ALLIANCE GLOBAL

ANNUAL REPORT 2011

ABOVE & BEYOND EXPECTATIONS

Above & Beyond Expectations

AGI's grand designs are unlike any anyone has ever imagined. In 2011, the Company delivered a stellar performance by breaking the estimates and attaining world-class standards on all fronts. Through bold and daring moves, like the performer on the cover, AGI performed above and beyond the expectations of all.

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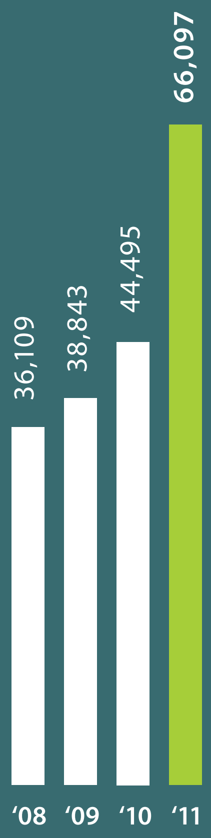
(In Million Pesos)



EBITDA
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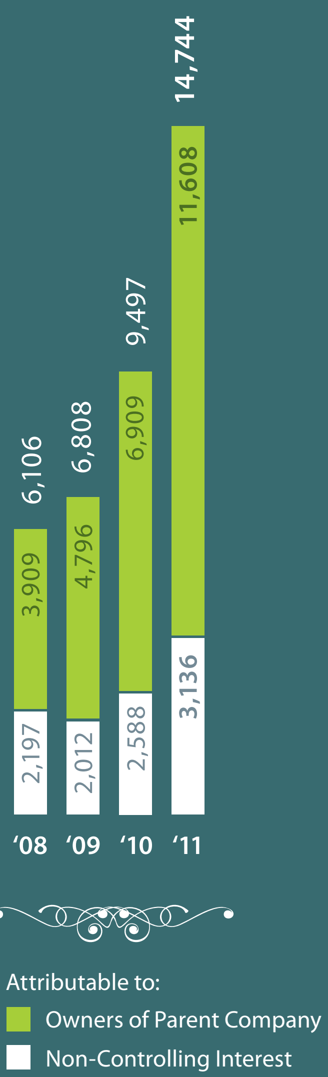


ALLIANCE GLOBAL

CHAIRMAN'S MESSAGE

BUILDING WORLD-CLASS BRANDS

THE COUNTRY'S GROSS DOMESTIC product grew by only 3.7% in 2011, almost half of the hefty 7.6% growth in 2010. This rather sluggish expansion was due in part to a contraction in the country's exports, crop damage brought about by torrential rains and typhoons, and a substantial drop in government spending. The resulting growth rate, however, still fell within government projections for the year, which was pegged at somewhere between 3.6% and 4%.

Despite the lethargic GDP growth in 2011, Alliance Global Group, Inc. (AGI) continued to hit record levels for the year, even substantially improving on your Company's erstwhile record performance the previous year.

Our major business segments—real estate through Megaworld Corporation (Megaworld); food and beverage through Emperador Distillers, Inc. (EDI); quick-service restaurants through Golden Arches Development Corporation (GADC), which holds the local franchise for McDonald's fast-food restaurants; and tourism entertainment and gaming through Travellers International Hotel Group, Inc. (Travellers International)—all produced record figures as they outdid themselves and came up with exceptional achievements for the year.

Our total revenues increased by a huge 48.6% to P66.1 billion in 2011 from P44.5 billion the previous year, due mainly to a 54.9% growth in the sales of consumer goods, a 37.5% increase in the rendering of services, and a hefty 46.5% growth in share in net profits of associates and joint ventures.

As in previous years, our real estate business, through Megaworld, made the highest revenue contribution this year with 45%. This was followed by EDI's food and beverage business with 28%, and GADC's quick-service restaurant business with 18%. In particular, real estate current sales accounted for 24.8% of total revenues while consumer product sales contributed 43.7%. Real estate rental income comprised 5.8% of total revenues.

AGI's net profit for 2011 hit a record level of P14.7 billion, a huge increase of 55.3% from the P9.5-billion net income reported one year ago. This record performance came on the back of the strong operating results of AGI's food and beverage and real estate segments and the consolidation income from the acquisition of shares of new subsidiary Global-Estate Resorts, Inc. (GERI). Even without the P3.1-billion acquisition gain from GERI, however, net profit jumped by 22.3% at yearend. Net profit attributable to owners of the parent company grew by 68%, hitting P11.6 billion for the year from P6.9 billion in 2010.

I am really proud of what we have accomplished so far and prouder still of how our decisions have been proven prudent and well-thought-out time and again.

Our efforts to become a globally recognized conglomerate with diverse business segments that provide first-rate services have not been in vain for we have been rewarded with record gains that can only come from a truly world-class assemblage.

For one thing, Megaworld continued to lord it over in the real estate industry as it sold 10,451 residential units worth around P37.1 billion in 2011, making it the biggest residential developer in the country for the year. It also continued to proudly hang on to its tag as the leading BPO office space provider in the country. The contribution of Megaworld to the group's bottom line every year has been substantial, to say the least.

Our other business segments have also done their share in the attainment of our objectives. EDI continued its strong showing as its revenues in 2011 doubled from the previous year's levels. Its Emperador Brandy and The BaR flavored alcoholic drinks continued to enjoy spirited sales during the year while Emperador Light experienced increasing demand and rising sales. Moreover, our acquisition of a liquor production facility from the Philippine unit of Diageo, the world's biggest premium drinks group, is expected to boost EDI's production and sales. Similarly, GADC's revenues for the year grew, coming primarily from the opening of new McDonald's restaurants, the increase in business extensions, and the re-imaging of company-owned outlets.

In turn, Travellers International continued to thrive in the entertainment tourism industry with Resorts World Manila and its hugely successful entertainment offerings. Travellers' new project, Resorts World Bayshore City, is currently under construction and is poised to be another world-class venue for entertainment and recreation.

Our newest subsidiary, Global-Estate Resorts Inc. (GERI), has already made headway into the Philippine integrated tourism sector and is currently developing several major tourism projects which would significantly contribute to our revenues in the long-term. Through GERI, we will be developing over 1,000 hectares of prime land in Boracay, Tagaytay and Nasugbu, Batangas into world-class tourism estates.

I am more than happy to report that our business strategies are working and our investments are starting to pay off. Through the years, we have built strong brands that have withstood challenges in the global and local economic arena and have eventually become leaders in their respective markets. In the coming years, we will continue to capitalize on our strengths, earn the profit we deserve, and invest whatever we make in new world-class businesses that will not only provide greater revenues for the group but will also generate more jobs for the people and help the country's economy to grow.

ANDREW L. TAN
CHAIRMAN & CEO


TRAVELLERS
INTERNATIONAL


GLOBAL-ESTATE

Megaworld Corporation claimed the top spot among property firms in terms of units, sales value and total saleable area in 2011, selling 10,451 residential units worth P37.1 billion and amassing a record net income of P8.16 billion—a 60.37% increase from the company's net income of P5.09 billion in 2010.

