:		
Golf and resort shares for sale	**2,065,798,787**	-
Supplies and other consumables	**419,951,986**	729,682,860
	2,485,750,773	729,682,860
	P28,952,674,354	P 8,124,448,257

Golf and resort shares for sale comprise of proprietary or membership shares (landowner shares and founders shares) that are of various types and costs. The cost of the landowner resort shares is based on the acquisition and development costs of the land and the project. The cost of the founders shares is based on the par value of the resort shares which is P100.

The carrying amounts of golf and resort shares for sale and supplies and other consumables are net of allowance for inventory write-down of P119.6 million and P26.4 million as of December 31, 2011 and 2010. A reconciliation of the allowance for inventory writedown at the beginning and end of the reporting periods is shown below.

	Notes	2011	2010
Balance at beginning of year		**P 26,353,529**	P 38,063,600
Allowance carried from new subsidiaries		**78,207,955**	-
Additional losses during the year	23	**24,432,059**	2,378,466
Reversals of write-down	24	**(9,396,009)**	(14,088,537)
Balance at end of year		**P 119,597,534**	P 26,353,529

The additional losses on inventories of P24.4 million and P2.4 million for the years ended December 31, 2011 and 2010, respectively, were recognized to reduce the golf and resort shares for sale and supplies and other consumables to their net realizable values. The reversals of inventory write-down amounting to P9.4 million and P14.1 million for the years ended December 31, 2011 and 2010, respectively, were recognized from disposal to third parties of previously written down items. The additional losses are shown as Write-down of Inventories 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.

	2011	2010
Current:		
Input VAT	**P 1,498,285,263**	P 155,017,682
Prepayments	**432,296,131**	535,782,680
Creditable withholding tax	**262,085,155**	205,636,876
Others	**832,492,015**	90,224,088
	P 3,025,158,564	P 986,661,326
Non-current:		
Refundable deposits – net	**P 597,917,182**	P 410,249,962
Claims for tax refund	**112,282,175**	112,282,175
Deferred input VAT – net	**108,936,636**	136,897,693
Prepaid rent	**22,565,030**	26,038,753
Others	**228,871,725**	127,996,592
	P 1,070,572,748	P 813,465,175

10. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. The joint venture agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group 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).

The Group also grants non-interest bearing, secured cash advances to a number of landowners and joint ventures under the agreements they entered into with landowners covering the development of certain parcels of land. In addition to providing specified portion of total project development costs, the Group 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. The repayments 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 the Group, 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 entered into by Megaworld amounts to:

	2011	2010
Total commitment for cash advances	**P 20,000,000**	P 1,500,000,000
Total cash advances granted	**(20,000,000)**	(1,500,000,000)
Net commitment	**P -**	P -

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

	2011	2010
Total commitment for construction expenditures	**P 7,973,154,005**	P 7,911,278,595
Total expenditures incurred	**(5,732,041,177)**	(5,505,759,467)
Net commitment	**P 2,241,112,828**	P 2,405,519,128

The Group's interests on jointly-controlled operations and projects range from 72% to 95% in both 2011 and 2010. The list of the Group's jointly controlled projects (which are not jointly-controlled entities) are as follows:

- McKinley Hills
- Newport City
- Manhattan Parkway Residences
- Greenbelt Excelsior
- Forbeswood Heights
- Forbeswood Parklane 1 & 2
- The Noble Place
- Pioneer Woodlands
- San Lorenzo Place
- Governor Hills
- Sta. Rosa Heights
- Boracay Terraces Resort
- R5000
- Olango Bay Project
- Various Metro Manila and Calabarzon projects

As of December 31, 2011 and 2010, the Group 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.

All of the Group's advances have been reviewed for indicators of impairment. Based on management's evaluation, no impairment loss is required to be recognized for the years ended December 31, 2011 and 2010.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

	2011	2010
Debt securities	**P 4,327,803,276**	P 933,563,138
Equity securities	**1,116,520,410**	675,467,827
	P 5,444,323,686	P 1,609,030,965

The securities can be further analyzed as follows:

	2011	2010
Local	**P 1,116,520,410**	P 1,609,030,965
Foreign	**4,327,803,276**	-
	P 5,444,323,686	P 1,609,030,965

The fair values of AFS financial assets have been determined by reference to published prices in an active market. The changes in the fair value arising from the 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 P763.8 million loss in 2011, P253.3 million gain in 2010 and P1,750.6 million gain in 2009.

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 joint ventures, which are carried at equity, are as follows:

	2011	2010
Investments of Megaworld in associates -		
Acquisition costs:		
AGPL	**P 2,463,056,417**	P 2,463,056,417
SHDI	**875,445,000**	875,445,000
PTHDC	**64,665,000**	64,665,000
EELHI	**-**	5,726,128,415
GPMAI	**-**	98,806,194
	3,403,166,417	9,228,101,026
Accumulated share in net profits (loss):		
Balance at beginning of year	**1,515,480,166**	1,395,263,541
Reversal resulting from consolidation of EELHI and GPMAI	**(2,216,306,527)**	-
Share in net profits for the year	**113,981,119**	120,216,625
Balance at end of year	**(586,845,242)**	1,515,480,166
Share in other comprehensive income	-	70,676,649
Balance carried forward	**P 2,816,321,175**	P 10,814,257,841

	2011	2010
Balance brought forward	**P 2,816,321,175**	P 10,814,257,841
Investments of GERI in associates -		
Acquisition costs:		
NPI	**734,396,528**	-
FERC	**28,000,000**	-
FENI	**10,000,003**	-
FESI	**7,808,360**	-
FERSAI	**4,000,000**	-
OPI	**3,125,225**	-
	787,330,116	-
Accumulated share in net losses:		
Addition of beginning balance due to consolidation of GERI	**28,508,851**	-
Share in net losses for the year	**9,134,821**	-
Balance at end of year	**37,643,672**	-
	749,686,444	-
Investment of AG Cayman in AGPL		
Acquisition cost	**285,460,560**	285,460,560
Accumulated share in net profits:		
Balance at beginning of year	**2,384,559**	-
Share in net profits for the year	**13,823,610**	2,384,559
Balance at end of year	**16,208,169**	2,384,559
	301,668,729	287,845,119
Investment of FCI in SPLI		
Acquisition cost	**-**	200,000,000
Accumulated share in net losses:		
Balance at beginning of year	**(2,711,947)**	(2,141,285)
Reversal resulting from consolidation of EELHI and GPMAI	**2,711,947**	-
Share in net losses for the year	**-**	(570,662)
Balance at end of year	**-**	(2,711,947)
	-	197,288,053
Balance carried forward	**P 3,867,676,348**	P 11,299,391,013

	2011	2010
Balance brought forward	**P 3,867,676,348**	P 11,299,391,013
Investment in Travellers, a joint venture		
Acquisition cost		
Balance at beginning of year	**9,309,855,913**	11,889,855,913
Redemption	**-**	(2,580,000,000)
Balance at end of year	**9,309,855,913**	9,309,855,913
Accumulated share in net profits:		
Balance at beginning of year	**1,159,358,610**	2,715,201
Share in net profits for the year	**2,419,267,087**	1,610,323,409
Dividends received	**-**	(453,680,000)
Balance at end of year	**3,578,625,697**	1,159,358,610
Accumulated share in other comprehensive income:		
Balance at beginning of year	**2,500,000**	-
Share in other comprehensive loss for the year	**(736,825)**	2,500,000
Balance at end of year	**1,763,175**	2,500,000
	12,890,244,785	10,471,714,523
Investment of GADC in GCFII, a joint venture – acquisition cost	**10,000,000**	10,000,000
Accumulated share in net profits:		
Balance at beginning of year	**5,736,577**	4,096,910
Share in net profits	**2,109,657**	1,639,667
Balance at end of year	**7,846,234**	5,736,577
	17,846,234	15,736,577
Advances to associates and other related parties (see Note 28.5)	**2,218,507,448**	2,035,044,263
	P 18,994,274,815	P 23,821,886,376

The total share in net profits of P2,540.0 million, P1,734.0 million and P160.7 million for the years ended December 31, 2011, 2010 and 2009, respectively, is shown as Share in Net Profits of Associates and Joint Ventures – Net in the consolidated statements of comprehensive income.

The Group recognized its share in other comprehensive income of certain associates and joint venture amounting to P73.2 million in 2010. On the other hand, in 2011, the Group recognized its share in the other comprehensive loss of its joint venture amounting to P0.7 million.

The total accumulated equity share in net earnings – net of P2,978.2 million and P2,685.7 million as of December 31, 2011 and 2010, respectively, which forms part of the Group's Retained Earnings, is not available for dividend declaration.

12.1 Investment in EELHI and GPMAI

In 2011, Megaworld increased its ownership interest EELHI from 48.38% to 61.13%, thereby making EELHI a subsidiary and consolidated as of December 31, 2011 (see Note 1). SPLI, previously an associate of FCI, was also consolidated in 2011 because of EELHI (see Note 1).

In 2010, prior to Megaworld obtaining control over EELHI, 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 P403.9 million revaluation reserves as shown in the 2010 statement of comprehensive income and reduction of treasury shares amounting to P840.9 million representing the Company's shares held by GPMAI. In 2011, Megaworld's indirect ownership in GPMAI increased to 46.45% because of EELHI, which has a 52% ownership in GPMAI. Consequently, GPMAI is also treated as a subsidiary of Megaworld and consolidated in 2011.

12.2 Investment in Travellers

In early part of 2008, the Company and Genting Hongkong Limited (GHL) 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 and the Bagong Nayong Pilipino Entertainment City Manila Project (Site A).

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 SEC 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 and SHDI

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 P285.5 million representing 4.90% ownership in AGPL. This brings the effective ownership of the Group in AGPL to 30.0% as of December 31, 2011 and 2010.

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

The shares of stock of SHDI are listed in the PSE. The total quoted or market value of investments in this associate amounted to P498.0 million and P439.4 million as of December 31, 2011 and 2010, respectively. Overall, the related book values of the Group's holdings in all of its associates are in excess of both the investments' cost and market values, hence, management has assessed that the recognition of impairment losses was not deemed necessary.

12.4 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, 2011 and December 31, 2010 (in thousands):

	Assets	Liabilities	Revenues	Net Profit (Loss)
2011:				
Travellers	P 45,595,379	P 26,801,262	P 26,348,582	P 4,838,534
AGPL	6,043,588	8,264	295,614	282,114
NPI	1,325,050	1,315,150	-	-
PTHDC	1,137,403	1,005,277	115	(157)
OPI	614,462	607,854	794	563
SHDI	346,218	238,561	174,126	(3,272)
FERC	337,533	258,944	4,793	(11,312)
FERSAI	149,518	154,299	8,897	(25,489)
FESI	141,823	40,590	21,235	(4,118)
FENI	102,515	100,908	12,423	(8,535)
GCFII	40,235	4,599	74,718	4,219
	P 55,833,724	**P 30,535,708**	**P 26,941,297**	**P 5,072,547**
2010:				
Travellers	P 27,824,625	P 8,280,011	P 2,252,537	P 250,266
EELHI	40,779,935	26,822,878	14,876,965	3,220,647
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
	P 77,994,926	P 36,790,919	P 17,665,932	P 3,738,218

12.5 Investment in GERI

On December 22, 2010, the Company agreed to subscribe to the 5.0 billion increase in authorized capital stock of GERI at P1.0 par value. On January 12, 2011, the Company closed the subscription and paid the amount of P1.25 billion, representing 25% of the total subscription price. The application of GERI for the increase in authorized capital stock was approved by the SEC on January 20, 2011. Immediately after, the Company fully paid the remaining P3.75 billion of its subscription. Subsequently, the Company acquired additional shares of GERI amounting to P319.1 million, resulting to 62% total percentage interest of the Company as of December 31, 2011. GERI was consolidated in 2011. There are no significant incidental costs nor any contingent costs related to the acquisition. The acquisition is in line with the Company's strategy of investing in tourism projects outside of Metro Manila. The amount of GERI's identifiable net assets, which are substantially real estate properties, at the date of acquisition exceeded the fair value of consideration paid by the Company. Such excess, amounting to P3.13 billion is presented as Income from Acquisition of Subsidiary in the 2011 consolidated statement of comprehensive income. The net profit of GERI included in the 2011 consolidated statement of comprehensive income amounted to P220.1 million.

