# ALLIANCE GLOBAL GROUP, INC.

7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark
E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City
Metro Manila, Philippines

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Alliance Global Group, Inc. will be held on **16 SEPTEMBER 2014** at **9:00 a.m.** at the Grand Ballroom, Eastwood Richmonde Hotel, Orchard Road, Eastwood City, Bagumbayan, Quezon City, Philippines, with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on 17 September 2013
4. Report of Management for Year 2013
5. Appointment of Independent Auditors
6. Ratification of Acts of the Board of Directors, Board Committees, and Officers
7. Election of Directors
8. Other matters
9. Adjournment

Stockholders of record as of 11 August 2014 will be entitled to notice of, and to vote at, the Annual Meeting.

Makati City, Metro Manila, Philippines, 20 August 2014.

**DOMINIC V. ISBERTO**
*Corporate Secretary*

## SECURITIES AND EXCHANGE COMMISSION

**SEC FORM 20-IS**
**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   **[ ]** Preliminary Information Statement
   **[/ ] Definitive Information Statement**

2. Name of Registrant as specified in its charter: **ALLIANCE GLOBAL GROUP, INC.**

3. Province, country or other jurisdiction of incorporation or organization:
   **METRO MANILA, PHILIPPINES**

4. SEC Identification Number: **ASO93-7946**

5. BIR Tax Identification Code: **003-831-302-000**

6. Address of Principal Office:
   **7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines**

7. Registrant's telephone number, including area code: **(632) 709-2038 to 41**

8. Date, time and place of the meeting of security holders:
   **16 September 2014, 9:00 AM**
   **Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road**
   **Eastwood City Bagumbayan, Quezon City, Philippines**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **26 August 2014**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common stock** | **10,269,827,979** |

12. Are any or all of registrant's securities listed in a Stock Exchange?
    **Yes**
    Disclose the name of such Stock Exchange: **Philippine Stock Exchange**

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY**

**SAMPLE ONLY**
**PROXY**

The undersigned shareholder(s) of **ALLIANCE GLOBAL GROUP, INC.** (the "Company") hereby appoint/s ____________________________________________ or in his absence, the Chairman of the Annual Shareholders' Meeting, as proxy of the undersigned shareholder(s) at the Annual Meeting of Shareholders scheduled on 16 September 2014 at 9:00 in the morning at the Grand Ballroom, Eastwood Richmonde Hotel, Orchard Road, Eastwood City, Bagumbayan, Quezon City and/or at any postponement or adjournment thereof, and/or any annual shareholders' meeting of the Company, which appointment shall not exceed five (5) years from date hereof.

The undersigned shareholder(s) hereby direct/s the said proxy to vote all shares on the agenda items set forth below as expressly indicated by marking the same with [√] or [X]:

| **ITEM NO.** | **SUBJECT** | **ACTION** | | |
|---|---|---|---|---|
| | | FOR | AGAINST | ABSTAIN |
| 3 | Approval of the Minutes of the Annual Meeting of Stockholders held on 17 September 2013 | | | |
| 5 | Appointment of Independent Auditors | | | |
| 6 | Ratification of Acts of the Board of Directors, Board Committees and Officers | | | |
| 7 | Election of Directors | | | |
| | Andrew L. Tan | | | |
| | Kingson U. Sian | | | |
| | Katherine L. Tan | | | |
| | Winston S. Co | | | |
| | Kevin Andrew L. Tan | | | |
| | Sergio Ortiz-Luis, Jr. - Independent Director | | | |
| | Alejo L. Villanueva, Jr. - Independent Director | | | |

| PRINTED NAME OF SHAREHOLDER | SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY | NUMBER OF SHARES TO BE REPRESENTED | DATE |
|---|---|---|---|

This proxy should be received by the Corporate Secretary not later than **05 September 2014**.

This proxy when properly executed will be voted in the manner as directed herein by the shareholder. If no direction is made, the proxy will be voted for the election of all nominees and for the approval of all matters stated above and for such other matters as may properly come before the meeting in the manner described in the information statement.

A shareholder giving a proxy has the power to revoke it at any time before the right granted is exercised. A proxy is also considered revoked if the shareholder attends the meeting in person and expressed his intention to vote in person.

This proxy does not need to be notarized. (Partnerships, Corporations and Associations must attach certified resolutions thereof designating Proxy/Representative and Authorized Signatories.)

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND US A PROXY**

## INFORMATION REQUIRED IN INFORMATION STATEMENT

## A. GENERAL INFORMATION

### Item 1. Date, time and place of annual meeting of security holders.

Date & time: 16 September 2014, 9:00 AM
Place: Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road, Eastwood City, Bagumbayan, Quezon City, Philippines
Principal office: 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines
Approximate date on which the Information Statement is first to be sent or given: 26 August 2014

**The Company is not soliciting proxies. We are not asking for a proxy. Neither are you required to send us a proxy.**

### Item 2. Dissenter's Right of Appraisal

There are no matters to be acted upon or proposed corporate action in the agenda for the annual meeting of stockholders that may give rise to possible exercise by a dissenting stockholder of its appraisal rights under Title X of the Corporation Code of the Philippines.

Any stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances: (1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (2) in case the Company decides to invest funds in another corporation or business or for any purpose outside of the primary purpose for which it was organized; (3) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and (4) in case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. **A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right**. Failure to make the demand within the 30-day period shall be deemed a waiver of the appraisal right. From the time of the demand until either the abandonment of the corporate action in question or the purchase of the dissenting shares by the Company, all rights accruing to the dissenting shares shall be suspended, except the stockholder's right to receive payment of the fair value thereof. If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of the stock certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If the fair value is not determined within sixty (60) days from the date the corporate action was approved by the stockholders, it will be determined by three (3) disinterested persons (one chosen by the Company, another chosen by the dissenting stockholder and the third to be chosen jointly by the Company and the stockholder). The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. Upon payment by the Company of the awarded price, the dissenting stockholder shall forthwith transfer his shares to the Company.

No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings.

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

(a) No officer or director at any time since the beginning of last fiscal year, or nominee for election as director, or associate of any of these persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

(b) No director has informed the Company in writing of his/her intention to oppose any matter to be acted upon at the Annual Stockholders' Meeting ("Meeting").

## B. CONTROL AND COMPENSATION INFORMATION

**Item 4. Voting Securities and Principal Holders Thereof**

(a) Each of the 10,269,827,979 common shares outstanding as of 11 August 2014 shall be entitled to one vote with respect to all matters to be taken up during the Meeting.

(b) All stockholders of record as of 11 August 2014 are entitled to notice of, and to vote at, the Meeting either in person or by proxy. The Company is not soliciting your proxy.

(c) All stockholders shall have cumulative voting rights with respect to the election of the members of the board of directors of the Company. Cumulative voting entitles each stockholder to cumulate his shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or distribute them on the same principle among as many nominees as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(d) Security Ownership of Certain Record and Beneficial Owners and Management:

*Security Ownership of Holders of more than 5% of the Company's Voting Securities as of 31 July 2014:*

| ***Title Of Class*** | ***Name and Address of Record Owner &Relationship w/ Issuer*** | ***Beneficial Owner & Relationship w/ Record Owner*** | ***Citizenship*** | ***No. of Shares*** | ***Percent Owned*** |
|---|---|---|---|---|---|
| Common | THE ANDRESONS GROUP, INC.[1]<br>20/F IBM Plaza Bldg., Eastwood City CyberPark, Bagumbayan, Quezon City, Metro Manila.<br>It is solely a stockholder of issuer. | Andrew L. Tan, Chairman of the Board, is authorized to appoint proxy to vote for the shares | Filipino | 3,946,746,194 | 38.43% |
| Common | THE HONGKONG AND SHANGHAI BANKING CORP LTD.[2]<br>30/F Discovery Suites, ADB Avenue, Ortigas Center, Pasig City<br>No relationship with issuer. | Rose Tantoco, SVP, or Nilo Dicen, VP, of Securities Services is authorized to appoint proxy to vote for the shares | Non-Filipino | 1,517,618,166 | 14.77% |

[1] Includes shares lodged with PCD.
[2] HSBC is a participant of the PCD Nominee Corporation. According to them, no other client or account beneficially owned 5% or more of AGI shares.

| | | | | | |
|---|---|---|---|---|---|
| Common | YORKSHIRE HOLDINGS, INC.[3]<br>28/F The World Centre<br>330 Sen. Gil Puyat Avenue<br>Makati City, Metro Manila<br>It is solely a stockholder of issuer. | Andrew L. Tan, Chairman of the Board, is authorized to appoint proxy to vote for the shares | Filipino | 1,583,459,842 | 15.42% |
| Common | DEUTSCHE BANK AG MANILA BRANCH – Clients [4]<br>26/F Ayala Tower One, Ayala Ave., Makati City<br>No relationship with issuer. | Soledad Velasco, Head – Securities and Custody Operations, or Carlos Dela Torre, Deputy Head, is authorized to appoint proxy to vote for the shares. | Non-Filipino | 1,268,386,581 | 12.35% |

*Security Ownership of Directors and Management as of 31 July 2014:*

| *Title of Class* | *Name of Beneficial Owner* | *Citizenship* | *Nature of Beneficial Ownership* | *Amount and Nature of Record Ownership* | *Percent Owned* |
|---|---|---|---|---|---|
| Common | Andrew L. Tan | Filipino | Direct | 68,684,350 | 0.62% |
| Common | Sergio R. Ortiz-Luis, Jr. | Filipino | Direct | 1 | 0.00% |
| Common | Kingson U. Sian | Filipino | Direct | 5,001,100 | 0.04% |
| Common | Winston S. Co | Filipino | Direct | 2,728 | 0.00% |
| Common | Katherine L. Tan | Filipino | Direct | 1 | 0.00% |
| Common | Alejo L. Villanueva, Jr. | Filipino | Direct | 1 | 0.00% |
| Common | Kevin Andrew L. Tan | Filipino | Direct | 1 | 0.00% |
| Common | Dina D. Inting | Filipino | Direct | 2,758 | 0.00% |
| Common | Dominic V. Isberto | Filipino | Direct | 0 | 0.00% |
| Common | Rolando D. Siatela | Filipino | Direct | 0 | 0.00% |
| Directors and Executive Officers as a Group | | | | 68,690,940 | 0.67% |

*Voting Trust Holders of 5% or More*
The Company has no knowledge of persons holding more than 5% of its voting securities under a voting trust or similar agreement.

*Change in Control*
The Company has no knowledge of any arrangements among stockholders that may result in a change in control of the Company.

**Item 5. Directors and Executive Officers**

*Incumbent*
The following are the incumbent directors and executive officers of the Company:

| **Name** | **Age** | **Citizenship** | **Present Position** |
|---|---|---|---|
| Andrew L. Tan | 65 | Filipino | Chairman of the Board and Chief Executive Officer |
| Sergio R. Ortiz-Luis, Jr. | 70 | Filipino | Vice-Chairman of the Board/Independent Director |
| Kingson U. Sian | 53 | Filipino | President and Chief Operating Officer |
| Winston S. Co | 56 | Filipino | Director |
| Katherine L. Tan | 63 | Filipino | Director and Treasurer |
| Kevin Andrew L. Tan | 34 | Filipino | Director |
| Alejo L. Villanueva, Jr. | 72 | Filipino | Independent Director |
| Dina D. Inting | 54 | Filipino | First Vice President for Finance, Compliance |

[3] Includes direct and indirect beneficial ownership through Altavision Resources, Inc., Asiagroup Holdings, Inc., Globaland Holdings, Inc., Grand Belair Holdings, Inc., and Le Bristol Holdings, Inc.
[4] DEUTSCHE BANK is a participant of the PCD Nominee Corporation. According to them, no other client or account beneficially owned 5% or more of AGI shares.

| | | | |
|---|---|---|---|
| | | | Officer and Corporate Information Officer |
| Dominic V. Isberto | 39 | Filipino | Corporate Secretary |
| Rolando D. Siatela | 53 | Filipino | Asst. Corporate Secretary |

There are seven (7) members of the Company's Board of Directors, two (2) of whom are independent directors. All incumbent directors were elected during the annual meeting of stockholders held on 17 September 2013 and will hold office for one (1) year and/or until their successors are elected and qualified.

*Background*

*Andrew L. Tan*
Mr. Tan, 65 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 listed companies Emperador Inc., Empire East Land Holdings, Inc. and Global-Estate Resorts, Inc. and a director of listed Travellers International Hotel Group, Inc. He is also the Chairman of Alliance Global Group Cayman Islands, Inc., Alliance Global Brands, Inc., Emperador Distillers, Inc., , Suntrust Properties, Inc., Adams Properties, Inc., Consolidated Distillers of the Far East, Inc., and Townsquare Development, Inc. and 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., , 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., 70 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 Employer's 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, 53 years old, Filipino, has served as *President* and *Chief Operating Officer* of the Company since February 2007. He is concurrently President and Director of listed company Travellers International Hotel Group, Inc. and Director of Megaworld Corporation and is its Executive Director and a Director of listed company Emperador Inc. He is concurrently President and Director of 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, 56 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. He is also a Director and President of listed company Emperador Inc. 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., and 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, 63 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 and a Director and Treasurer of listed company Emperador Inc.. 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, 35 years old, Filipino, has served as a *Director* since 20 April 2012. Mr. Tan 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 a Director of listed companies Global-Estate Resorts, Inc. and Emperador Distillers, Inc., and of 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, 72 years old, Filipino, has served as an *Independent Director* since August 2001. He is concurrently an Independent Director of listed companies Emperador Inc., Empire East Land Holdings, Inc. and Suntrust Home Developers, 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.

*Dina D. Inting*
Ms. Inting, 54 years old, Filipino, has served as First Vice President for Finance since January 1996. She is currently director of Progreen Agricorp, Inc. She also serves as Compliance Officer and Corporate Information Officer of Emperador Inc.. She gained an extensive experience in the fields of audit, comptrollership, treasury, finance, branch operations and personnel management from her previous employments. She is a Cum Laude graduate of Bachelor of Science in Commerce major in Accounting, Honors Program, at the Philippine College of Commerce (Polytechnic University of the Philippines), holds a certificate in Organizational Development from the Ateneo de Manila University, and is a Certified Public Accountant.

*Dominic V. Isberto*
Mr. Isberto, 39 years old, Filipino, has served as Corporate Secretary since September 2007. He is also the Corporate Secretary and Assistant Corporate Information Officer of Global-Estate Resorts, Inc. and the Corporate Secretary of Emperador Inc., Twin Lakes Corporation, Eastwood City Estates Association, Inc., Suntrust Properties, Inc. and Fil-Estate Properties, Inc. He is currently a Senior Assistant Vice President for Corporate Management of Megaworld Corporation, where he is responsible for negotiation, preparation and review of lease agreements for office and retail tenants, the preparation and review of joint venture and sale and purchase agreements for the acquisition of property, loan agreements, and other corporate contracts and agreements, and directly handles legal cases. Mr. Isberto has experience in litigation and banking and corporate law. He has a degree in Management Engineering from the Ateneo de Manila University and obtained his Bachelor of Laws degree from the University of the Philippines.

*Rolando D. Siatela*
Mr. Siatela, 53 years old, Filipino, has served as Assistant Corporate Secretary since August 2002. He concurrently serves in PSE-listed companies Suntrust Home Developers, Inc. as Corporate Secretary and Corporate Information Officer and in Megaworld Corporation, Emperador Inc. and Global-Estate Resorts, Inc. as Assistant Corporate Secretary. He is a member of the board of Asia Finest Cuisine, Inc. and also serves as Corporate Secretary of Oceanic Realty Group International, Inc., ERA Real Estate, Inc. and ERA Real Estate Exchange, Inc., and as Documentation Officer of Megaworld Foundation, Inc. He is at present an Assistant Vice President for Corporate Management in Megaworld Corporation. He was employed as Administrative and Personnel Officer with Batarasa Consolidated, Inc. and served as Assistant Corporate Secretary and Chief Administrative Officer of The Andresons Group, Inc.

*Procedure for Nomination and Election of Independent Directors*
Pursuant to Article II, Section 2 of the Company's By-Laws (amended as of July 20, 2005 by the Board of Directors and as of August 26, 2005 by the Stockholders), the nomination and election of independent directors shall be conducted in accordance with SRC Rule 38.

SRC Rule 38 provides that the nomination and election of independent directors shall be conducted in accordance with the following rules:

1. Nomination of independent directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by nominating stockholders and shall bear the conformity of the nominees.
2. The Nomination Committee shall pre-screen the nominees and prepare a final list of candidates.
3. The final list of candidates shall contain the business and/or professional experience of the nominees for independent directors, which list shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Company is required to submit to the Commission. The name of the person or group of persons who recommended the nominees for independent directors shall be identified in such report including any relationship to the nominees.
4. Only nominees whose names appear in the final list of candidates shall be eligible for election as independent directors. No other nominations shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
5. The conduct of the election of independent directors shall be made in accordance with the standard election procedures of the Company in its By-laws, subject to pertinent laws, rules and regulations of the Commission.
6. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure those independent directors are elected during the stockholders' meeting.
7. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

The Company is required to have at least two (2) independent directors in its Board of Directors, who are each independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in the Company. An independent director should have at least one (1) share of the Company's common stock, a college graduate or has been engaged or exposed to the business for at least five (5) years, and possesses integrity/probity and assiduousness. Pursuant to SEC Memorandum Circular 9-2011, an Independent Director can serve for five (5) consecutive years to be counted from January 2012, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which his position was relinquished or terminated. After completion of the 5-year service period, an Independent Director shall be ineligible for election as such in the same company unless he has undergone a "cooling off" period of 2 years after which he can be re-elected in the same company and serve for another 5 consecutive years. A person who has served as Independent Director for 10 years in the same company shall be perpetually barred from being elected as an Independent Director in the same company, without prejudice to being elected in other companies outside of the business conglomerate. There shall be no limit in the number of covered companies that a person may be elected as Independent Director, except in business conglomerates where he can be elected to only five (5) companies of the conglomerate, *i.e.*, parent company, subsidiary or affiliate.

*Nominees*

Directors are elected annually by the stockholders at the annual stockholders' meeting to serve until the election and qualification of their successors. The Nomination Committee composed of Alejo L. Villanueva, Jr. as Chairman and Kevin Andrew L. Tan and Winston S. Co as members accept nominees to the Board of Directors, including nominees for independent directors. The Committee is responsible for screening and qualifying the list of nominees. The following is the complete and final list of nominees for members of the Board of Directors:

1. Andrew L. Tan
2. Sergio R. Ortiz-Luis, Jr. – Independent Director
3. Kingson U. Sian
4. Katherine L. Tan
5. Winston S. Co
6. Kevin Andrew L. Tan
7. Alejo L. Villanueva, Jr. – Independent Director

This year's nominees for directors include two persons who qualify as independent directors. The President, Mr. Kingson U. Sian, nominated the incumbent Independent Director, Mr. Sergio R. Ortiz-Luis, Jr., for another term, while Mr. Winston S. Co nominated the other incumbent Independent Director, Mr. Alejo L. Villanueva, Jr., for another term. Messrs. Sian and Ortiz-Luis, Jr. and Co and Villanueva, Jr. are not related by consanguinity or affinity up to the fourth civil degree. The Nomination Committee reviewed the qualifications of Messrs. Ortiz-Luis, Jr. and Villanueva, Jr. and they do not possess any of the disqualifications enumerated under the law and in the Code of Corporate Governance (Their respective profiles are presented on the preceding pages). Having found them duly qualified, the Nomination Committee endorsed the nomination of Messrs. Sergio R. Ortiz-Luis, Jr. and Alejo L. Villanueva, Jr. as candidates for Independent Directors for the ensuing year.

*Disagreements with the Company*
No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

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

*Family Relationships*
Chairman/CEO Andrew L. Tan is married to Treasurer/Director Katherine L. Tan and Director Kevin Andrew L. Tan is their son. Another son, Kendrick Andrew L. Tan, is a Director of Emperador Inc. and Corporate Secretary and Executive Director of Emperador Distillers, Inc. Both siblings are also currently serving as directors of Emperador Distillers, Inc., Anglo-Watsons Glass, Inc., Newtown Land Partners, Inc., and Yorkshire Holdings, Inc.

*Involvement in Legal Proceedings*
The Company has no knowledge of any of the following events that occurred during the past five (5) years up the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as director, or executive officer:

- Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

*Certain Relationships and Related Transactions*

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

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

Major related party transactions have been disclosed in Note 29 to the consolidated financial statements appearing elsewhere in this report.

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

**Item 6. Compensation of Directors and Executive Officers**

*Name and Principal Position*
Andrew L. Tan, Chairman and Chief Executive Officer
Sergio R. Ortiz-Luis, Jr., Vice Chairman and Independent Director
Kingson U. Sian, President and Chief Operating Officer
Katherine L. Tan, Treasurer
Winston S. Co, Director
Kevin Andrew L. Tan, Director
Alejo L. Villanueva, Jr., Independent Director
Dina D. Inting, FVP-Finance
Dominic V. Isberto, Corporate Secretary
Rolando T. Siatela, Asst. Corporate Secretary

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they principally handle. No compensation was received from AGI, the holding company, and neither will there be for 2014, except for an allowance for Mr. Kingson U. Sian which started in February 2007. In 2012 and 2013, directors received a total of Php525,000 each year as per diem, and for 2014 the same amount is expected to be paid.

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

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

An Option Holder may exercise in whole or in part his vested Option provided, that, an Option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said Option's Life Cycle. As of this time, the Company cannot determine if options can be exercised with less than forty percent (40%) of the total price of the shares so purchased. The Company does not provide or arrange for loans to enable to qualified participant to exercise their options.

Two-thirds of the 2011 Options have vested as of December 2013 and one third of the 2013 Options has vested as of March 2014 but, as of today, no vested options have been exercised.

| **Name** | **Number of Outstanding Options** | **Date Issued** | **Exercise Price** |
|---|---|---|---|
| **Andrew L. Tan** | **21,000,000** | **19 December 2011** | **Php9.175** |
| | **48,000,000** | **14 March 2013** | **Php12.9997** |
| **Kingson U. Sian** | **15,000,000** | **19 December 2011** | **Php9.175** |
| **Winston S. Co** | **10,500,000** | **19 December 2011** | **Php9.175** |
| | **3,000,000** | **14 March 2013** | **Php12.9997** |
| **Kevin Andrew L. Tan** | **6,000,000** | **14 March 2013** | **Php12.9997** |
| **All above-named officers** | **103,500,000** | | |
| **All other grantees as a group unnamed** | **2,100,000** | | |
| **TOTAL** | **105,600,000** | | |

**Item 7. Independent Public Accountants**

Punongbayan & Araullo (P&A), upon recommendation by the Audit Committee of the Board of Directors composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members, was re-appointed by the stockholders as the principal external auditors for the years 2013 and 2012, and is again being recommended to the stockholders for re-election as the Company's principal external auditors for the year 2014. The selection of external auditors is made on the basis of credibility, professional reputation, accreditation with the Securities and Exchange Commission, and affiliation with a reputable foreign partner. The professional fees of the external auditors are approved by the Company after approval by the stockholders of the engagement and prior to the commencement of each audit season.

In compliance with SRC Rule 68 paragraph 3 (b) (iv) (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years or less. Mr. Leonardo D. Cuaresma, Jr. was the lead engagement partner from 2009 to 2011. Ms. Mailene Sigue-Bisnar was the lead engagement partner for 2012 and 2013 and will again be for the ensuing year.

Representatives of Punongbayan & Araullo are expected to be present at the Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

*External audit fees and services*
The respective fees billed by P&A for each of the last two fiscal years totaled P1,815,000 and P1,650,000 for the audit of 2013 and 2012 annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements.

Other than the foregoing, there were no separate tax fees billed and no other products and services provided by P&A for the last two fiscal years.