Travellers International has reached out to tourists across the globe by amplifying leisure and entertainment in the country to world-class standards. With the success of Resorts World Manila, Travellers moved to launch Resorts World Bayshore City, occupying 1/3 of the 90-hectare PAGCOR Entertainment City.

Emperador Distiller's Inc. (EDI) outdid itself as the company turned in revenues that more than doubled the previous year's figures. EDI's total revenues grew by 106% to P17.35 billion in 2011, accompanied by a 38% growth in net income from P1.67 billion in 2010 to P2.31 billion in 2011.

McDonald's enduring success is due to GADC's continued focus on value, service and convenience. In 2011, product sales went up by 8.8% and revenue from franchised restaurants increased by 19.9%. New restaurants opened in key areas, bringing a nationwide total of 329, 185 company-owned stores.

Global-Estate Resorts Inc. (GERI), allotted P20 billion for its two flagship projects—Boracay Newcoast in Boracay and Twin Lakes resort in Tagaytay, in 2011. GERI also completed its subdivision projects which cover around 190 hectares of land in Baguio City, Bulacan, Batangas, Laguna and Naga City.

MEGAWORLD CORPORATION

RAISING THE STANDARDS OF LIVING

"What we can conceive, we can achieve."
This line from American writer Napoleon Hill best speaks of Megaworld Corporation's business principle right from the start. When it was established in 1989, Megaworld dared to conceive of a goal that, for less capable real estate companies, would seem frustratingly out of reach: to raise the standards of metropolitan living.

Megaworld dared to conceive of a goal that, for less capable real estate companies, would seem frustratingly out of reach: to raise the standards of metropolitan living.

WITH THIS IN MIND, THE COMPANY began to come up with innovative ideas in real estate development approach and concept design, all in singular pursuit of this goal. One such pioneering idea was the company's "live-work-play" development concept. Megaworld boldly conceived of first-rate mega-communities that had everything residents want and need to live, work, and play.

The company knew that by building world-class communities that not only offered facilities for living, but also provided opportunities for pursuing careers and showcased establishments for leisure and relaxation within the community, they would be substantially raising the standards by which happy, comfortable, and complete lives are measured.

The first of such communities was Eastwood City, the company's flagship real estate development project and the township project that raised the bar for subsequent luxury real estate projects to come. Then, Megaworld went a step further and expanded this pioneering development concept to become "live-work-play-learn-shop" and include educational facilities and malls in their communities.

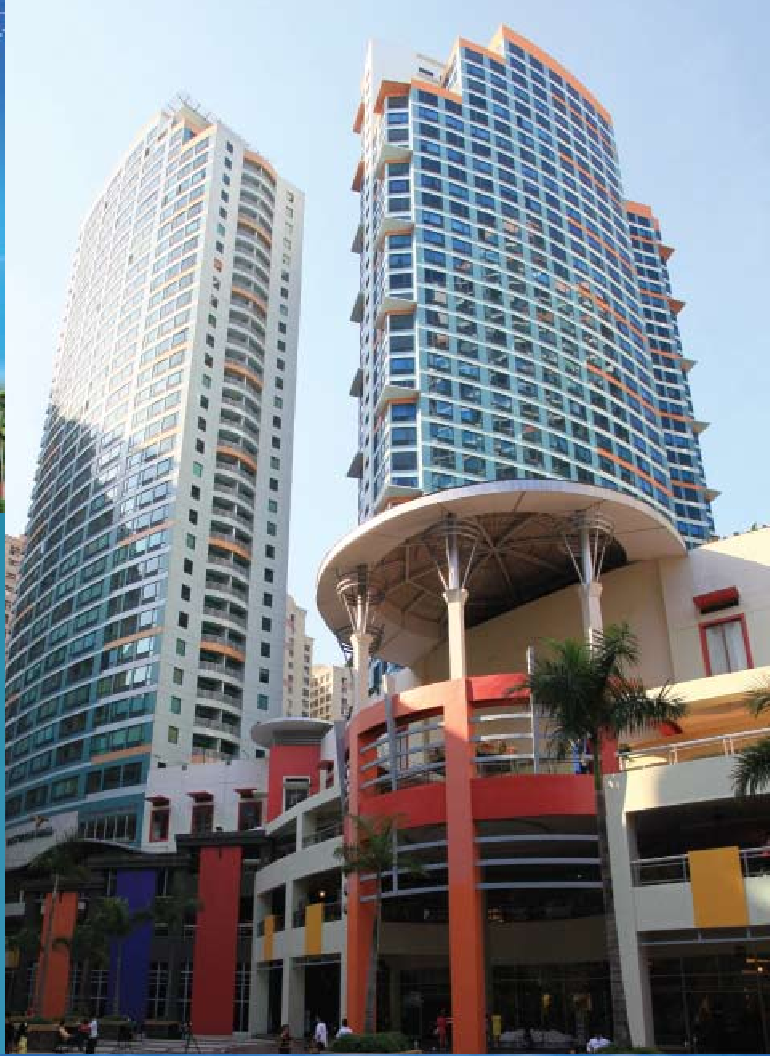
Megaworld is the country's largest residential condominium developer and BPO office space provider, distinctions that were earned through years of prudent management decisions and innovative ideas. In fact, the company sold 10,451 residential units worth P37.1 billion in 2011, claiming the top spot among property firms in terms of units, sales value and total saleable area.

In terms of financial performance, Megaworld showed that it was not a pushover in this department as well. The company's net income for 2011 amounted to a record P8.16 billion, a huge 60.37% increase from the company's net income of P5.09 billion in 2010. Total revenues—composed of real estate sales, rental income, hotel income, and other revenues—grew by 39.35% from P20.54 billion in 2010 to P28.63 billion in 2011. The increase in total revenues was a result of strong property sales and increased leasing income for the year.

Megaworld's operations are centered on their ten communities—flagship projects that have provided much of the company's revenues in the past years. These projects have all proven successful and have been responsible for the company's continuing leadership in the real estate industry in the country.

• EASTWOOD CITY

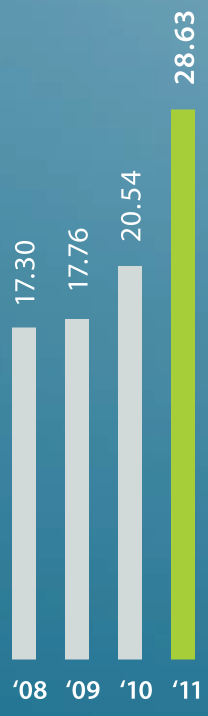
Eastwood City is Megaworld's very first integrated township project and is a highly successful mega-community that offers complete facilities, amenities, and establishments for living, working, playing, and shopping. The 18-hectare project is the first ever "live-work-play" community in the country, housing 15 completed luxury condominium towers, nine high-end



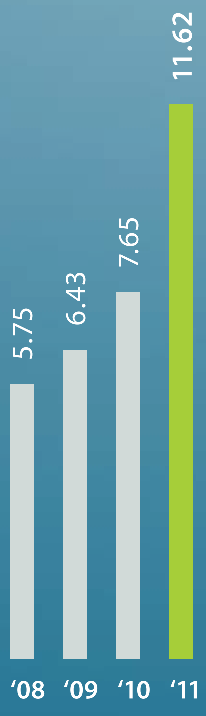
60.4%
increase in
net income

The *"live-work-play-learn-shop"* ideal has not only redefined the residents' wants and needs but has allowed the residents to shape their lives in their own terms.