13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of property, plant and equipment at the beginning and end of the reporting periods are 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
December 31, 2011							
Cost	P 975,881,902	P 5,205,439,318	P4,107,450,548	P 426,268,337	P1,228,113,635	P 59,386,417	P12,002,540,157
Accumulated depreciation, amortization and impairment	(82,351,477)	(2,247,310,496)	(2,063,131,220)	(228,948,850)	(820,068,015)	-	(5,441,810,058)
Net carrying amount	**P 893,530,425**	**P 2,958,128,822**	**P2,044,319,328**	**P 197,319,487**	**P 408,045,620**	**P 59,386,417**	**P 6,560,730,099**
December 31, 2010							
Cost	P 726,872,020	P 3,931,521,266	P 3,316,556,395	P 343,850,050	P1,038,563,106	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	P 658,023,518	P 2,157,901,147	P 1,673,183,512	P 204,690,431	P 327,459,703	P 107,264,422	P 5,128,522,733
January 1, 2010							
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	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

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, 2011, net of accumulated depreciation, amortization and impairment	P 693,223,518	P2,122,701,147	P1,673,183,512	P 204,690,431	P 327,459,703	P 107,264,422	P 5,128,522,733
Property, plant and equipment of newly acquired subsidiaries	98,219,045	384,752,272	2,471,459	24,038,127	97,968,698	-	607,449,601
Additions	117,017,201	553,007,923	719,491,064	51,479,226	91,281,565	53,837,296	1,586,114,275
Disposals – net	(3,026,364)	(5,050,963)	(27,995,499)	(27,024,725)	(5,424,715)	-	(68,522,266)
Reclassifications – net	1,600,000	187,922,942	49,932,024	-	3,913,467	(101,715,301)	141,653,132
Depreciation and amortization charges for the year	(13,502,975)	(285,204,499)	(372,763,232)	(55,863,572)	(107,153,098)	-	(834,487,376)
Balance at December 31, 2011, net of accumulated depreciation amortization and impairment	**P 893,530,425**	**P2,958,128,822**	**P 2,044,319,328**	**P 197,319,487**	**P 408,045,620**	**P 59,386,417**	**P 6,560,730,099**
Balance at January 1, 2010, net of accumulated depreciation, amortization and impairment	P 649,493,783	P 2,068,390,753	P 1,603,169,764	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
Reclassifications – net	703,676	14,588,416	102,359,281	2,675,742	(10,088,398)	(25,513,999)	84,724,719
Disposals – net	-	(35,695,040)	(362,754,046)	(2,767,707)	(40,522)	(619,563)	(401,876,879)
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	P 658,023,518	P2,157,901,147	P1,673,183,512	P 204,690,431	P 327,459,703	P 107,264,422	P 5,128,522,733

Net book values of property, plant and equipment also increased in 2011 due to the consolidation of certain subsidiaries (see Note 12).

14. INVESTMENT PROPERTY

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

	Land	Buildings	Condominium Units	Total
December 31, 2011				
Cost	P 1,895,937,099	P 8,619,931,937	P 4,977,714,772	P 15,493,583,808
Accumulated depreciation	(130,550,308)	(1,541,524,161)	(787,737,966)	(2,459,812,435)
Net carrying amount	**P 1,765,386,791**	**P 7,078,407,776**	**P 4,189,976,806**	**P 13,033,771,373**
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	-	(1,050,190,287)	(603,192,929)	(1,653,383,216)
Net carrying amount	P 1,556,549,367	P 5,065,151,968	P 3,355,277,413	P 9,976,978,748
January 1, 2010				
Cost	P 1,571,008,989	P 5,874,427,287	P 3,224,344,697	P 10,669,780,973
Accumulated depreciation	-	(845,065,021)	(442,979,595)	(1,288,044,616)
Net carrying amount	P 1,571,008,989	P 5,029,362,266	P 2,781,365,102	P 9,381,736,357

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

	Land	Buildings	Condominium Units	Total
Balance at January 1, 2011, net of accumulated depreciation	P 1,556,549,367	P 5,065,151,968	P 3,355,277,413	P 9,976,978,748
Investment property of newly acquired newly acquired subsidiaries	166,577,981	337,765,997	-	504,343,978
Additions	91,939,339	1,960,089,370	1,042,662,947	3,094,691,656
Disposals	(3,200,000)	(5,205,406)	(19,011,574)	(27,416,980)
Reclassifications – net	(44,548,000)	-	-	(44,548,000)
Depreciation charges for the year	(1,931,896)	(279,394,153)	(188,951,980)	(470,278,029)
Balance at December 31, 2011, net of accumulated depreciation	**P 1,765,386,791**	**P 7,078,407,776**	**P 4,189,976,806**	**P 13,033,771,373**
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	-	(,329,787)	-	(6,329,787)
Investment property of a deconsolidated subsidiary	(14,459,622)	-	-	(14,459,622)
Depreciation charges for the year	-	(215,021,454)	(160,213,334)	(375,234,788)
Balance at December 31, 2010, net of accumulated depreciation	P 1,556,549,367	P 5,065,151,968	P 3,355,277,413	P 9,976,978,748

Rental income earned from the investment property amounted to P3,934.1 million, P2,864.8 million, and P2,152.5 million for the years ended December 31, 2011, 2010 and 2009 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 P150.4 million, P103.4 million and P108.2 million in 2011, 2010 and 2009, respectively, are presented as part of Cost of Services in the 2011 and 2010 consolidated statements of comprehensive income (see Note 22). The operating lease commitments of the Group as a lessor are fully disclosed in Note 31.1.

A significant portion of investment property held for lease are used as collateral for various interest-bearing loans and borrowings as of December 31, 2011 and 2010 (see Note 17).

Net book values of investment property also increased in 2011 due to consolidation of certain subsidiaries (see Note 12).

The fair values of these properties amounted to P74,544.0 million and P53,839.0 million as of December 31, 2011 and December 31, 2010, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present value of the cash inflows anticipated until the end of the life of the investment property.

15. INTANGIBLE ASSETS

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

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Total
December 31, 2011					
Cost	**P 10,701,998,209**	**P 1,012,572,767**	**P 63,609,697**	**P 23,247,261**	**P 11,801,427,934**
Accumulated amortization	**-**	**(496,076,838)**	**(35,287,429)**	**(12,915,145)**	**(544,279,412)**
Net carrying amount	**P 10,701,998,209**	**P 516,495,929**	**P 28,322,268**	**P 10,332,116**	**P 11,257,148,522**
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	-	(394,819,561)	(30,670,172)	(5,166,058)	(430,655,791)
Net carrying amount	P 10,621,712,819	P 617,753,206	P 32,939,525	P 18,081,203	P 11,290,486,753
January 1, 2010					
Cost	P 10,621,712,819	P 1,012,572,767	P 63,609,697	P -	P 11,697,895,283
Accumulated amortization	-	(293,562,284)	(26,247,947)	-	(319,810,231)
Net carrying amount	P 10,621,712,819	P 719,010,483	P 37,361,750	P -	P 11,378,085,052

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

	Goodwill	Trademarks	Leasehold Rights	Computer Software	Total
Balance at January 1, 2011, net of accumulated amortization	P 10,621,712,819	P 617,753,206	P 32,939,525	P 18,081,203	P 11,290,486,753
Additions	80,285,390	-	-	-	80,285,390
Amortization for the year	-	(101,257,277)	(4,617,257)	(7,749,087)	(113,623,621)
Balance at December 31, 2011, net of accumulated amortization	**P 10,701,998,209**	**P 516,495,929**	**P 28,322,268**	**P 10,332,116**	**P 11,257,148,522**
Balance at January 1, 2010, net of accumulated amortization	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	P 10,621,712,819	P 617,753,206	P 32,939,525	P 18,081,203	P 11,290,486,753

15.1 Goodwill

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.

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 transaction resulted in goodwill amounting to P7.6 billion.

15.2 Trademarks

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 for the years ended December 31, 2011, 2010 and 2009 and are shown as part of Other Operating Expenses (see Note 23).

15.3 Leasehold Rights and Computer Software

The amortization of leasehold rights and computer software amounted to P12.3 million, P9.6 million and P4.1 million in 2011, 2010 and 2009, 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).

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

15.4 Impairment

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, 2011, 2010 and 2009.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2011**	2010
Trade payables	28.3	**P 11,562,673,419**	P 8,538,178,004
Accrued expenses	28.1	**2,261,956,140**	1,794,402,235
Retention payable		**1,349,444,587**	1,211,950,863
Due to related parties	23, 28.1 28.4	**697,049,267**	387,109,057
Due to joint venture partners		**194,549,367**	-
Output VAT payable		**4,381,625**	7,160,560
Others		**1,023,253,714**	433,889,127
		P 17,093,308,119	P 12,372,689,846

Trade payables mainly represents obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of inventories.

Accrued expenses includes accruals for interest, salaries and wages, utilities and other expenses of the Group.

Retention payable pertains to amount withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to 10% of every billing made by the contractor. Upon completion of the contracted projects, the amounts are returned to the contractors.

Due to joint venture partners represents the share of joint venture (JV) partners on sale of certain projects in accordance with various JV agreements entered into by the Group.

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:

	Note	**2011**	2010
Current:			
Local		**P 1,847,171,268**	P 1,478,778,570
Foreign		**1,059,702,021**	107,973,945
		P 2,906,873,289	P 1,586,752,515
Non-current:			
Local		**P 5,434,439,598**	P 8,000,390,474
Related party	28.1	**526,080,000**	526,080,000
Foreign		**-**	53,988,238
		P 5,960,519,598	P 8,580,458,712

The balances as of December 31, 2011 and 2010 of local borrowings include the following:

(a) Unsecured corporate notes 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 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 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 PDSTF-R plus a certain spread.

(d) Loans 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, 2011 amounted to P1.2 billion and P4.9 billion, respectively, and as of December 31, 2010 amounted to P1.2 billion and P6.1 billion, respectively.

(e) Secured and unsecured loans obtained by EELHI from local banks. The loans bear annual interest rates ranging from 9.5% to 10.5% in 2011. Certain investment property with an estimated carrying value of P1.6 billion as of December 31, 2011 are used as collateral for the bank loans (see Note 14).

Bank loans also include amounts arising from trade receivables discounted on a with-recourse basis. Finance costs that are directly attributable to construction of EELHI's projects are capitalized as part of Residential and Condominium Units for Sale. The remaining interest costs are expensed outright and are presented as part of Finance Costs and Other Charges in the 2011 consolidated statement of income.

Included also in the balance is the outstanding portion of a P400.0 million loan obtained in 2006. This loan bears annual interest of 10.5%. The principal amount is payable in seven equal annual amortization beginning March 15, 2007.

As of December 31, 2011, the total current and non-current portions of foregoing EELHI's loan amounted to P221.9 million and P417.3 million, respectively.