All the above services have been approved by the Company, upon recommendation of the Audit Committee composed of Alejo L. Villanueva as Chairman and Sergio R. Ortiz-Luis, Jr. and Andrew L. Tan as members. The selection of external auditors and approval of external audit fees and services is made on the basis of credibility, professional reputation, accreditation with the Securities and Exchange Commission, and affiliation with a reputable foreign partner. The fees of the external auditors are approved by the Company after approval by the stockholders of the engagement and prior to the commencement of each audit season.

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

*Information Incorporated by Reference*
Financial Statements of the Company and its subsidiaries as of 31 December 2013 and 2012 and Interim Financial Statements of the Company and its subsidiaries as of 30 June 2014, as well as the Management's Discussion and Analysis of Operations and Financial Condition for the corresponding periods are included in the Company's Management Report and are incorporated herein by reference.

## C. OTHER MATTERS

### Item 8. Action with Respect to Reports

The minutes of the annual meeting of stockholders held on 17 September 2013 will be submitted to the stockholders for approval (a copy is attached hereto). The Minutes will refer to the adoption of stockholder's resolutions pertaining to the following matters:

1. Approval of Minutes of the Previous Annual Meeting
2. Appointment of External Auditors
3. Ratification of Acts and Resolutions of the Board of Directors, Board Committees and Management
4. Election of Directors

The approval or disapproval of the Minutes will constitute merely an approval or disapproval of the correctness of the minutes but will not constitute an approval or disapproval of the matters referred to in the Minutes.

**Item 9. Other Proposed Action**

The stockholders will be asked to ratify all resolutions of the Board of Directors, Board Committees, and acts of Management adopted during the period covering 01 January 2013 up to the date of this meeting. These include, among others, the appointment of officers in the corporation, opening and maintenance of bank accounts and other bank transactions, approval and issuance of financial statements, declaration of cash dividend, subscription to new shares of Touch Solutions, Inc. (now Emperador Inc.) and sale of shares in Emperador Distillers, Inc., sale of shares in Global-Estate Resorts, Inc. to Megaworld Corporation and purchase of shares in Travellers International Hotel Group, Inc. from Megaworld Corporation, purchase of shares making a corporation a subsidiary, appointment of proxies and nominees, designation of authorized contract signatories and representatives, appointment of attorneys-in-fact, and other similar activities of the Company.

**Item 10. Voting Procedures**

*Vote Required*
In the election of directors, the seven (7) nominees garnering the highest number of votes will be elected as members of the board of directors, provided that there shall always be elected at least two (2) independent directors in the Company's board of directors.

For all other matters proposed to be acted upon, the vote of a majority of the outstanding capital stock will be required for approval.

*Method of Counting of Votes*
Each holder of common share will be entitled to one (1) vote with respect to all matters to be taken up during the Meeting; provided, that in the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit; provided further, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

There will be seven (7) persons to be elected to the Company's board of directors, including at least two (2) independent directors. In the event that the number of nominees to the board of directors exceeds the number of board seats, voting shall be done by ballot. However, if the number of nominees to the board of directors does not exceed the number of board seats, voting will be done by a show of hands. Election inspectors duly appointed during the meeting shall be responsible for counting the number of votes, subject to validation by representatives of Punongbayan & Araullo, the Company's external auditors.

**UNDERTAKING**

**The Company undertakes to provide without charge to a stockholder a copy of the Annual Report on SEC Form 17-A upon written request addressed to Ms. Dina Inting, First Vice President for Finance and Corporate Information Officer, at 7$^{th}$ Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, E. Rodriguez Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.**

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Quezon City on 20 August 2014.

**ALLIANCE GLOBAL GROUP, INC.**

By:

**DINA D. INTING**
First Vice President for Finance and
Corporate Information Officer

**MANAGEMENT REPORT**
**AS REQUIRED BY SRC RULE 20**
**INCLUDING FINANCIAL INFORMATION FOR FIRST HALF OF 2014**

**General Nature and Scope of Business**

*Alliance Global Group, Inc.* ("AGI" or "the Company") is one of the leading conglomerates in the Philippines, with interests in property development, food and beverage manufacture and distribution, quick-service restaurants and integrated tourism development businesses. The Company and its subsidiaries and associates ("**the Group**") operates a diversified range of businesses that focus on developing products and services that generally cater to the Philippine middle class.

Incorporated on October 12, 1993, AGI began operations in 1994 as a glass-container manufacturer after it acquired a glass manufacturing plant in Canlubang, Laguna. AGI initially listed its shares in the Philippine Stock Exchange ("PSE") in 1999; after which in the same year, it obtained approval from the Securities and Exchange Commission ("SEC") to broaden its primary business and become a holding company. Immediately, the Company began its diversification into the food and beverage and real estate industries, and, in 2005, into the quick-service restaurant business. In 2007, it reorganized to consolidate businesses controlled by Dr. Andrew L. Tan and family ("Tan family"), specifically in the distilled spirit manufacturing and property development. In 2008, the Company entered into integrated tourism development, with gaming activities, by partnering with a leading multinational leisure, entertainment and hospitality group. In 2011, AGI expanded its integrated tourism estate development outside of Metro Manila, particularly in the Calabarzon and Visayan regions. In 2013, the Group expanded its brandy manufacturing business in Spain.

The Tan family beneficially owns a majority interest in AGI.

*a.2.* ***Subsidiaries***

***Emperador Inc.***

EMPERADOR INC. ("EMP" or "Emperador") is a publicly-listed domestic holding company which, through Emperador Distillers, Inc. ("EDI") and its subsidiaries, is engaged in the integrated business of manufacturing, distilling, bottling, and distributing brandy and other alcoholic beverages. It served as a platform for EDI to go public.

EMP was incorporated on November 26, 2001 and first listed its shares on the PSE on December 19, 2011. In August to September 2013, AGI, EDI and EMP, which is substantially a shell company at this time, entered into a series of transactions whereby AGI acquired 87.6% control over EMP and EMP acquired full ownership of EDI. EMP's acquisition of EDI from AGI is accounted for similar to a reverse acquisition of a non-operating shell company, wherein the legal subsidiary, which is EDI, is deemed as the acquirer and the legal parent, which is EMP, is deemed as the acquired. EMP is thus treated as a continuation of EDI's business. EMP has 20 billion authorized capital stock, 15 billion of which are issued and outstanding as of December 31, 2013. Its consolidated total assets amounted to P135 billion as of December 31, 2013.

*EDI* is a leading manufacturer and distributor of distilled spirits. It produces three principal brands, namely, Emperador Brandy, Generoso Brandy and The BaR flavored alcoholic beverage (gin, vodka, tequila), and distributes Ernest & Julio Gallo wines in the Philippines. EDI was incorporated on June 6, 2003 and sold to AGI by The Andresons Group, Inc. ("TAGI") and the Tan family on February 16, 2007. EDI increased its authorized capital stock to 22 billion in 2012, of which 12.5 billion shares is outstanding and held by EMP as of December 31, 2013.

Emperador operates two manufacturing plants in Laguna, Philippines. The second plant was acquired from Diageo Philippines (local producer of international liquor brands Johnnie Walker, Crown Royal, JeB, Buchanan's Smirnoff, among others) in May 2012. Emperador also has its own distillery plant which EDI acquired in February 2013 from The Consolidated Distillers of the Far East, Inc. ("Condis") of the Tan family.

Emperador procures its new bottles from *Anglo Watsons Glass, Inc.* ("AWG"), a wholly-owned domestic subsidiary of EDI, which caters principally to EDI's requirements. AWG operates a glass container manufacturing plant in Laguna on a 24-hour shift. AWG was incorporated on July 22, 1999 to handle the spun-off glass container manufacturing business of AGI, and EDI acquired it from AGI in June 2012. AWG has P400 million authorized, fully subscribed and paid up capital as of end-2013.

In 2013, Emperador embarked on acquisitions in Spain which include the Bodega San Bruno, the San Bruno trademark, vineyards, and sizable inventory of high-quality well-matured brandy from Gonzalez Byass S.A., one of the largest and oldest liquor and wine conglomerate in Spain. Under a supply agreement with Gonzalez Byass, the Emperador Deluxe Spanish Edition is produced and bottled in Spain and started selling in the Philippines in March 2013. The Spanish investments and operations are all under a wholly-owned subsidiary of EDI, *Emperador International Limited* ("EIL"), an investment and holding company incorporated in the British Virgin Islands on December 13, 2006.

***Megaworld Corporation***

MEGAWORLD CORPORATION ("MEG" or "Megaworld"), a publicly-listed domestic company, is one of the leading property developers in the Philippines and it pioneered the "live-work-play-learn" lifestyle concept for large-scale, mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment, and educational/training components. Megaworld's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail space.

It was incorporated on August 24, 1989. While initially MEG builds only high-end residential condominiums and commercial properties on a stand-alone basis, in 1996, it began to focus on the mixed-used communities in response to the demand for lifestyle convenience of having quality residences in close proximity to office and leisure facilities, primarily for the middle-income market. Its first venture under this set-up is Eastwood City in Quezon City, which is the country's first cyberpark. It now has several community townships across Metro Manila, Cebu, Iloilo and Davao plus residential condominium projects in Metro Manila. MEG also engages in other property related activities such as project design, construction oversight and property management. It owns and operates the Richmonde Hotel Ortigas in Pasig City and Eastwood Richmonde Hotel in Quezon City through a wholly-owned subsidiary, *Prestige Hotels & Resorts, Inc*. Megaworld has P40.2 billion authorized capital stock and P32.2 billion paid-up capital (both common and preferred stock) as of end-2013. Its consolidated total assets amounted to P174 million as of December 31, 2013.

From 46% effective ownership interest in MEG in 2007, AGI increased its effective ownership interest in MEG thereafter through purchases in the market, exercise of stock rights and warrants, and subscription to new shares. By end-2013, AGI holds 65% effective interest in MEG.

Megaworld is continuously cited by award-giving bodies for excellence in corporate governance, investor relations, and financial performance. More recently in 2013, it garnered awards for Asia's Best CEO, Best Investor Relations and Best CSR from Corporate Governance Asia's Asian Excellence Awards; Most Organized Investor Relations, Best Senior Management IR Support, Strong Adherence to Corporate Governance from Alpha Southeast Asia; and Gold award for Investor Relations, Corporation Governance and Financial Performance from The Asset Excellence in Management and Corporate Governance.

*Empire East Landholdings, Inc*. ("Empire East" or ''ELI''), a publicly-listed domestic company under the Megaworld group, was incorporated on July 15, 1994. It specializes in multi-cluster condominium projects and multi-phase subdivision developments in key locations in Metro Manila and Laguna. Laguna Bel-Air is ELI's flagship township project while Pioneer Woodland's is its first transit-oriented development in Mandaluyong City. Before its incorporation, ELI used to be the community housing division of MEG. ELI, which was formerly reported as an associate of MEG, became a subsidiary of MEG in first half of 2011 when MEG increased its ownership stake to majority which as at December 31, 2011, 2012 and 2013 is at 61.1%, 78.6% and 81.5%, respectively.

*Suntrust Properties, Inc*. (''SPI''), incorporated on November 14, 1997, develops master-planned self-sustaining residential communities in Cavite and Laguna and condominiums in Metro Manila that provide affordable homes for the low- to moderate-income families. The developments that focus on space-saving and functionality features include Gentri Heights, Sherwood Hills, Riva Bella in Cavite; Sta. Rosa Heights, Sta. Rosa Hills and The Mandara in Laguna; Suntrust Adriatico Gardens, Parkview and Treetop Villas in Manila. In March2011, MEG acquired 50% majority interest in SPI. In 2013, MEG acquired 100% ownership by buying out the minority interests of Empire East and another related party.

***Travellers International Hotel Group, Inc.***

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC. ("Travellers"), a publicly-listed company since November 5, 2013, is the developer and operator of Resorts World Manila ("RWM"), the first integrated leisure and resort in the Philippines that combines privately-operated gaming facilities with hotel, retail, dining, entertainment and other leisure amenities. The Company was awarded one of the first licenses issued by the Philippine Amusement and Gaming Corporation (PAGCOR) in June 2008 to construct and operate integrated leisure and gaming facilities to an international standard with the goal of enhancing tourism in the Philippines. RWM opened in August 2009.

Travellers was incorporated on December 17, 2003. It is AGI's first integrated tourism vehicle in Metro Manila in a partnership deal inked in August 2008 with Malaysia-based Genting Group through Genting Hong Kong Limited ("GHK"). Genting Group is a recognized global leader with over 45 years to its credit in leisure and hospitality, gaming and entertainment, and integrated resort business, known for such premier leisure brands as 'Resorts World', 'Maxims', 'Crockfords' and 'Awana'. GHK, on the other hand, is primarily engaged in the business of cruise and cruise-related operations, such as Star Cruises and Norwegian Lines, and is the third largest cruise operator in the world by number of lower berths. Its shares are listed on the Hong Kong Stock Exchange and traded on the GlobalQuote of the Singapore Exchange Securities Trading Limited.

Beginning 2012, Travellers is reported as a subsidiary and consolidated in accordance with applicable accounting standards. Prior to this, Travellers was accounted under equity method. Travellers has P10 billion authorized capital stock (common and preferred shares), P1.7 billion is outstanding as of end-2013. AGI's ownership interest is accounted through direct holding of 18% and indirect holdings through its subsidiaries Megaworld, First Centro, Inc. and Adams Properties, Inc. which hold 9%, 5% and 23%, respectively, of Travellers' outstanding common shares.

***Global-Estate Resorts, Inc.***

GLOBAL-ESTATE RESORTS, INC. ("GERI"), formerly Fil-Estate Land, Inc., a real estate domestic company incorporated on May 18, 1994, went public in November 1995. It is one of the leading property developers and is engaged in the horizontal development of residential subdivision lots, integrated residential, golf and other leisure-related properties, integrated tourism estates development and vertical development of mixed-use towers. With its prime land bank of 2,303 hectares located strategically in key tourist spots outside Metro Manila, with a large portion of which in Sta. Barbara in Iloilo, Tagaytay City, Laurel and Nasugbu in Batangas, and Boracay, GERI is well-positioned to set new standards in the country's tourism industry. It has P20 billion authorized capital stock, P10.986 billion of which was subscribed and paid-up as of December 31, 2013.

AGI acquired 60% interest in GERI in January 2011. With the capital infusion, GERI was able to pay its interest-bearing loans and pursue its development plans. In 2013, GERI doubled its authorized capital stock, of which Megaworld subscribed to 25% of the said increase; this together with indirect holdings translates to Meg's 24.7% beneficial ownership in GERI at end-2013. AGI's beneficial ownership interest becomes 65.2% at end-2013. GERI is AGI's vehicle for integrated tourism resorts development outside of Metro Manila.

***Golden Arches Development Corporation***

GOLDEN ARCHES DEVELOPMENT CORPORATION ("GADC") is a domestic corporation engaged in the operations and franchising of quick service restaurant business under the McDonald's brand in the Philippines and in accordance with the master franchise agreement with McDonald's Corporation ("MCD"), a company incorporated in Delaware and with principal offices in Illinois, USA. GADC was incorporated on July 16, 1980. It has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI and the rest by its founder, Mr. George Yang and his family.

AGI acquired its 49% interest in GADC on March 17, 2005 from McDonald's Restaurant Operations, Inc. ("MRO"), a subsidiary of MCD, both foreign corporations incorporated in the USA. MRO holds all of GADC's preferred shares

*Golden Arches Realty Corporation (*"GARC"*)* leases solely to GADC parcels of land where McDonald's restaurants and warehouses are situated. It was incorporated on June 25, 2001 and, at present, has P99.4 million authorized and issued common shares, 49% of which is held by AGI.

*a.3.* ***Bankruptcy or Similar Proceedings and Significant Assets not in Ordinary Course***

The Company and its subsidiaries have not been involved in any bankruptcy, receivership or similar proceedings. Likewise, there were no other material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

*b.* **Business Description**

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

*b.1.****Principal Products Or Services And Their Markets***

**EMP**
Emperador Brandy is the first brandy label launched in 1990. Generoso Brandy was launched in 2006 as an extension of Emperador Brandy. Emperador Brandy, at 72 proof, targets the relatively mature consumers 25 years old and above and is marketed in 1 liter, 1.5 liters, 750 ml and 375 ml bottles. Generoso, a lighter and sweeter brandy at 65 proof, is marketed to appeal to women and young drinkers aged 18 to 25 years. It comes in 700 ml and 375 ml bottles. A lighter brandy at 55 proof of extra smooth full body in 500 ml, 750 ml and 1-liter

bottles, aptly labelled as Emperador Light, softly graced the market in December 2009. It is the country's first light brandy and it currently comprises more than 90% of the Group's alcoholic beverage sales. Emperador has won recognition as a trusted brand and has been recognized as the number one selling brandy in the world in terms of volume sold. It is the world's largest-selling brandy brand with sales volume of 31 million cases in 2012.

Emperador De luxe Spanish Edition was introduced in the market in March 2013. This premium product is bottled in Spain and is created specifically to appeal to the Philippine palate.

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

A clear and pure spirit vodka, The BaR Silver, was launched in the market in November 2010. It is intended to capture the customer preference for cocktail mixing. The BaR Citrus Tequila made its debut in April 2011. It is made from real tequila and flavored with a hint of citrus flavor - the first locally manufactured product of its kind. Both have higher alcohol content at 70 proof and target the more experienced drinkers aged 25 years and above. The BaR Cocktails Margarita, a Silver tequila, tested market in 2012 and was launched in the national capital region in December 2012.

Products are sold throughout the Philippines with National Capital Region accounting for approximately 30% of sales volume, Provincial Luzon for 47% and Visayas and Mindanao for 11% and 12%, respectively.

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

Certain wines from the E.&J. Gallo Winery in California, USA are distributed in the Philippines. These include the following labels, among others: Carlo Rossi, Wild Vines, Gallo Family Vineyards, Red Rock, Turning Leaf, and Boone's Farm fruity-flavored beverages.

**MEG**

The real estate portfolio includes residential condominium units, subdivision lots and townhouses, and office, leisure and retail spaces as well as hotel spaces.

Megaworld is primarily engaged in developing large-scale mixed-used communities called "townships" that integrate lifestyle convenience of having high quality residences in close proximity to office, commercial, educational, and leisure and entertainment facilities. Its township projects at present, in which the strategy is to lease all commercial and retail properties and sell all residential units, are as follows:

1. Eastwood City is Megaworld's first community township development on approximately 18 hectares of land in Quezon City, Metro Manila. It centered on the development of Eastwood City CyberPark, the first PEZA-approved information technology ("IT") park in the country to provide offices with the infrastructure to support BPO and other technology-driven businesses on a 24-hour basis. Once the entire residential zone is completed, it is expected to contain at least 20 high-rise towers designed according to a specific theme and style. The office properties consist of 10 office buildings. The leisure and entertainment zone consists of Eastwood Mall, Eastwood Richmonde Hotel and Eastwood Citywalk, a dining and entertainment hub, Eastwood Citywalk 2, an amusement

center with a cinema complex, a billiard and bowling center, and restaurants and specialty shops.

2. Forbes Town Center is a community township located on 5 hectares of land in Bonifacio Global City, Taguig, Metro Manila adjacent to the Manila Golf Club, the Manila Polo Club and the prestigious Forbes Park residential subdivision. Upon completion, Forbes Town Center is expected to consist of residential, retail and entertainment properties. Once completed, the residential zone is expected to consist of 13 towers comprising the Forbeswood Heights, Bellagio, Forbeswood Parklane, and 8 Forbes Town Road condominium projects. The leisure and entertainment zone is devoted to bars, restaurants and specialty shops which are designated to complement the residential buildings in this development as well as the surrounding office areas in Bonifacio Global City.

3. The McKinley Hill is a community township located on approximately 50 hectares of land in Fort Bonifacio, Taguig, Metro Manila. McKinley Hill consists of office, residential, retail, educational, entertainment and recreational centers. The residential zone consists of subdivision lots for low-density single-detached homes and low-rise (5 or 6-storey) garden villa clusters. The office properties will include the McKinley Hill Cyberpark which is a PEZA-designated IT special economic zone. Tenants of the office properties will largely be comprised of software developers, data encoding and conversion centers, call centers, system integrations, IT and computer system support. The leisure and entertainment zone is expected to have a Venetian theme and to consist of bars, restaurants, specialty shops, cinemas and sports complex, to complement the office and residential areas in the community township. First phase of the zone was completed in 2009. Three international schools, the Chinese International School, the Korean International School and Enderun College, a hotel management institution affiliated with *Les Roches* of Switzerland, will initially comprise the “learn” component of the township. McKinley Hill is likewise home to the British Embassy which relocated on a 1.2 hectare property and Korean Embassy which is located on a 5,800 square meter site within the development.

   In 2013, the Emperador Stadium, a soccer stadium with capacity for 2,000 spectators (and expansion capacity for an additional 3,000) opened in the leisure and entertainment zone. The stadium is being leased for an initial 4-year term to the United Football League.

4. Newport City is a community township located on 25 hectares of land that was previously part of the Villamor Air Base in Pasay City, Metro Manila, across from the NAIA Terminal 3 and adjacent to the Villamor golf course. The Newport City similarly integrates the live-work-play concept of Eastwood City, with the exception that it will be targeted towards tenants and buyers who consider proximity to the NAIA Terminal 3 an advantage. The residential zone, upon completion, will consist of 40 eight- to nine-storey medium-rise buildings that are grouped in clusters of five to six buildings. Pre-selling began for the first cluster in 2005. A PEZA special economic cyberpark will be established in the commercial zone, as well as grade A office buildings. Tenants for the commercial area are expected to include multinational BPO companies, cargo logistics services and airline-related business. The leisure and entertainment zone is expected to consist of space which will be leased to tenants who will operate bars, restaurants, retail and tourist oriented shops, which are designed to complement the office and residential buildings in the community township.

   Newport City is home to Resorts World Manila, which is a leisure-and-entertainment complex comprising gaming facilities, restaurants, hotels, and shopping outlets, among others, which opened in August 2009.

   The hotel zone includes Marriott Hotel Manila, Maxims Hotel and Remington Hotel which are under Travellers. There are two other hotels being constructed which are “condotel” projects of Megaworld, wherein all hotel rooms are sold to buyers, who then lease back the rooms to Megaworld for use as hotel rooms. Through these arrangements, Megaworld not only derives property development fees, but also recurring management fees for maintaining the rooms utilized by the hotels. The Belmont Luxury Hotel is expected to formally open in late 2015 while the Savoy Hotel in 2016. Travellers is also set to add two global hotel brands.

5. Manhattan Garden City is a residential development project which will consist of 20 residential towers on a 5.7-hectare property at the Araneta Center in Cubao, Quezon City. The Manhattan Garden City will be the Philippines' first major transit-oriented residential community, having direct links to two light rail transport lines, the MRT-3 and the LRT- 2. The MRT-3 line runs north to south along the EDSA highway in Metro Manila while the LRT-2 line runs east to west along Aurora Boulevard across Metro Manila. All key areas along the transportation lines within Metro Manila will be easily accessible from the development. The amenities of the Araneta Center such as the Gateway Mall will be available to residents of Manhattan Garden City.

6. The Mactan Newtown is a mixed-use township development in a 28.8 hectare property near Shangri-La Mactan Resort and Spa in Mactan, Cebu. It is expected on completion to have high-tech offices, a retail center, residential villages, leisure facitlites and beach front resort. Development of the first luxury condominiums began at The Mactan Newtown, 8 Newtown Boulevard and One Pacific Residence towers. The Mactan Newtown is conferred with PEZA special economic zone status.

7. Iloilo Business Park is a mixed-use master-planned community in a 72 hectare property in Mandurriao, Iloilo, site of the old Iloilo airport. It is expected to comprise of BPO offices, hotels, a convention center, commercial and retail centers, a skills training center, recreational facilities and a transportation hub. The entire project was registered as a special economic zone with the government, which will allow it to benefit from a tax holiday period as well as other incentives for investors. In addition, Megaworld Center Mall, an upscale shopping mall will be built in the project.The convention center is expected to have 3,700-seating capacity on a 1.7-hectare portion of the park. Megaworld is also developing an approximately 18-hectare adjacent land into a high-end residential community.