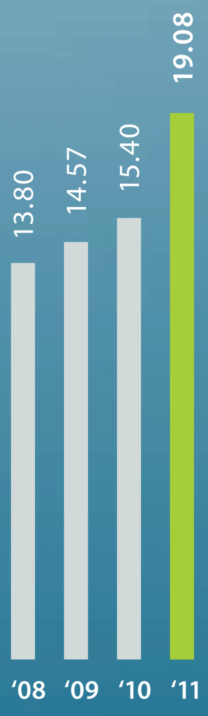
Consolidated Revenues
(In Million Pesos)



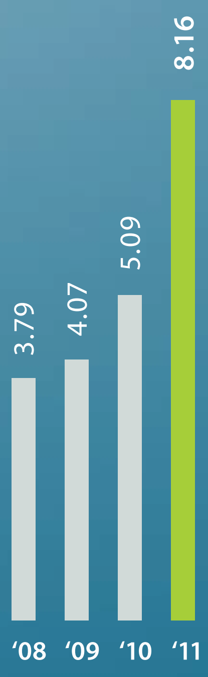
Real-Estate Revenues
(In Million Pesos)



EBITDA
(In Million Pesos)



Net Income
(In Million Pesos)



corporate buildings, seven ongoing residential projects, the country's very first IT park, and a high-end mall. Eastwood City is currently home to more than 45,000 workers and over a hundred office tenants and BPO companies.

Despite the fact that Eastwood City is Megaworld's first township project, the community has not stopped growing. In fact, Eastwood City is envisioned to be a sprawling community of 22 high-rise residential towers housing 8,087 condominium units upon its completion and will have more than 270,000 square meters of high-grade office buildings and 60,000 square meters of entertainment and retail space.

• FORBES TOWN CENTER

Forbes Town Center is one of the newest landmarks in Bonifacio Global City, the newest center of business in Metro Manila. A vast five-hectare township project, Forbes Town Center has 12 residential towers which will house a total of 3,552 units when completed. The community is adjacent to the Manila Polo Club, Forbes Park, and the Manila Golf and Country Club which provides residents of Forbes Town Center a breathtaking half-a-kilometer view of its golf course. The focal point of activity in the community is Forbes Town Road, a strip with 37 restaurants, retail establishments, and shops that cater to the diverse needs of the community's residents. There is also Burgos Circle, an enclave with residential condominiums and a small park at its center, which is designed for those wanting a more laid-back vibe.

• McKINLEY HILL

The 50-hectare McKinley Hill carries the distinction of being Megaworld's largest and most important development project in Metro Manila thus far. Although much of McKinley Hill has already been completed, it is still a work in progress but is envisioned to be the perfect "live-work-play-learn-shop" community upon completion. McKinley Hill will then have 34 residential condominium buildings with a total of around 4,713 condominium units, 482 residential lots, and 17 different offices with a total area of more than 300, 000 square meters. It will have single detached homes, townhouses, a mid-rise condominium, high-rise luxury residences, BPO office buildings, a Venetian-themed mall, and an events venue. These projects are ongoing and are in different stages of development.

Right now, the mega-community is home to three international schools, three embassies, a PEZA-accredited cyberpark that is home to 35,000 workers, The Venice Luxury Residences—a residential complex designed to capture the visual grandeur and the romantic ambience of Venice, Italy itself, and the Venice Piazza— a world-class Italian-inspired mall that sits at the heart of McKinley Hill Town Center, the community's commercial center.

• MANHATTAN GARDEN CITY

With the launch of Manhattan Garden City in 2006, commuting to and from one's place of residence has never been easier. The first of its kind in the country, Manhattan Garden City at the Araneta Center in Cubao, Quezon City is a new transit-oriented residential development project that seamlessly integrates with the city's light-rail transit system. It also stands as Megaworld's share in the Quezon City government's redevelopment plan for the Araneta Center, the premier commercial center in the city in the 60s and 70s. Manhattan Garden City is considered the largest single residential development in the country with a total of around 9,000 units upon completion. The main feature of the residential complex is the 720-meter elevated garden walkway which connects the project's 20 towers to the Light Rail Transit 2 and Metro Rail Transit 3 systems, allowing residents easy access to trains bound for other parts of Metro Manila.

• NEWPORT CITY

All eyes are on Newport City these days. For one thing, in just seven years after its launch, Newport City has become a full-fledged tourist haven, a venue for the total entertainment of local and international travelers. The 25-hectare, P7.64-billion Newport City was designed with the aim of reviving the country's ailing tourism industry by fully integrating luxury residences with prime corporate office spaces and a world-class entertainment complex. The project is located in Pasay City, right across the new Terminal 3 of the Ninoy Aquino International Airport (NAIA).

The community is home to several high-end residential projects and a cyberpark that hosts a number of corporate offices and BPO buildings. The focal point of activity of Newport City, however, is the 12-hectare Resorts World Manila, the country's first integrated tourism estate. A project of AGI subsidiary Travellers International, Resorts World Manila has come to be known as the new leisure capital of the Philippines with multi-cultural fine dining restaurants, a state-of-the-art performing arts theater that features world-class acts and musicals, an upscale shopping mall, a first-class gaming center, and three modern hotels: the five-star Marriott Hotel; the six-star all-suites Maxims Hotel, the first of its kind in the country; and the budget-class three-star Remington Hotel.

• CITYPLACE

Cityplace is probably the most important real estate development project in the Binondo area today. For one thing, the 2.5-hectare multi-use complex is the largest and most modern of its kind in the area in the last 20 years. Moreover, it was conceptualized to bring back the former glory of Chinatown, something that has faded over the

Megaworld's operations are centered on their ten communities—flagship projects that have provided much of the company's revenues in the past years.

Megaworld will also be investing around P22 billion also over the next two decades to develop the 34.5-hectare McKinley West in Fort Bonifacio, at the back of Forbes Park, into a similar mixed-use complex.

years. The 2.5-hectare Cityplace aims to do this by enhancing and modernizing the Binondo landscape, thereby creating a "New Chinatown" that echoes the old era but injects something of the new. Upon completion, Cityplace will have a modern Hong Kong-style shopping center with three levels of shops and a total of 108,000 square meters of floor space, the 200-meter Chinatown Walk, and 525 residential condominium units that are designed for shop-owners who own stores, restaurants and offices in the lower floors. With its new facilities and amenities, Cityplace has indeed become the newest and most modern landmark in that part of old Manila.

Complementing these six major communities are Megaworld's residential condominium projects in Makati City and San Juan. On top of these, the company is investing P15.6 billion over the next 20 years to develop a huge 8.38-hectare property in the North Bonifacio Central District into a master-planned, mixed-use complex with more than 500,000 square meters of floor space. Megaworld will also be investing around P22 billion also over the next two decades to develop Mckinley West formerly known as JUSMAG a 34.5-hectare Jusmag property in Fort Bonifacio, at the back of Forbes Park, into a similar mixed-use complex.