(f) Unsecured short-term loans obtained by SPI from a local bank amounting to P400.0 million. This bears an annual interest rate of 5.5% upon maturity in 2012.

(g) Loan from Goldpath Properties Development Corp. by GADC related to acquisition of parcels of land from the former for P87.1 million in January 2011, payable as follows: (i) initial down payment of 25% of the selling price payable immediately, and (ii) the remaining balance in 36 monthly installments commencing on February 2011. The loan bears interest at 8% per annum.

(h) Loan from Planters Development Bank by GADC related to the purchase of land and building from the former for P130.0 million in December 2011, payable as follows: (i) initial cash payment of P10.0 million, and (ii) the remaining balance, payable in monthly installments commencing on the third year of the loan until December 2021, with interest at 7% per annum.

(i) Loan from a local financial institution by AFCMI for the purchase of property and equipment for P1.0 million in December 2011, payable as follows: (i) initial down payment of 23% of the principal, and (ii) the remaining balance in 30 monthly installments from December 2011 to May 2014, with interest at 15% per annum.

As of December 31, 2011, the total current and non-current portions of the foregoing GADC loans amounted to P21.9 million and P145.8 million, respectively.

(j) A P2.2 billion bank loan 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 bore interest payable quarterly in arrears at a rate based on applicable PDSTF -R plus a certain spread. The loan was secured by 2.3 billion shares of Megaworld held by NTLPI as of December 31, 2010. The principal amount was originally payable in 16 equal quarterly amortizations beginning September 1, 2011, with prepayment allowed within two years from drawdown. In April 2011, the Company paid the bank loan in full.

As of December 31, 2010, the current and non-current portions of this loan amounted to P275.0 million and P1.9 billion, respectively.

The balances as of December 31, 2011 and 2010 of foreign borrowings include the following:

(a) Balance of a long-term loan facility obtained by ECOC 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 with carrying value of P0.8 billion as of December 31, 2011 and 2010 (see Note 14) and a full guarantee from Megaworld.

The total current and non-current portions of the foregoing ECOC's loans as of December 31, 2011 amounted to P54.0 million and nil, respectively, and as of December 31, 2010 amounted to P108.0 million and P54.0 million, respectively.

(b) Current unsecured short-term loans obtained by foreign subsidiaries. These are foreign currency denominated loans granted by banks to fund the acquisition of financial assets from the same banks. The loans outstanding amounted to P1.0 billion as of December 31, 2011.

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

Total finance costs attributable to these loans amounted to P602.8 million, P770.0 million and P755.0 million for the years ended December 31, 2011, 2010 and 2009, respectively, and portions of which 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, 2011, 2010 and 2009 amounted to P355.6 million, P384.1 million and P408.0 million, respectively. The rate used in determining the amount of interest charges qualified for capitalization is 8.29% in 2011 and 2010.

18. BONDS PAYABLE

This account consists of the following bonds payables:

	2011	2010
Current:		
MCII	**P -**	P 3,416,062,159
Non-current:		
AG Cayman	**P 21,617,428,777**	P 21,571,051,933
Megaworld	**13,538,914,490**	5,000,000,000
	P 35,156,343,267	P 26,571,051,933

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 said bond matured and were fully settled in August 2011.

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 proceeds received were used to finance Megaworld's capital expenditures from 2009 until 2011 mainly for the development of its real estate projects. Capitalized interest charges from these bonds amounted P423.0 million in 2011 and 2010.

On August 18, 2010, AG Cayman issued a U.S.$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 every year. 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%. 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 and used to finance capital and project expenditures, refinance certain existing indebtedness of the Company's subsidiaries, and for general corporate purposes.

On April 15, 2011, Megaworld issued seven-year term bonds totaling U.S.$200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15 each year. The bond will mature on April 15, 2018.

Interest expense from the bonds payable amounting to P1.8 billion, P847.1 million and P291.8 million for the years ended December 31, 2011, 2010 and 2009, 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 pertains 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:

Class	Voting	No. of Shares Authorized and Issued	Total Par Value (undiscounted)	Additional payment in the event of GADC's liquidation
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 19^{th} 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 2011, 2010 and 2009 totaling P45.8 million, P40.9 million and P36.2 million, respectively, were recognized as part of Interest Expense under Finance Costs and Other Charges (see Note 25).

As of December 31, 2011 and 2010, the carrying value of the redeemable preferred shares amounted to P417.7 million and P371.9 million, respectively, as shown in the consolidated statements of financial position.

20. OTHER LIABILITIES

The breakdown of this account is as follows:

	Notes	2011	2010
Current:			
Unearned income		**P 1,513,744,516**	P 939,203,207
Derivative liabilities	33.1	**413,420,187**	85,792,964
Deferred rental		**27,698,235**	797,618,036
Obligation under finance lease		**-**	317,500
Other payables		**237,053,966**	4,898,835
		P 2,191,916,904	P 1,827,830,542
Non-current:			
Deferred rental		**P 1,943,654,006**	P 729,706,009
Accrued rent		**100,683,859**	114,644,321
Security deposits – net	21	**87,684,882**	80,134,988
ARO		**24,357,795**	20,840,010
Payable to MRO under stock option plan	26.3	**3,163,683**	9,435,245
Other payables	28.3	**1,219,184,008**	286,744,559
		P 3,378,728,233	P 1,241,505,132

Other payables mainly comprised of commission payable to the Group's real estate agents and SPI's liability on assigned receivables.

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 2011 and 2010. As of December 31, 2011 and 2010, the option has a negative fair value of U.S.$9.4 million (P413.4 million) and U.S.$2.0 million (P85.8 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 Other Charges in 2011 and Fair Value Gains – Net under Finance and Other Income in 2010 (see Notes 24 and 25).

21. RENDERING OF SERVICES

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

	Notes	2011	2010	2009
Rental income	14, 31.1	**P3,862,807,616**	P2,864,773,291	P2,152,477,767
Revenue from franchised McDonald's restaurants Royalty and management fees		**846,757,093**	660,337,780	525,846,040
Hotel operations		**392,171,105**	232,757,023	216,143,646
Others		**74,647,689**	5,644,646	14,118,266
		P5,176,383,503	P3,763,512,740	P2,908,585,719

Individual sublicense arrangements granted to franchisees and joint venturer 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 or a minimum guaranteed rent, whichever is higher, and royalties based on certain percentage of sales to GADC. The franchisees pay for the related occupancy costs on the leased property 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	**2011**	2010	2009
Cost of Goods Sold				
Direct materials used		**P 11,172,300,427**	P 4,577,701,227	P 3,092,609,172
Cost of inventories		**4,262,498,143**	3,897,293,313	3,722,658,317
Rentals	31.2	**1,889,818,879**	1,428,030,119	1,236,814,951
Salaries and employee benefits	26	**1,228,539,367**	1,161,505,819	1,134,570,022
Change in work in process and finished goods	8	**914,812,641**	592,014,887	583,719,384
Depreciation and amortization	13, 14, 15	**578,483,878**	462,136,420	439,377,369
Outside services		**296,996,929**	340,403,889	210,155,202
Repairs and maintenance		**190,650,218**	255,497,606	157,736,597
Indirect materials and other consumables		**163,220,742**	132,636,618	110,118,128
Utilities		**55,950,827**	71,607,358	44,208,246
Supplies		**48,772,251**	31,983,856	21,612,517
Taxes and licenses		**2,457,279**	1,456,263	1,268,407
Other direct and overhead costs		**941,138,923**	249,952,505	377,622,685
		P 21,745,640,504	P 13,202,219,880	P 11,132,470,997
Cost of Real Estate Sales		**P 10,315,106,663**	P 8,606,699,164	P 7,940,756,662
Deferred Gross Profit on Real Estate Sales		**P 3,091,703,036**	P 2,431,379,388	P 1,815,065,914
Cost of Services				
Hotel operations		**P 223,731,697**	P 124,463,666	P 103,017,443
Salaries and employee benefits	26	**138,941,989**	133,086,060	109,673,478
Rental		**95,962,207**	392,679,284	297,066,013
Depreciation and amortization	13, 14, 15	**54,987,132**	110,713,764	132,025,361
Other direct and overhead costs		**300,011,272**	21,744,962	14,982,383
		P 813,634,297	P 782,687,736	P 656,764,678

23. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2011	2010	2009
Advertising and promotions		**P 1,581,032,899**	P 1,030,345,887	P 898,370,092
Salaries and employee benefits	26	**1,496,303,538**	1,059,407,946	856,987,096
Commissions		**934,994,239**	480,121,490	485,327,031
Depreciation and amortization	13, 14	**679,251,148**	534,269,281	433,387,551
Royalty		**559,245,358**	500,674,808	563,926,914
Freight and handling		**460,232,574**	231,858,380	174,370,727
Utilities		**339,378,560**	181,695,818	103,958,834
Taxes and licenses		**319,299,545**	157,909,450	162,489,030
Rental		**261,269,083**	156,495,957	150,625,625
Transportation and travel		**259,746,657**	213,915,832	204,589,888
Professional fees and outside services		**234,302,711**	107,150,723	66,052,879
Amortization of trademarks	15	**101,257,277**	101,257,277	101,257,277
Representation and entertainment		**96,993,406**	45,485,236	33,801,652
Communication and office expenses		**48,124,234**	29,095,952	30,248,262
Repairs and maintenance		**42,082,597**	29,727,260	24,884,646
Impairment losses	6	**23,247,378**	9,135,462	19,279,133
Insurance		**6,630,699**	3,921,136	8,025,219
Write-down of inventories	8	**24,432,059**	2,378,466	10,247,306
Others		**772,244,821**	387,636,616	237,127,992
		P 8,240,068,783	P 5,262,482,977	P 4,564,957,154

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

	2011	2010	2009
General and administrative expenses	**P 4,652,978,037**	P 3,044,267,452	P 2,503,256,614
Selling expenses	**3,587,090,746**	2,218,215,525	2,061,700,540
	P 8,240,068,783	P 5,262,482,977	P 4,564,957,154

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, 2011 and 2010 amounted to P93.4 million and P81.0 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	2011	2010	2009
Interest income	5, 7	**P 3,892,785,803**	P 2,093,764,085	P 1,896,421,610
Foreign currency gains – net		**1,569,197,047**	1,672,679,514	-
Gain on sale of investment in AFS financial assets		**295,737,916**	629,194,471	18,050,807
Construction income		**138,492,457**	101,962,175	26,473,236
Gain on sale of investment in shares of stock	11	**74,625,677**	-	1,581,815,465
Dividend income		**6,334,455**	60,673,664	44,247,127
Fair value gains – net	7, 20	**-**	-	2,262,564,790
Miscellaneous	6, 8	**797,360,848**	386,413,367	147,532,763
		P 6,774,534,203	P 4,944,687,276	P 5,977,105,798

In 2009, MPIL sold its entire interest in Premium Travellers Ltd. amounting to U.S.$50.0 million (approximately P2.3 billion) which 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.