8. Uptown Bonifacio is a community development on a 15.4 hectare property in the northern district of Fort Bonifacio, Taguig. Bonifacio Uptown comprised a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use on a parcel of land owned by NAPOLCOM. The Company will develop Bonifacio Uptown under a joint venture arrangement with the BCDA and NAPOLCOM. Condominium developments include One Uptown Residence and Uptown Ritz Residences.

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

10. Cityplace is 2.5-hectare mixed-use development project in Binondo, Metro Manila. It is expected to have at least 2,000 residential condominium units and a shopping center called Lucky Chinatown Mall. The development includes new green parks, a public car parking facility, new bypass roads and pedestrian overpasses to make the project environment and pedestrian-friendly.

As of December 31, 2013, it owns or has development rights to approximately 285 hectares of land primarily located in Metro Manila.

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

1. Laguna BelAir is ELI's flagship township project located outside of Metro Manila. The 156-hectare horizontal development in Sta. Rosa, Laguna is a complete community setting featuring several residential phases with American-inspired homes, commercial blocks, recreational amenity zones, a science-oriented school and a parish church. The project has spearheaded various residential and commercial developments in Santa Rosa City which is now dubbed as the "New Makati City of the South."

2. Cambridge Village in Pasig-Cainta area is a multi-cluster large-scale resort-type residential development in an 8.8 hectare of land. Some clusters have been completed already while construction is ongoing for the remaining clusters.

3. The Sonoma is the second township project outside Metro Manila. This 50-hectare community in Sta. Rosa, Laguna features four residential phases with a 2.5-hectare amenity zone at the center. Currently, only The Sonoma offers single-detached homes and house-and-lot packages to its aspiring homeowners with about 6 house models to choose from. Its clubhouse and pools are reflective of the world-class resorts in its region that automatically provide that rejuvenating vacation-like ambience for its future homeowners. Two of its four phases, The Enclave and Country Club, are currently undergoing turnover.

4. The Rochester in San Joaquin, Pasig City is a 2.9 hectare large-scale Asian-Modern inspired exclusive community development that features 10 mid-to-high rise towers. It houses superb and stylish recreational amenities such as a posh and multi-purpose clubhouse, a lap pool, a mini bar, billiard tables, playgrounds and basketball courts. It offers 1-bedroom, 2-bedroom and 3-bedroom suites. One of its towers, Garden Villa One, is currently ongoing turnover at the 5$^{th}$ floor. The Rochester currently features the six-story Garden Villas 1 and 2, the 14-story Breeze Tower and the Parklane Tower. Recently, it has announced its latest tower, the Hillcrest.

5. San Lorenzo Place is a 4-tower development sitting on a 1.3 hectare piece of land located along EDSA corner Chino Roces Ave. at the Makati Central Business District. San Lorenzo Place boasts of superb recreational amenities including a pool, playground, gym, jogging trails and its unique bi-level mall with exclusive entrance for homeowners. San Lorenzo Place also offers a premium for higher floors because of the access to the majestic views of the city. It also provides a direct bridge to the MRT Magallanes station, setting its mobility as one of its best features. It offers 1-bedroom, 2-bedroom and 3-bedroom (combined) units. The first tower is expected for turnover to buyers this 2014, the construction of the next two towers is ongoing while the last tower is set for groundbreaking this 2014.

6. Pioneer Woodlands is a 6-tower development on a 1.5 hectare terrain located along EDSA corner Pioneer St. in Mandaluyong City. Its location, being at the midpoint of EDSA, with a direct bridge from its exclusive entrance point up to the MRT Boni station, is one of its best features as it not only offers superior access to every vital point in the city, but it also offers a diverse list of shopping-, dining-, educational-, medical- and other important lifestyle establishments within its radius. Within the development, one will find a complete set of rejuvenating amenities such as a swimming pool, basketball court, jogging trails, pocket gardens and gyms. This development offers widely cut living spaces from an executive studio, one bedroom, two bedroom and combined three bedroom units. Tower 1 has already been completed and turnover of units at the 30$^{th}$ floor is currently ongoing. Tower 2 is near completion while Towers 3 and 4 are in full swing.

7. Little Baguio is a 4 tower community atop a 1.8 hectare land. Its prime location is at the serene community of Brgy. Little Baguio along N. Domingo Street in San Juan City. This property conveniently links N. Domingo St. from one side to Aurora Blvd. on the other side by a 177-m access road – making it highly accessible to the schools and establishments in both streets. Conveniently, this, along with other recreational amenities like pools, gyms and jogging trails are only accessible exclusively by its residents. The address is also conveniently in between two main stations of the LRT2 namely J. Ruiz and Gilmore. Hopping onto the train is one of the fastest means of transportation around the city. One bedroom, two bedroom and three bedroom units are available here. Turnover of Tower 1 is ongoing. The remaining 3 towers are in various stages of construction.

8. Kasara Urban Resort Residences is ELI's innovation for high-end resort type of living in the heart of the city, in a 1.8-hectare property in Brgy. Ugong, Pasig City. This location is a convenient walking distance from C5 Road, Tiendesitas, SM Center Pasig, and Valle Verde Subdivisions. Kasara is composed of 6 high-rise towers that sandwich a striking amenity filled with water features in the middle of the development. This includes a lake-inspired pool, a clubhouse, mini bar, koi ponds, water fountains, man-made waterfalls and fitness trails. It offers Studio, 1-bedroom, 2-bedroom and Penthouse units. Recently it announced the opening of its 5$^{th}$ tower for selling.

9. Southpoint Science Park is a 31-hectare property in Gimalas, Balayan, Batangas that is intended for mixed-use development. Land development is ongoing.

Aside from these projects, ELI's portfolio includes ready-for-occupancy (RFO) units available in its various high-rise development projects in Metro Manila.

SPI's projects provide affordable homes in well-planned and secured community developments. Its communities feature commercial centers, clubhouses and other amenities, schools and 24-hour security. These include the following:

1. Sta. Rosa Height, Sta. Rosa Hills, Sentosa, The Mandara, and Verona are horizontal residential developments in Laguna.
2. Governor Hills, Gentri Heights, Cybergreens, Sunrise Hills, and Cyberville are horizontal community developments in Cavite.
3. Adriatico Gardens, Suntrust Parkview, UN Gardens, Suntrust Treetop Villas are condominium projects in Manila and Mandaluyong areas.
4. Suntrust Shanata, Suntrust Asmara, and Capitol Plaza are condominium projects in Quezon City.

**GERI**

GERI has a diversified portfolio of integrated tourism estates development; horizontal residential subdivision lots and residential/commercial complexes; residential communities integrated with golf, resort and other leisure related and commercial complexes; residential, office and commercial highrise; business park; and affordable housing.

1. Boracay Newcoast is the first and only tourism estate development with world-class resort offerings in the northeast side of Boracay. It sits on 140-hectare of land and will house a private residential village, specialty boutique hotels, shop houses and a massive commercial center called Newcoast Station and international hotel brands. Its Fairways & Bluewater Newcoast, a premier luxury eco-friendly vacation hotel, has over 250 well-appointed guestrooms, each with a spectacular view of an 18-hole par-72 golfcourse, the only one in the island. Fairways &Bluewater features three private white sand beach coves.

2. Twin Lakes is the first and only vineyard resort community in the Philippines, located in the rolling terrains of Tagaytay overlooking the world-famous Taal Lake. The master-planned integrated tourism estate that sits on a 1,149-hectare property will feature real

vineyard and chateaus, residential condominiums and villages, hotels, golf course, nature park as well as commercial and retail hubs. The Vineyard, a 177-hectare mixed-used phase will host a hotel and resort, sports club and spa, culinary school, residential condominiums and a traditional wine chateau for aging the vintage produce – all with the views of the vineyard and man-made twin lakes. The residential subdivisions include Domaine Le Jardin, Le Soleil, and Le Jardin.

3. Forest Hills is a 500-hectare integrated development in Antipolo, Rizal which includes residential and commercial lots, an aqua park, two 18-hole golf courses and a community clubhouse.

4. Mountain Meadows is 260-hectare residential subdivision in Cagayan de Oro with a 4-hectare commercial area at the entrance of the project.

5. Sherwood Hills is a 350-hectare integrated development in Trece Martires, Cavite that will include residential lots, a 27-hole golf course and other facilities.

6. Newport Hills is a 127-hectare integrated residential and golf development in Lian, Batangas.

**Travellers**
Resorts World Manila (“RWM”), Travellers’ first integrated leisure and lifestyle complex, combines hospitality, entertainment, leisure, shopping and gaming in one grand arena, a one-stop non-stop destination. It is strategically located within Newport City, adjacent to the Villamor golf course, and is across the Ninoy Aquino International Airport-Terminal 3 in Pasay City, Metro Manila. RWM features the upscale Newport Mall (90 retail stores and food-and-beverage outlets with a mix of high-end boutiques and mass market option), Newport Cinemas (24 hours on weekends), three-storey gaming facilities, the 1,500-seat Newport Performing Arts Theater (a majestic venue for concerts, plays, musicals and exclusive productions), the GameZoo arcade (a two-storey complex for the kids featuring 54 games including 4D rollercoaster, a mini bowling alley and a 32-inch xbox display), the Genting Club (a members-only lifestyle club, with a private gaming area, dining options and other fabulous lifestyle features), an office space (which features a training academy and a 400-seat capacity call center) and hotels.

Three hotels are currently in operation at RWM - the five-star 342-room Marriott Hotel Manila, the seven-star 172-all-suites Maxims Hotel, and the mid-range 712-room Remington Hotel.

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

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

**Pik-Nik**
Pik-Nik is an all-American fresh-fried potato snack line than includes Shoestring Potatoes, Fabulous Fries, Ketchup Fries, and other delicious potato snacks manufactured and distributed internationally from USA by a wholly-owned subsidiary of AGI. Pik-Nik is the market leader in shoestring potato snack in the USA and is made with no preservatives or artificial ingredients. The products are packed in resealable, foil-lined canisters so they stay fresh and crunchy right to the bottom of the can. These canisters, along with the specialized ingredients and production process, give the products excellent shelf life. Pik-Nik also has Cheese Curls and Cheese Balls, and in September 2012 added the French Fried Onions. Pik-Nik has been in the market for more than 70 years since it was first introduced in the USA in the 1930s in San Jose, California. Pik-Nik is being manufactured in the USA and sold both in the USA and abroad, with Philippine distribution under EDI.

*b.2. **Foreign Sales***

**EMP**
A small volume of products (less than 1%) is exported to the Middle East in response to the demand of the Filipino communities living and working in the region.

**MEG**
Real estate products are also being marketed internationally (see b.3. below) in North America, Europe, Asia and the Middle East through various brokers. Foreign sales contributed approximately 17.5%, 12.1% and 4.5% to Megaworld's consolidated sales and revenues in 2013, 2012 and 2011, respectively.

**Travellers**
Based on RWM rated members (those members with card swipe), the principal foreign market consistently contributing for the past three years are from China, Korea, Singapore and Malaysia. Foreign guests in Maxims Hotel come from Korea, China, Malaysia, and Singapore; for Remington, Spain, United States, Malaysia and China; while for Marriott, majority are from the United States followed by Singapore, Korea and China.

**GERI**
GERI starts to generate sales from foreign market which contributes 8% of its consolidated real estate sales for the year 2013.

**Pik-Nik**
Pik-Nik products are being sold locally in USA and exported to other countries at a ratio of approximately 52%-48%. The domestic volume in the USA expanded by 1%, 6% and 12% in 2013, 2012 and 2011, respectively, because of new accounts and increased distribution in Texas, Midwest, Southwest and Southeast. Its international volume grew by 23%, 11% and 31% in 2013, 2012 and 2011, respectively, because of penetration in new areas in Asia, Saudi Arabia, and Latin America.

*b.3. **Distribution Methods***

**EMP**
The alcoholic beverage products are being marketed and distributed through 20 sales offices nationwide that supply to hypermarkets, supermarkets, wholesalers, traders, grocery outlets, convenient stores, and neighborhood stores. Products are not sold to restaurants or bars directly but are coursed through industrial dealers. Direct sales units comprising cash vans and saturation units are being used to cover sari-sari stores across the country. Cash vans sell directly to these small retailers on a cash-only basis, where the average transaction is for two cases.

The glass containers are delivered to the customers through the services of regular freight handlers who supply trucks for the exclusive use of AWG.

**MEG**

Property units are pre-sold prior to project completion, and often prior to start of construction, at various payment schemes, with down payment plans ranging from 50% to zero down payment. A typical payment scheme includes progressive payments over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. ELI offers interest-free schemes. Postdated checks are collected to cover the entire purchase price based on an amortization schedule. Transfer of title to the property occurs only once all payments have been received. Typically, construction of a residential will not begin until at least 70% of the units have been pre-sold.

Each project has an in-house marketing and sales division which is staffed by a trained group of property consultants who exclusively market the projects. All property consultants are trained prior to selling and provided with skills enhancement programs intended to further develop them into high-caliber marketing professionals. Property consultants are required to meet the set criteria. There are also outside agents who compete directly with the in-house personnel. Marketing services staff are also employed to provide auxiliary services for sales and promotional activities; they are also responsible for monitoring the latest developments in the economy and the real estate property markets as well as conducting market research studies for the marketing division. An international marketing division based in Manila oversees a global network of sales offices worldwide which market the projects to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia. Brokers in the different overseas markets sell the projects overseas through their respective marketing networks.

Commercial leases are generally for terms of three to five years, with annual rental escalation of 5%-10% and review provisions, and typically require three months of security deposits and three months of advance rental. Land and office leases, which require development of a specific building structure, are generally for 10 to 15 years. Retail rentals are typically based on a turnover component of 3% to 5% of the tenants' revenues, net of taxes and service charges, in addition to a minimum rent charge. Kiosk retailers are charged a flat rent fee.

ELI has satellite sales offices in key cities outside Metro Manila. It also has showrooms in project sites and major malls.

**Travellers**

RWM engages in direct relationship-based marketing, which is targeted at specific market segments. The marketing team focuses on market research, surveys, promotions and events that can drive visitations and convert them to returning guests. The sales team is responsible for sales revenues and channel performance. In addition, RWM advertises in many types of media both domestically and overseas, including television, radio, newspapers, magazines and billboards to promote general market awareness.

RWM uses a mix of different channels to reach the specific targets on gaming, lifestyle, and entertainment, such as:

- Direct sales - that comprises of three levels to provide clients with full service: (i) traditional sales, (ii) a business development team and (iii) in-house VIP host services.
- Indirect sales through junkets – from the well-established relationships of Genting Group, to source high-end players in different regions.
- Indirect sales through travel and tour operators – these accredited operators create group travel packages with discounts, to bring in guests in RWM as part of their itineraries, and in return, receive commissions.
- City shuttles - free, convenient, hassle-free shuttle transport for member-players and member-consumers to RWM. The key locations within Metro Manila are Eastwood, Makati, Quezon Avenue, Taguig, Parañaque, Binondo, Malate, Muntinlupa and others.

- Bus programme – with the purpose of looking to expand to other areas in Luzon by tapping potential segments in this area, RWM bridge the geographical gap by establishing bus routes in key locations in Luzon.

RWM uses a comprehensive membership management and customer database system.
RWM uses Genting's Dynamic Reporting System (DSR), a fully integrated real-time table games and slots monitoring system.

**GERI**
Products are distributed to a wide range of clients through its in-house marketing company which acts as the marketing arm of the group.

**GADC**
McDonald's products are sold through McDonald's restaurants nationwide. There are 408 restaurants nationwide as of end-2013, 56% of which are owned by GADC while 44% are franchised. Thirty-seven new restaurants opened in 2013. The highest concentration is in NCR, followed by Southern Tagalog region. In selected areas, McDonald's products could be ordered and delivered round the clock through its "Dial8 McDo" telephone service. There are 261 restaurants that are open 24/7 (24 hours every day).

*b.4. **New Product Or Service***

**MEG, GERI**
Megaworld expands in the Visayas region with its projects in Cebu (The Mactan Newtown) and Iloilo (Iloilo Business Park), and recently in Mindanao region with its project in Davao City (Davao Park District). It is also set to build at least three more residential condominium towers in Makati Central Business District in the next two years.

GERI is embarking on integrated tourism estates development in Boracay, Tagaytay and Batangas. Tourism estates are master-planned tourism-oriented communities designed to attract foreign and local visitors and increase tourist traffic.

ELI begins land development of Southpoint Science Park, a 31-hectare property in Balayan, Batangas.

**Travellers**
Several new hotels and other gaming and non-gaming attractions are currently being developed at RWM. Phase 2 of RWM is expected to include a grand ballroom and convention center (the "Marriott Grand Ballroom"), as well as an annex to the current Marriott Manila Hotel (the "Marriott West Wing"), while Phase 3 is expected to feature two new hotels, the Hilton Manila and the Sheraton Hotel Manila, as well as an extension to Maxims Hotel. The Marriott Grand Ballroom and Marriott West Wing of Phase 2 are expected to be completed by the end of 2014 and the end of 2015, respectively. Phase 3 is expected to be completed by the second quarter of 2017. The construction of the Hilton Manila and Sheraton Hotel Manila and the expansion of Maxims Hotel will be accompanied by an increase in both gaming and non-gaming facilities. More attractions will also be introduced and suited for the family.

**GADC**
New McDonald's product variations and promotions are introduced every now and then which normally last for about 3-6 months only, and this is part of the normal business promotions. Value offerings, such as Everyday Mcsavers and Mcsaver meals, remain on the menu. Premium Desserts (double sundae, sundae duo, Oreo McFlurry overload) is also a big blast. In 2013, McSpicy is introduced in the second quarter and Spicy chicken with rice in fourth quarter.

**Pik-Nik** introduced the 4-oz shoestring potatoes in bags in November 2013 to target drug stores, convenience stores and dollar stores – a growing channel for salty snacks.

*b.5.* ***Competition***

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

**EMP**

The Philippine spirits industry is dominated by brandy, gin and rum. Popularity of these spirits is strangely delineated geographically - gin in the northern provinces, rum in Viz-Min areas and brandy in Metro Manila and urban centers nationwide. Brandy has recorded the highest consistent sales growth among all the spirits in the industry. The growing brandy consumption has encouraged the two traditional gin and rum giants to field their own brandy labels. There are also imported labels in the domestic market, like Fundador, Alfonso and Carlos I, but they are significantly more expensive than the locally-produced products. Emperador is recognized as the largest-selling brand in the Philippines and No. 1 brandy in the world, and EDI as the largest liquor company in the Philippines in terms of volume. EDI capitalizes primarily on the premium image and reputable quality of its brands.

The BaR flavored gin, vodka and tequila is the first fruity flavored clear spirit produced in the country. The traditional rum and gin makers followed suit. Tanduay Distillers, Inc. introduced Tanduay Cocktails while Ginebra San Miguel Inc. offered Flavors.

Emperador believes that its products are strongly positioned within their respective markets, as measured by market share and brand recognition. Emperador had an aggregate 97% share of the Philippine brandy market in terms of volume, according to Nielsen Retail Index. It believes its 'Emperador' brand is a status brand in the country and is associated with a certain level of success and sophistication that its potential customers aspire to.

**Pik-Nik**

Pik-Nik competes with other US-brands like Lays and Pringles in chips form, although the latter is not from natural potato. French's shoestring potatoes went back on grocery shelves in 2013. Pik-Nik is the best-selling brand in the USA with the best-selling sku– the Original shoestring potato in 9 oz cans. A local brand, Oishi, has fielded string potato snacks from potato starch in the local market.

**MEG**

The real estate market in Metro Manila is principally split between the BPO office market and the residential market. The group competes with other property investment, development, leasing and property holding companies to attract buyers and tenants for its properties in Metro Manila. The principal bases of competition in the real estate development business are location, product, price, financing, execution, completion, quality of construction, brand and service. The group believes it has several competitive advantages in each of these categories due to the prime locations of its properties, innovative projects, a reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion. MEG is the number one residential condominium developer in terms of number of units completed as of 2013 and units to be completed up to 2018 based on all projects launched as of third quarter 2013. This represents about 17% of the market. In terms of total aggregate saleable area of those projects launched and to be completed in the same period, it represents 14% of the market with a total saleable area of about 1.62 million square meters. The group attributes its strong residential sales to two main factors – the popularity of its live-work-play-learn communities in Metro Manila and its proven track record of delivering more than 320 buildings to its customers over the last two decades.

The group considers Ayala Land, Inc. ("ALI") to potentially be its only significant competitor in community township developments because of its presence in Fort Bonifacio where the group's Forbestown Center, McKinley Hill, McKinley West and Uptown Bonifacio projects are located. With respect to office and retail leasing business, the group has many competitors such as Robinsons Land Corporation ("RLC"), ALI and SM Prime Holdings, Inc. With respect to affordable housing and condomiums, the group competes with projects of RLC, Eton

Properties, Filinvest, Vista Land, Landco, DMConsunji, Inc., SM Development Corporation, Sta. Lucia Realty and Cathay Land, among others.

The group generates its revenues from a wide base of customers and is not dependent upon a single or a few customers. No customer accounts for 20% or more of its revenues. The group believes that it has a broad tenant base and is not dependent on a single tenant or group of tenants.

**Travellers**

RWM, being the first integrated resort with world-class gaming in the Philippines, has set a benchmark in a very high and unique manner. The group competes with both Philippine and foreign owned hotels and resorts. With respect to the gaming business, competition comes from casinos operated by government and other private companies.

In particular, there are facilities already built or under construction by three developers other than the Company that have been granted provisional licenses by PAGCOR in Entertainment City, one of which has already opened. These three other companies similarly partnered with international resorts and gaming companies – Henry Sy's SM-consortium has Melco Crown Entertainment Ltd. of billionaires James Packer and Lawrence Ho (Macau); Gokongwei group has Tiger Entertainment Resort of Kazuo Okada (Japanese); Enrique Razon's Bloomberry Resorts Corporation tapped former operating officers of casinos in Las Vegas and other foreign lands. In addition, Resorts World Bayshore will be developed in Entertainment City by Travellers' co-licensee, Resorts World Bayshore City, Inc. (RWBCI). RWBCI and these three licensees are committed to an initial investment of US$1 billion each - to put up hotels, retail spaces, gaming area and thematic attraction. Razon is the first to complete its project, Solaire Manila which opened on March 16, 2013.

While it has the first-mover advantage, Travellers continues to develop other leisure and entertainment attractions to complement its gaming business. RWM is expanding its hotel service through additional hotel brands and rooms, and its attractions as a family destination.

In addition, PAGCOR operates 12 gaming facilities across the Philippines and 34 satellite gaming facilities (which are smaller casinos and slots clubs). The Philippine gaming market also includes many other private casino and gambling operations, including seven licensed private casino operators in special economic zones ("Ecozones"). The Philippine gaming market is also comprised of other gambling competitors specializing in horse racing, cock fighting, jueteng, lotteries, sweepstakes, online gaming operators and other smaller-scale gaming operators.

**GERI**

GERI aims to be one of the leading developers of integrated tourism estates in the Philippines. Its tourism estate projects located in Boracay, Nasugbu & Laurel, Batangas which feature integrated master-planned communities with world class offerings and amenities, are designed to set new standards in the Philippine tourism industry. GERI believes that its strategically located land bank, and reputation as an experienced developer and effective marketer of innovative real estate products gives it a competitive advantage. Its ownership of at least 14% of the Boracay Island, the number one tourist destination in the Philippines, together with its prime land inventory comprising 1,210 hectares and 600 hectares respectively in Laurel and Nasugbu, Batangas gives it a lead over its competitors. Some of its competitors have their name and relative number of years in the business as their strength, but they focus on specific projects. GERI, on the other hand, is a pioneer in master-planned integrated tourism developments which its competitors have yet to venture in.