As if these are not enough, Megaworld is also currently developing Uptown Bonifacio in Bonifacio Global City under a joint venture arrangement with the Bases Conversion and Development Authority. The 15-hectare Uptown Bonifacio is Megaworld's newest township project in the area and is envisioned to be a huge community of modern condominiums, offices, and retail establishments.

The soon-to-rise 54-hectare Iloilo Business Park in Mandurriao district in Iloilo City is being envisioned as an apex of BPO triangle strategy. It is high time that Megaworld embarks on developing the urban countryside as well, specifically Iloilo and Cebu, with high-profile BPO projects. Together with the firm's cyber-parks in Metro Manila, Iloilo Business Park and Mactan Newton encapsulate the BPO triangle strategy offering BPO companies advantages in terms of location, lease prices and talent.

Indeed, through the years, Megaworld has raised the standards of metropolitan living so much that tenants already expect nothing less than comfort, luxury and convenience—all in the same setting—every day. The "live-work-play-learn-shop" ideal has not only redefined the residents' wants and needs but has allowed the residents to shape their lives in their own terms. The good thing is that Megaworld always delivers—every single time, in every single project.

TRAVELLERS
INTERNATIONAL

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC,

AMPLIFYING LEISURE AND ENTERTAINMENT

When AGI announced to all and sundry that it planned to make the Philippines a world-class tourist destination and place the country in the global tourism map, very few took the company's pronouncement seriously. Most thought that such a a grand plan was too big for any single company in the country to achieve.

BUT AGI WAS SURE THAT WITH just the right investments, some well-planned infrastructure projects, and a firm resolve to do the right thing, the company would be able to help make the Philippines a major tourist attraction in the region and beyond.

For one thing, PAGCOR officials predict that the Philippines can easily surpass what Las Vegas, the world's gaming capital, earns in casino revenues once the Entertainment City project is fully operational. Moreover, studies have shown that the number of tourists that come to the country is merely capped by the sore lack of first-class hotel rooms, which number only around 15,641 in Metro Manila, as of latest count. The construction of world-class hotels within the Entertainment City complex will boost this number by 72 percent allowing more tourists and gaming enthusiasts, especially from North Asia, to visit the country. Once fully completed, the Entertainment City complex will add more than 5,000 five-star hotel rooms, making it the single biggest concentration of first-class hotel accommodations in the country.

And so it was in 2008 that AGI made a well-thought-out move to participate in a Philippine Amusement and Gaming Corporation (PAGCOR) master-plan to develop a major Las Vegas-style leisure and entertainment complex, aptly named Entertainment City. AGI knew that participating in this major tourism project, the first of its kind in the country, would allow them to set in motion a series of ambitious tourism projects that would help them in their grand design. True enough, PAGCOR gave AGI, through the company's subsidiary Travellers International Hotel Group (Travellers International), the very first provisional license to participate in the PAGCOR Entertainment City project.

It was then that AGI's dream of venturing into tourism-related development come into reality with the birth of and Travellers International AGI's newest tourism business arm. Travellers International is AGI's joint venture with Genting Hong Kong Limited (formerly known as Star Cruises Limited), a member of the Malaysian Conglomerate Genting Berhad and the world's third largest cruise line operator.

Now, just around three years since its ambitious plan was conceived, AGI has already proven the naysayers wrong. The Philippines is now steadily on its way to becoming a major tourism force in Asia and the Pacific.

Travellers International owns and runs a major project that is currently contributing substantially to local and international tourism- Resorts World Manila. Travellers International had allotted over US$600 million to develop the leisure complex, situated within the 25-hectare Newport City. A flagship project of Travellers International, the 12-hectare Resorts World Manila opened to the public in August 2009. Considered the country's very first integrated tourism estate, Resorts World Manila has the largest gaming

Travellers International owns and runs a major project that is currently contributing substantially to local and international tourism: Resorts World Manila.

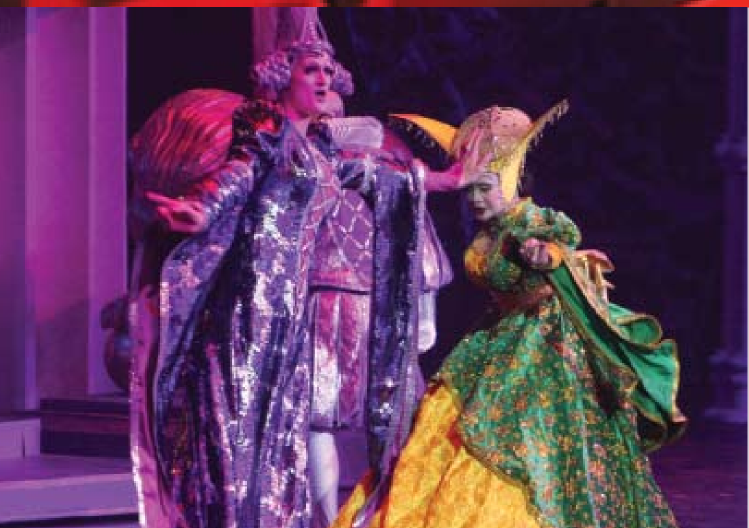
facility in the Philippines that's housed in three levels, with 300 table games and over 1,800 slot machines.

Resorts World Manila has three fully operational hotels- the five-star Marriott Hotel, the six-star Maxims Hotel, the budget-class Remington Hotel and two more hotels that are still under construction- the Belmont Hotel and Savoy Hotel and a world-class shopping center- the Newport Mall.

Marriott Hotel was the first international hotel to open in the resort and has 342 rooms, three dining outlets, a ballroom, multiple meeting rooms, a spa, and other amenities. RWM has started to construct the Marriott Grand Ballroom which aims to hold several events at 1 place. This will showcase 4 Ballrooms, and 14 Function Rooms, high end shops, chapel and F&B outlets and it will be operational by 2015. Maxims Hotel, in turn, is the country's very first six-star, all-suite luxury hotel with 172 lavishly furnished suites. The budget-class Remington Hotel, which caters to middle-class local tourists offers 712 rooms, Belmont Hotel with 480 rooms, and Savoy Hotel with 610 rooms for those who want to stay in Resorts World Manila permanently. Resorts World Manila has started to construct the Marriott Grand Ballroom which aims to hold several events in one place. This will showcase 4 ballrooms, and 14 function rooms, high-end shops, chapel and F&B outlets and it will be operational by 2015.

In total, the five hotels are set in full swing to boost AGI's room inventory in Resorts World Manila to over 2,000

$600M
alloted for leisure
complex



hotel rooms by 2016 when tourist carnivals are expected to hit 6.5 million.

Newport Mall is the focal point of activity of the tourism estate. The luxury, four-level mall houses specialty shops of international clothing and apparel brands and a variety of dining and amusement establishments. The resort also has state-of-the-art cinemas plus a 1,532-seater Newport Performing Arts Theater that serves as the mall's centerpiece. The theater is equipped with modern stage, sound and lighting equipment and features an elegant vestibule with crystal chandeliers and a spectacular bar designed by Filipino sculptor Impy Pilapil who is known for her iconic glass and stone sculptures.