25. FINANCE COSTS AND OTHER CHARGES

The details of this account are as follows:

	Notes	2011	2010	2009
Interest expense	17, 18, 19, 28	**P 2,632,864,022**	P 1,341,679,352	P 715,198,019
Fair value losses – net	7, 20	**1,143,963,462**	745,023,420	-
Foreign currency losses – net		**-**	-	3,189,241,810
Miscellaneous		**-**	41,596,210	36,861,920
		P 3,776,827,484	P 2,128,298,982	P 3,941,301,749

26. SALARIES AND EMPLOYEE BENEFITS

26.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2011	2010	2009
Short-term employee benefits		**P 2,723,550,571**	P 2,317,332,243	P 2,067,140,328
Post-employment defined benefit	26.2	**138,082,215**	32,451,822	32,173,465
Stock-option benefit expense	26.3	**2,152,108**	4,215,760	1,916,803
		P 2,863,784,894	P 2,353,999,825	P 2,101,230,596

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

	Notes	2011	2010	2009
Cost of goods sold	22	**P 1,228,539,367**	P 1,161,505,819	P 1,134,570,022
Cost of services	22	**138,941,989**	133,086,060	109,673,478
Other operating expenses	23	**1,496,303,538**	1,059,407,946	856,987,096
		P 2,863,784,894	P 2,353,999,825	P 2,101,230,596

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:

	2011	2010
Present value of the obligation	**P 1,178,851,374**	P 569,197,034
Fair value of plan assets	**(283,320,192)**	(217,035,332)
Deficiency of plan assets	**895,531,182**	352,161,702
Unrecognized actuarial gains (losses)	**(300,531,638)**	31,496,246
Unrecognized past service cost	**(3,656,813)**	-
Retirement benefits obligation	**P 591,342,731**	P 383,657,948

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

	2011	2010
Balance at beginning of year	**P 569,197,034**	P 299,746,134
Actuarial losses	**355,557,360**	198,075,959
Current service and interest costs	**150,353,193**	80,288,686
Additions due to consolidation of new subsidiaries	**116,064,640**	-
Benefits paid by the plan	**(12,320,853)**	(8,913,745)
Balance at end of year	**P 1,178,851,374**	P 569,197,034

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

	2011	2010
Balance at beginning of year	**P 217,035,332**	P 174,808,586
Contributions paid into the plan	**48,428,417**	32,000,000
Expected return on plan assets	**16,422,864**	10,488,544
Actuarial gains	**9,600,504**	6,006,697
Additions due to consolidation of new subsidiaries	**3,104,807**	-
Benefits paid by the plan	**(11,271,732)**	(6,268,495)
Balance at end of year	**P 283,320,192**	P 217,035,332

The Group expects to contribute P39.4 million to its retirement benefit plans in 2012.

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

	2011	2010
Cash and cash equivalents	**P 92,424,526**	P 55,911,014
Loans and receivables	**6,011,483**	8,846,683
Investments in:		
Unit investment trust fund	**106,631,264**	79,030,372
Other securities and debt instruments	**55,678,766**	52,621,384
Long-term equity investments	**22,574,153**	20,625,879
Preferred shares	**-**	-
	P 283,320,192	P 217,035,332

Actual returns on plan assets amounts to P26.0 million in 2011 while actual return on plan assets amounted to P16.5 million in 2010.

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

	2011	2010	2009
Current service cost	**P 91,964,270**	P 28,599,498	P 29,247,718
Interest cost	**58,388,923**	27,921,925	23,193,651
Expected return on plan assets	**(16,422,964)**	(9,608,714)	(7,147,014)
Effects of settlement/curtailment	**10,847,556**	-	-
Net actuarial losses (gains) recognized during the year	**(6,895,150)**	(14,460,887)	(13,120,890)
Past service cost	**199,580**	-	-
	P 138,082,215	P 32,451,822	P 32,173,465

The amounts of retirement benefit expense are allocated as follows:

	2011	2010	2009
Cost of goods sold and services	**P 38,166,619**	P 8,753,867	P 8,265,505
Other operating expenses	**99,915,596**	23,697,955	23,907,960
	P 138,082,215	P 32,451,822	P 32,173,465

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

	2011	2010
Discount rates	**5.80% - 9.30%**	7.30% - 11.30%
Expected rate of return on plan assets	**3.00% - 10.00%**	5.90% - 10.00%
Expected rate of salary increases	**6.00% - 8.00%**	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 Benefit

The Group's stock option benefit expense includes the amount of compensation recognized by the Company and GADC over the vesting period of the options granted. 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 continue to be exercisable until the expiration of the exercise period which is generally 10 to 13 years from the grant date. The exercise price is the fair value of the stock 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.

In December 2011, the Company granted stock options to certain key executives to subscribe to a specific number common shares of the Company, at an agreed exercise price (see Note 29.6).

Stock option benefits expense, included as part of Salaries and Employee Benefits (see Note 26.1) amounted to P2.2 million in 2011, P4.2 million in 2010 and P1.9 million in 2009. The accumulated liability to MRO relating to the fair value of options vested amounted to P3.2 million and P9.4 million as of December 31, 2011 and 2010, 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:

	2011	2010	2009
Reported in consolidated profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 2,322,589,115**	P 1,787,997,188	P 759,124,982
Final tax at 20% and 7.5%	**270,007,575**	162,005,883	142,146,071
Preferential tax rate at 5%	**18,802,816**	19,479,041	15,866,373
Minimum corporate income tax (MCIT) at 2%	**10,076,534**	1,426,009	245,489,292
Others	**18,328,041**	-	3,869
	2,639,804,081	1,970,908,121	1,162,630,587
Deferred tax relating to origination and reversal of temporary differences	**713,200,408**	613,963,085	821,514,983
	P 3,353,004,489	P 2,584,871,206	P 1,984,145,570
Reported in consolidated other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 3,842,636**	P 55,817,408	P 25,795,486

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

	2011	2010	2009
Tax on consolidated pretax income at 30%	**P 5,093,652,270**	P 4,113,538,792	P 2,414,103,573
Adjustment for income subjected to different tax rates	**(359,371,480)**	(241,959,126)	(167,652,045)
Tax effects of:			
Dividend income not subject to RCIT	**(1,674,501,825)**	(1,063,054,219)	(136,489,843)
Nondeductible expenses	**470,158,300**	266,990,758	68,418,123
Interest income subjected to final tax	**(270,007,575)**	(4,550,237)	(3,347,483)
Nondeductible interest expense	**58,600,200**	67,960,142	54,316,902
Unrecognized deferred tax asset on net operating loss carryover (NOLCO)	**23,233,686**	72,319,872	56,990,382
Additional deduction with the use of Optional Standard Deduction (OSD)	**(14,097,571)**	(8,753,069)	(7,324,333)
Applied NOLCO and MCIT without deferred tax asset recognized in prior years	**10,266,270**	(838,642)	(537,731)
Income not subject to RCIT	**(2,248,025)**	(608,225,961)	(286,629,231)
Tax benefit arising from unrecognized deferred tax asset	**(1,854,618)**	(72,055)	(10,243,907)
Gross income generated from PEZA-registered activities	**(1,513,964)**	(2,131,070)	(2,189,434)
Others	**20,688,821**	(6,353,979)	4,730,597
Tax expense reported in profit or loss	**P 3,353,004,489**	P 2,584,871,206	P 1,984,145,570

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

	2011	2010
Deferred tax assets:		
Retirement benefit obligation	**P 259,292,479**	P 210,226,431
NOLCO	**174,154,490**	5,276,694
Allowance for impairment	**157,263,520**	29,573,787
Accrued rent	**39,396,892**	44,527,871
MCIT	**11,004,011**	383,833
Allowance for inventory write-down	**9,206,605**	7,794,505
Unrealized income – net	**2,988,344**	2,198,319
Unrealized foreign currency losses	**1,903,411**	-
Others	**15,198,094**	10,138,191
	P 670,407,846	P 310,119,631
Deferred tax liabilities:		
Uncollected gross profit	**P 4,184,468,051**	P 2,697,434,301
Capitalized interest	**953,496,771**	443,717,090
Difference between the tax reporting base and financial reporting base of property, plant and equipment	**143,527,885**	181,905,947
Uncollected rental income	**96,614,243**	22,231,649
Accrued retirement cost for tax purposes	**(55,361,532)**	(43,301,756)
Unrealized foreign currency losses	**39,281,721**	42,543,552
Translation adjustments	**(31,481,851)**	(70,281,317)
Others	**259,462,413**	39,952,889
	P 5,590,007,701	P 3,314,202,355

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

	Consolidated Profit or Loss			Consolidated Other Comprehensive Income		
	2011	2010	2009	**2011**	2010	2009
Deferred tax expense (income):						
Uncollected gross profit	**P1,487,033,750**	P 402,504,512	P 767,095,402	P **-**	P -	P -
Capitalized interest	**341,878,304**	221,065,942	114,550,647	**-**	-	-
Uncollected rental income	**73,592,570**	-	(32,091,485)	**-**	-	-
Retirement benefit obligation	**(47,055,351)**	(10,131,499)	(74,389)	**-**	-	-
Difference between the tax reporting base and financial reporting base of property, plant and equipment	**(38,378,062)**	53,152,013	(24,633,305)	**-**	-	-
Bond issuance cost	**23,908,448**	-	-	-	-	-
Retirement benefits	**(17,687,371)**	(2,851,139)	(2,092,557)	**-**	-	-
Allowance for impairment losses	**10,240,751**	(3,289,396)	24,859	**-**	-	-
Unrealized foreign currency gains - net	**(5,170,963)**	-	-	**-**	-	-
Accrued rent	**5,130,979**	149,927	140,151	**-**	-	-
NOLCO	**1,041,573**	1,363,089	(4,657,130)	**-**	-	-
MCIT	**142,921**	(6,630)	(12,050)	**-**	-	-
Translation adjustments	**-**	-	-	**3,842,636**	55,967,408	26,041,986
Fair value adjustments on AFS	**-**	-	-	**-**	(150,000)	(246,500)
Others	**31,718,110**	(47,993,734)	3,264,840	**-**	-	-
	1,866,395,659	613,963,085	821,514,983	**3,842,636**	55,817,408	25,795,486
Effect of Megaworld's consolidation of EELHI, SPI and GPMAI	**(1,129,384,994)**	-	-	**-**	-	-
Effect of consolidation of GERI	**(23,810,257)**	-	-	**-**	-	-
Deferred Tax Expense	**P 713,200,408**	P 613,963,085	P 821,514,983	**P 3,842,636**	P 55,817,408	P 25,795,486

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

Year Incurred	Original Amount	Expired	Remaining Balance	Valid Until
2011	P 32,307,650	P -	P 32,307,650	2014
2010	128,671,023	-	128,671,023	2013
2009	129,440,283	-	129,440,283	2012
2008	105,290,609	105,290,609	-	2011
	P 395,709,565	P 105,290,609	P 290,418,956	

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.

Year Incurred	Original Amount	Expired	Remaining Balance	Valid Until
2011	P 11,291,521	P -	P 11,291,591	2014
2010	1,048,992	-	1,048,992	2013
2009	785,454	-	785,454	2012
2008	1,985,021	1,985,021	-	2011
	P 15,110,988	P 1,985,021	P 13,126,037	

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2011, 2010 and 2009 for which the related deferred tax assets have not been recognized by certain subsidiaries within the Group:

	2011		2010		2009	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
NOLCO	**P 216,828,440**	**P 65,048,532**	P 345,812,935	P 103,743,881	P 687,145,569	P 206,143,671
Allowance for impairment	**65,175,745**	**19,552,724**	30,845,288	9,253,586	32,853,901	9,856,170
Accrued rent	**7,290,233**	**2,187,069**	7,304,966	2,191,490	7,297,358	2,189,207
MCIT	**3,023,416**	**907,025**	1,548,560	1,548,560	3,219,396	3,219,396
Share-based compensation	**1,890,150**	**567,045**	-	-	-	-
Retirement benefit obligation	**657,761**	**197,328**	615,395	184,619	5,903,645	1,771,094
ARO	**546,532**	**163,959**	444,387	133,316	670,822	201,247
Allowance for inventory write-down	**458,815**	**137,645**	371,846	111,554	369,149	110,745
	P 295,871,092	**P 88,761,327**	P 386,943,377	P 117,167,006	P 737,459,840	P 223,491,530

27.2 Optional Standard Deduction

Corporate taxpayers have an option to claim itemized deductions or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for that particular taxable year.