The most prominent of GERI's competitors are ALI, RLC, SM Development Corporation, Filinvest, Vista Land, Landco and Sta. Lucia Realty. GERI also competes with other developers in entering into joint venture arrangement with strategic partners, locate and acquire highly marketable raw lands for development located in Metro Manila and in provinces.

**GADC**
McDonald's restaurants compete with a large and diverse group of restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and international companies, delicatessens, cafes, pizza parlors, supermarkets and convenience stores. GADC considers Jollibee Foods Corporation as its main competitor. Jollibee, a home-grown brand with far greater number of restaurants nationwide than McDonald's, offers Filipino-influenced dishes of chicken, burgers, spaghetti, and other Filipino dishes. Another one is KFC, a global brand from USA whose most popular product is its Original Recipe fried chicken served with side dishes. Other competitors include Wendy's, Kenny Rogers, Shakey's and Pizza Hut. Since 2005, GADC has opened more than 180 new restaurants and initiated marketing campaigns such as new product launches, promotions, emotive television commercials, and discount coupons. It has embarked on modernizing its restaurants and re-imaging existing ones. GADC competes on the basis of taste, food quality and price of products, convenience of location, and customer service.

*b.6. **Sources And Availability Of Raw Materials***

**EMP**
The raw materials for producing brandy are generally sourced from foreign suppliers, except for the distilled spirit or alcohol which is being manufactured at EDI's own plant. The brandy concentrate and flavoring extracts are purchased from several reliable and high quality European suppliers. Metal closures, or caps, and labels are imported from Europe and China. Brand new bottles are manufactured and supplied by AWG. When AWG is unable to manufacture enough glass bottles to meet EDI's requirements, AWG sources glass bottles from foreign manufacturers. Carton boxes are sourced locally from at least three different suppliers. EDI has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of molasses, distilled neutral spirit, flavoring, bottles or packaging materials at satisfactory prices under its supply arrangements and believes its relationships with suppliers are good.

AWG is not dependent upon one or a limited number of suppliers for essential raw materials. It generally orders raw materials to meet its projected supply requirements for one year. It sources silica sand mainly from Malaysia and Vietnam; soda ash from China; and limestone, feldspar and cullets from domestic suppliers. AWGI has not had, and does not expect to have, difficulty sourcing glass bottles on behalf of EDI from third party suppliers, if required.

**MEG, GERI**
The group has its own architectural and engineering teams and also engages independent groups to carry out the design of its high profile development projects. The group's teams of project managers work closely with outside contractors in supervising the construction phase of each project. The group also has established relationships with a number of architectural firms in the Philippines and abroad and has a broad base of construction contractors and suppliers and is not dependent on any one contractor or supplier. Contractors for construction activities include EEI Corporation, SteelAsia Manufacturing Corporation, Orion Wire and Cable, Monolith Construction and Development Corporation and Datem Incorporated.

Principal construction materials are steel and cement which are commodities that are readily available in the market from a number of sources.

**Travellers**
Travellers has a large base of contractors and suppliers that provide construction, engineering and consulting services, and is not dependent on any one contractor or supplier. In 2013, the five largest suppliers – RGB Ltd., Starcom Philippines, Global Matrix Concept Group, Railtech Ltd., and Huizhou Qiaoxing Famous - accounted for 23.6% of total purchases for the year.

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

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

**Financial Statements**

The audited annual consolidated financial statements (“CFS”) and unaudited interim consolidated financial statements for the second quarter of 2014 (per filing under SEC 17Q), as required by SRC Rule 68, as amended, are attached.

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

The interim consolidated financial statements have been prepared in accordance with PFRS and Philippine Accounting Standard 34, Interim Financial Reporting. These do not include all of the information required for full annual consolidated financial statements, and thus should be read in conjunction with the CFS as at and for the year ended December 31, 2013. The accounting policies and methods used in the interim financial statements are consistent with those applied in December 31, 2013 CFS.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, after 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. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented at cost as deduction in the consolidated statements of changes in equity. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Gain or loss on the sale of these treasury shares is presented as addition to or deduction from additional paid-in capital. The financial statements of subsidiaries are prepared for the same accounting period as the parent company, using consistent accounting policies. The consolidated financial statements are presented in Philippine pesos, the Group’s functional currency, and all values represent absolute amounts except when otherwise indicated.

**Management's Discussion and Analysis of Operation**

*Key Performance Indicators*

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

| *In Million Pesos* | 2013 | 2012 | 2011 |
|---|---|---|---|
| JES[1] | 123,379 | 102,134 | 66,291 |
| NET PROFIT[1] | 23,055 | 20,494 | 14,743 |
| NET PROFIT TO OWNERS OF AGI[1] | 17,218 | 13,910 | 11,607 |
| TOTAL ASSETS | 332,400 | 272,211 | 220,559 |
| CURRENT ASSETS | 197,690 | 152,316 | 128,620 |
| CURRENT LIABILITIES | 50,585 | 45,196 | 36,246 |
| | | | |
| Revenue growth | 20.8% | 54.1% | |
| Net profit growth | 12.5% | 39.0% | |
| Attributable to equity holders of parent | 23.8% | 19.8% | |
| Net profit rate | 18.7% | 20.1% | 22.2% |
| Attributable to equity holders of parent | 14.0% | 13.6% | 17.5% |
| Return on investment/assets | 6.9% | 7.5% | 6.7% |
| Current ratio | 3.91x | 3.37x | 3.55x |
| Quick ratio | 2.62x | 2.15x | 2.37x |

[1]Revenues and net profit included the P3,132 million income from acquisition of GERI by AGI in 2011 and P764 million
from acquisition of a realty corporation by MEG in 2013. Also included in 2013 is the P2,905 million income realized by AGI from the offering of EMP shares, or P2,889 million net of P16 million stock transaction tax.

- Revenue growth – measures the percentage change in revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time.
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs.
- Return on investment [or capital employed]– the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income.
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

*Results of Operations by Subsidiary Groups:*

| | MEG[a] | EMP | RWM[b] | GADC | GERI | Others[c] | TOTAL |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| **Revenues** | 35,348 | 29,865 | 32,913 | 15,977 | 1,759 | | |
| Interco | -230 | 0 | 0 | 0 | 0 | | |
| Consolidated | **35,118** | **29,865** | **32,913** | **15,977** | **1,759** | **7,747** | **123,379** |
| % contribution | 28.5% | 24.2% | 26.7% | 12.9% | 1.4% | 6.3% | 100% |
| **Costs and expenses** | 23,748 | 21,960 | 30,107 | 14,744 | 1,305 | | |
| Interco | 412 | -17 | -33 | 0 | -14 | | |
| Consolidated | **24,160** | **21,943** | **30,074** | **14,744** | **1,291** | **2,755** | **94,967** |
| **Net profit** | 9,035 | 5,831 | 2,740 | 788 | 341 | | |

| | MEG[a] | EMP | RWM[b] | GADC | GERI | Others[c] | TOTAL |
|---|---|---|---|---|---|---|---|
| Interco | -649 | 16 | 33 | 0 | 14 | | |
| Consolidated | **8,386** | **5,847** | **2,773** | **788** | **355** | **4,906** | **23,055** |
| % contribution | 36.4% | 25.4% | 12.0% | 3.4% | 1.5% | 21.3% | 100% |
| **Net profit to owners** | **5,254** | **5,271** | **1,178** | **387** | **224** | **4,904** | **17,218** |
| % contribution | 30.5% | 30.6% | 6.8% | 2.3% | 1.3% | 28.5% | 100% |
| **2012** | | | | | | | |
| **Revenues** | 30,551 | 23,594 | 31,850 | 13,924 | 1,384 | | |
| Interco | -3,012 | 0 | 0 | 0 | 0 | | |
| Consolidated | **27,539** | **23,629** | **31,856** | **13,924** | **1,384** | **3,802** | **102,134** |
| % contribution | 27.0% | 23.1% | 31.2% | 13.6% | 1.4% | 3.7% | 100% |
| **Costs and expenses** | 20,887 | 16,765 | 25,047 | 12,899 | 1,066 | | |
| Interco | -2,105 | -13 | -103 | 0 | 0 | | |
| Consolidated | **18,782** | **16,752** | **24,944** | **12,899** | **1,066** | **2,574** | **77,017** |
| **Net profit** | 7,412 | 5,000 | 6,734 | 694 | 264 | | |
| Interco | -908 | 13 | 103 | 0 | 0 | | |
| Consolidated | **6,504** | **5,013** | **6,837** | **694** | **264** | **1,182** | **20,494** |
| % contribution | 31.7% | 24.6% | 33.4% | 3.4% | 1.3% | 5.6% | 100% |
| **Net profit to owners** | **3,722** | **5,013** | **3,470** | **336** | **188** | **1,181** | **13,910** |
| % contribution | 26.8% | 36.3% | 25.0% | 2.4% | 1.3% | 8.2% | 100% |
| **2011[2]** | | | | | | | |
| **Revenues[1,3]** | 28,633 | 17,355 | | 12,097 | 1,042 | | |
| Interco | -2,486 | 0 | | 0 | 0 | | |
| Consolidated | **26,147** | **17,355** | **2,419** | **12,097** | **1,042** | **7,231** | **66,291** |
| **Costs and expenses** | 18,462 | 14,184 | | 11,116 | 774 | | |
| Interco | 17 | 0 | | 0 | 0 | | |
| Consolidated | **18,479** | **14,184** | | **11,116** | **774** | **3,643** | **48,196** |
| **Net profit** | **5,672** | **2,305** | **2,419** | **648** | **220** | **3,479** | **14,743** |
| **Net profit to owners** | **2,953** | **2,305** | **2,419** | **309** | **142** | **3,479** | **11,607** |
| | | | | | | | |
| **Year-on-year Change** | | | | | | | |
| **2013** | | | | | | | |
| Revenues | 27.5% | 26.4% | 3.3% | 14.7% | 27.1% | 101.6% | 20.8% |
| Costs and expenses | 28.6% | 31.0% | 20.6% | 14.3% | 21.1% | 7.0% | 23.3% |
| Net profit | 28.9% | 16.6% | -59.5% | 13.5% | 34.5% | 315.1% | 12.5% |
| Net profit to owners | 41.2% | 5.2% | -66.1% | 15.2% | 19.2% | 315.2% | 23.8% |
| **2012** | | | | | | | |
| Revenues | 5.3% | 36.0% | | 15.1% | 32.8% | -46.8% | 54.1% |
| Costs and expenses | 1.6% | 18.1% | | 16.0% | 37.7% | -29.3% | 59.9% |
| Net profit | 14.7% | 117% | | 7.1% | 20.0% | -66.0% | 39.0% |
| Net profit to owners | 26.0% | 117% | 43.4% | 8.7% | 32.4% | -66.0% | 19.8% |

Amounts are in million Pesos. Numbers may not add up due to rounding off. The above follows grouping of accounts at AGI consolidated level, so revenues may not tally the totals separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs at AGI consolidated level.

[a]MEG above excluded the gains from sale of AGI shares of P109.9 million and P2 billion in 2013 and 2011, respectively, which were reclassified to APIC under Equity section. Included in 2013 is P763.8 million gain on acquisition of a new subsidiary, Woodside Greentown Properties, Inc..

[b]RWM revenues are presented before taking out promotional allowance of P2.5 billion and P1.7 billion in 2013 and 2012, respectively; these are included under costs and expenses at AGI conso level. RWM is consolidated beginning 2012; for 2011, it is the Group's share in RWM's net profit that is shown.

[c]Others included AGI's P3.1 billion gain on acquisition of GERI in 2011 and P2.9 billion from offering of EMP shares in 2013.

These strong performances are reflected in the profit and loss accounts, as follows:

| | 2013 | 2012 | 2011 | 2013 Vs 2012 | 2012 Vs 2011 |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Sale of goods | 56,519 | 44,083 | 37,713 | 28.2% | 16.9% |
| Consumer goods | 29,588 | 23,703 | 18,135 | 24.8% | 30.7% |
| Revenues from real estate (RE) sales | 26,931 | 20,380 | 19,578 | 32.1% | 4.1% |
| RE sales | 22,159 | 16,757 | 16,360 | 32.2% | 2.4% |
| Realized gross profit on RE sales | 3,235 | 2,295 | 1,999 | 40.9% | 14.8% |
| Interest income on RE sales | 1,537 | 1,328 | 1,219 | 15.8% | 8.9% |
| Rendering of services | 56,687 | 50,523 | 16,344 | 12.2% | 209.1% |
| Gaming | 30,004 | 28,058 | | 6.9% | n/m |
| Sales by company-operated quick-service restaurant | 14,554 | 12,622 | 11,029 | 15.3% | 14.4% |
| Franchise revenues | 1,256 | 1,033 | 847 | 21.5% | 22.0% |
| Rental income | 6,396 | 5,351 | 3,863 | 19.5% | 38.5% |
| Other services | 4,477 | 3,459 | 605 | 29.4% | 471.7% |
| Hotel operations | 3,284 | 2,732 | 392 | 20.2% | 596.9% |
| Share in net profits of associates and joint ventures | 0 | 118 | 2,540 | -100% | -95.3% |
| Finance and other income | 10,173 | 7,410 | 9,694 | 37.3% | -23.6% |
| TOTAL | 123,379 | 102,134 | 66,291 | 20.8% | 54.1% |

| | | | | | |
|---|---|---|---|---|---|
| COSTS AND EXPENSES | | | | | |
| Cost of Goods Sold | 37,532 | 28,387 | 26,719 | 32.2% | 6.2% |
| Consumer goods sold | 20,071 | 15,260 | 13,312 | 31.5% | 14.6% |
| RE sales | 13,015 | 9,655 | 10,315 | 34.8% | -6.4% |
| Deferred gross profit on RE sales | 4,446 | 3,472 | 3,092 | 28.1% | 12.3% |
| Cost of Services | 27,337 | 22,652 | 9,436 | 20.7% | 140.1% |
| Gaming | 9,040 | 7,873 | | 14.8% | |
| Services | 18,297 | 14,779 | 9,436 | 23.8% | 56.6% |
| Operating Expenses | 25,075 | 21,726 | 8,221 | 15.4% | 164.3% |
| Selling expenses | 13,162 | 11,449 | 3,587 | 13.0% | 219.2% |
| General and administrative | 11,913 | 10,277 | 4,634 | 15.9% | 121.8% |
| Share in net losses of associates and joint ventures – net | 14 | 0 | | | |
| Finance costs and other charges | 5,009 | 4,252 | 3,821 | 17.8% | 11.3% |
| TOTAL | 94,967 | 77,017 | 48,196 | 23.3% | 59.8% |

Amounts in million pesos; numbers may not add up due to rounding off. n/m-not meaningful.

## For the Year Ended December 31, 2013 vs. 2012

Net profit for the year went up by 12.5% to P23.1 billion from P20.5 billion a year ago while the portion attributable to owners of the parent company grew by 23.8% to P17.2 billion from P13.9 billion a year ago, as driven by the strong revenues from all subsidiary groups.

Megaworld's performance is buoyed on its stronger residential sales and higher leasing income from its office and retail portfolio. It launched a total of 18 projects in 2013 – 10 for Megaworld (One Eastwood Avenue Tower 2 in Eastwood, Uptown Parksuites in Uptown Bonifacio, The Florence Tower 1 in McKinley Hill, Manhattan Plaza Tower 1 in Araneta Center, Bayshore Residential Resort Phase 2 in Pasay City, One Manchester Place Tower 1 in The Mactan Newtown Cebu, One Madison Place Tower 1,2,3 as well as commercial lots in Iloilo Business Park in Iloilo City), 5 for Empire East (San Lorenzo Place Tower 3 in Makati, Kasara Urban Residences Tower 3 and The Rochester Tower 6 in Pasig City, and Cambridge Clusters

32, 33 in Pasig City and Cainta, Rizal) and 3 for Suntrust (Suntrust Kirana in Pasig City, Suntrust Rivabella and Suntrust Ecotown in Cavite). The group posted a record P68.2 billion in reservation sales in 2013 from the 18 projects launched. Real estate sales were reported 16.9% higher than a year ago while rental income from office developments and lifestyle malls were up 20.9% from a year ago. It also realized P763.8 million gain on acquisition of a wholly-owned subsidiary, Woodside Greentown Properties, Inc., in 2013. Further, its acquisition of cinema operations this year added P226 million in revenues.

Emperador' strong performance is anchored on the increase in its volume sold to 33 million cases this year as compared to 31 million a year ago. Emperador also increased its selling prices at the start of the year to cushion the effect of the new excise tax which took effect in January 2013. The introduction of Emperador Deluxe in March 2013 also contributed incremental revenues. Product sales were reportedly up 25.4% from a year ago.

Travellers reported gaming and non-gaming revenues (net of promotional allowances) up 5.0% from a year ago. It experienced a low VIP hold in the fourth quarter which dragged revenue. VIP volume showed strong growth year-on-year while mass volume held steady. Revenues from hotel, food and beverage reportedly improved by 17.0% as all hotels registered higher occupancy rates as the company made full use of the facilities to drive gaming patronage. Its total revenues and net profit, however, compressed as it recorded P2.0 billion finance costs including marked-to-market losses on foreign exchange related to its $300 million bond.

GADC's performance growth is primarily due to the opening of 37 new restaurants, reimaging of 36 existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of a new product (McSpicy chicken burger and rice meal), and aggressive advertising/promotional campaigns to support Fries, Summer Desserts, McSavers (coffee and sundae), McDelivery, McSaver meals, and Breakfast. Average sales per restaurant grew by 5.8% for company-owned restaurants and by 4.8% for franchise and joint-venture restaurants while revenues from business extensions grew by 15.6%. Value pricing strategy is adopted in order to drive more guest count and price increases are strategically implemented to mitigate rising costs and to maintain the level of product quality.

GERI improved on its real estate sales and hotel operations by 32.3% and 151.9%, respectively. Real estate sales came from the sale of residential subdivision lots in Newcoast Shophouse District and Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, and Twin Lakes Domaine Le Jardin in Laurel, Batangas.

Revenues, thus, as a result of the foregoing, grew by 20.8% year-on-year. Sales of real estate and consumer goods (alcoholic beverages and snack products) leaped 32.2% and 24.8%, respectively, while gaming revenues increased by 6.9%. Sales from company-owned restaurants expanded by 15.3% while franchised revenues increased by 21.5%. Rental income went up by 19.5% from the additional office spaces and retail spaces of Megaworld, RWM and GERI. Other service revenues this year included hotel operations of these three groups which also grew by 20.2% because of increased patronages, plus the combined cinema operations which contributed P378 million to this year's total.

Costs and expenses went up by 23.3% year-on-year. Costs of goods sold and services expanded by 32.2% and 20.7%, respectively, as a result of revenue growth. Other operating expenses went up by 15.4% due to increases in advertising and promotions, salaries and employee benefits, and depreciation and amortization which comprised 63.3% and 62.3% of other operating expenses in 2013 and 2012, respectively.

Share in net profits of associates and joint ventures reversed 1.1 times year-on-year due to losses reported by associates and joint ventures.

Finance and other income included the P2.9 billion gain realized by AGI on divestment of its interest on EMP through a share offering and the P764 million gain realized by MEG on acquisition of a subsidiary. Interest income, however, contracted by P823 million due to lower interest rates during the year.

Finance costs and other charges increased by 17.8% due to additional finance cost incurred by Megaworld on its 2013 bond issuance and by Travellers due to devaluation of Philippine peso. There is also a turnaround in unrealized fair values of mark-to-market financial assets this year, which is offset by the effect of foreign currency gains realized during the year.

Tax expense totaled P5.4 billion from P4.6 billion a year ago as a result of higher taxable income.

**For the Year Ended December 31, 2012 vs. 2011**

AGI sustained its upward growth trajectory with net profit jumping 39.0% to P20.5 billion from P14.7 billion a year ago. The portion attributable to owners of the parent company grew by 19.8%, as propelled by the strong operating results from subsidiaries which reported double-digit growth in net profit and revenues.

Travellers beefed up total revenues as it is consolidated beginning 2012. It is the biggest contributor to this year's revenues and net profit. Gaming revenues alone accounted for 27.5% of total consolidated revenues.

Megaworld reported strong results during the year from its condominium sales, rental of office and retail spaces and hotel operations. Sale of condominium units were reported to increase by 14.4% year-on-year, coming from these projects: (MEG) Eight Newtown Residences; One Uptown Residences; 8 Forbestown Road; One Central, Two Central, One Eastwood Avenue, Eastwood Le Grand in Eastwood City; Morgan Suites; The Venice Luxury Residences in McKinley; Manhattan Heights in Quezon City; 81 Newport Boulevard and Newport City in Pasay; (ELI) Pioneer Woodlands, San Lorenzo Place, The Sonoma, Little Baguio Terraces, The Cambridge Village, California Garden Square, Greenhills Garden Square, and Laguna BelAir. Rental income increased by 30.5% year-on-year from completion of additional leasing properties and escalation of rental rates. Hotel operations, likewise, grew by 17.9% due to increase in hotel occupancy rates.

Emperador reported 36.0% increase in revenues as Emperador Brandy and The BaR flavored alcoholic drinks continued to benefit from the growing customer patronage. The demand for Emperador Light remained very strong and it boosted sales. Sales volume went up by 33.3% to 31.2 million from 23.4 million cases a year ago.

GADC's revenues grew by 15.1% and this is primarily attributed to opening of 49 new restaurants (23 of which are sub-franchised), reimaging of 31 existing restaurants, the additional business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products, aggressive advertising and promotional campaigns to support Breakfast, Premium Desserts, McDelivery, Iced Coffee, McSaver Meals, Twister Fries and McSavers (Sundae, floats, fries and burger McDo). Reimaging levels up customer experience and drives value-for-money perception. Restaurant sales from the 207 company-owned and operated stores rose by 17% while revenues from franchisees (rent, royalties and others) went up by 21%. The 49 new restaurants contributed 5% to total system sales, as half of them were opened in fourth quarter only.

GERI's revenues came from real estate sales, realized profit on prior years' sales, hotel operations, rental and finance and other income. Real estate sales came from the sale of residential subdivision lots amounting to P684.9 million in Newcoast Shophouse District and Boutique Hotel in Malay, Aklan, Sta. Barbara Heights in Iloilo City, and Twin Lakes Domaine Le Jardin in Laurel, Batangas.

Revenues increased by 54.1% primarily due to the revenues contributed by RWM which represents 31.2% of Group total. Gaming revenues is 27.5% of total consolidated revenues.

Sale of goods (Emperador and Pik-Nik) climbed 30.7% while real estate sales showed 2.4% growth after intercompany sales. Rendering of services grew by 209.1% due to revenues added from RWM's gaming, three hotels, four cinemas, theater productions, retail shopping mall, and commercial office space rentals. The QSR business is brisk as it expanded by 17%. Rental income grew as a result of additional property completed during the year that were offered to meet the increasing demand for office spaces from BPO companies. Retail spaces and escalation in rental rates also contributed to the growth.

Pik-Nik also expanded sales by 12% as it penetrated new markets in Saudi Arabia, Kuwait, Korea and Curacao. It sold 11% more cases this year in international markets and 6% more cases in USA.

Costs and expenses went up by 59.8% largely due to Travellers' costs and expenses and the robust sales and service rendition of other subsidiary groups. The higher sales and services rendered translated into higher commissions, advertising and promotions, freight, royalty, salaries, depreciation and utility expenses. Travellers' gaming license fees (to PAGCOR) and promotional allowance (which is the value of points earned by RWM members based on the relative fair values of the complimentary goods or services) accounted for 34.8% of group's cost of rendering services. The group's highest other operating expenditures were on advertising and promotions, salaries and employee benefits, depreciation and amortization, utilities, and commissions. More new employees were hired to support the expanding operations of Travellers, GADC and MEG. These three companies spent on marketing and advertising campaigns to promote their respective products, especially RWM.

Share in net profits seemed to drop substantially because Travellers is consolidated this year.