Barely two years since its opening, the Newport Performing Arts Theater has already showcased some of the finest local and international acts and artists such as David Pomeranz, Lea Salonga, Christian Bautista and Bobby Kim, as well as musicals like The Sound of Music and The King and I. The theater is also a favorite venue for special events like beauty pageants and corporate programs and productions.

With the additional development at Resorts World Manila, AGI expects daily visitors to increase from the current 16,500 to around 30,000 in the next few years. Right now, 90% of Resorts World visitors come from the domestic market with the remainder from neighboring countries in Southeast Asia, China and South Korea.

The success of Resorts World Manila has moved Travellers International to launch a new Resorts World project, this time

By amplifying leisure and entertainment in the country to world-class standards, Travellers International has reached out to tourists across the globe with one clear message: it's more fun in the Philippines.

in Entertainment City. Dubbed Resorts World Bayshore City, this new tourism estate is much larger than its predecessor and will occupy around a third of the 90-hectare PAGCOR Entertainment City.

The 30-hectare Resorts World Bayshore City is envisioned to be a themed tourism estate with around 3,500 hotel rooms and leisure, retail, gaming and entertainment facilities--the kind that Resorts World outlets have come to be famous for.

Resorts World Bayshore City is seen to not only promote local and international tourism in the country but to also significantly contribute to the country's economic development by creating over 100,000 direct and indirect jobs, thereby boosting the country's employment rate. Travellers International is setting aside at least $1.1 billion for the project with construction expected to commence in the latter part of 2012 and be completed by 2016.

As young as the company is, Travellers International has already done so much to uplift the state of tourism in the country. By amplifying leisure and entertainment in the country to world-class standards, Travellers International has reached out to tourists across the globe with one clear message: it's more fun in the Philippines.

Indeed, Travellers International's projects, either by itself or in association with like-minded local and foreign companies, have contributed significantly to enhancing the country's image in the global tourism arena. In the next few years, we can expect a stronger and more tourist-friendly Philippines.

Emperador Distillers, Inc.

Boosting Global Recognition

Emperador is the Philippines leading brandy and the world's fourth largest selling spirit brand in 2011. Emperador was a recipient of Reader's Digest's Trusted Brand Award, an honor given to brands that have distinguished themselves in terms of quality, value, trustworthiness, strong image, and the understanding of customer needs.

Emperador has always been regarded as a leading brand in the global brandy market with an outstanding track record in sales and several international distinctions under its belt.

EMPERADOR WAS A RECIPIENT of this award four times in the last seven years—in 2004, 2006, 2007, and 2009. This is a feat that no other liquor brand in the Philippines can claim as of yet.

Moreover, Emperador Brandy—the flagship product of Emperador Distillers, Inc. (EDI), the food and beverage arm of AGI—is hailed as the the largest-selling brandy in the world by volume, something that no other local brandy product can boast.

Led by the excellent sales performance of Emperador Brandy, EDI outdid itself in 2011 as the company turned in revenues that more than doubled the previous year's figures. EDI's total revenues grew by a huge 106% to P17.35 billion, surpassing all of EDI's previous records in revenue level and growth rate. This hefty increase in revenues was due to the heightened demand for the company's distilled spirits products. Net income, in turn, grew by 38% in 2011, from P1.67 billion in 2010 to P2.31 billion the following year.

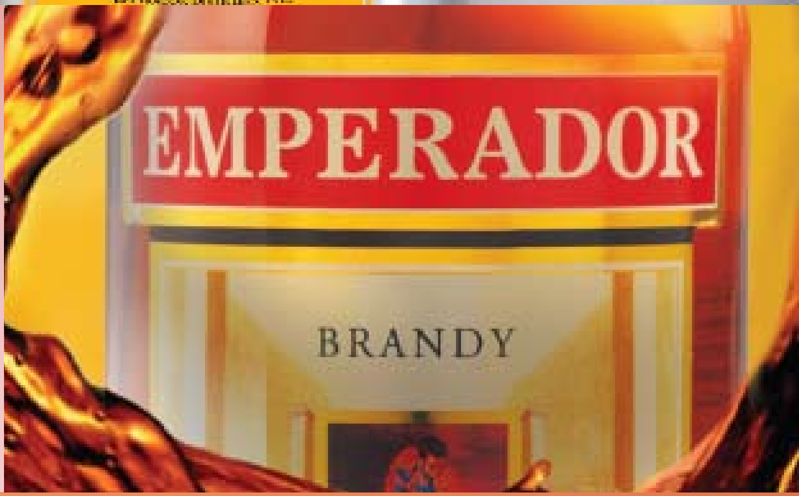
Emperador Brandy and The BaR flavored alcoholic drinks continued to enjoy spirited sales in 2011. The BaR variants - Citrus Tequila, Strawberry Vodka and Silver, which were all recently launched in the market - provided incremental growth that further pushed up sales. Emperador Light also continued its fine market performance, as its catchy "Gawin Mong Light" advertising campaign helped to increase demand and boost sales.

By all accounts, 2011 was definitely a banner year for EDI, breaking practically all previous performance records and surpassing even the company's record achievements in the previous year. The company is also upbeat about the coming year and beyond with so many things to look forward to.

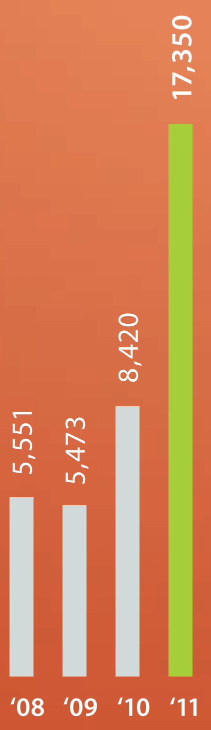
The highlight for EDI, however, is the recent acquisition of a liquor production facility from the Philippine unit of Diageo, the world's biggest premium drinks group.

The company's acquisition of Diageo's facilities at the Laguna Technopark in Biñan, Laguna is expected to help increase EDI's production and technical capabilities in the Philippines and further boost the company's competitivess in promoting Emperador as a strong global brand. The purchase is seen to hike EDI's total bottling capacity by a substantial 20%.

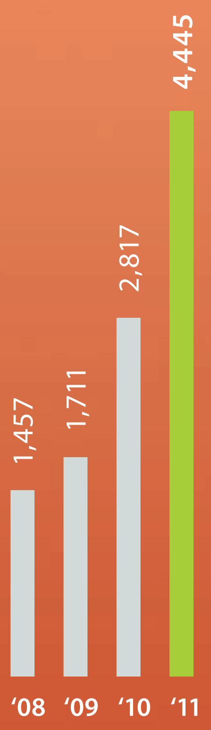
106%
rise in total revenue



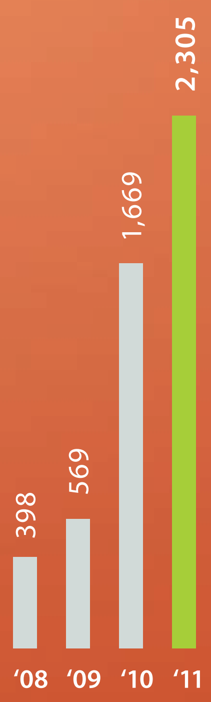
Revenues
(In Million Pesos)



Gross Profit
(In Million Pesos)



Net Income
(In Million Pesos)



GOLDEN ARCHES DEVELOPMENT CORPORATION

SERVING LIFE'S SIMPLE JOYS

When the very first McDonald's restaurant in the Philippines opened along the busy streets of Morayta in 1981, customers both young and old came in droves and just kept coming back. No one expected how much of an impact this American brand would have in the lives of millions of Filipinos over the last three decades.