In 2011, 2010 and 2009, the Group opted to continue claiming itemized deductions except for AWGI which opted to use OSD.

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 Transactions with McDonald's Restaurant Operations, Inc. and McDonald's Philippines Realty Corporation

GADC has a 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 six months. As at December 31, 2011 and 2010, the balance of the loan amounted to P526.1 million. Accrued interest payable as of December 31, 2011 and 2010 included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position amounts to P17.6 million and P15.1 million, respectively (see Note 16).

Interest expense related to the loan with MRO recognized in 2011, 2010 and 2009 amounted to P51.9 million, P54.1 million and P57.4 million, respectively, and included as part of Finance Costs and Other Charges (see Note 25).

GADC leases a warehouse and nine restaurant premises from McDonald's Philippines Realty Corporation (MPRC), a company owned by MRO. The lease terms are for periods which are co-terminus with the lease agreements entered into by GADC with the owners of the land where the warehouse and restaurants are located. Except for the warehouse for which a fixed annual rental of P10.0 million is charged, rentals charged by MPRC to GADC are based on agreed percentages of gross sales of each store. Rental charged to operations amounted to P40.8 million, P40.6 million and P40.3 million in 2011, 2010 and 2009, respectively.

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 P4.0 million and P4.9 million as of December 31, 2011 and 2010, 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, arising from intercompany transactions under its sublicense amounted to P17.0 million and P6.9 million as of December 31, 2011 and December 31, 2010, respectively (see Note 6).

Megaworld and GERI 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)	
	2011	2010	2009	**2011**	2010
Purchases of goods	**P 6,512,664,399**	P 2,406,419,911	P 1,780,762,139	**P 570,079,562**	P 785,270,842
Rendering of services and rentals	**-**	(145,403,604)	(148,894,780)	**-**	(84,088,445)
Acquisition of building structure	**-**	-	-	**1,500,000,000**	1,500,000,000
	P 6,512,664,399	P 2,261,016,307	P 1,631,867,359	**P 2,070,079,562**	P 2,201,182,397

28.3.1 Purchases of Goods

EDI sources its raw materials such as alcohol, molasses, flavorings and other supplies from Condis and Andersons Global, Inc., both related parties through common ownership of certain stockholders of the Company. The related unpaid balance as of December 31, 2011 and 2010 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, 2011 and 2010. 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, 2011 and 2010, the Company has outstanding payable amounting to P1,500.0 million 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 amounts due from and to related parties are unsecured, noninterest-bearing and due and demandable any time. Settlement is generally made in cash.

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:

	2011	2010
Due from Related Parties		
Associates	**P 257,666,033**	P -
Officers and employees	**116,353,624**	84,783,430
Other related parties	**643,248,206**	514,406,159
	P 1,017,267,863	P 599,189,589
Due to Related Parties		
Stockholder	**P 192,000,000**	P 192,000,000
Other related parties	**505,049,267**	195,109,057
	P 697,049,267	P 387,109,057

The details of the due from/to related parties are as follows:

	2011	2010
Due from Related Parties		
Balance at beginning of year	**P 599,189,589**	P 905,573,601
Balance from newly consolidated subsidiaries	**904,537,800**	-
Net additions (collections)	**(486,459,526)**	(306,384,012)
Balance at end of year	**P 1,017,267,863**	P 599,189,589
Due to Related Parties		
Balance at beginning of year	**P 387,109,057**	P 369,125,968
Balance from newly consolidated subsidiaries	**345,510,212**	-
Net additions (repayments)	**(35,570,002)**	17,983,089
Balance at end of year	**P 697,049,267**	P 387,109,057

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. These advances to and from associates and other related parties are unsecured, noninterest-bearing and repayable upon demand. Settlement is generally made in cash. The outstanding balances of Advances to Associates and Other Related Parties, which is shown as part of Investments in Associates and Interests in Joint Ventures account in the consolidated statements of financial position, are as follows (these mainly represent advances granted by Megaworld) (see Note 12.1):

	2011	2010
Advances to:		
Associates	**P 1,023,152,299**	P 1,399,198,549
Other related parties	**1,195,355,149**	635,507,116
	P 2,218,507,448	P 2,035,044,263

The details of the advances to associates and other related parties are as follows:

	2011	2010
Balance at beginning of year	**P 2,035,044,263**	P 1,999,207,926
Balance from newly consolidated subsidiaries	**164,269,940**	-
Net additions	**19,193,245**	35,836,337
Balance at end of year	**P 2,218,507,448**	P 2,035,044,263

Advances to related parties mainly pertain to advances granted by Megaworld to entities under common ownership of the Company.

As of December 31, 2011 and 2010, based on management's assessment, the outstanding balances of advances to associates and other related parties are not impaired, hence, no impairment losses were recognized.

In addition, unconsolidated entities under common ownership within the Group pay certain expense on behalf of other entities. The outstanding balances from these transactions amounting to P224.2 million and P338.6 million as of December 31, 2011 and 2010, respectively, are presented as Advances from Related Parties account in the consolidated statements of financial position. Net repayments of these advances amounted to P114.4 million and P322.4 million in 2011 and 2010, respectively.

28.6 Key Management Personnel Compensation

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

	2011	2010	2009
Short-term employee benefits	**P 274,013,773**	P 204,366,837	P 183,335,624
Retirement benefits expense (income)	**20,014,317**	13,565,788	(3,958,700)
Stock-option benefit expense	**1,890,149**	-	-
	P 295,918,239	P 217,932,625	P 179,376,924

29. EQUITY

29.1 Capital Stock

Capital stock consists of:

	Shares			**Amount**		
	2011	2010	2009	**2011**	2010	2009
Common shares – P1 par value						
Authorized	**12,950,000,000**	12,950,000,000	12,950,000,000	**P 12,950,000,000**	P 12,950,000,000	P 12,950,000,000
Issued and outstanding:	**10,269,827,979**	10,269,827,979	10,269,827,979	**P 10,269,827,979**	P 10,269,827,979	P 10,269,827,979
Treasury stock – at cost	**(163,317,400)**	(976,768,100)	(1,150,469,965)	**(1,018,752,369)**	(3,194,861,260)	(4,334,613,117)
Total outstanding	**10,106,510,579**	9,293,059,879	9,119,358,014	**P 9,251,075,610**	P 7,074,966,719	P 5,935,214,862

On March 22, 1999, the SEC approved the initial public offering of the Company's 336.1 million shares (248.1 million outstanding and 88 million new issues) at P1.27 per share. The shares were initially listed in the PSE on April 19, 1999. As of December 31, 2011, the shares issued and outstanding are held by 1,189 stockholders, including nominees.

29.2 Additional Paid-in Capital

APIC consists mainly of the P21,924.8 million from the stock rights offering, share swap transaction and international offering and was net of P462.4 million direct costs pertaining to issuance of shares and stock rights. In 2011 and 2010, the Group sold treasury shares, resulting to an increase in APIC by P6,326.7 million and P17.5 million, respectively.

29.3 Treasury Shares at Cost

In 2008, the Company's BOD authorized the buy-back of up to P3,000.0 million worth of the Company's shares of common stock within an 18-month period commencing on July 10, 2008. The Company had bought back 550.1 million shares for P1,630.1 million under the buy-back program. On April 8, 2011, the Company reissued the 550.1 million shares. The excess of the total proceeds over the acquisition cost amounted to P4,379.9 million and was credited to APIC (see Note 29.2).

This account also includes the Company's common shares held and acquired by certain subsidiaries aggregating to P1,018.8 million (163.3 million shares) and P1,564.8 million (426.7 million shares) as of December 31, 2011 and 2010, 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.

In 2011, additional treasury shares were recorded representing shares held by new subsidiaries. On the other hand, 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 P1,151.5 million was recognized in 2009 as a result of increase in equity ownership interest over Megaworld in the latter's preemptive stock rights offering in 2009 where AGI, NTLPI and FCI subscribed. In 2011, the Company acquired additional shares of Megaworld which resulted to the recognition of additional dilution gain directly to equity amounting to P93.3 million.

29.5 Dividends

On August 5, 2011 and June 28, 2010, the BOD approved the declaration of cash dividends of P0.36 and P0.06 per share, respectively. Total dividends of P3,697.1 million and P583.2 million were payable to stockholders of record as of August 22, 2011 and July 15, 2010, respectively. The dividends were paid in full on September 19, 2011 and August 10, 2010, respectively.

The amounts presented in the statements of changes in equity is net of P68.2 million and P8.2 million dividends paid to subsidiaries in 2011 and 2010, respectively.

29.6 Share Options

On July 27, 2011, the Company's BOD approved an Executive Stock Option Plan (ESOP) for the Company's key executive officers, and on September 20, 2011, the stockholders adopted it. Under the ESOP, the Company shall initially reserve for exercise of stock options up to 300.0 million common shares, or 3% of the outstanding capital stock, which may be issued out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and continue to be exercisable in accordance with terms of issue.

The options shall vest within three years from date of grant (offer date) and the holder may exercise only a third of the option at the end of each year of the three-year vesting period. The vested option may be exercised within seven years from date of grant. The exercise price shall be at a 15% discount from the volume weighted average closing price of the Company's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on December 19, 2011, the Company granted stock options to certain key executives to subscribe to 46.5 million common shares of the Company, at an exercise price of P9.175.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Option life	7 years
Share price at grant date	P 10.28
Exercise price at grant date	P 9.175
Average fair value at grant date	P 2.70
Average standard deviation of share price returns	37.75%
Average dividend yield	1.70%
Average risk-free investment rate	2.87%

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

A total of P1.9 million share-based executive compensation is recognized under Other Operating Expenses in the 2011 statement of comprehensive income (see Note 23) and correspondingly credited to Share Options.

30. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2011	2010	2009
Basic:			
Net profit attributable to owners of the parent company	**P11,608,209,438**	P6,908,586,791	P 4,796,309,746
Divided by the weighted average number of outstanding common shares	**9,857,383,542**	9,719,727,979	9,747,218,938
	P 1.1776	P 0.7108	P 0.4921
Diluted:			
Net profit attributable to owners of the parent company	**P11,608,209,438**	P6,908,586,791	P 4,796,309,746
Divided by the weighted average number of outstanding common shares	**9,859,676,692**	9,719,727,979	9,747,218,938
	P 1.1773	P 0.7108	P 0.4921

There were no dilutive potential common shares as of December 31, 2010 and 2009; hence, basic EPS equals the diluted EPS for the years then ended. As of December 31, 2011, there are 46.5 million potentially dilutive shares from the Company's ESOP (see Note 29.6). However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, on the 2011 diluted 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 P2,000.0 million for the consolidated balances.