Finance and other income, excluding the P3.1 billion income on acquisition of GERI in 2011, improved by 12.9% primarily due to higher market values of financial assets at FVTPL resulting in fair value gains this year, a recovery from last year's fair value loss reported under finance costs and other charges. Foreign currency gains dropped due to the continuous appreciation of the Philippine peso vis-à-vis the US dollar.

Finance cost and other charges went up by 11.3% due to higher interest expense on bonds and loans and unrealized loss on interest rate swap (of Travellers). The impact, however, is reduced by the reversal in fair value of marketable securities, from loss reported last year to gain this year.

Tax expense totaled P4.6 billion from P3.3 billion a year ago as a result of higher taxable income.

**For the Year Ended December 31, 2011 vs. 2010**
**(as previously reported, before restatement)**

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. 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.

***Revenues***, excluding the P3.13 billion income on acquisition of a subsidiary, jumped 41.5% to P63.0 billion from P44.5 billion a year ago, primarily due to 56.0% growth in sales of consumer goods, 16.8% in rendering of services and 46.5% in share in net profits of associates and joint ventures. Segment-wise, RE made the highest contribution this year, followed by F&B and QSR. RE current sales, in particular, represent 26.0% of total revenues while consumer product sales contributed 28.8% to total revenues. RE rental income comprised 6.1% 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 ‘Gawingmong 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%.

**Costs and expenses** went up by 48.0% to P48.0 billion from P32.4 billion due to 136.6%, 19.9%, 27.2% and 61.7% rise in cost of consumer goods, 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 P2.1billion a year ago, due to interest on interest-bearing notes and bonds which comparably increased this year. P1.5 billion was recorded this year for the AGI Cayman bonds, as compared to P 567 million a year ago. **Tax expense** totaled P3.4 billion from P2.6 billion a year ago as a result of increased sales and profits.

**Financial Condition**
**December 31, 2013 vs 2012**

Consolidated total assets reached P332.4 billion at end of 2013 from P272.2 billion at beginning of the year, or a 22.1% increase, primarily due to strong operating results, business expansions and the successful stock offering (Emperador and Travellers) and bond issuance (Megaworld) of subsidiaries.

For most of the balance sheet accounts, there is a corresponding note to the audited 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 P27.0 billion – to end at P95.0 billion from P68.0 billion at the beginning of the year. The increase came significantly from operations, borrowings and the stock offerings of Emperador and Travellers. 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 P7.4 billion or 32.9% due to increased real estate sales and brandy sales. Non-current portion increased by P364 million or 1.5% due to increased real estate sales.

Financial assets at fair value through profit or loss increased by P814 million or 12.4%, primarily due to additional 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 gain on the appreciation in market prices was included under Finance and Other Income in consolidated statements of comprehensive income. The Group does not actively engage in the trading of financial assets for speculative purposes. Inventories increased by P8.2 billion or 20.0% due to increase in real estate for sale which represent the completed portion of costs attributed to ongoing projects, including golf and resort shares for sale. Raw materials for brandy manufacture also increased from a year ago because of inventories at the distillery plant which was acquired in 2013.

Property development costs went up by P1.4 billion or 13.4% due to ongoing construction/development works at real estate projects of Megaworld and GERI. Development costs are accumulated in this account.

Investment property went up by P8.5 billion or 45.5% from completed constructions of property and equipment for lease of Megaworld (P3.5 billion), Travellers (P340 million) and GADC (P49 million) and the land owned by new subsidiaries of Megaworld (P5.0 billion).

Property and equipment rose by P6.8 billion or 19.4% primarily from the construction works at RWM; capital expenditures for new McDonald's stores, kiosks and ongoing renovations; acquisition of distillery plant from Condis and ongoing construction of a new distillery plant.

Available-for-sale financial assets went down by P522 million or P9.9% primarily due to disposals of financial instruments during the year. These assets are marked to market and the net unrealized gains or losses are reported under the Equity section.

Investments in and advances to associates and other related parties decreased by P930 million or 15.4% primarily due to disposal of investment in an associate (Alliance Global Properties Limited) which is partially offset by the investment in a new associate (La Fuerza, Inc.) during the year. The carrying value of the divested investment amounted to P2.8 billion at beginning of 2013 which the cost of acquisition of the new associate amounted to P1.4 billion.

Deferred tax assets decreased by P80 million or 9.9% while deferred tax liabilities increased by P908 million or 14.3% due to timing differences in taxation, particularly of GERI, Megaworld and GADC,

Other current assets increased by P516 million or 14.0% due to additions at Megaworld, Emperador, GERI and Travellers which included input taxes and creditable withholding taxes. Other non-current assets, on the other hand, expanded by P270 million or 14.0% which was attributable to additional refundable deposits, guarantee and other deposits, deferred input taxes and accumulated jackpot seed money. Travellers' refundable deposits and jackpot seed money are perpetual in nature, the carrying values of which are estimation of their fair values. Guaranty deposits on construction projects are made in compliance with contracts.

Currently maturing interest-bearing loans decreased by P845 million or 18.2% and the non-current portion shrank by P4.2 billion or 31.4% due to principal repayments and the early redemption of Megaworld notes (with P1.4 billion balance at beginning of year). Travellers' short-term loans (of P2.5 billion at the beginning of the year) were settled before year-end. Megaworld incurred P41.1 million penalty on the early redemption of its corporate notes, such penalty is included under Finance costs for the year.

Bonds payable went up by P10.5 billion or 22.8% due to the $250-million 10-year bonds issued by Megaworld in April 2013, with coupon rate of 4.25% p.a.

Trade and other payables increased by P2.0 billion or P8.9% primarily from the increase in Travellers' liabilities (P1.9 billion) arising from unredeemed gaming chips (which is the difference between total gaming chips placed in service and the actual inventory of gaming chips in custody), unredeemed gaming points and accruals for advertising, employee benefits and casino and flight operations.

Advances from related parties compressed by P502 million or 58.6% from collections during the year.

Income tax payable swelled by P223 million or 40.1% primarily due to higher tax liability of GADC, Emperador and Megaworld.

Retirement benefit obligation increased by P220 million or 18.2% due to additional incurrence in retirement plans of Megaworld, GADC and Emperador.

Current and non-current other liabilities escalated by P4.0 billion and P1.4 billion, respectively, or 23.2% and 10.1%, respectively, due to increases in GERI's customers' deposits and Megaworld's reserve for property development and deferred income on real estate sales. The reserve pertains to cost to complete the development of various projects while the deferred income represents unearned revenue.

The changes in equity components are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners of AGI increased by P23.8 billion or 28.4% from net profit for the year and dilution gain on acquisitions of new or additional shares in subsidiaries. The equity attributable to non-controlling interest increased by P22.7 billion or 37.9% from net profit and divestment of interest in a subsidiary.

**Financial Condition**
**December 31, 2012 vs 2011**

Consolidated total assets reached P272.2 billion at end of 2012 from P220.6 billion at beginning of the year, or a 23.4% increase, primarily due to consolidation of Travellers' assets and increased activity in real estate business. Total assets of Travellers is approximately P48.0 billion.

Cash and cash equivalents increased by P18.8 billion – to end at P68.0 billion from P49.1 billion at the beginning of the year. The increase came significantly from operations, bank borrowings and the year-end balance of Travellers. 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 down by P2.9 billion or 11.2% due to collection efforts on maturing receivables. Non-current portion went up by P3.7 billion or 17.8% due to increased real estate sales.

Financial assets at fair value through profit or loss decreased by P4.7 billion or 42.0%, 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 gain on the appreciation in market prices was included under

Finance and Other Income in consolidated statements of comprehensive income. The Group does not actively engage in the trading of financial assets for speculative purposes.

Inventories increased by P11.9 billion or 41.3% due to increase in real estate for sale which represent the completed portion of costs attributed to ongoing projects, including golf and resort shares for sale. Raw materials for brandy manufacture also increased from a year ago because there are two plants running this year.

Land for future development increased by P2.5 billion or 27% due to land acquisitions plus incidental costs by GERI.

Property and equipment rose by P28.3 billion or 431.8% from the property of Travellers (P25.8 billion as of end-2012); capital expenditures for new McDonald's stores, kiosks and ongoing renovations; acquisitions of and for the distillery plant annex; and installation of new furnace for the glass plant.

Investment property increased by P5.7 billion or 43.9% primarily due to the additional condominium units (P4.7 billion) and building property of Travellers (P1.4 billion).

Investments in and advances to associates and other related parties decreased by P13.0 billion or 68.3% primarily due to consolidation of Travellers, which is formerly reported as an associate. The carrying value of Travellers at equity amounted to P12.89 billion at end-2011.

Deferred tax assets increased by P103 million or 14.7% while deferred tax liabilities by P805 million or 14.6% due to timing differences in taxation, particularly of Megaworld, Travellers and GERI.

Other current assets increased by P671 million or 22.2% due to assets from Travellers (one-year time deposit and prepaid taxes, insurance and rentals) and an increase in GERI's input taxes. Other non-current assets, on the other hand, ballooned by P860 million or 80.4% which was attributable to assets from Travellers and increase in GADC's assets, primarily resulting from deposits on asset purchases.

Currently maturing interest-bearing loans and borrowings increased by P1.7 billion or 59.6% arising from Travellers' loans (P2.6 billion), net of settlements made during the year. Non-current portion of loans swelled by P7.5 billion or 125.6% due to Travellers' loans (P4.5 billion) and new long-term bank loans availed during the year to support the group's working capital and investment requirements.

Bonds payable went up by P10.8 billion or 30.8% due to the $300-million notes of Travellers which were issued in 2010.

Trade and other payables went up by P5.7 billion or 33.4% primarily from RWM's liabilities (P5.4 billion) and increases in liabilities of Megaworld and GADC. RWM's liabilities include unredeemed gaming chips, unredeemed gaming points, PAGCOR license fees, and accrued advertising and employee benefits. Heightened construction activities at Megaworld and GADC are reflected on the increase in payables to contractors and suppliers, including retentions.

Income tax payable went up by P44 million or 8.5% primarily due to higher tax liability of EDI.

Advances from related parties swelled by P632 million or 282.0% due to increases in advances taken by Megaworld and GERI. GERI's accounts represent the share of joint venture partners in the proceeds from the sale under joint venture agreements. Megaworld's accounts increased due to deconsolidation of a subsidiary.

Retirement benefit obligation increased by P297 million or 32.6% due to end-balance in Travellers and additional incurrence in retirement plans of Megaworld, GADC and GERI.

Redeemable preferred shares escalated by P1.3 billion or 313.8% due to the redeemable preferred shares issued by GERI in September 2012, in exchange for certain parcels of land with a total fair value of P1.3 billion. SEC approved the transaction on April 17, 2013. This account also includes the accretion of interest in the carrying value of GADC's shares which amounted to P52 million as of end-2012.

Current and non-current other liabilities increased by P1.5 billion or 9.3% and P3.3 billion or 32.5%, respectively, due to intensified real estate development and pre-selling/leasing activities. These accounts include customers' deposits, reserve for property development, and deferred income on real estate sales. The reserve pertains to cost to complete the development of various projects while the deferred income represents unearned revenue.

The changes in equity components are presented in detail in the consolidated statements of changes in equity. The equity attributable to owners of AGI went up by P10.6 billion or 14.5% primarily from net profit and fair value gains on available-for-sale financial assets. The equity attributable to non-controlling interest, likewise, increased by P7.3 billion or 14.0% from share in net profit and equity in investments.

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 change of P511 million of 130% reflects principally the strengthening of the Philippine peso.

**Financial Condition**
**December 31, 2011 vs 2010**
**(as previously reported, before restatement)**

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.

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 due to assets from GERI, ELI and SPI. Other non-current assets, on the other hand, growth 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.

*b.2. Liquidity and Capital Resources*

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2013, 2012 and 2011 amounted to P197.7 billion, P152.3 billion and P128.6 billion, respectively, while current liabilities for the same respective years-end remained low at P50.6 billion, P45.2 billion and P36.2 billion, respectively. Thus, current ratios were at 3.9:1, 3.4:1 and 3.5:1 as of respective year-ends. Total-liabilities-to-equity ratios were at 0.7:1, 0.9:1 and 0.8:1 at the end of 2013, 2012 and 2011, respectively, while interest-bearing-debt-to-controlling-equity ratios were correspondingly at 0.65:1, 0.76:1 and 0.60:1.

The Group's net cash position will enable it to pursue strategic activities. It expects to meet its working capital and investment requirements for the ensuing year primarily from these available funds, in addition to cash flows from operations. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financings, depending on its financing needs and market conditions.

| *Amounts in Million Pesos* | December 31, 2013 | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Cash and equivalents | 94,977 | 67,965 | 49,148 |
| Interest-bearing debt | 69,504 | 64,081 | 44,024 |
| Net cash | 25,473 | 3,884 | 5,124 |
| Cash and cash equivalents to interest-bearing debt | 137% | 106% | 112% |
| Interest-bearing debt to total equity | 36% | 45% | 35% |

### *Prospects for the future*

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. 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.

In 2014, all the business segments are expected to sustain their growth trajectory, capitalizing on the strong and positive economy.

### *Others*

There are no other known material events subsequent to the end of the year that would have a material impact on the current year.

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 Group's liquidity increasing or decreasing in any material way. The Group 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 Group, 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.

There were no other material issuances, repurchases or repayments of debt and equity securities.

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

## First Half of 2014

*Key Performance Indicators*

Presented below are the top five (5) key performance indicators:

*Amounts In Million Philippine Pesos*

| | Jan-Jun 2014 | Jan-Jun 2013 | Quarter 2 2014 | Quarter 2 2013 | Quarter 1 2014 | Quarter 1 2013 |
|---|---|---|---|---|---|---|
| REVENUES | 59,608 | 60,798 | 28,378 | 30.532 | 31,230 | 30,266 |
| Growth year-on-year | -1.9% | | -7.1% | | 3.2% | |
| NET PROFIT | 11,376 | 11,245 | 5,122 | 6,340 | 6,255 | 4,905 |
| Growth year-on-year | 1.2% | | -19.2% | | 27.5% | |
| NET PROFIT TO OWNERS | 7,490 | 8,239 | 3,547 | 4,673 | 3,943 | 3,566 |
| Growth year-on-year | -9.1% | | -24.1% | | 10.6% | |
| Net profit rate | 19.1% | 18.5% | 18.1% | 20.8% | 20.0% | 16.2% |
| Net profit rate to owners | 12.6% | 13.6% | 12.5% | 15.3% | 12.6% | 11.8% |
| Return on assets | 3.4% | 3.74% | | | 1.86% | 1.75% |
| | Jun302014 | Jun30,2013 | | Mar31,2014 | Mar31,2013 | Dec31,2013 |
| Current ratio | 3.50x | 3.38x | | 3.96x | 3.33x | 3.91x |
| Quickratio | 2.19x | 2.22x | | 2.55x | 2.10x | 2.62x |

- ○ Revenue growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- ○ Net profit growth – measures the percentage change in net profit over a designated period of time
- ○ Net profit rate- computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- ○ Return on investment [or capital employed] – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

*Results of Operations – First Half*

The consolidated net profit for the first half edged up 1.2% year-on-year to P11.37 billion from P11.24 billion a year ago, while net profit rate improved to 19.1% from 18.5% a year ago.

| | MEG[a] | EMP | RWM[b] | GADC | GERI[c] | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| **Revenues** | 31,957 | 13,235 | 15,543 | 8,982 | | | |
| Intercompany | -11,522 | | | | | | |
| Consolidated | **20,435** | **13,235** | **15,543** | **8,982** | | **1,413** | **59,608** |
| **% contribution** | **34%** | **22%** | **26%** | **15%** | | **2%** | **100%** |
| **Costs and expenses** | **13,855** | **9,470** | **12,006** | **8,541** | | **1,225** | **45,097** |
| **Tax expense** | **1,577** | **707** | **656** | **119** | | **76** | **3,135** |
| **Net profit** | 16,441 | 3,058 | 2,881 | 322 | | | |
| Intercompany | -11,438 | 0 | 0 | 0 | | | |
| Consolidated | **5,003** | **3,058** | **2,881** | **322** | | **112** | **11,376** |
| **% contribution** | **44%** | **27%** | **25%** | **3%** | | **1%** | **100%** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net profit to owners** | **3,204** | **2,677** | **1,276** | **159** | | **174** | **7,490** |
| **% contribution** | **43%** | **36%** | **17%** | **2%** | | **2%** | **100%** |

| | MEG[a] | EMP | RWM[b] | GADC | GERI[c] | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| **Revenues** | 17,210 | 13,861 | 18,831 | 7,541 | 903 | | |
| Intercompany/reclassify | -222 | | | 0 | 0 | | |
| Consolidated | **16,988** | **13,861** | **18,831** | **7,541** | **903** | **2,675** | **60,798** |
| **% contribution** | **28%** | **23%** | **31%** | **12%** | **1%** | **4%** | **100%** |
| **Costs and expenses** | 11,701 | 9,680 | 16,471 | 6,996 | 698 | | |
| Intercompany | 66 | | | | 0 | | |
| Consolidated | **11,767** | **9,680** | **16,471** | **6,996** | **698** | **1,365** | **46,977** |
| **Tax expense** | **1,280** | **1,007** | **50** | **165** | **56** | **18** | **2,576** |
| **Net profit** | 4,229 | 3,174 | 2,310 | 380 | 148 | | |
| Intercompany | -288 | | 0 | 0 | 0 | | |
| Consolidated | **3,941** | **3,174** | **2,310** | **380** | **148** | **1,293** | **11,245** |
| **% contribution** | **35%** | **28%** | **21%** | **5%** | **1%** | **12%** | **100%** |
| **Net profit to owners** | **2,346** | **3,174** | **1,155** | **182** | **89** | **1,293** | **8,239** |
| **% contribution** | **28%** | **39%** | **14%** | **2%** | **1%** | **16%** | **100%** |
| **Year-on-year Change** | | | | | | | |
| Revenues | 20.3% | -4.5% | -17.5% | 19.1% | | -47.2% | -2.0% |
| Costs and expenses | 17.8% | -2.2% | -27.1% | 22.1% | | -10.3% | -4.0% |
| Tax expense | 23.2% | -29.8% | 1204.7% | -28.3% | | 358.5% | 21.7% |
| Net profit | 27.0% | -3.6% | 24.7% | -15.2% | | -91.3% | 1.2% |
| Net profit to owners | 36.5% | 15.6% | 10.5% | -12.8% | | -86.5% | -9.1% |

Amounts are in million Pesos. Numbers may not add up due to rounding off. The above follows grouping of accounts at AGI consolidated level, so revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs at AGI consolidated level (which is the case for the MEG, EMP and RWM). [a]MEG's gains on Travellers and GERI were eliminated in consolidation, but included the P468 million gain on acquisition of a La Fuerza. [b]RWM revenues are presented gross of promotional allowance of P776 million and P1,170 million in 2014 and 2013, respectively; these promotional allowances are included under costs and expenses above.
[c] GERI is consolidated in MEG in 2014.

**Megaworld** posted a record high net profit of P16.44 billion which included P11.69 billion non-recurring gains from acquisition and sale of shares in subsidiaries and in an associate for the first half of 2014. Net profit minus these one-time gains amounted to P4.75 billion which is 12.24% higher than P4.23 billion a year ago. Revenues from recurring operations, including those from GERI this year, totaled P20.26 billion, 17.3% higher than the P17.28 billion for the same period in 2013, due to strong property sales in the group's various projects, particularly in McKinley Hill, Makati CBD, Eastwood City, Uptown Bonifacio, Newport City and McKinley West; and Empire East's San Lorenzo Place, California Garden Square, The Cambridge Villege, The Rochester Place; sale of lots in GERI's Boracay Newcoast projects, Twin Lakes in Batangas and Sta. Barbara Heights in Ilo-Ilo; and higher leasing income from its office and retail portfolio. Rental income from office developments and lifestyle malls surged to P3.44 billion, up 21.7% from P2.83 billion a year ago. These operating results translated to P20.43 billion in revenues and P5.00 billion in net profit brought into the AGI consolidated level, which represent 34% and 44% of respective totals.

In the first half of the year, Megaworld consolidated new subsidiaries – property lessor La Fuerza, Inc. (an associate in 2013) and property management companies of Citywalk, Forbestown Center and Paseo Center.

**Emperador** ended the first half of the year with net profit of P3.06 billion versus P3.17 billion for same period last year. Gross profit margin went up by 6% year-on-year although sales of goods were slightly down by 2% because cost of sales improved by 5% due to favorable cost efficiencies. Revenues amounted to P13.25 billion this year as compared to P13.99 billion a year ago, primarily because other revenues decreased during the year. Costs and expenses contracted to P9.48 billion from P9.81 billion a year ago because of the improved cost of sales. Operating expenses expanded by 10% due to salary increases, rent escalation and freight out. Net profit rate was slightly up at 23.1% this year as compared to 22.7% last year. EMP contributed 22% and 27% of AGI consolidated revenues and net profit, respectively.

**Travellers** or RWM posted a strong net profit of P2.88 billion for the first half of the year which is 24.73% higher that the P2.31 billion it reported a year ago, as a result of its cost management initiatives. Gross gaming revenues amounted to P13.58 billion. Drops volume improved at an average of 4.4% across all segments; this however was offset by a decline in win rate. Meanwhile, its hotel and food and beverage (F&B) also declined from a year ago, largely due to the strategy of using its hotel and F&B facilities to increase gaming patronage. Hotel occupancy rates in the first half this year remained solid at a minimum of 87% in all three hotels (Maxims, Marriott and Remington). RWM contributed 26% and 25% to total consolidated revenues and net profit of AGI and subsidiaries.

**GADC** ended the first half with total revenues of P8.98 billion, up 19.1% from P7.54 billion for the same period last year. This is primarily due to the opening of 47 new restaurants (34 company-owned, 12 franchised, 1 joint venture), reimaging of 33 existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (BFF Burger and Chicken Bundles, McSpicy chicken burger and rice meal, McDouble, re-launch of Cheeseburger Deluxe and Shake Shake Fries), and aggressive advertising and promotional campaigns to support Everyday McSavers (Fries, Float and Sundae), McSaver Meals, Desserts and Breakfast. The 47 new restaurants contributed 8% to total system sales while business extensions comprise 22% of the total. There were 422 restaurants operating by the end of the semester, as compared to 377 restaurants a year ago. Price increases were also strategically implemented in order to mitigate rising costs and to maintain the level of product quality. Impact of price adjustment to gross profit is an increase of 0.22% for 2014. Cost of sales and services went up by 23.0%, primarily due to cost of inventory which increased by 25.7% brought about by higher prices of imported raw materials and the shift in product mix. Rentals and utilities, operating supplies, transportation and crew labor costs also expanded from a year ago. Advertising has been aggressive also to drive customer patronage. As a result, net profit shrank to P322 million from P380 a year ago. GADC contributed 15% and 3% to consolidated revenues and net profit of AGI and subsidiaries.