NOW, MORE THAN 30 YEARS after its first restaurant in the country, McDonald's has become a brand that's synonymous to great food, convenient service and a go-to place for friends and families to enjoy.

Golden Arches Development Corporation (GADC), the local master franchise holder of McDonald's, knows this all too well. GADC has thus taken it upon itself to ensure that McDonald's continues the tradition of excellence in the local quick-service restaurant industry, at par with its global counterparts in 119 countries.

When GADC's Chairman and Founder George Yang partnered with AGI in 2005, the McDonald's brand then set into play a series of product launches and innovations, restaurant openings and re-imaging, and marketing campaigns in order to strengthen the McDonald's brand and expand its reach in the country. True enough, under GADC, McDonald's has grown its restaurant portfolio and revenues have increased.

In 2011 alone, GADC revenues grew by a substantial 9.6% despite increasing operating cost. Product sales generated from company-operated restaurants, in particular, went up by 8.8% and revenue from franchised restaurants increased by 19.9%. The revenue growth primarily came from the opening of new restaurants and re-imaging of company stores during the year, increase in business extensions (like 24-hour delivery service, dessert centers and McCafe) and the growth of store guest counts. Some 21 new restaurants were opened in key metropolitan areas in 2011, bringing the total number of stores nationwide to 329, 185 of which are company-owned. The new stores contributed 2.3% to total system sales.

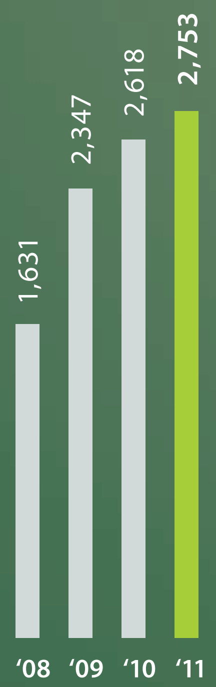
In 2012 and beyond, GADC will continue to focus on its core strategies, aiming to build on the accomplishments of the company in recent years. The company will also sustain its efforts towards brand differentiation to ensure that McDonald's remains different from its competitors in more ways than one.

Moreover, GADC plans to shift its restaurant expansion program to higher gear in 2012 and open in key cities nationwide. The company intends to sustain this rapid pace of expansion for the next three to five years and tap prime tourist destinations like Palawan, Bohol and Boracay. As in previous years, the company will be refurbishing and re-imaging old restaurants, updating their design and improving store facilities. GADC will also step up its franchising program and tap businessmen, professionals and retirees as franchising partners.

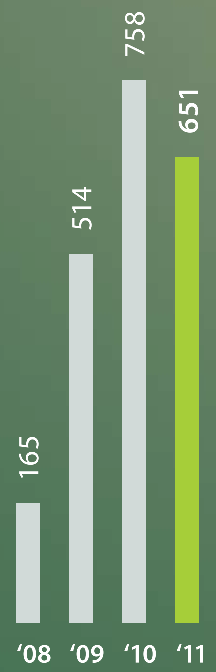
More than 30 years after its first restaurant in the country, McDonald's has become a brand that's synonymous to great food, convenient service and a go-to place for friends and families to enjoy.

Revenue
(In Million Pesos)

Gross Profit
(In Million Pesos)



Net Income
(In Million Pesos)



The coming years promise to be equally successful for GADC as the foundation of value, service, convenience, that the company patiently built through the years continues to serve it well as they differentiate the brand moving forward.

Indeed, the performance of GADC over the past years have been remarkable. Despite the continuing challenges in the local and global economy, the company has been doing extremely well, contributing significantly to AGI's bottom line every single year. The coming years promise to be equally successful for GADC, as the foundation of value, service, convenience, that the company patiently built through the years continue to serve it well as they differentiate the brand moving forward. After everything is said and done, McDonald's will definitely continue serving joy and happiness to every customer.

9.6%
rise in
revenue

GLOBAL-ESTATE

GLOBAL ESTATE RESORT INC.

EMERGING AS A TOURISM POWERHOUSE

Barely two years after its acquisition by AGI in 2010, Global-Estate Resorts Inc. (GERI) is already emerging as a powerhouse in the tourism industry. Formerly known as Fil-Estate Land Inc. prior to AGI's acquisition of a controlling stake in the company, GERI is engaged in real estate development with a project portfolio composed of horizontal residential subdivision lots and residential and commercial complexes; residential communities integrated with golf courses, marinas, resorts, and other leisure-related and commercial complexes; properties associated with resorts; residential, office, and commercial high-rise properties; business and industrial parks; and low-cost housing projects.

IN 2011, GERI COMPLETED TEN of its old subdivision projects with three others nearing completion. These projects cover around 190 hectares of land in Baguio City, Bulacan, Batangas, Laguna and Naga City. GERI also completed during the year the development of its golf course in Forest Hills, Antipolo City, and the rehabilitation of its golf course in Fairways and Bluewater in Boracay.

What AGI is truly excited about nowadays, however, is the ongoing development of GERI's two major tourism projects: Boracay Newcoast in Boracay and the Twin Lakes resort community near Metro Tagaytay. Together with other AGI subsidiaries, GERI has allotted a total of P20 billion for these two flagship projects which will feature integrated and carefully master-planned layouts that showcase world-class resorts with first-rate facilities and amenities.

Boracay Newcoast will be developed on a huge parcel of land that spans around 14% of Boracay. This is considered the single largest piece of land in the island. The P15-billion Boracay Newcoast is designed to be a leisure-driven community that features four world-class hotels, including one of AGI's own hotel brand, with a total of 1,500 rooms.

Last year, GERI launched three projects within Boracay Newcoast: Newcoast Village, Boutique Hotel District, and Shophouse District. Moreover, within the sprawling 140-hectare resort will rise Oceanway Residences, the first condominium cluster in Boracay and the latest residential phase of Boracay Newcoast. Oceanway Residences is strategically situated between two fairway lots of the only golf course in the island. Atop a natural ridge, Oceanway Residences also offers views of Boracay Newcoast's one-kilometer-long white beach, a definite treat for beach lovers.

GERI also launched in April 2012 the Boracay Newcoast Savoy Hotel, a project that is envisioned to redefine the night scene in Boracay. GERI aims to make Savoy Hotel the "Ibiza of Asia" by holding various electronic dance music festivals and concerts in the venue. Also a part of the Savoy Hotel complex is a row of retail establishments with a 400-square-meter roof deck dance floor that overlooks the pool and bar area.