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

	2011	2010	2009
Within one year	**P 4,144,019,854**	P 3,145,772,222	P 3,000,082,437
After one year but not more than five years	**21,253,587,459**	14,998,070,516	10,809,294,660
More than five years	**6,704,886,317**	4,731,453,360	3,410,016,874
	P 32,102,493,630	P22,875,296,098	P17,219,393,971

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 P847.1 million (including variable rent of P424.3 million) in 2011, P764.8 million (including variable rent of P345.7 million) in 2010 and P629.1 million (including variable rent of P247.1 million) in 2009, 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:

	2011	2010	2009
Within one year	**P 146,673,300**	P 167,676,150	P 184,014,720
After one year but not more than five years	**367,295,870**	410,053,785	515,792,666
More than five years	**168,004,205**	231,488,839	318,889,205
	P 681,973,375	P 809,218,774	P 1,018,696,591

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 5 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 P1,164.5 million (including variable rent of P726.1 million) in 2011, P1,074.0 million (including variable rent of P609.0 million) in 2010 and P942.8 million (including variable rent of P196.9 million) in 2009 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:

	2011	2010	2009
Within one year	**P 197,468,251**	P 201,134,887	P 159,372,249
After one year but not more than five years	**467,964,160**	480,027,250	494,473,874
More than five years	**249,599,590**	306,604,316	303,950,298
	P 915,032,001	P 987,766,453	P 957,796,421

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:

	2011		2010	
	U.S. Dollars	**Pesos**	U.S. Dollars	Pesos
Financial assets	**$ 832,519,052**	**P 36,570,896,936**	$ 898,537,017	P 39,424,291,079
Financial liabilities	**(710,618,405)**	**(31,216,045,288)**	(574,083,347)	(25,193,647,690)
	$ 121,900,647	**P 5,354,851,648**	$ 324,453,670	P 14,230,643,389

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 +/-16% and +/-14% changes of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2011 and 2010, 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 P0.9 billion and P2.0 billion for the years ended December 31, 2011 and 2010, 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 +/-2.72% for Philippine peso and +/-0.66% and US dollar in 2011 and +/-1.49% for Philippine peso and +/-0.70% for US dollar in 2010 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, 2011 and 2010, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P0.4 billion and P0.6 billion for the years ended December 31, 2011 and 2010, 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:

	2011	2010
Not more than 30 days	**P 4,954,379,107**	P 3,926,830,184
31 to 60 days	**2,993,354,256**	1,736,931,713
Over 60 days	**2,674,208,611**	1,102,622,632
	P 10,621,941,974	P 6,766,384,529

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, 2011, the Group's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables	P 12,386,360,799	P 4,706,947,320	P -	P -
Interest-bearing loans and borrowings	1,269,502,132	1,807,918,679	5,575,739,113	1,085,856,000
Bonds payable	713,862,500	713,862,500	10,710,900,000	31,931,639,490
Derivative liabilities	-	413,420,187	-	-
Security deposits	-	27,195,607	53,876,245	30,327,636
Redeemable preferred shares	-	-	-	1,574,159,348
Payable to MRO stock option	-	-	3,163,683	-
Advances from related parties	-	-	224,177,805	-
	P 14,369,725,431	**P 7,669,344,293**	**P 16,567,856,846**	**P 34,621,982,474**

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

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 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	696,795,389	1,079,040,381	8,618,728,298	2,051,712,000
Bonds payable	713,212,500	7,545,336,818	17,132,125,000	23,371,425,000
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	91,898,094	48,737,051	289,868,257	-
	P 11,493,692,838	P 10,990,562,859	P 26,082,769,291	P 27,019,554,834

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, 2011 and 2010 are summarized as follows:

	Observed Volatility Rates		Impact on Equity	
	Increase	Decrease	Increase	Decrease
2011				
Investment in equity securities in property company	**+33.63%**	**-33.63%**	**P 194,012,171**	**(P 194,012,171)**
2010				
Investment in equity securities in property company	+51.54%	-51.54%	P 368,994,696	(P368,994,696)

The maximum additional estimated loss in 2011 and 2010 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).

	Notes	2011		2010	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P 49,147,858**	**P 49,147,858**	P 47,264,487	P 47,264,487
Trade and other receivables	6	**46,068,631**	**46,068,631**	33,220,569	33,220,569
Refundable deposits - net	9	**597,917**	**597,917**	410,250	410,250
		P 95,814,406	**P 95,814,406**	P 80,895,306	P 80,895,306
Financial assets at FVTPL:					
Marketable debt securities	7	**P 11,313,947**	**P 11,313,947**	P 13,676,060	P 13,676,060
Derivative asset	7	**-**	**-**	29,532	29,532
		P 11,313,947	**P 11,313,947**	P 13,705,592	P 13,705,592
AFS Financial Assets:					
Debt securities	11	**P 3,296,621**	**P 3,296,621**	P 933,563	P 933,563
Equity securities	11	**2,147,702**	**2,147,702**	675,468	675,468
		P 5,444,323	**P 5,444,323**	P 1,609,031	P 1,609,031
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities	20	**P 413,420**	**P 413,420**	P 85,793	P 85,793

	Notes	2011 Carrying Values	2011 Fair Values	2010 Carrying Values	2010 Fair Values
Financial liabilities at amortized cost:					
Current:					
Interest-bearing loans and borrowings	17	**P 2,906,873**	**P 2,906,873**	P 1,586,753	P 1,586,753
Trade and other payables	16	**17,093,308**	**17,093,308**	12,372,690	12,372,690
Bonds payable	18	**-**	**-**	3,416,062	3,416,062
Other financial liabilities	20	**-**	**-**	318	318
		20,000,181	**20,000,181**	17,375,823	17,375,823
Non-current:					
Interest-bearing loans and borrowings	17	**5,960,520**	**5,960,520**	8,580,459	8,580,459
Bonds payable	18	**35,156,343**	**35,156,343**	26,571,052	26,571,052
Advance from related parties	28	**224,178**	**224,178**	338,605	338,605
Redeemable preferred shares	19	**417,657**	**417,657**	371,866	371,866
Other financial liabilities	20	**90,849**	**90,849**	89,570	89,570
		41,849,547	**41,849,547**	35,951,552	35,951,552
		P 61,849,728	**P 61,849,728**	P 53,327,375	P 53,327,375

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, 2011 and 2010 is as follows:

December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P11,313,946,985	P -	P -	P 11,313,946,985
AFS financial assets	5,444,323,686	-	-	5,444,323,686
Derivative liabilities	(413,420,187)	-	-	(413,420,187)
	P16,344,850,484	**P -**	**P -**	**P16,344,850,484**

December 31, 2010

	Level 1	Level 2	Level 3	Total
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)
	P15,225,886,693	P -	P 2,943,490	P15,228,830,183

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.

	2011	2010
Total liabilities	**P 94,527,182,032**	P 72,527,041,866
Equity attributable to owners of the parent company	**73,482,827,606**	58,247,472,087
Debt-to-equity ratio	**P 1.29:1**	P 1.25:1

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

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2011

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

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

		Page No.
A.	Financial Assets	1
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)	2
C.	Amounts Receivable from Related Parties which were Eliminated During the Consolidation of Financial Statements	3
D.	Intangible Assets - Other Assets	4
E.	Long-term Debt	5
F.	Indebtedness to Related Parties (Long-term Loans from Related Companies)	6
G.	Guarantees of Securities of Other Issuers	N/A
H.	Capital Stock	7

Others Required Information (SEC Circular 11)

I.	Reconciliation of Parent Company Retained Earnings for Dividend Declaration	8
J.	Financial Soundness Indicators	9
K.	Schedule of PFRS Effective as of December 31, 2011	10
L.	Map Showing the Relationship Between and Among the Company and its Related Entities	11

Punongbayan & Araullo

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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The Board of Directors and Stockholders
Alliance Global Group, Inc. and Subsidiaries
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188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Global Group, Inc. and Subsidiaries (the Group) for the year ended December 31, 2011, on which we have rendered our report dated April 17, 2012. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 3174799, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-3 (until Jan. 18, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-7-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

April 17, 2012

Alliance Global Group, Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2011

Name of Banks		Amount shown in statement of financial position		Income received and accrued
Financial Assets at Fair Value Through Profit or Loss				
HSBC Private Bank	P	4,135,133,651	P	685,608,027
Bank of Singapore		3,813,250,204		375,391,770
Citi Private Bank		3,359,759,870		3,925,280
Others		5,803,260		-
		11,313,946,985		1,064,925,077
Available-for-sale Securities				
Bank of Singapore		1,753,260,663		172,598,063
Citi Private Bank		981,665,660		13,434,309
Various debt instruments		561,694,969		2,164,464
Various equity instruments		1,116,520,410		-
		5,444,323,686		359,167,530
Total financial assets	**P**	**16,758,270,671**	**P**	**1,424,092,607**

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, 2011

Name and Designation of Debtor	Balance at the beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Ending Balance: Current	Ending Balance: Not current	Balance at the end of period
Advances to Officers and Employees:							
Philipps Cando Vice President - Operations, Megaworld Corporation	P 622,033	-	(P 135,716)	P -	P 486,317	P -	P 486,317
Garry V. De Guzman Vice President - Legal Affairs, Megaworld Corporation	225,463	-	(142,316)	-	83,147	-	83,147
Monica V. Solomon Vice President - Corporate Management, Megaworld Corporation	327,024	-	(130,810)	-	196,214	-	196,214
	P 1,174,521	-	(P 408,842)	-	P 765,679	-	P 765,679
Loans to Directors:	P -	P -	P -	P -	P -	P -	P -

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31,2011

			Deductions		Ending Balance		
Name and designation of debtor	*Balance at beginning of period*	*Additions*	*Amounts collected*	*Amounts written off*	*Current*	*Not current*	*Balance at end of period*
Due from Related Parties							
Newtown Land Partners, Inc.	4,475,676,207.00	-	123,415,910.00	-	4,352,260,297.00	-	-
Emperador International, Ltd.	3,602,026,897.00	1,069,737,835.00	-	-	4,671,764,732.00	-	-
Venezia Universal, Ltd.	3,292,350,672.00	4,797,136,164.00	3,292,350,672.00	-	4,797,136,164.00	-	-
Greenspring	-	6,601,133,707.00	-	-	6,601,133,707.00	-	-
First Centro, Inc.	2,048,616,577.00	-	235,789,560.00	-	1,812,827,017.00	-	-
Tradewind Estates, Inc.	1,365,342,033.00				1,365,342,033.00	-	-
Alliance Global Brands, Inc.	1,058,962,959.00	221,760.00			1,059,184,719.00	-	-
Megaworld	509,914,930.00				509,914,930.00	-	-
AG Cayman	16,246,550.00				16,246,550.00	-	-
Emperador Distillers, Inc.	13,751,812.00				13,751,812.00	-	-
McKester Pik-Nik International, Ltd.	17,978,987,097.00		2,503,219,863.00		15,475,767,234.00	-	-
Global Estate Resorts, Inc.	-	401,966,163.00			401,966,163.00	-	-

Alliance Global Group, Inc. and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2011

Description	*Beginning balance*	*Additions at cost*	*Deduction*			*Ending balance*
			Charged to cost and expenses	*Charged to other accounts*	*Other changes additions (deductions)*	
Intangible Assets						
Goodwill	P 10,621,712,819	80,285,390	-	P -	P -	P 10,701,998,209
Trademarks	617,753,206	-	(101,257,277)	-	-	516,495,929
Leasehold rights	32,939,525	-	(4,617,257)		-	28,322,268
Computer Software	P 18,081,203	-	(7,749,087)	-	-	10,332,116
	P 11,290,486,753	80,285,390	(P 113,623,621)	P -	P -	P 11,257,148,522
Other current assets						
Prepayments	P 535,782,680	-	-	P -	(P 103,486,549)	P 432,296,131
Input VAT	155,017,682	1,343,267,581	-	-	-	1,498,285,263
Creditable withholding tax	205,636,876	56,448,279	-	-	-	262,085,155
Others	90,224,088	742,267,927	-	-	-	832,492,015
	P 986,661,326	P 2,141,983,787	P -	P -	(P 103,486,549)	P 3,025,158,564
Other non-current assets						
Deposits	P 410,249,962	P 187,667,220	P -	P -	P -	P 597,917,182
Input VAT	136,897,693	-	-	-	(27,961,057)	108,936,636
Prepaid rent	26,038,753	-	(3,473,723)	-	-	22,565,030
Claim for tax refund	112,282,175	-	-	-	-	112,282,175
Others	127,996,592	100,875,133	-	-	-	228,871,725
	P 813,465,175	P 288,542,353	(P 3,473,723)	P -	(P 27,961,057)	P 1,070,572,748

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2011

Title of issue and type of obligation		*Amount authorized by indenture*		*Amount shown under caption "Current portion of long-term debt" in related statement of financial position*		*Amount shown under caption "Long-Term Debt" in related statement of financial position*	
Loans:							
Interest bearing loans	P	9,151,100,000		1,847,171,268		5,434,439,598	a, b, c, d
Foreign borrowings	$	47,917,693		1,059,702,021		-	e, f
Related party	$	12,000,000		-		526,080,000	h
				2,906,873,289		5,960,519,598	
Bonds Payable:							
Issuer:							
Megaworld Corporation	P	14,945,622,169		-		13,538,914,490	i, j
AG Cayman	$	500,000,000		-		21,617,428,777	g
				-		35,156,343,267	
			P	**2,906,873,289**	**P**	**41,116,862,865**	

a *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.

b *Interest-bearing loans also include loans obtained by EELHI which includes the following:*
1.) Secured and unsecured loans obtained by EELHI from local banks. The loans bear annual interest rates ranging from 9.5% to 10.5% in 2011.