The results of operations are further shown in the profit and loss accounts, as follows:

| | 2014 | 2013 | 2014Q2 | 2013Q2 | Growth H1 | Q2 |
|---|---|---|---|---|---|---|
| REVENUES | 59,608 | 60,798 | 28,378 | 30,532 | -1.96% | -7.06% |
| Sale of goods | 28,092 | 27,124 | 13,086 | 14,485 | 3.57% | -9.66% |
| Consumer goods | 13,476 | 13,680 | 5,714 | 7,278 | -1.50% | -21.49% |
| Revenues from real estate (RE) sales | 14,616 | 13,444 | 7,372 | 7,207 | 8.72% | 2.29% |
| RE sales | 12,010 | 11,051 | 6,146 | 6,028 | 8.68% | 1.94% |
| Interest income on RE sales | 786 | 727 | 397 | 372 | 8.17% | 6.94% |
| Realized gross profit on RE sales | 1,820 | 1,666 | 829 | 807 | 9.24% | 2.75% |
| Rendering of services | 28,230 | 29,988 | 13,932 | 14,251 | -5.86% | -2.24% |
| Gaming | 13,581 | 17,415 | 6,370 | 8,006 | -22.02% | -20.43% |
| Sales by company-operated quick-service restaurant | 8,175 | 6,960 | 4,182 | 3,433 | 17.45% | 21.81% |
| Franchise revenues | 694 | 586 | 383 | 301 | 18.43% | 27.26% |
| Rental income | 3,434 | 3,007 | 1,715 | 1498 | 14.21% | 14.49% |
| Other services | 2,346 | 2,019 | 1,283 | 1,013 | 16.19% | 26.55% |
| Share in net profits of associates and JVs | 57 | 6 | 56 | 5 | 896.38% | 936.60% |
| Finance and other income | 3,229 | 3,680 | 1,304 | 1,791 | -12.26% | -27.17% |
| COSTS AND EXPENSES | 45,097 | 46,977 | 21,388 | 22,758 | -4% | -6.02% |
| Cost of goods sold | 18,552 | 18,379 | 8,869 | 9,818 | 0.94% | -9.66% |
| Consumer goods sold | 8,797 | 9,218 | 3,913 | 5,065 | -4.56% | -22.75% |
| RE sales | 7,143 | 6,578 | 3,664 | 3,539 | 8.59% | 3.52% |
| Deferred gross profit on RE sales | 2,612 | 2,583 | 1,293 | 1,214 | 1.12% | 6.49% |
| Cost of services | 12,653 | 13,534 | 6,368 | 6,472 | -6.51% | -1.62% |
| Gaming | 3,722 | 6,698 | 1,555 | 3,089 | -44.43% | -49.67% |
| Company-operated quick-service restaurants | 6,805 | 5,512 | 3,501 | 2,742 | 23.45% | 27.71% |
| Franchised restaurants | 318 | 279 | 165 | 141 | 14.10% | 17.09% |
| Other services | 1,808 | 1,045 | 1,146 | 500 | 73.07% | 129.31% |
| Other operating expenses | 11,700 | 12,886 | 5,823 | 5,430 | -9.21% | 7.23% |
| Finance costs and other charges | 2,192 | 2,178 | 328 | 1,038 | 0.63% | -68.41% |
| TAX EXPENSE | 3,135 | 2,576 | 1,868 | 1,433 | 21.70% | 30.32% |
| NET PROFIT | 11,376 | 11,245 | 5,122 | 6,340 | 1.17% | -19.21% |

Amounts in million pesos; numbers may not add up due to rounding off.

**Revenues** from sale of goods (real estate, alcoholic beverages and snack products) increased by 3.6% while rendering of services (gaming, hotel, quick-service restaurants, rentals) dwindled by 5.9%, primarily due to 22% contraction of gaming revenues from where almost half of service revenues come from. Real estate sales increased by 8.7% and quick-service restaurants sales were up 17.5% year-on-year.

**Costs and expenses** decelerated by 4.0%, because of cost saving measures initiated by the subsidiaries. Costs of sales and services were down 2% while other operating expenses dropped by 9%.

**Finance and other income** this year included the P468 million non-recurring gain from acquisition of a subsidiary by Megaworld and fair value gains of the Group on marked-to-market securities, which offset the effect of the reversal in foreign currency exchange gains. **Finance costs and other charges** were at almost at same level as a year ago.

**Income tax** increased by 21.7% this year as compared to a year ago, which is attributed to higher taxable income resulting in the higher tax expended by Travellers and Megaworld.

Earnings before interest, taxes, depreciation and amortizations (EBITDA), computed as net profit before non-recurring income, share in net profits of associates and joint ventures, income taxes, interest expense, depreciation, amortizations and impairment provisions, amounted to P18.09 billion as compared to P18.00 billion a year ago, or slight improvement of 0.5% year-on-year.

*Financial Condition*

Consolidated total assets amounted to P336.1 billion at end of the interim period from P332.4 billion at beginning of year. The Group is strongly liquid with current assets exceeding current liabilities 3.5times. Current assets amounted to P184.7 billion while current liabilities amounted to P52.8 billion at end of the interim period.

Cash and cash equivalents dipped by P17.5 billion or 18% to end at P77.5 billion from P95.0 billion at the beginning of the year, primarily due to Travellers' loan payments of P4.3 billion and US$3.2 million, Emperador's investment in a Spanish joint venture, and Megaworld's capital expenditure and business expansion activities. Cash flows from operating, financing and investing activities during the period were presented in the interim consolidated statements of cash flows.

Current trade and other receivables went up by P3.3 billion or 11% primarily due to higher real estate sales during the period and the additional downpayments paid by Travellers and Emperador to its suppliers/contractors in connection with the ongoing expansion works at RWM and new distillery plant in Batangas. Noncurrent trade and other receivables increased by P2.7 billion or 11% due to higher real estate reservations/sales booked during the period.

Inventories rose by P4.9 billion or 10% due to additional real estate lots, condominium units and resort shares completed and put up for sale. New casino operating supplies such as gaming cards, dice and seals were purchased during the period.

Financial assets at fair value through profit or loss dropped by P2.6 billion or 35% due to disposal of investments in marketable debt securities during the interim period. It is for the same reason that available-for-sale financial assets were reduced by P0.7 billion or 14%.

Property development costs went down by P1.7 billion or 14% due to reclassifications to inventory and investment property of completed projects.

Investment property swelled by P8.0 billion or 29% from property owned by La Fuerza Inc., a former associate and now a newly-acquired subsidiary of Megaworld, and the completion of additional properties for lease.

Property, plant and equipment increased by P2.1 billion or 5% due to the construction in progress in RWM and Emperador. RWM is expanding Marriott Hotel and Maxims Hotel and building two new hotels, the Hilton Manila and the Sheraton Manila, while EMP, on the other hand, is building a new distillery plant in Batangas.

Investments in and advances to associates and other related parties surged by P3.6 billion or 70% due primarily to the acquisition of 50% equity in an Spanish joint venture by Emperador, which in turn is reduced by the amount of investment in a former associate of Megaworld which becomes a subsidiary during the period (the investment is closed).

Deferred tax assets decreased by P0.2 billion or 28% as a result of changes in taxable temporary differences at GERI.

Other current assets increased by P0.4 billion or 10% due to Megaworld's new subsidiary. Other non-current assets went up by P0.8 billion or 36% primarily due to additional deferred input vat of Emperador, guarantee deposits of Megaworld and Travellers.

Both current and non-current interest-bearing debt dipped by P8.8 billion or 13% due to loan settlements made by Travellers and principal payments by AGI and Megaworld. After its payments, Travellers has no more loan due within a year

Income tax payable decreased by P0.5 billion or 69% due to lower tax liabilities of Emperador, GADC and Megaworld.

*Liquidity and Capital Resources*

The consolidated balance sheet showed strong liquidity with current assets exceeding current liabilities 3.5times. Total-liabilities-to-equity ratio is at 0.67:1 while debt-to-equity ratio is at 0.30:1. Assets exceeded liabilities 2.5 times, and equity 1.7times.

Working capital was sourced internally from operations during the period. In addition, the Group has net cash position that will enable it to pursue strategic activities. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financings, depending on its financing requirement and market conditions.

| *Amounts in Million Pesos* | June 30, 2014 | March 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Cash and equivalents | 77,529 | 86,367 | 94,977 |
| Interest-bearing debt | 60,727 | 64,668 | 69,504 |
| Net cash | 16,802 | 21,698 | 25,473 |
| Cash and cash equivalents to | | | |
| interest-bearing debt | 128% | 134% | 137% |
| Interest-bearing debt to total | 30% | 33% | 37% |

*Prospects for the future*

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

In 2014, all the business segments are expected to grow revenues and profits in line with targets.

*Others*

Events that occurred after the end of the interim period were summarized in Note 16 to the ICFS, Subsequent Events.

There were no other known material events subsequent to the end of the interim period that would have a material impact in the interim period.

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 year. 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.

There were no other material issuances, repurchases or repayments of debt and equity securities.

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

## Market Price and Dividends on Common Shares

*Market Information*

The Company's common shares are traded on the Philippine Stock Exchange. The closing price of the said shares as of 20 August 2014 was P25.15. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below

| | 2012 | | | | 2013 | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| High | 13.48 | 13.70 | 14.80 | 16.88 | 23.00 | 24.50 | 28.30 | 24.75 | 30.50 | 31.85 |
| Low | 10.24 | 11.14 | 10.86 | 14.02 | 16.56 | 23.00 | 22.30 | 21.95 | 25.30 | 27.90 |

(*Source: PSE Research Dept.)*

***Shareholders***
As of 31 July 2014, the Company had 874 stockholders holding 10,269,827,979 common shares. The *Top Twenty Stockholders* of the Company are as follows:

| *Rank* | *Stockholder* | *No. of Shares Held* | *Per Cent to Total* |
|---|---|---|---|
| 1 | The Andresons Group, Inc. | 3,944,826,194 | 38.412% |
| 2 | PCD Nominee Corporation (Non-Filipino) | 3,341,846,727 | 32.540% |
| 3 | PCD Nominee Corporation (Filipino) | 1,055,240,794 | 7.568% |
| 4 | Altavision Resources, Inc. | 451,570,334 | 4.397% |
| 5 | Yorkshire Holdings, Inc. | 255,773,508 | 2.491% |
| 6 | Asiagroup Holdings, Inc. | 220,000,000 | 2.142% |
| 7 | Globaland Holdings, Inc. | 220,000,000 | 2.142% |
| 8 | Grand Belair Holdings, Inc. | 220,000,000 | 2.142% |
| 9 | Le Bristol Holdings, Inc. | 216,100,000 | 2.104% |
| 10 | California Orchard Growers' Investments, Inc. | 120,000,000 | 1.168% |
| 11 | Eastwood Property Holdings, Inc. | 112,600,000 | 1.096% |
| 12 | Andrew L. Tan | 63,684,078 | 0.620% |
| 13 | Andresons Global, Inc. | 30,088,596 | 0.293% |
| 14 | Forbes Town Properties & Holdings, Inc. | 10,000,000 | 0.097% |
| 15 | Kingson U. Sian | 5,001,100 | 0.049% |
| 16 | Lucio W. Yan &/or Clara Y. Yan | 1,000,000 | 0.0010% |
| 17 | First Centro, Inc. | 364,200 | 0.004% |
| 18 | American Wire & Cable Co., Inc. | 200,000 | 0.002% |
| 19 | Ching Bun Teng | 150,000 | 0.001% |
| 20 | Ramon C. Garcia | 100,000 | 0.001% |

*Refer to Security Ownership on page 5 of Information Statement for stockholders holding 5% or more. PCD Nominee Corporation (Non-Filipino and Filipino) is comprised of several nominees and the participants with 5% or more are indicated in Security Ownership on page 5 of Information Statement. Total shares of Yorkshire Holdings, Inc. includes direct and indirect beneficial ownership through Altavision Resources, Inc., Asiagroup Holdings, Inc., Globaland Holdings, Inc., Grand Belair Holdings, Inc., and Le Bristol Holdings, Inc.*

In July 2008, the Company was authorized to buy-back its shares from the market. The buy-back program was undertaken to create and enhance shareholder value, since market prices at this time did not reflect the true value of the shares. The Company bought 550.10 million shares worth P1.63 billion under its buy-back program. In 03 December 2010, the Board authorized the reissuance of its treasury shares which were all sold in 2011.

*Dividends in the Two Most Recent Years and Subsequent Interim Period*
It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend either in the form of cash or stock. The declaration of dividends depends upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company with its capital unimpaired which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Cash dividends are subject to the approval by the Board of Directors. Stock dividends are subject to the approval by both the Board of Directors and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose.

On June 5, 2012 and August 23, 2013, AGI declared cash dividends of P0.36 and P0.38 per share, respectively, payable to all stockholders of record as of June 26, 2012 and September 9, 2013, respectively.

As of December 31, 2013, AGI has P9.4 billion unrestricted retained earnings available for dividend distribution.

*Recent Sales of Unregistered or Exempt Securities Within the Past Three Years*

On December 19, 2011 and March 14, 2013, options to subscribe to common stock of the Company totaling 46.5 million and 59.1 million, respectively, were granted to key executives and senior officers, including the CEO and President, at an exercise price of P9.175 and P12.9997, respectively. The total number of outstanding options granted is 105.6 million options to subscribe to the same number of common shares. A total of 31.0 million options have vested as of December 31, 2013 and additional 19.7 million have vested in March 2014. No vested options have been exercised and no stocks have been issued as of to-date.

In 2011, Megaworld issued US$200,000,000 worth of corporate notes due in 2018 with a coupon of 6.75% and a yield of 6.875%. In 2013, Megaworld issued US$250,000,000 worth of corporate notes due in 2023 with a coupon of 4.25%. In both issuances, UBS acted as sole global coordinator and bookrunner. The corporate notes are listed in the Singapore Exchange Securities Trading Limited.

**Compliance with Leading Practices on Corporate Governance**

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the rules and principles of good corporate governance in the entire organization in accordance with the Code of Corporate Governance promulgated by SEC. A Revised Manual was adopted by the Company on July 30, 2014 pursuant to SEC Memorandum Circular No. 6, Series of 2009 and as amended by SEC Memorandum Circular No. 9, Series of 2014.

*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 2013, 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 and as amended by SEC Memorandum Circular No, 9, Series of 2014, 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.

Punongbayan & Araullo

An instinct for growth™

# Consolidated Financial Statements and Independent Auditors' Report

# Alliance Global Group, Inc. and Subsidiaries

December 31, 2013, 2012 and 2011

*(With Corresponding Figures as of January 1, 2012)*

ALLIANCE GLOBAL

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

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Alliance Global Group, Inc.* is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, 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, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

**ANDREW L. TAN**
Chairman of the Board

**KINGSON U. SIAN**
President

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

**SUBSCRIBED AND SWORN** to before me this 2 2 APR 2014 affiants exhibiting to me their Passport/SSS No., as follows: MAKATI CITY

| Names | PassportNo./SSS No. | Date | Place of Issue |
|---|---|---|---|
| Andrew L. Tan | EB1964603 | February 23, 2011 to 2016 | Manila |
| Kingson U. Sian | EB7369260 | February 12, 2013 to 2018 | Manila |
| Dina D.R. Inting | SSS 03-5204775-3 | | |

Doc.No. 320
Page No. 65
Book No. I
Series of 2014

Notary Public
ATTY PARALUMAN D. ANDRES
Notary Public for Makati City
MCLE Compliance No. IV-0018254 Roll No. 58410
Commission No. M-473, Until December 31, 2014
IBP No. 936611; Until 12/31/14; PPLM Chapter
PTR No. 3673612, Until 12/31/14; Makati City
10th Fl. The Enterprise Center, Ayala, Makati City

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

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**The Board of Directors and the 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, 2013 and 2012, 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, 2013, 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, 2013 and 2012, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

**By: Mailene Sigue-Bisnar**
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4225004, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 28, 2014

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2013 AND 2012**
***(With Corresponding Figures as of January 1, 2012)***
***(Amounts in Philippine Pesos)***

| | Notes | December 31, 2013 | December 31, 2012 (As Restated – see Note 2) | January 1, 2012 (As Restated – see Note 2) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 5 | **P 94,977,525,445** | P 67,965,116,707 | P 49,147,857,784 |
| Trade and other receivables - net | 6 | **30,074,787,370** | 22,623,775,662 | 25,484,066,576 |
| Financial assets at fair value through profit or loss | 7 | **7,375,742,967** | 6,561,952,846 | 11,313,946,985 |
| Inventories - net | 8 | **49,075,369,433** | 40,906,577,624 | 28,952,674,354 |
| Property development costs | 2 | **11,974,519,471** | 10,561,983,142 | 10,696,529,365 |
| Other current assets | 9 | **4,212,007,912** | 3,696,139,865 | 3,025,158,564 |
| Total Current Assets | | **197,689,952,598** | 152,315,545,846 | 128,620,233,628 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables - net | 6 | **24,609,462,917** | 24,245,681,768 | 20,576,511,215 |
| Advances to landowners and joint ventures | 10 | **4,787,412,854** | 4,849,193,977 | 4,876,467,682 |
| Available-for-sale financial assets | 11 | **4,758,892,191** | 5,281,446,125 | 5,444,323,686 |
| Land for future development | 2 | **12,524,387,842** | 11,969,289,892 | 9,419,790,279 |
| Investments in and advances to associates and other related parties | 12 | **5,099,102,903** | 6,028,761,114 | 18,994,274,815 |
| Property, plant and equipment - net | 13 | **41,661,804,726** | 34,888,271,254 | 6,560,730,099 |
| Investment property - net | 14 | **27,290,428,438** | 18,751,335,670 | 13,033,771,373 |
| Intangible assets - net | 15 | **11,049,976,130** | 11,141,695,201 | 11,257,148,522 |
| Deferred tax assets | 28 | **728,559,662** | 809,038,538 | 705,483,761 |
| Other non-current assets | 9 | **2,200,429,265** | 1,930,763,642 | 1,070,572,748 |
| Total Non-current Assets | | **134,710,456,928** | 119,895,477,181 | 91,939,074,180 |
| **TOTAL ASSETS** | | **P 332,400,409,526** | P 272,211,023,027 | P 220,559,307,808 |

| | Notes | December 31, 2013 | December 31, 2012 (As Restated – see Note 2) | January 1, 2012 (As Restated – see Note 2) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 16 | **P 24,830,784,627** | P 22,803,575,433 | P 17,093,308,119 |
| Interest-bearing loans | 17 | **3,795,792,269** | 4,640,956,327 | 2,906,873,289 |
| Income tax payable | | **779,445,751** | 556,525,579 | 512,718,594 |
| Other current liabilities | 20 | **21,178,560,896** | 17,194,473,744 | 15,733,214,178 |
| Total Current Liabilities | | **50,584,583,543** | 45,195,531,083 | 36,246,114,180 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | 17 | **9,228,584,192** | 13,449,792,588 | 5,960,519,598 |
| Bonds payable | 18 | **56,479,746,306** | 45,990,628,809 | 35,156,343,267 |
| Advances from related parties | 29 | **354,107,249** | 856,402,926 | 224,177,805 |
| Retirement benefit obligation | 27 | **1,428,092,675** | 1,208,478,900 | 911,058,119 |
| Redeemable preferred shares | 19 | **1,786,120,902** | 1,728,086,461 | 417,656,730 |
| Deferred tax liabilities | 28 | **7,242,479,378** | 6,334,103,011 | 5,529,346,701 |
| Other non-current liabilities | 20 | **15,075,049,649** | 13,691,958,888 | 10,332,590,359 |
| Total Non-current Liabilities | | **91,594,180,351** | 83,259,451,583 | 58,531,692,579 |
| Total Liabilities | | **142,178,763,894** | 128,454,982,666 | 94,777,806,759 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company | 21 | **107,692,727,038** | 83,908,308,508 | 73,268,521,399 |
| Non-controlling interest | | **82,528,918,594** | 59,847,731,853 | 52,512,979,650 |
| Total Equity | | **190,221,645,632** | 143,756,040,361 | 125,781,501,049 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 332,400,409,526** | P 272,211,023,027 | P 220,559,307,808 |

***See Notes to Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated – see Note 2) | 2011 (As Restated – see Note 2) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sale of goods | 23 | **P 56,518,969,704** | P 44,082,631,026 | P 37,713,496,197 |
| Rendering of services | 23 | **56,686,982,449** | 50,522,901,266 | 16,343,538,665 |
| Share in net profits of associates and joint ventures - net | 12 | - | 118,461,046 | 2,540,046,652 |
| Finance and other income | 26 | **10,173,373,850** | 7,409,979,346 | 9,693,835,196 |
| | | **123,379,326,003** | 102,133,972,684 | 66,290,916,710 |
| **COSTS AND EXPENSES** | | | | |
| Cost of goods sold | 24 | **37,532,118,088** | 28,387,440,476 | 26,718,743,392 |
| Cost of services | 24 | **27,336,872,088** | 22,652,109,438 | 9,436,017,315 |
| Other operating expenses | 25 | **25,075,716,462** | 21,725,506,098 | 8,220,764,021 |
| Share in net losses of associates and joint ventures - net | 12 | **13,602,687** | - | - |
| Finance cost and other charges | 26 | **5,008,779,695** | 4,251,781,543 | 3,820,832,275 |
| | | **94,967,089,020** | 77,016,837,555 | 48,196,357,003 |
| **PROFIT BEFORE TAX** | | **28,412,236,983** | 25,117,135,129 | 18,094,559,707 |
| **TAX EXPENSE** | 28 | **5,356,757,097** | 4,623,478,952 | 3,351,837,203 |
| **NET PROFIT** | | **23,055,479,886** | 20,493,656,177 | 14,742,722,504 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Actuarial gain (loss) on remeasurement of retirement benefit obligation | | **27,752,419** | ( 41,307,696 ) | ( 271,280,301 ) |
| Tax income (expense) | 28 | **( 6,932,192 )** | 12,392,308 | 81,384,090 |
| | | **20,820,227** | ( 28,915,388 ) | ( 189,896,211 ) |
| **Items that will be reclassified subsequently to profit or loss** | | | | |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | 11 | **( 146,071,389 )** | 608,331,390 | ( 763,784,267 ) |
| Translation adjustments | 2 | **14,675,041** | ( 581,994,181 ) | 134,797,767 |
| Share in other comprehensive income (loss) of associates and joint ventures | 12 | **4,714,129** | 1,092,535 | ( 736,825 ) |
| Addition (reduction) in revaluation reserves due to available-for-sale financial assets of a consolidated subsidiary | | - | 15,916,350 | ( 695,198,619 ) |
| Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries | | **( 682,818 )** | 152,322,657 | ( 20,862,198 ) |
| Deferred tax income (expense) relating to components of other comprehensive income | 28 | **( 15,271,852 )** | 70,795,068 | 3,842,636 |
| | | **( 142,636,889 )** | 266,463,819 | ( 1,341,941,506 ) |
| **TOTAL COMPREHENSIVE INCOME** | | **P 22,933,663,224** | P 20,731,204,608 | P 13,210,884,787 |
| **Net profit attributable to:** | | | | |
| Owners of the parent company | | **P 17,218,460,867** | P 13,909,991,638 | P 11,607,286,356 |
| Non-controlling interest | | **5,837,019,019** | 6,583,664,539 | 3,135,436,148 |
| | | **P 23,055,479,886** | P 20,493,656,177 | P 14,742,722,504 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent company | | **P 17,121,679,879** | P 14,148,094,589 | P 10,084,104,682 |
| Non-controlling interest | | **5,811,983,345** | 6,583,110,019 | 3,126,780,105 |
| | | **P 22,933,663,224** | P 20,731,204,608 | P 13,210,884,787 |
| **Earnings Per Share for the Net Income Attributable to Owners of the Parent Company :** | 22 | | | |
| **Basic** | | **P 1.7031** | P 1.3760 | P 1.1775 |
| **Diluted** | | **P 1.6954** | P 1.3751 | P 1.1772 |