The Boracay Newcoast project aims to spur Boracay's long-term tourism growth and help attract at least 350,000 more tourists to Boracay each year.

Aside from the Boracay Newcoast project, GERI is also deep into the development of Twin Lakes, a 1,149-hectare community in Laurel, Batangas, near Metro Tagaytay. The company is investing P5 billion for this project that's envisioned to be the premiere medical and educational tourism destination in the Philippines.

Twin Lakes is a vineyard resort community, the first of its kind in the country, overlooking Taal Volcano and the Taal Lake. It offers a kind of resort lifestyle that revolves

What AGI is truly excited about nowadays, however, is the ongoing development of GERI's two major tourism projects: Boracay Newcoast in Boracay and the Twin Lakes resort community near Metro Tagaytay.

The company's two flagship projects are proof that AGI's integrated tourism arm is bent on making its presence felt in an industry that sorely needs new and exciting players with groundbreaking ideas.

around the lush greenery and the year-round cool weather of Tagaytay.

The first phase of the project will feature a hotel and spa, a shopping village, residential villas and condominiums, a chateau and vineyard, and a sports and country club. In turn, the next phases of the project will include a golf course, themed residential communities, international hotels, a plantation estate, botanical gardens, a lake view manor, mountain-inspired lodging and facilities, health and wellness centers, boarding schools and retirement villages complete with modern medical amenities.

Right now, GERI is developing three luxury condominiums in Twin Lakes--Shiraz, Merlot and Chardonnay—all strategically located beside an authentic chateau and vineyard.

A garden-themed exclusive residential village is also currently in the works, aptly named Domaine Le Jardin. Inspired by garden-laden attractions and botanical gardens, Domaine Le Jardin is nestled on a 50-hectare patch of land within Twin Lakes and is the first residential community in the country to offer properties with specially built terrace lots.

Aside from offering a new and unique resort experience to Tagaytay visitors, Twin Lakes is designed to revive the former glory of this erstwhile favorite weekend destination. This resort community and the Boracay Newcoast project are expected to raise the standards in the Philippine tourism industry and contribute to the transformation of the country into a major tourist destination in Asia.

Considering the fact that it has only been less than two years since AGI acquired the company, GERI has definitely hit the ground running, so to speak. The company's two flagship projects are proof that AGI's integrated tourism arm is bent on making its presence felt in an industry that sorely needs new and exciting players with groundbreaking ideas.

And with the way things are going, it seems that GERI is indeed on its way to becoming a tourism powerhouse not only in the Philippines but in the whole of Southeast Asia as well.

190h of completed projects

in Baguio City, Bulacan, Batangas, Laguna and Naga City

Board of Directors

ANDREW L. TAN
Chairman &
Chief Executive Officer

SERGIO R. ORTIZ-LUIS, JR.
Vice-Chairman &
Independent Director

KINGSON U. SIAN
Director & President

KATHERINE L. TAN
Director & Treasurer

WINSTON S. CO
Director

ALEJO L. VILLANUEVA, JR.
Independent Director

KEVIN ANDREW L. TAN
Director

ANDREW L. TAN

Mr. Tan, 63 years old, Filipino, has served as Director since 2003 and Chairman of the Board and Chief Executive Officer since September 2006. Previously, he was Vice-Chairman of the Board from August 2003 to September 2006. He pioneered the live-work-play-learn model in the real estate development through the Company's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry, food and beverage, and quick service restaurants industries. Mr. Tan is concurrently the Chairman of the Board and President of Megaworld Corporation, Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc., Richmonde Hotel Group International Limited, The Bar Beverage, Inc. and Yorkshire Holdings, Inc. He is also the Chairman of Alliance Global Group Cayman Islands, Inc. Empire East Land Holdings, Inc., Alliance Global Brands, Inc., Emperador Distillers, Inc., Global-Estate Resorts, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc. He sits in the boards of Eastwood Cyber One Corporation, Megaworld Cayman Islands, Inc., Forbes Town Properties & Holdings, Inc., Gilmore Property Marketing Associates, Inc., Megaworld Central Properties, Inc., Raffles & Company, Inc., Travellers International Hotel Group, Inc., The Andresons Group, Inc. He is also the Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation and a Director and Treasurer of Andresons Global, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration.

SERGIO R. ORTIZ-LUIS, JR.

Mr. Ortiz-Luis, Jr., 68 years old, Filipino, has served as Vice Chairman and Independent Director since September 2007. He is also an Independent Director of AB Capital and Waterfront Philippines, Inc.; President of Philippine Exporters Confederation, Inc. ("PHILEXPORT") and Honorary Chairman-Treasurer of the Philippine Chamber of Commerce & Industry. He is concurrently the Vice-Chairman of the Export Development Council, and a member of the board of the Employers Confederation of the Philippines, Philippine Estate, Manila Exposition Complex, Inc., Holy Angel Memorial Park and Philippine International Trading Corp. He was a past President of the Rotary Club of Greenmeadows, Quezon City, a Senator of the Philippine Jaycee Senate, and a member of the League of Corporate Foundation and the Council of Advisers of the Philippine National Police. Mr. Ortiz-Luis, Jr. has broad experience in business management/administration and in the export sector. He obtained his Bachelor of Arts and Bachelor of Science in Business Administration and Masters of Business Administration from the De La Salle College and was awarded Honorary Doctorates in Humanities and Business Technology by the Central Luzon State University and Eulogio Rodriguez Institute of Science and Technology, respectively.

KINGSON U. SIAN

Mr. Sian, 51 years old, Filipino, has served as President and Chief Operating Officer of the Company since February 2007. He is currently a member of the Board of Megaworld Corporation and is its Executive Director. He is concurrently President and Director of Travellers International Hotel Group, Inc., Forbestown Properties Holdings, Inc., and Eastwood Cyber One Corporation and a Director of Alliance Global Group Cayman Islands, Inc. He is also Chairman and President of Prestige Hotels & Resorts, Inc. and is the Chief Operating Officer of Megaworld Land, Inc. Mr. Sian was formerly a Vice President of FBP Asia Ltd/First Pacific Bank in Hongkong from 1990 to 1995 and, prior to that, was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. He graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

WINSTON S. CO

Mr. Co, 54 years old, Filipino, has served as Director since 1998. He previously served as Vice Chairman of the Board from November 1999 to August 2003 and Chairman from June 1998 to October 1999. His field of expertise is in finance and marketing of consumer products. He is concurrently Chairman and President of New Town Land Partners, Inc. and

Chairman of Anglo Watsons Glass, Inc. He is also a Director and President of Emperador Distillers, Inc., a Director of Alliance Global Brands, Inc., Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited, Raffles & Company, Incorporated, and The Bar Beverage, Inc. and Senior Vice President of The Andresons Group, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce. He is a member of the Philippine Association of National Advertisers and Philippine Marketing Association.