2.) Included also in the balance is the outstanding portion of a P400.0 million loan obtained in 2006. This loan bears annual interest of 10.5%.

c *Unsecured short-term loans obtained by SPI from a local bank amounting to P400.0 million. This bears an annual interest rate of 5.5% upon maturity in 2012.*

d *Interest-bearing loans also include loans obtained by GADC which includes the following:*
1.) Loan from Goldpath Properties Development Corp. by GADC related to acquisition of parcels of land from the former for P87.1 million in January 2011.

2.) Loan from Planters Development Bank by GADC related to the purchase of land and building from the former for P130.0 million in December 2011.

3.) Loan from a local financial institution by AFCMI for the purchase of property and equipment for P1.0 million in December 2011

e *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.*

f *Current unsecured short-term loans obtained by foreign subsidiaries. These are foreign currency denominated loans granted by banks to fund the acquisition of financial assets from the same banks. The loans outstanding amounted to P1.0 billion as of December 31, 2011.*

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 arrearson February 18 and August 18 of each year commencing February 2011. The bonds are listed in the Singapore Exchange Securities Trading Limited.*

h *GADC has a 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 six months.*

i *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 an interest of 8.46% per annum.*

j *On April 15, 2011, Megaworld issued seven-year term bonds which bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15 each year. The bond will mature on April 15, 2018.*

Alliance Global Group, Inc. and Subsidiaries
Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)
December 31, 2011

Title of issue and type of obligation	*Amount authorized by indenture*		*Amount shown under caption "Current portion of long-term debt" in related statement of financial position*	*Amount shown under caption "Long-Term Debt" in related statement of financial position*	
Loans:					
McDonald's Restaurant Operations, Inc.	$	12,000,000	-		526,080,000
			-	**P**	**526,080,000**

Alliance Global Group, Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2011

				Number of shares held by		
Title of Issue	***Number of shares authorized***	***Number of shares issued and outstanding as shown under the related balance sheet caption***	***Number of shares reserved for options, warrants, conversion and other rights***	***Related parties***	***Directors, officers and employees***	***Others***
Common shares - P1 par value	12,950,000,000	10,269,827,979	-	5,528,650,236	346,692,039	4,394,485,704

ALLIANCE GLOBAL GROUP, INC.
Schedule I - Reconciliation of Parent Company Retained Earnings
for Dividend Declaration
December 31,2011

UNAPPROPRIATED RETAINED EARNINGS AT BEGINNING OF YEAR	P	4,866,707,809
Net Income Realized for the Year		
Net income per audited financial statements		2,715,500,913
Change in Retained Earnings for the Year		
Dividend declaration during the year	(	3,697,138,072)
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AT END OF YEAR	**P**	**3,885,070,650**

ALLIANCE GLOBAL GROUP, INC. & SUBSIDIARIES
SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2011 AND 2010

	2011	2010
Current ratio	3.55 : 1.00	3.46 : 1.00
Quick ratio	2.37 : 1.00	2.97 : 1.00
Debt-to-equity ratio	0.75 : 1.00	0.79 : 1.00
Interest-bearing debt to total capitalization ratio	0.37 : 1.00	0.41 : 1.00
Asset-to-equity ratio	1.75 : 1.00	1.79 : 1.00
Interest rate coverage ratio	669%	1000%
Net profit margin	22.31%	21.34%
Return on assets	7.66%	6.49%
Return on equity/investment	11.7%	10.4%
Return on equity/investment of owners	15.8%	11.9%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
- Current ratio – computed as current assets divided by current liabilities
- Quick ratio – computed as cash, marketable securities, accounts receivable divided by current liabilities

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.
- Debt to equity ratio – computed as total liabilities divided by stockholders' equity.
- Interest-bearing debt to total capitalization ratio – computed as interest-bearing debt divided by interest-bearing debt+stockholders' equity attributable to controlling interest

ASSET-TO-EQUITY RATIOS measure financial leverage and long-term solvency. It shows how much of the assets are owned by the company. It is computed as total assets divided by stockholders' equity.

INTEREST RATE COVERAGE RATIOS measure the business' ability to meet its interest payments. It is computed as Earnings before income tax and interest expense (EBIT) divided by interest. In the computation, non-recurring gain is excluded from EBIT.

PROFITABILITY RATIOS
- Net margin – computed as net profit divided by revenues
- Return on assets – net profit divided by average total assets
- Return on investment – net profit divided by total stockholders' equity.
- Return on investment of equity owners – net profit attributable to owners of the parent divided by equity attributable to owners of the parent company

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule K - Schedule of PFRS Effective as of December 31, 2011
December 31,2011

Standards and Interpretations		Adoption	Remarks

Philippine Financial Reporting Standards (PFRS)

PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted	
PFRS 2	Share-based Payment	Adopted	
PFRS 3	Business Combinations	Adopted	
PFRS 4	Insurance Contracts	Not applicable	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Not applicable	
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not applicable	
PFRS 7	Financial Instruments: Disclosures	Adopted	
PFRS 8	Operating Segments	Adopted	

Philippine Accounting Standards (PAS)

PAS 1	Presentation of Financial Statements	Adopted	
PAS 2	Inventories	Adopted	
PAS 7	Statement of Cash Flows	Adopted	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted	
PAS 10	Events after the Reporting Period	Adopted	
PAS 11	Construction Contracts	Adopted	
PAS 12	Income Taxes	Adopted	
PAS 16	Property, Plant and Equipment	Adopted	
PAS 17	Leases	Adopted	
PAS 18	Revenue	Adopted	
PAS 19	Employee Benefits	Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not applicable	
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted	
PAS 23	Borrowing Costs	Adopted	
PAS 24	Related Party Disclosures	Adopted	
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted	
PAS 27	Consolidated and Separate Financial Statements	Adopted	
PAS 28	Investments in Associates	Adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies	Not applicable	
PAS 31	Interests in Joint Ventures	Adopted	
PAS 32	Financial Instruments: Presentation	Adopted	
PAS 33	Earnings per Share	Adopted	
PAS 34	Interim Financial Reporting	Adopted	
PAS 36	Impairment of Assets	Adopted	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted	
PAS 38	Intangible Assets	Adopted	
PAS 39	Financial Instruments: Recognition and Measurement	Adopted	
PAS 40	Investment Property	Adopted	
PAS 41	Agriculture	Not applicable	

Schedule K - Schedule of PFRS Effective as of December 31, 2011
December 31,2011

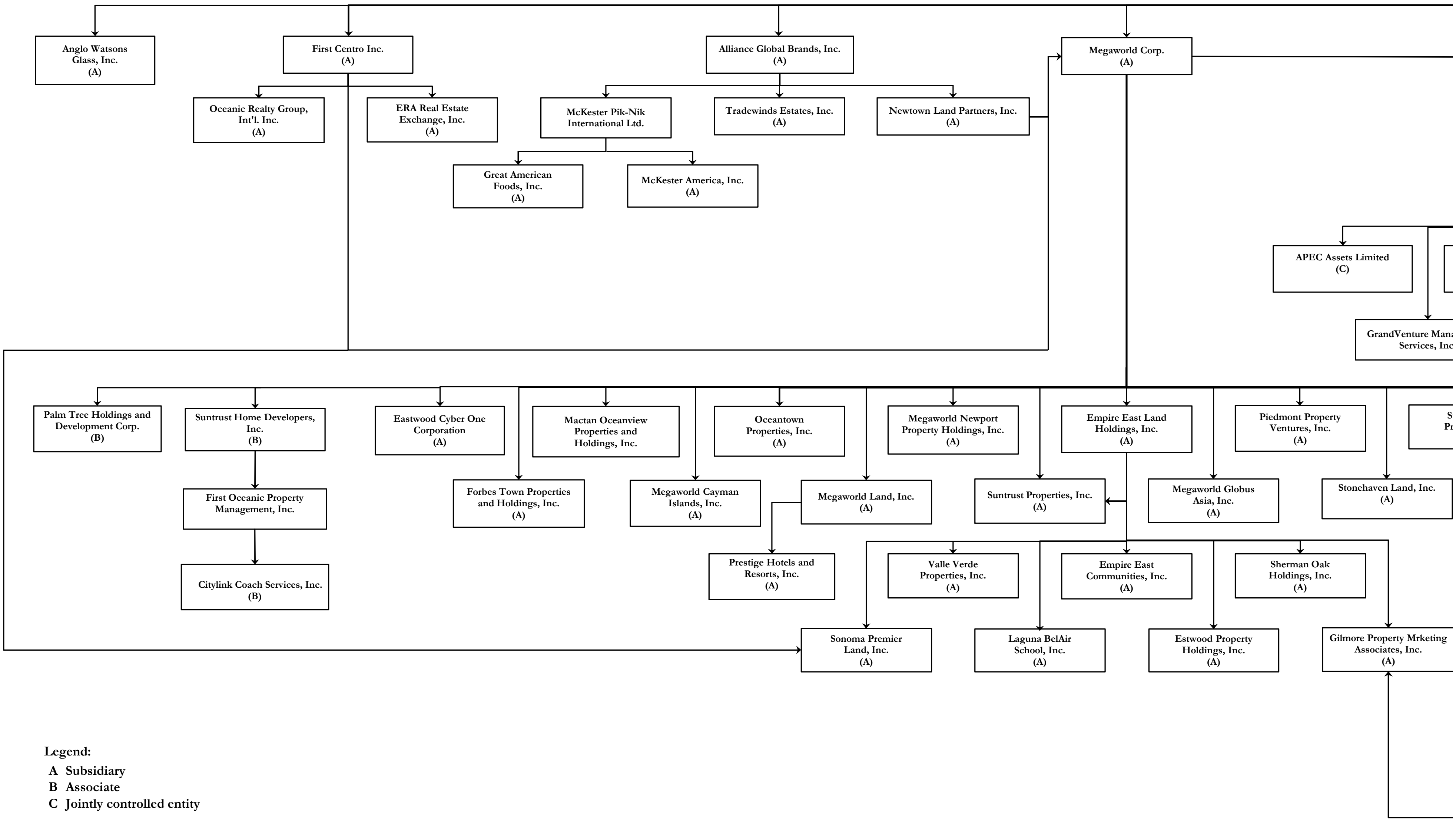
Standards and Interpretations		Adoption	Remarks