***See Notes to Consolidated Financial Statements***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Peso)***

| | Notes | 2013 | 2012 (As Restated – see Note 2) | 2011 (As Restated – see Note 2) |
|---|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY** | | | | |
| **Capital Stock** | 21 | **P 10,269,827,979** | P 10,269,827,979 | P 10,269,827,979 |
| **Additional Paid-in Capital** | 2 | | | |
| Balance at beginning of year | | **33,501,908,751** | 33,501,908,751 | 27,175,173,772 |
| Sale of treasury shares | | **109,931,681** | - | 6,326,734,979 |
| Balance at end of year | | **33,611,840,432** | 33,501,908,751 | 33,501,908,751 |
| **Treasury Shares - at cost** | 21 | | | |
| Balance at beginning of year | | **( 984,512,637 )** | ( 1,018,752,369 ) | ( 3,194,861,260 ) |
| Sale of treasury shares | | **29,295,227** | - | 2,922,650,004 |
| Addition representing the shares held by a consolidated subsidiary | | **-** | - | ( 746,541,113 ) |
| Reduction representing the shares held by a deconsolidated subsidiary | | **-** | 34,239,732 | - |
| Balance at end of year | | **( 955,217,410 )** | ( 984,512,637 ) | ( 1,018,752,369 ) |
| **Net Actuarial Gains (Losses) on Retirement Benefit Plan** | | | | |
| Balance at beginning of year | | | | |
| As previously reported | | - | - | - |
| Effect of adoption of PAS 19 (Revised) | 2 | **( 240,822,140 )** | ( 215,576,680 ) | ( 34,336,512 ) |
| As restated | | **( 240,822,140 )** | ( 215,576,680 ) | ( 34,336,512 ) |
| Actuarial gains (losses) for the year, net of tax | | **33,338,064** | ( 28,360,874 ) | ( 181,240,168 ) |
| Recognition of actuarial losses previously recognized in retained earnings, net of tax | | **-** | 3,115,414 | - |
| Balance at end of year | | **( 207,484,076 )** | ( 240,822,140 ) | ( 215,576,680 ) |
| **Net Unrealized Gains (Losses) on Available-for-Sale Securities** | | | | |
| Balance at beginning of year | | **( 764,407,369 )** | ( 1,542,070,301 ) | ( 61,488,392 ) |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | 11 | **( 146,071,389 )** | 608,331,390 | ( 763,784,267 ) |
| Reduction representing the shares held by a consolidated subsidiary | | **-** | - | ( 695,198,619 ) |
| Increase (decrease) in revaluation reserves due to available-for-sale financial assets sold by subsidiaries | | **( 682,818 )** | 168,239,007 | ( 20,862,198 ) |
| Share in other comprehensive income (loss) of associates and joint venture | 12 | **4,714,130** | 1,092,535 | ( 736,825 ) |
| Balance at end of year | | **( 906,447,446 )** | ( 764,407,369 ) | ( 1,542,070,301 ) |
| **Accumulated Translation Adjustments** | 2 | | | |
| Balance at beginning of year | | **( 903,342,498 )** | ( 392,143,385 ) | ( 530,783,788 ) |
| Currency translation adjustments during the year | | **( 596,811 )** | ( 511,199,113 ) | 138,640,403 |
| Balance at end of year | | **( 903,939,309 )** | ( 903,342,498 ) | ( 392,143,385 ) |
| *Balance carried forward* | | **P 40,908,580,170** | P 40,878,652,086 | P 40,603,193,995 |

| | Notes | 2013 | 2012 (As Restated – see Note 2) | 2011 (As Restated – see Note 2) |
|---|---|---|---|---|
| *Balance brought forward* | | **P 40,908,580,170** | P 40,878,652,086 | P 40,603,193,995 |
| **Dilution Gain** | 21 | | | |
| Balance at beginning of year | | **1,277,846,433** | 1,289,847,712 | 1,196,566,827 |
| Dilution gain (loss) recognized during the year | | **9,696,371,227** | ( 12,001,279 ) | 93,280,885 |
| Balance at end of year | | **10,974,217,660** | 1,277,846,433 | 1,289,847,712 |
| **Share Options** | 21 | | | |
| Balance at beginning of year | | **107,652,616** | 1,890,149 | - |
| Share-based compensation expense recognized during the year | | **156,816,832** | 105,762,467 | 1,890,149 |
| Balance at end of year | | **264,469,448** | 107,652,616 | 1,890,149 |
| **Retained Earnings** | | | | |
| Appropriated | | | | |
| Balance at beginning of year | | **1,400,000,000** | 300,000,000 | 446,297,286 |
| Appropriation during the year | 21 | **2,145,000,000** | 1,400,000,000 | - |
| Reversal of appropriation during the year | 21 | **( 1,400,000,000 )** | ( 300,000,000 ) | ( 146,297,286 ) |
| Balance at end of year | | **2,145,000,000** | 1,400,000,000 | 300,000,000 |
| Unappropriated | | | | |
| Balance at beginning of year | | | | |
| As previously reported | | **40,237,045,058** | 31,072,319,070 | 22,946,739,663 |
| Effect of adoption of PAS 19 (Revised) | 2 | **7,112,315** | 1,270,473 | 2,193,555 |
| As restated | | **40,244,157,373** | 31,073,589,543 | 22,948,933,218 |
| Net profit for the year | | **17,218,460,867** | 13,909,991,638 | 11,607,286,356 |
| Cash dividends declared during the year | 21 | **( 3,841,614,020 )** | ( 3,639,423,808 ) | ( 3,628,927,317 ) |
| Effect of change in percentage ownership | | **524,455,540** | - | - |
| Appropriation during the year | 21 | **( 2,145,000,000 )** | ( 1,400,000,000 ) | - |
| Reversal of appropriation during the year | 21 | **1,400,000,000** | 300,000,000 | 146,297,286 |
| Balance at end of year | | **53,400,459,760** | 40,244,157,373 | 31,073,589,543 |
| Total Retained Earnings | | **55,545,459,760** | 41,644,157,373 | 31,373,589,543 |
| Total | | **107,692,727,038** | 83,908,308,508 | 73,268,521,399 |
| **NON-CONTROLLING INTEREST** | | | | |
| Balance at beginning of year | | | | |
| As previously reported | | **59,870,536,020** | 52,522,275,597 | 33,466,430,520 |
| Effect of adoption of PAS 19 (Revised) | 2 | **( 22,804,167 )** | ( 9,295,947 ) | ( 546,285 ) |
| As restated | | **59,847,731,853** | 52,512,979,650 | 33,465,884,235 |
| Non-controlling interest in additional investments | | **20,234,493,741** | 1,112,716,720 | 16,510,139,979 |
| Share in consolidated comprehensive income | | **5,811,983,345** | 6,583,110,019 | 3,126,780,105 |
| Dividend from investee | | **( 3,365,290,345 )** | ( 361,074,536 ) | ( 589,824,669 ) |
| Balance at end of year | | **82,528,918,594** | 59,847,731,853 | 52,512,979,650 |
| **TOTAL EQUITY** | | **P 190,221,645,632** | P 143,756,040,361 | P 125,781,501,049 |

***See Notes to Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**
***(Amounts in Philippine Pesos)***

| | Notes | 2013 | 2012 (As Restated – see Note 2) | 2011 (As Restated – see Note 2) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | **P 28,412,236,983** | P 25,117,135,129 | P 18,094,559,707 |
| Adjustments for: | | | | |
| Depreciation and amortization | 24, 25 | **4,319,478,840** | 3,537,287,488 | 1,418,389,026 |
| Interest expense | 26 | **4,285,500,975** | 3,751,269,989 | 2,654,422,604 |
| Interest income | 26 | **( 3,099,675,804 )** | ( 3,922,992,079 ) | ( 3,897,975,086 ) |
| Gain on divestment of interest in a subsidiary | 26 | **( 2,905,304,542 )** | - | - |
| Unrealized foreign currency losses (gain) | | **795,207,832** | ( 931,404,433 ) | 46,676,793 |
| Income from acquisition of a subsidiary | 26 | **( 763,834,597 )** | - | ( 3,131,993,894 ) |
| Fair value losses (gains) | 26 | **429,371,099** | ( 1,433,951,500 ) | 1,143,963,462 |
| Gain on reversal of liability | 26 | **( 160,666,483 )** | - | - |
| Stock option benefit expense | 27 | **156,816,832** | 105,762,467 | 2,152,108 |
| Gain on sale of investment in available-for-sale financial assets | 26 | **( 128,177,128 )** | ( 272,103,283 ) | ( 295,737,916 ) |
| Unrealized loss on interest rate swap | 26 | **112,842,001** | 368,646,466 | - |
| Loss on disposal of property, plant and equipment, investment property and intangible assets | | **37,781,242** | 17,061,461 | - |
| Gain on reversal of impairment loss of property and equipment | 13 | **( 18,616,806 )** | - | - |
| Dividend income | 26 | **( 14,178,074 )** | ( 10,515,804 ) | ( 6,334,455 ) |
| Share in net loss (profits) of associates and joint ventures | 12 | **13,602,687** | ( 118,461,046 ) | ( 2,540,046,652 ) |
| Impairment and other losses | 6, 8, 26 | **8,011,392** | 87,978,652 | 38,283,428 |
| Preacquisition loss (income) | 26 | **( 6,315,710 )** | - | 17,326,952 |
| Operating income before working capital changes | | **31,474,080,739** | 26,295,713,507 | 13,543,686,077 |
| Decrease (increase) in trade and other receivables | | **( 7,644,846,317 )** | 1,386,106,750 | ( 3,496,920,450 ) |
| Decrease (increase) in financial assets at fair value through profit or loss | | **( 2,151,807,864 )** | 5,868,022,905 | 1,525,508,760 |
| Increase in inventories | | **( 6,544,122,145 )** | ( 11,851,290,019 ) | ( 5,160,463,815 ) |
| Decrease (increase) in property development costs | | **( 1,524,928,568 )** | 134,546,223 | ( 531,814,142 ) |
| Increase in other current assets | | **( 515,868,047 )** | ( 474,121,923 ) | ( 996,528,996 ) |
| Increase in trade and other payables | | **381,820,259** | 1,759,806,831 | 513,715,765 |
| Increase in other current liabilities | | **3,984,087,152** | 957,885,382 | 7,024,873,323 |
| Increase in retirement benefit obligation | | **252,951,839** | 253,724,563 | 173,346,112 |
| Increase (decrease) in other non-current liabilities | | **1,418,478,507** | ( 4,312,782,895 ) | ( 5,485,967,915 ) |
| Cash generated from operations | | **19,129,845,555** | 20,017,611,324 | 7,109,434,719 |
| Cash paid for taxes | | **( 5,133,836,925 )** | ( 3,867,431,339 ) | ( 2,289,786,284 ) |
| Net Cash From Operating Activities | | **13,996,008,630** | 16,150,179,985 | 4,819,648,435 |
| *Balance carried forward* | | **P 13,996,008,630** | P 16,150,179,985 | P 4,819,648,435 |

| | Notes | 2013 | 2012 (As Restated – see Note 2) | 2011 (As Restated – see Note 2) |
|---|---|---|---|---|
| *Balance brought forward* | | **P 13,996,008,630** | P 16,150,179,985 | P 4,819,648,435 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of: | | | | |
| Property, plant and equipment | 13 | **( 10,085,811,085 )** | ( 8,385,882,540 ) | ( 1,586,114,275 ) |
| Investment property | 14 | **( 8,717,447,629 )** | ( 4,965,225,000 ) | ( 3,094,691,656 ) |
| Shares of stock of subsidiary and associates | 12 | **( 4,963,837,458 )** | ( 1,046,175,670 ) | ( 576,254,724 ) |
| Land for future development | 2 | **( 1,884,635,990 )** | ( 67,767,847 ) | ( 3,250,481,920 ) |
| Available-for-sale financial assets | 11 | **( 676,652,582 )** | ( 28,180,480 ) | ( 5,259,327,508 ) |
| Other non-current assets | | **( 185,433,990 )** | ( 321,797,031 ) | - |
| Intangible assets | 15 | **( 16,153,915 )** | - | - |
| Proceeds from: | | | | |
| Sale of available for sale financial assets | | **1,181,312,255** | 1,071,492,234 | 295,737,916 |
| Disposal of property, plant and equipment | | **302,249,551** | 45,496,000 | 68,522,266 |
| Collection from landowners and joint ventures | | **61,781,123** | 27,273,705 | 644,748,037 |
| Collections of advances from associates and other related parties | 12 | **58,995,675** | 284,441,050 | - |
| Disposal of investment property | | **763,937,936** | 34,057,859 | 27,416,980 |
| Disposal of intangible assets | | **-** | 102,672 | - |
| Interest received | | **2,965,071,202** | 3,850,837,500 | 3,802,145,437 |
| Additional advances granted to associates and other related parties | | **( 903,799,948 )** | - | - |
| Cash dividends received | | **14,178,074** | 10,515,804 | 6,334,455 |
| Net Cash From (Used in) Investing Activities | | **( 22,086,246,781 )** | **( 9,490,811,744 )** | **( 8,921,964,992 )** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Issuance of shares of subsidiaries | | **36,225,725,199** | 685,881,883 | - |
| Interest-bearing loans and bonds | | **10,489,117,497** | 3,730,000,000 | 10,020,467,863 |
| Sale of treasury shares | | **139,226,908** | - | 7,756,302,757 |
| Payment of interest-bearing loans | | **( 5,066,372,454 )** | ( 1,846,231,922 ) | ( 6,922,814,674 ) |
| Dividends paid | 21 | **( 3,841,614,020 )** | ( 3,639,423,808 ) | ( 3,628,927,317 ) |
| Interest paid | | **( 2,822,046,298 )** | ( 4,832,441,604 ) | ( 2,564,340,097 ) |
| Advances paid to related parties | 29 | **( 1,239,356,652 )** | ( 365,112,518 ) | ( 1,094,657,099 ) |
| Advances received from related parties | 29 | **1,101,348,707** | 1,010,001,151 | 194,550,890 |
| Payment of derivative liability | | **-** | ( 206,587,264 ) | - |
| Net Cash From (Used in) Financing Activities | | **34,986,028,887** | ( 6,149,795,965 ) | 3,760,582,323 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **26,895,790,736** | 509,572,276 | ( 341,734,234 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **67,965,116,707** | 49,147,857,784 | 47,264,487,187 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARIES** | | **117,016,208** | 18,307,686,647 | 2,225,104,831 |
| **PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENT OF ACQUIRED SUBSIDIARIES** | | **( 398,206 )** | - | - |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 94,977,525,445** | P 67,965,116,707 | P 49,147,857,784 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Cost or Investment Property as the property goes through its various stages of development, and acquisitions of various Property, Plant and Equipment on account.

***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries and associates (collectively referred to as the Group) operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick service restaurant under the following entities (see Notes 4 and 12):

| Subsidiaries/Associates/Jointly Controlled Entities | Short Name | Notes | Percentage of Effective Ownership of AGI 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Megaworld Corporation | Megaworld | (a) | **65%** | 63% | 58% |
| Megaworld Land, Inc. | | | **65%** | 63% | 58% |
| Prestige Hotels and Resorts, Inc. | | | **65%** | 63% | 58% |
| Mactan Oceanview Properties and Holdings, Inc. | | | **65%** | 63% | 58% |
| Megaworld Cayman Islands, Inc. | MCII | (b) | **65%** | 63% | 58% |
| Richmonde Hotel Group International | RHGI | (c) | **65%** | 63% | 58% |
| Eastwood Cyber One Corporation | ECOC | | **65%** | 63% | 58% |
| Megaworld Cebu Properties, Inc. | | | **65%** | 63% | 58% |
| Megaworld Newport Property Holdings, Inc. (formerly Forbes Town Properties and Holdings, Inc.) | | | **65%** | 63% | 58% |
| Oceantown Properties, Inc. | | | **65%** | 63% | 58% |
| Piedmont Property Ventures, Inc. | | | **65%** | 63% | 58% |
| Stonehaven Land, Inc. | | | **65%** | 63% | 58% |
| Streamwood Property, Inc. | | | **65%** | 63% | 58% |
| Suntrust Properties, Inc. | SPI | | **65%** | 56% | 48% |
| Lucky Chinatown Cinemas, Inc. | | (d) | **65%** | - | - |
| Luxury Global Hotels and Leisures, Inc. | | (d) | **65%** | - | - |
| Suntrust Ecotown Developers, Inc. | SEDI | (d) | **65%** | - | - |
| Woodside Greentown Properties, Inc. | | (d) | **65%** | - | - |
| Townsquare Development, Inc. | | | **49%** | 49% | 47% |
| Megaworld Central Properties, Inc. | | | **50%** | 48% | 30% |
| Megaworld-Daewoo Corporation | MDC | | **39%** | 38% | 35% |
| Eastwood Cinema 2000, Inc. | | (d) | **35%** | - | - |
| Megaworld Globus Asia, Inc. | | | **33%** | 32% | 29% |
| Philippine International Properties, Inc. | | | **32%** | 32% | 28% |
| Empire East Land Holdings, Inc. | EELHI | | **53%** | 50% | 35% |
| Valle Verde Properties, Inc. | | (e) | **53%** | 50% | 35% |
| Empire East Communities, Inc. | | (e) | **53%** | 50% | 35% |
| Sherman Oak Holdings, Inc. | | (e) | **53%** | 50% | 35% |
| Eastwood Property Holdings, Inc. | | (e) | **53%** | 50% | 35% |
| Laguna Bel-Air School, Inc. | | (e) | **38%** | 36% | 25% |
| Megaworld Resort Estates, Inc. | MREI | (f) | **82%** | 81% | 79% |
| Sonoma Premiere Land, Inc. | | (g) | **62%** | 70% | 61% |
| Gilmore Property Marketing Associates Inc. | GPMAI | (h) | **47%** | 45% | - |

| Subsidiaries/Associates/Jointly Controlled Entities | Short Name | Notes | Percentage of Effective Ownership of AGI 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Emperador and subsidiaries** | | | | | |
| Emperador Inc. | EMP or Emperador | | **88%** | - | - |
| Emperador Distillers, Inc. | EDI | | **88%** | 100% | 100% |
| Emperador International Ltd. | EIL | (c) | **88%** | 100% | 100% |
| Anglo Watsons Glass, Inc. | AWGI | | **88%** | 100% | 100% |
| The Bar Beverage, Inc. | | | **88%** | 100% | 100% |
| **GERI and subsidiaries** | | | | | |
| Global Estate Resorts, Inc. | GERI | (i) | **65%** | 64% | 62% |
| Fil-Estate Properties, Inc. | | | **65%** | 64% | 62% |
| Aklan Holdings Inc. | | | **65%** | 64% | 62% |
| Blu Sky Airways, Inc. | | | **65%** | 64% | 62% |
| Fil-Estate Subic Development Corp. | | | **65%** | 64% | 62% |
| Fil-Power Construction Equipment Leasing Corp. | | | **65%** | 64% | 62% |
| Golden Sun Airways, Inc. | | | **65%** | 64% | 62% |
| La Compaña De Sta. Barbara, Inc. | | | **65%** | 64% | 62% |
| MCX Corporation | | | **65%** | 64% | 62% |
| Pioneer L-5 Realty Corp. | | | **65%** | 64% | 62% |
| Prime Airways, Inc. | | | **65%** | 64% | 62% |
| Sto. Domingo Place Development Corp. | | | **65%** | 64% | 62% |
| Fil-Power Concrete Blocks Corp. | | | **65%** | 64% | 62% |
| Fil-Estate Golf and Development, Inc | | | **65%** | 64% | 62% |
| Golforce, Inc. | | | **65%** | 64% | 62% |
| Fil-Estate Urban Development Corp. | | | **65%** | 64% | 62% |
| Novo Sierra Holdings Corp. | | | **65%** | 64% | 62% |
| Boracay Newcoast Hotel Group, Inc. | | | **65%** | 64% | - |
| Megaworld Global-Estate, Inc. | | (j) | **65%** | 63% | 60% |
| Twin Lakes Corp. | TLC | | **45%** | 44% | 33% |
| Fil-Estate Industrial Park, Inc. | | | **51%** | 51% | 49% |
| Sherwood Hills Development Inc. | SHDI | | **36%** | 35% | 34% |
| Fil-Estate Ecocentrum Corp. | | | **36%** | 36% | 34% |
| Philippine Aquatic Leisure Corp. | | | **36%** | 36% | 34% |
| Oceanfront Properties, Inc. | OPI | (u) | **32%** | 32% | - |
| **GADC and subsidiaries** | | | | | |
| Golden Arches Development Corporation | GADC | | **49%** | 49% | 49% |
| Golden Arches Realty Corporation | | | **49%** | 49% | 49% |
| Clark Mac Enterprises, Inc. | | | **49%** | 49% | 49% |
| Advance Food Concepts Manufacturing, Inc. | AFCMI | | **46%** | 37% | 37% |
| Davao City Food Industries, Inc. | | | **37%** | 37% | 37% |
| Golden Laoag Foods Corporation | | | **38%** | 38% | 38% |
| First Golden Laoag Ventures | | | **34%** | 34% | 34% |
| Retiro Golden Foods, Inc. | | | **34%** | 34% | 34% |
| Red Asian Food Solutions | | (k) | **34%** | - | - |
| McDonald's Anonas City Center | | (l) | **34%** | - | - |
| McDonald's Puregold Taguig | | (l) | **29%** | 29% | - |
| McDonald's Bench Building | | (l) | **27%** | 27% | - |
| **Travellers and subsidiaries** | | | | | |
| Travellers International Hotel Group, Inc. | Travellers | (m) | **42%** | 46% | - |
| APEC Assets Limited | APEC | | **42%** | 46% | - |
| Bright Leisure Management, Inc. | | | **42%** | 46% | - |
| Deluxe Hotels and Recreation, Inc. | | | **42%** | 46% | - |
| Entertainment City Integrated Resorts & Leisure, Inc. | | | **42%** | 46% | - |
| Grand Integrated Hotels and Recreation, Inc. | | | **42%** | 46% | - |
| Grand Services, Inc. | | | **42%** | 46% | - |
| Grand Venture Management Services, Inc. | | | **42%** | 46% | - |
| Lucky Star Hotels and Recreation, Inc. | | | **42%** | 46% | - |
| Majestic Sunrise Leisure & Recreation, Inc. | | | **42%** | 46% | - |
| Net Deals, Inc. | | | **42%** | 46% | - |
| Newport Star Lifestyle, Inc. | | | **42%** | 46% | - |

| Subsidiaries/Associates/Jointly Controlled Entities | Short Name | Notes | Percentage of Effective Ownership of AGI 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Travellers and subsidiaries** | | | | | |
| Royal Bayshore Hotels & Amusement, Inc. | | | **42%** | 46% | - |
| FHTC Entertainment and Production, Inc. | | | **42%** | - | - |
| Bright Pelican Leisure and Production, Inc. | | | **42%** | - | - |
| Yellow Warbler Leisure and Recreation, Inc. | | | **42%** | - | - |
| **Corporate and Others** | | | | | |
| New Town Land Partners, Inc. | NTLPI | | **100%** | 100% | 100% |
| Tradewind Estates, Inc. | | | **100%** | 100% | 100% |
| Great American Foods, Inc. | GAFI | (n) | **100%** | 100% | 100% |
| McKester America, Inc. | McKester | (n) | **100%** | 100% | 100% |
| Alliance Global Brands, Inc. | | | **100%** | 100% | 100% |
| McKester Pik-nik International Limited | MPIL | (c) | **100%** | 100% | 100% |
| Venezia Universal Ltd. | VUL | (c) | **100%** | 100% | 100% |
| Travellers Group Ltd. | TGL | (c) | **100%** | 100% | 100% |
| Alliance Global Group Cayman Islands, Inc. | AG Cayman | (b) | **100%** | 100% | 100% |
| Greenspring Investment Holdings Properties Ltd. | Greenspring | (b) | **100%** | 100% | 100% |
| Shiok Success International, Ltd. | SSI | (c) | **100%** | - | - |
| Dew Dreams International, Ltd. | DDI | (c) | **100%** | - | - |
| First Centro, Inc. | FCI | | **75%** | 100% | 100% |
| Oceanic Realty Group International, Inc. | | (o) | **75%** | 100% | 100% |
| ERA Real Estate Exchange, Inc. | | (o) | **75%** | 100% | 100% |
| Adams Properties, Inc. | Adams | | **60%** | 60% | 60% |
| Manila Bayshore Property Holdings, Inc. | | (p) | **52%** | 55% | 55% |
| Resorts World Bayshore City, Inc. | RWBCI | (q) | **45%** | - | - |
| Purple Flamingos Amusement and Leisure Corporation | | (r) | **45%** | - | - |
| Red Falcon Amusement and Leisure Corporation | | (r) | **45%** | - | - |
| GPMAI | | (h) | **-** | - | 67% |
| ***Associates*** | | | | | |
| La Fuerza, Inc. | LFI | (s), 12.4 | **32%** | - | - |
| Suntrust Home Developers, Inc. | SHDI | (s), 12.5 | **27%** | 27% | 25% |
| First Oceanic Property Management | FOPMI | (t) | **27%** | 27% | 25% |
| Citylink Coach Services, Inc. | CCSI | (t) | **27%** | 27% | 25% |
| Palm Tree Holdings and Development Corporation | PTHDC | (t) | **26%** | 25% | 23% |
| Genting Star Tourism Academy, Inc. | | | **20%** | 23% | 23% |
| Fil-Estate Network, Inc. | FENI | (u) | **13%** | 13% | 12% |
| Fil-Estate Sales, Inc. | FESI | (u) | **13%** | 13% | 12% |
| Fil-Estate Realty and Sales Associates, Inc. | FERSAI | (u) | **13%** | 13% | 12% |
| Fil-Estate Realty Corp. | FERC | (u) | **13%** | 13% | 12% |
| Nasugbu Properties, Inc. | NPI | (u) | **9%** | 9% | 9% |
| Alliance Global Properties, Inc. | AGPL | (v) | **-** | 30% | 30% |
| OPI | | (u) | **-** | - | 31% |
| ***Jointly Controlled Entities*** | | | | | |
| Golden City Food Industries, Inc. | GCFII | (l) | **25%** | 24% | 24% |
| Travellers | | (m) | **-** | - | 46% |

Explanatory notes:

(a) Megaworld is 44% directly owned by AGI and 21% owned through other subsidiaries (NTLPI and FCI). Effective ownership over Megaworld increased due to additional subscription by AGI.