KATHERINE L. TAN

Ms. Tan, 61 years old, Filipino has served as Director and Treasurer since February 2007. She has also served as a member of the board of Megaworld Corporation since 1989. She is concurrently Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc., Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc., and Raffles & Company, Inc., and Director and Treasurer of Alliance Global Brands, Inc., Yorkshire Holdings, Inc., New Town Land Partners, Inc., and Emperador Distillers, Inc. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

KEVIN ANDREW L. TAN

Mr. Tan, 32 years old, Filipino, was elected as a Director on 20 April 2012 to serve the unexpired term of Mr. Renato M. Piezas. Mr. Tan, 32 years old, has over 11 years of experience in retail leasing, marketing and operations. He currently heads the Commercial Division of Megaworld Corporation, which markets and operates the Megaworld Lifestyle Malls, including Eastwood Mall and The Clubhouse at Corinthian Hills in Quezon City, Venice Piazza at McKinley Hill and Burgos Circle at Forbestown Center, both in Fort Bonifacio, California Garden Square in Mandaluyong City, Newport Mall at Resorts World Manila in Pasay City, and Lucky Chinatown Mall in Binondo, Manila. He is concurrently Director of Emperador Distillers, Inc. Alliance Global Brands, Inc., Anglo Watsons Glass, Inc. Yorkshire Holdings, Inc., The Bar Beverage, Inc., Emperador Brandy, Inc., New Town Land Partners, Inc., and Consolidated Distillers of the Far East, Inc. He holds a degree in Business Administration major in Management from the University of Asia and the Pacific.

ALEJO L. VILLANUEVA, JR.

Mr. Villanueva, 70 years old, Filipino, has served as an Independent Director since August 2001. He is concurrently an Independent Director of Empire East Land Holdings, Inc. and a Director of First Capital Condominium Corporation, a non-stock non-profit corporation. He is also the Chairman of Ruru Courier Systems, Inc. and Vice Chairman of Public Relations Counselors Foundations of the Philippines, Inc. He is a professional consultant who has more than twenty years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. He has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his bachelor's degree in Philosophy from San Beda College, summa cum laude. He has a master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

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

Audit Committee

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

Compensation and Remuneration Committee

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

Nomination Committee

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

Evaluation System

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

Deviations from Manual and Sanctions Imposed

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

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

Plan to Improve Corporate Governance

Pursuant to SEC Memorandum Circular No. 6, Series of 2009, the Company has revised its Manual of Corporate Governance to make its provision 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.

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

- o 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.
- o Net profit growth – measures the percentage change in net profit over a designated period of time.
- o Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- o 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 profit.
- o 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%

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	2011	2010	Growth	Contribution 2011	Contribution 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	11.91	11.91	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	2011	2010	Growth	Contribution 2011	Contribution 2010
Net Profit					
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 P567 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.

Statements of Management's Responsibility
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 on this 31st day of April 23, 2012 at Makati City, Philippines affiants exhibiting to me their to me their Passport/SSS No., as follows:

Names	Passport No./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		

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Page No. 8
Book No. II
Series of 2012

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 City

Report of Independent Auditors

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 07-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

April 17, 2012

Consolidated Statements of Financial Position

	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

LIABILITIES AND EQUITY	Notes	2011	2010
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.

Consolidated Statements of Comprehensive Income

	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.

Consolidated Statements of Changes in Equity

	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 (decrease) 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

Consolidated Statements of Changes in Equity

	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.

Consolidated Statements of Cash Flows

	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

Consolidated Statements of Cash Flows

	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.

1. **CORPORATE INFORMATION**

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

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

Subsidiaries/Associates/Jointly Controlled Entity	Explanatory Notes	2011	Percentage of Effective Ownership of AGI 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%
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%

Subsidiaries/Associates/Jointly Controlled Entity	Notes	Explanatory 2011	Percentage of Effective Ownership of AGI 2010	2009
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				
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
(ab) 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 charges						
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	P	10,152,310,851
Short-term placements		42,972,897,993		37,112,176,336
	P	49,147,857,784	P	47,264,487,187

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	P	22,150,403,603	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		P	20,574,670,583	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
	P	28,952,674,354	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
		2,816,321,175		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		-

	2011	2010
Accumulated share in net losses:		
Addition of beginning balance due to consolidation of GERI	**P 28,508,851**	P -
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
	3,867,676,348	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	P 4,107,450,548	P 426,268,337	P 1,228,113,635	P 59,386,417	P 12,002,540,157
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**	**P 2,044,319,328**	**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	P 1,038,563,106	P 107,264,422	P 9,464,627,259
Accumulated depreciation, amortization and impairment	(68,848,502)	(1,773,620,119)	(1,643,372,883)	(139,159,619)	(711,103,403)	-	(4,336,104,526)
Net carrying amount	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	P 1,603,169,764	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	P 2,122,701,147	P 1,673,183,512	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**	**P 2,958,128,822**	**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	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

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	-	(6,329,787)	-	(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:

	Notes	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 19th year from the date of issuance for a total redemption price equivalent to the peso value on the date that the shares were issued;

(b) Has preference as to dividend declared by the BOD, but in no event shall the dividend exceed P1 per share; and,

(c) Further, the holder of preferred shares is entitled to be paid a certain amount of peso equivalent for each class of preferred shares, together with any unpaid dividends, in the event of liquidation, dissolution, receivership, bankruptcy, or winding up of GADC.

The redeemable preferred shares are recognized at fair value on the date of issuance. The fair values of the redeemable preferred shares on the date of issuance were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of the transaction date for similar instruments with similar maturities (18 years). Based on the terms of subscription, the difference between the fair values of the redeemable preferred shares on the date of issuance and the subscription amounts were recognized as a credit to profit and loss in 2005. The accretion of the redeemable preferred shares in 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	**P**	**3,862,807,616**	P	2,864,773,291	P	2,152,477,767
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
		P	**5,176,383,503**	P	3,763,512,740	P	2,908,585,719

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	**P 1,487,033,750**	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	**P12,950,000,000**	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	**P10,269,827,979**	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	**P**	**11,608,209,438**	P	6,908,586,791	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	**P**	**11,608,209,438**	P	6,908,586,791	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**	P	22,875,296,098	P	17,219,393,971

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 4,327,803**	**P 4,327,803**	P 933,563	P 933,563
Equity securities	11	**1,116,520**	**1,116,520**	675,468	675,468
		P 5,444,323	**P 5,444,323**	P 1,609,031	P 1,609,031

	Notes	2011 Carrying Values	2011 Fair Values	2010 Carrying Values	2010 Fair Values
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities	20	**P 413,420**	**P 413,420**	P 85,793	P 85,793
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	P 11,313,946,985	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)
	P 16,344,850,484	**P -**	**P -**	**P 16,344,850,484**

December 31, 2010

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P 13,676,059,689	P -	P -	P 13,676,059,689
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)
	P 15,225,886,693	P -	P 2,943,490	P 15,228,830,183

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.

Corporate Information

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Anglo Watsons Glass, Inc.
Emperador Distillers, Inc.
First Centro, Inc.
Global-Estate Resorts, Inc.
Golden Arches Development Corporation
Megaworld Corporation

Officers
Kingson U Sian – President
Katherine L. Tan – Treasurer
Dina D. Inting – First Vice President, Finance & Corporate Information Officer
Dominic V. Isberto – Corporate Secretary
Rolando D. Siatela – Asst. Corporate Secretary

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