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Not applicable	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not applicable	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted	
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not applicable	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not applicable	
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not applicable	
IFRIC 9	Reassessment of Embedded Derivatives	Not applicable	
IFRIC 10	Interim Financial Reporting and Impairment	Adopted	
IFRIC 12	Service Concession Arrangements	Not applicable	
IFRIC 13	Customer Loyalty Programmes	Not applicable	
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not applicable	
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted	
IFRIC 18	Transfers of Assets from Customers	Not applicable	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted	

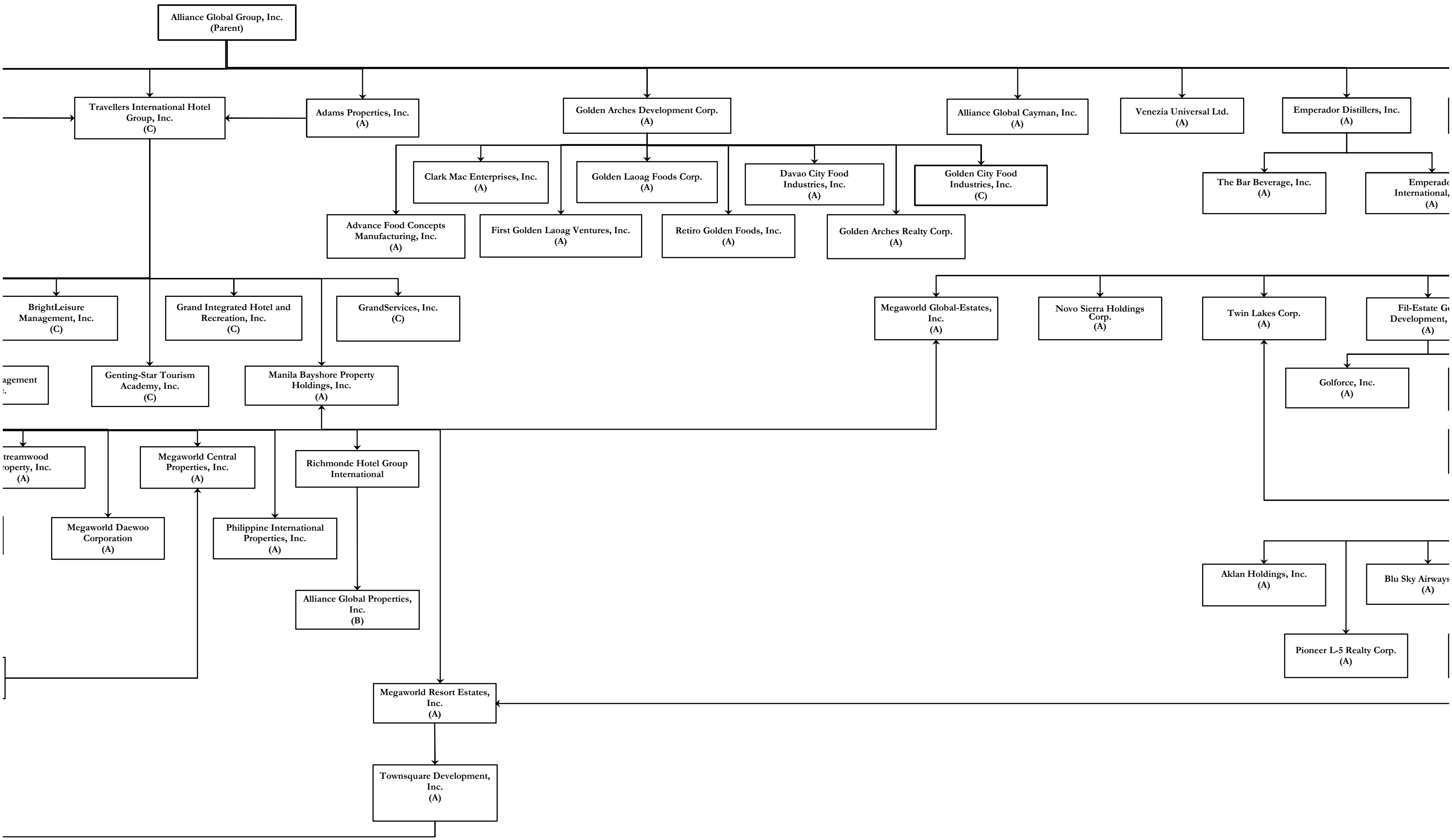
Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not applicable	
SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not applicable	
SIC 12	Consolidation - Special Purpose Entities	Not applicable	
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Adopted	
SIC 15	Operating Leases - Incentives	Adopted	
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Not applicable	
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Not applicable	
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted	
SIC 29	Service Concession Arrangements: Disclosures	Not applicable	
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not applicable	
SIC 32	Intangible Assets - Web Site Costs	Not applicable	

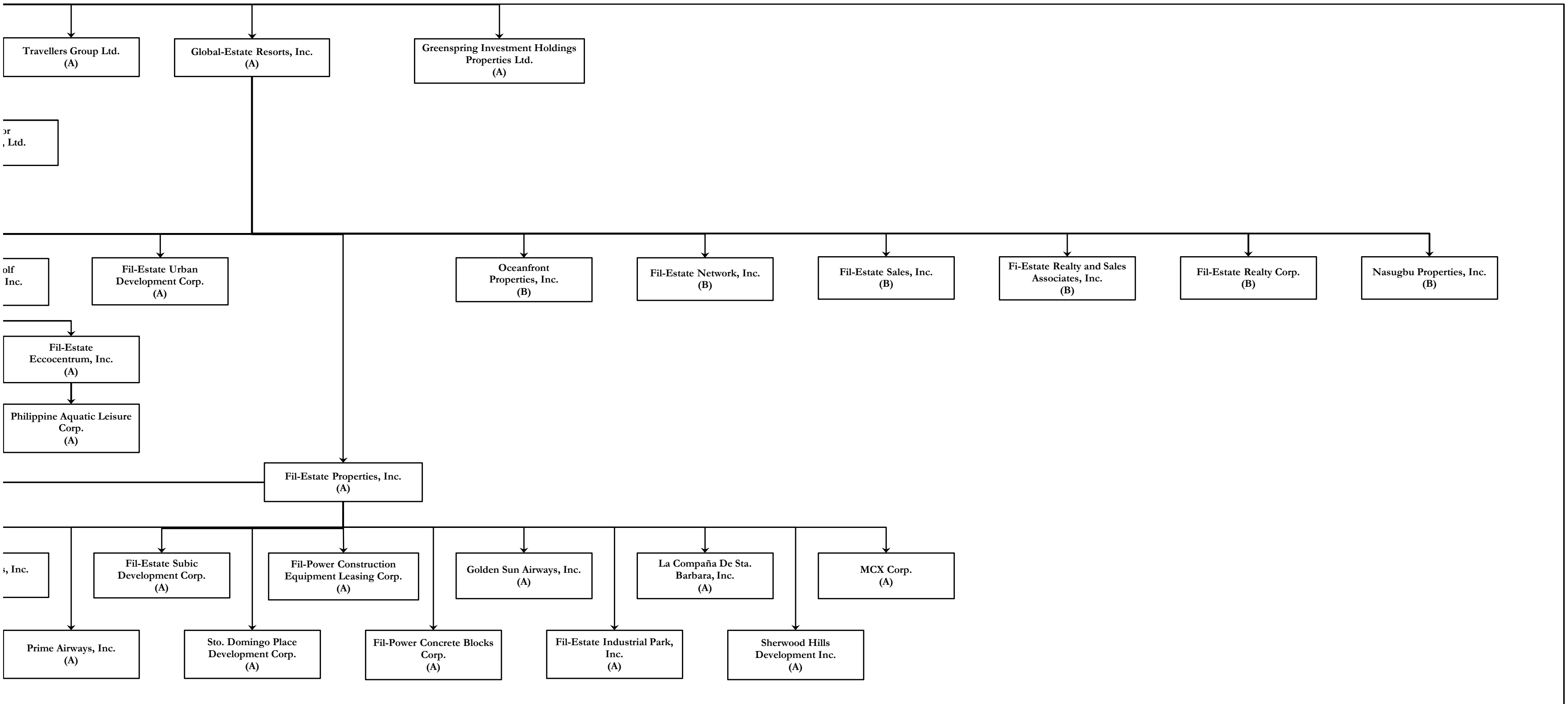


Legend:

A Subsidiary
B Associate
C Jointly controlled entity



Alliance Global Group, Inc. (Parent)
Travellers International Hotel Group, Inc. (C)
Adams Properties, Inc. (A)
Golden Arches Development Corp. (A)
Alliance Global Cayman, Inc. (A)
Venezia Universal Ltd. (A)
Emperador Distillers, Inc. (A)
Clark Mac Enterprises, Inc. (A)
Golden Laoag Foods Corp. (A)
Davao City Food Industries, Inc. (A)
Golden City Food Industries, Inc. (C)
The Bar Beverage, Inc. (A)
Emperado International, (A)
Advance Food Concepts Manufacturing, Inc. (A)
First Golden Laoag Ventures, Inc. (A)
Retiro Golden Foods, Inc. (A)
Golden Arches Realty Corp. (A)
BrightLeisure Management, Inc. (C)
Grand Integrated Hotel and Recreation, Inc. (C)
GrandServices, Inc. (C)
Megaworld Global-Estates, Inc. (A)
Novo Sierra Holdings Corp. (A)
Twin Lakes Corp. (A)
Fil-Estate G Development, (A)
agement
Genting-Star Tourism Academy, Inc. (C)
Manila Bayshore Property Holdings, Inc. (A)
Golforce, Inc. (A)
treamwood roperty, Inc. (A)
Megaworld Central Properties, Inc. (A)
Richmonde Hotel Group International
Megaworld Daewoo Corporation (A)
Philippine International Properties, Inc. (A)
Alliance Global Properties, Inc. (B)
Aklan Holdings, Inc. (A)
Blu Sky Airways (A)
Pioneer L-5 Realty Corp. (A)
Megaworld Resort Estates, Inc. (A)
Townsquare Development, Inc. (A)



Travellers Group Ltd. (A)
Global-Estate Resorts, Inc. (A)
Greenspring Investment Holdings Properties Ltd. (A)
Fil-Estate Urban Development Corp. (A)
Oceanfront Properties, Inc. (B)
Fil-Estate Network, Inc. (B)
Fil-Estate Sales, Inc. (B)
Fi-Estate Realty and Sales Associates, Inc. (B)
Fil-Estate Realty Corp. (B)
Nasugbu Properties, Inc. (B)
Fil-Estate Eccocentrum, Inc. (A)
Philippine Aquatic Leisure Corp. (A)
Fil-Estate Properties, Inc. (A)
Fil-Estate Subic Development Corp. (A)
Fil-Power Construction Equipment Leasing Corp. (A)
Golden Sun Airways, Inc. (A)
La Compaña De Sta. Barbara, Inc. (A)
MCX Corp. (A)
Prime Airways, Inc. (A)
Sto. Domingo Place Development Corp. (A)
Fil-Power Concrete Blocks Corp. (A)
Fil-Estate Industrial Park, Inc. (A)
Sherwood Hills Development Inc. (A)