(b) Foreign subsidiaries operating under the laws of the Cayman Islands

(c) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI)

(d) Newly acquired subsidiaries of Megaworld in 2013

(e) Subsidiaries of EELHI

(f) AGI and Megaworld directly owns 49% and 51%, respectively

(g) A subsidiary of AGI through 60% and 40% direct ownership of EELHI and FCI, respectively

(h) A subsidiary of Megaworld in 2011 and became an associate in 2012. Became a subsidiary in 2013, through Megaworld's increase in ownership interest in EELHI (see note 12.2)

(i) Effective ownership over GERI increased due to additional subscription by Megaworld.
(j) A subsidiary of AGI through 60% and 40% direct ownership of GERI and Megaworld, respectively
(k) Newly acquired subsidiary of GADC
(l) Unincorporated joint ventures of GADC
(m) Formerly a jointly-controlled entity. As of the beginning of 2012, AGI has the power to govern the financial and operating policies of Travellers. As such, after considering the provisions of applicable accounting standards, Travellers qualified as a subsidiary in 2012 and, accordingly, the accounts of Travellers have been consolidated into the Group's financial statements beginning 2012.
Travellers is 18% directly owned by AGI and 22%, 9%, and 5% through Adams, Megaworld and FCI, respectively.
(n) Foreign subsidiaries operating under the laws of United States of America
(o) Subsidiaries of FCI
(p) A subsidiary of AGI through 50/50 ownership of Travellers and Megaworld
(q) Incorporated in 2013. Effective ownership is through 20% direct ownership, 6% through 10% ownership of Megaworld, 4% through 5% ownership of FCI and 15% through 25% ownership of Adams
(r) Newly incorporated and wholly owned subsidiaries of RWBCI
(s) Associates of Megaworld
(t) Subsidiaries of SHDI, an associate of Megaworld
(u) Associates of GERI. GERI gained control over OPI in 2012, hence OPI was consolidated beginning 2012
(v) A foreign associate operating in the BVI; AGPL was disposed in 2013

The Company, its subsidiaries, associates and jointly-controlled entity are incorporated and operating in the Philippines, except for such foreign subsidiaries as identified in preceding table (see explanatory notes b,c,n and v above).

AGI's shares of stock and those of Megaworld, EMP, Travellers, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

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 Board of Directors (BOD) approved on April 28, 2014, the release of the consolidated financial statements of the Group, for the year ended December 31, 2013 (including the comparative financial statements as of and for the year ended December 31, 2012 and the corresponding figures as of January 1, 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 in the succeeding pages. The policies have been consistently applied to all the periods presented, unless otherwise stated.

### *2.1 Basis of Preparation of Consolidated 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 (IASB).

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 Consolidated 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.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In 2013, the Group's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and 2011 [see Note 2.3(a)(ii)]. Accordingly, the Group presents a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Certain accounts in the 2012 and 2011 consolidated statements of comprehensive income were reclassified to conform to the current year presentation, which did not have a material impact on the Group's consolidated financial statements.

*(c) Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency (see Note 2.18). Functional currency is the currency of the primary economic environment in which the Company operates.

### *2.2 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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, 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 (APIC).

The financial statements of subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting principles. 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 entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases. The Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries (see Note 2.10). 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 value 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, including 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 acquired entity, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable 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 existing equity interest in the acquiree over the acquisition-date fair value of 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 Note 2.11)

*(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 investment in associate is subject to the purchase method of accounting. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the consolidated statements of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associate's assets and liabilities.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in the 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. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

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 adjustments 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 consolidated equity.

When the Company 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 consolidated 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 Company 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.

The Parent Company holds beneficial interests in various subsidiaries and associates as presented in Notes 1 and 12.

### *2.3 Adoption of New and Amended PFRS*

*(a) Effective in 2013 that are Relevant to the Group*

In 2013, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

| | | |
|---|---|---|
| PAS 1 (Amendment) | : | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income |
| PAS 19 (Revised) | : | Employee Benefits |
| PAS 34 (Amendment) | : | Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities |
| PFRS 7 (Amendment) | : | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Consolidation Standards | | |
| PFRS 10 | : | Consolidated Financial Statements |
| PFRS 11 | : | Joint Arrangements |
| PFRS 12 | : | Disclosure of Interests in Other Entities |
| PAS 27 (Revised) | : | Separate Financial Statements |
| PAS 28 (Revised) | : | Investments in Associates and Joint Ventures |
| PFRS 10, 11 and 12 (Amendments) | : | Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12 |
| PFRS 13 | : | Fair Value Measurement |
| Annual Improvements | : | Annual Improvements to PFRS (2009-2011 Cycle) |

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

(i) PAS 1 (Amendment), *Presentation of Financial Statements – 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 PFRS: (a) will not be reclassified subsequently to profit or loss, and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes. Prior period comparatives have been restated as a consequence of this change in presentation.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

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

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the 2012 and 2011 balances of the affected assets, liabilities, and equity components as shown below and on the succeeding pages.

| | December 31, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in asset and liabilities:* | | | |
| Deferred tax assets | P 779,272,386 | P 29,766,152 | P 809,038,538 |
| Other current liabilities | ( 17,196,098,400 ) | 1,624,656 | ( 17,194,473,744) |
| Retirement benefit obligation | ( 849,137,076 ) | ( 359,341,824 ) | ( 1,208,478,900) |
| Deferred tax liabilities | ( 6,405,540,029 ) | 71,437,018 | ( 6,334,103,011) |
| Decrease in Equity | | (P 256,513,998 ) | |
| *Changes in components of equity* | | | |
| Unappropriated retained earnings | P40,237,045,058 | P 7,112,315 | P40,244,157,373 |
| Actuarial loss on retirement benefit obligation | - | ( 240,822,146 ) | ( 240,822,146) |
| Non-controlling interest | 59,870,536,020 | ( 22,804,167 ) | 59,847,731,853 |
| Decrease in Equity | | (P 256,513,998) | |

| | January 1 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in asset and liabilities:* | | | |
| Deferred tax assets | P 670,407,846 | P 35,075,915 | P 705,483,761 |
| Other current liabilities | ( 15,733,590,497 ) | 376,320 | ( 15,733,214,177) |
| Retirement benefit obligation | ( 591,342,731 ) | ( 319,715,388 ) | ( 911,058,119) |
| Deferred tax liabilities | ( 5,590,007,701 ) | 60,661,000 | ( 5,529,346,701) |
| Decrease in Equity | | (P 223,602,153 ) | |
| *Changes in components of equity* | | | |
| Unappropriated retained earnings | P31,072,319,070 | P 1,270,473 | P31,073,589,543 |
| Actuarial loss on retirement benefit obligation | - | ( 215,576,679 ) | ( 215,576,679) |
| Non-controlling interest | 52,522,275,597 | ( 9,295,947 ) | 52,512,979,650 |
| Decrease in Equity | | (P 223,602,153 ) | |

The effects of the adoption of PAS 19 (Revised) on the statement of comprehensive income for the years ended December 31, 2012 and 2011 are shown below.

| | December 31, 2012 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in profit or loss:* | | | |
| Other operating expenses | P21,785,957,940 | (P 60,451,842) | P21,725,506,098 |
| Finance cost and other charges | 4,206,420,366 | 45,361,177 | 4,251,781,543 |
| Tax expense | 4,632,110,106 | 8,631,154 | 4,623,478,952 |
| Net decrease in net profit | | (P 6,459,511) | |
| *Changes in other comprehensive income:* | | | |
| Actuarial loss on remeasurement of retirement benefit obligation | P - | (P 41,307,696) | (P 41,307,696) |
| Tax income | - | 12,392,308 | 12,392,307 |
| Net decrease in OCI | | (P 28,915,389) | |

| | December 31, 2011 | | |
|---|---|---|---|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| *Changes in profit loss or loss:* | | | |
| Other operating expenses | P 8,240,068,783 | (P 19,374,595) | P 8,220,694,188 |
| Finance cost and other charges | 3,776,827,484 | 21,558,582 | 3,798,386,066 |
| Tax expense | 3,353,004,489 | ( 1,167,286) | 3,351,837,203 |
| Net decrease in net profit | | (P 1,016,701) | |
| *Changes in other comprehensive income:* | | | |
| Actuarial loss on remeasurement of retirement benefit obligation | P - | (P 271,280,301) | (P 271,280,301) |
| Tax income | - | 81,384,090 | 81,384,090 |
| Net decrease in OCI | | (P 189,896,211) | |

The adoption of PAS 19 (Revised) did not have a material impact on Group's consolidated statements of cash flows and on the basic and diluted earnings per share (see Note 22) for the years ended December 31, 2012 and 2011.

(iii) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of International Financial Reporting Standards (IFRS) 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The amendment has no significant impact on the Group's consolidated financial statements as its current presentation of segment information is in accordance with the said amendment.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, Financial Instruments: Presentation. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. This amendment did not affect the Group's financial statements as the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements.

(v) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (Revised 2011), *Separate Financial Statements* and PAS 28 (Revised 2011), *Investments in Associates and Joint Ventures.*

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period.

Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the financial statements. Additional information, however, are disclosed in compliance with the requirements of PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and associates (see Note 1).

(vi) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Notes 14 and 33, the application of this new standard had no significant impact on the amounts recognized in the financial statements.

(vii) 2009 – 2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the third statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

*(b) Effective in 2013 that and not Relevant to the Group*

The following amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Company's financial statements:

| | | |
|---|---|---|
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans |
| Annual Improvements<br>PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs |
| Philippine Interpretation International Financial Reporting Interpretation Committee 20 | : | Stripping Costs in the Production Phase of a Surface Mine |

*(c)* *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013. 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) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no significant impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on the consolidated financial statements.

(iv) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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 the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to IFRS 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(v) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate these amendments to have a material impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

- PFRS 3 (Amendment), *Business Combinations*. Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- PFRS 3 (Amendment), *Business Combinations*. Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

(vii) Philippine 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 Securities and Exchange Commission 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.

### *2.4 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 investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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 consolidated profit or loss.

The financial asset categories currently relevant to the Group are financial assets at FVTPL, loans and receivables and AFS financial assets. A more detailed description of these financial assets is as follows:

*(a) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at FVTPL upon initial recognition. All derivatives 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.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in consolidated profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity 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 end of 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 are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to Contractors and Suppliers), Advances to Associates and Other Related Parties (included under Investments in and Advances to Associates and Other Related Parties account), Time Deposits (included under Other Current Assets account) and Refundable Security Deposits (included under Other Non-current Assets account). Cash and cash equivalents include 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 non-current assets classification in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months after the end of 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 consolidated 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 consolidated equity to consolidated profit or loss and is presented as reclassification adjustment within consolidated other comprehensive income. Reversal of impairment losses on AFS equity instruments is not recognized through the consolidated 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 consolidated 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 as AFS by management at initial recognition.

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

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 consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reported net of financial liability in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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 (NRV). Cost is determined using 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.

NRV 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. NRV of raw materials, spare parts and other operating supplies is the current replacement cost.

Real estate for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.16). Accounting policies for real estate development transactions are discussed in more detail in Note 2.6.

### *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 occurs on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate for Sale classified under Inventories account (see Note 2.5) in the consolidated statement of financial position.

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 presented as part of Cost of Goods Sold in the consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for Property Development account (see Note 20).

Costs of properties and projects accounted for as Land for Future Development Costs, Property Development Costs and Real Estate for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and NRV. NRV 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 Other Assets*

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), such assets are classified as non-current assets.

### *2.8 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, the related carrying amount is 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, including borrowing costs (see Note 2.16) and asset retirement obligation (ARO) relating to property and equipment installed/constructed on leased properties [see Note 3.2 (k)]. 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 a Group's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, trademarks, trade names, patent and other similar intellectual property rights belonging to McDonald's Corporation (McDonald's) upon the termination or expiration of lease contract. The present value of ARO 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 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. 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 10 years |
| Transportation equipment | 3 to 10 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.

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).

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, estimated useful lives and method of depreciation of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting period.

An item of property, plant and equipment, including the related accumulated depreciation, amortization 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 consolidated profit or loss in the year the item is derecognized.

### *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 are carried at cost less accumulated depreciation and any impairment in value (see Note 2.19).

Cost capitalization, depreciation, impairment loss and asset derecognition are recorded in the same manner as in Property, Plant and Equipment (see Note 2.8). 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.

### *2.10 Business Combinations*

Business acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at the date of acquisition.

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, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its fair value at the date of acquisition (the date the Group attains control) and recognize the resulting gain or loss, if any, in the consolidated profit or loss or consolidated other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the date of acquisition that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.11).

### *2.11 Intangible Assets*

Intangible assets include goodwill, trademarks, leasehold rights and computer software. Except goodwill, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. Goodwill is not amortized, but is reviewed for impairment at least annually.

Goodwill represents the excess of the cost of investment in shares of stocks 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. Any impairment loss is recognized immediately in consolidated profit or loss and is not subsequently reversed (see Note 2.19).

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.

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 recognized directly to income. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

The cost of trademarks, leasehold rights and computer software includes the 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, and over the term of the lease for leasehold rights. In addition, these assets are subject to impairment testing as described in Note 2.19. When these assets 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.

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

### *2.12 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 and interest rate swaps. 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, which are presented under the Other Assets or Other Liabilities (current and non-current) account in the consolidated statements of financial position.

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, Bonds Payable, Trade and Other Payables (except tax related payables), Advances from Related Parties, Redeemable Preferred Shares, Security Deposits and Payable to McDonald's Restaurant Operations, Inc. (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 consolidated statement of comprehensive income.

Interest-bearing Loans 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 consolidated 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, 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.

Redeemable Preferred Shares of GADC and TLC 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 account 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 end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of 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.

### *2.13 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 consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.14 Equity*

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

Additional paid-in capital (APIC) includes any premiums received on the 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 but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at cost of reacquiring such shares (see also Note 2.2).

Revaluation reserves represent unrealized fair value gains or losses on AFS financial assets pertaining to cumulative mark-to-market valuations [see Note 2.4(c)], share in other comprehensive income of associates and joint ventures attributable to the Group, and actuarial gains or losses from remeasurement of retirement benefit obligations.

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. Dilution gain or loss is recognized on investments of which the Company continues to exercise control.

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(d)].

Retained earnings, the appropriated portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income, reduced by the amount of dividends declared.

### *2.15 Revenue and Expense Recognition*

Revenue is recognized to the extent that the revenue can be reliably measured by reference to the fair value of consideration received or receivable by the Group; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Sale of goods* – Revenue, net of rebates and trade discounts, is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer acknowledged delivery of goods.

*(b)* *Sale of residential and condominium units [included under Real Estate (RE) Sales]* – 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 (under Cost of Goods Sold) in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (under Other 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 Customers' Deposits and presented as part of Other Liabilities (current and non-current) 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 real estate sales is used by the Group.

(c) *Interest income on real estate sales* - considered in the determination of total revenue for real estate sales (see Note 23). It is recognized when interest accrues taking into account the underlying sale of real estate under installment method through in-house financing (not through externally financed home loans obtained by customers).

(d) *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – 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.

(e) *Gaming revenues* – Revenue is recognized from net wins from gaming activities which represent the difference between coins and currencies deposited into the gaming machines and the payments to customers and, for other games, the difference between gaming wins and losses.

(f) *Revenue from hotel operations* – Revenue from hotel operations is recognized when services are rendered. This is presented as part of the item Others under Revenue from Rendering of Services (see Note 23).

(g) *Sales from Company-operated quick-service restaurants* – Revenue from restaurant sales operations are recognized when the services are rendered, that is, food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

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

(i) *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms. For tax purposes, rental income is recognized based on the contractual terms of the lease. Advance rentals and refundable rental deposits, if any, are recorded as deferred rental. Deferred rental, specifically the refundable rental deposit, is measured at amortized cost using the effective interest rate method.

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

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

Revenue and expenses are recognized excluding the amount of value-added tax (VAT).

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as rooms, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

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 consolidated 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 accounts for its leases as follows:

*(a) Group as Lessee*

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

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

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.

### *2.18 Foreign Currency Transactions and Translation*

*(a) 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.

*(b) Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, their functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;

(iii) Income and expenses for each profit or loss account are translated at the 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,

(iv) All resulting exchange differences are recognized in consolidated other comprehensive income and in a separate component of consolidated 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.

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, Intangible Assets, Investment Property, Property, Plant and Equipment and Other Non-financial assets are subject to impairment testing. 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 are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### *2.20 Employee Benefits*

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

*(a) Defined Benefit Plan*

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. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. 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 a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance and other income or Finance cost and other charges account in the consolidated statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

*(b) Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). 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 end of the reporting period are discounted to their present value.

*(d) Share-based Employee Remuneration*

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.

In addition, the Parent Company, Megaworld and GERI also grant share options to key executive officers and employees eligible under each 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 consolidated 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 APIC, and the cost of the stock option under Share Options account is reclassified to APIC.

*(e) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

### *2.21 Income Taxes*

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in consolidated other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated 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 consolidated profit or loss.

Deferred tax is accounted for 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 deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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 in 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 consolidated 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 consolidated other comprehensive income or directly in consolidated equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### *2.22 Earnings per Share*

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares (e.g. vested share options – see Note 21.5)

### *2.23 Segment Reporting*

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

In identifying its operating segments, management generally considers the Group's major subsidiaries as disclosed in Note 4, which represent the main products and services provided by the Group and the line of business in which the Group operates.

Each of these operating segments, which represent the major subsidiaries within the Group, is managed separately by each respective officers and management. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments,* are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

### *2.24 Related Party Transactions and Relationships*

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual and, (d) certain funded retirement plans, administered by trustee banks, of two significant subsidiaries.

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

### *2.25 Events After the End of 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, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

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

In determining whether a property qualifies as investment property, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Investment property comprise of properties held to earn rental or for capital appreciation. 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. The Group considers each property separately in making its judgment.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the Group's main line of business or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the Group's main line of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*(c)* *Distinction between 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)* *Classification of Preferred Shares as Financial Liability*

The Group determines the classification of preferred shares based on the substance of the contractual agreement and the definitions of a financial liability or an equity instrument (see Note 19).

*(e)* *Recognition of 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 2.13 and relevant disclosures are presented in Note 30.

### *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 [see Note 2.15 (b)]. Should the proportion of the percentage of completed projects differ by 5% from management's estimates, the effect on the amount of revenue recognized is not significant.

There were no changes in the assumptions or basis for estimation during the year. The realized gross profit on real estate sales recognized in 2013, 2012 and 2011 is disclosed in Note 23.

*(b) 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 collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' payment behaviour, 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.

*(c) 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.

*(d) Fair Value of Financial Assets Other than Loans and 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 consolidated profit and loss and consolidated 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.

*(e) Fair Value of Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 14 to the consolidated financial statements were estimated 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.

*(f) Fair Value of Stock Options*

The Group estimates the fair value of the Executive Stock Option (ESOP) by applying an option valuation model, considering the terms and conditions on which the executive stock option were granted. The estimates and assumptions used are presented in Note 21.5 which include, among other things, the option's time of expiration, applicable risk-free interest rate, expected dividend yield, volatility of the share price (i.e., the Parent Company's, Megaworld, GERI and McDonalds) and fair value of the specific common shares. Changes in these factors can affect the fair value of stock options at grant date.

The fair value of the ESOP recognized as part of Salaries and Employee Benefits is shown under Other Operating Expenses in the consolidated statements of comprehensive income (see Note 25). A corresponding credit to Share Options Outstanding for options related to the Group is presented in the equity portion of the consolidated statements of financial position (see Note 21).

*(g) Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets with Finite Lives*

The Group estimates the useful lives of property, plant and equipment, investment property and intangible assets with finite lives 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 property, plant and equipment, investment property and intangible assets is necessary in 2013 and 2012.

*(h) Impairment of Non-financial Assets*

Goodwill is 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 consolidated 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 loss recognized on Property, Plant and Equipment is discussed in Note 13. There is no impairment loss recognized on the Group's intangible assets and other non-financial assets based on management evaluation for the years ended December 31, 2013, 2012 and 2011.

*(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 28.1.

*(j) 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, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 27.2.

*(k) Provision for Restoration of Leased Property*

Property, plant and equipment includes the estimated cost of dismantling and restoring leased properties (building and leasehold improvements) to their original condition for which GADC is liable, or ARO (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 as part of Other Non-current Liabilities in the statements of financial position (see Note 20).

*(l) Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in consolidated profit or loss in the subsequent period.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group is organized into five major business segments, namely Megaworld, Travellers, Emperador, GADC and GERI, which are the major subsidiaries of the Group, and that represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.23). Presented below is the basis of the Group in reporting its primary segment information.

*(a)* The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries, the Group's forerunner in the real estate industry.

*(b)* The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.

*(c)* The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and its subsidiaries.

*(d)* The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between Golden Arches Development Corporation and McDonald's Corporation, USA.

*(e)* The *GERI* segment relates to development of integrated tourism estates, leisure-related properties and mixed used towers which is primarily undertaken by Global Estate Resorts, Inc. and subsidiaries.

### *4.2 Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they 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 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.

### *4.4 Analysis of Segment Information*

Segment information can be analyzed as follows for the years ended December 31, 2013, 2012 and 2011:

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Megaworld** | **Travellers** | **GADC** | **Emperador** | **GERI** | **Total** |
| **REVENUES** | | | | | | |
| Sales to external customers | P 32,653,375,912 | P 33,381,657,306 | P 15,810,204,165 | P 28,780,897,351 | P 1,596,411,020 | P 112,222,545,754 |
| Intersegment sales | 230,471,593 | - | - | - | - | 230,471,593 |
| Finance and other revenues | 2,464,375,443 | ( 468,166,961 ) | 166,496,688 | 1,083,847,491 | 162,304,229 | 3,408,856,890 |
| Segment revenues | 35,348,222,948 | 32,913,490,345 | 15,976,700,853 | 29,864,744,842 | 1,758,715,249 | 115,861,874,237 |
| Cost of sales and expenses excluding depreciation and amortization | ( 21,825,015,956 ) | ( 26,630,377,258 ) | ( 13,828,636,701 ) | ( 21,263,217,401 ) | ( 1,134,896,150 ) | ( 84,682,143,467 ) |
| | 13,523,206,992 | 6,283,113,087 | 2,148,064,152 | 8,601,527,441 | 623,819,099 | 31,179,730,770 |
| Depreciation and amortization | ( 956,774,624 ) | ( 2,100,495,592 ) | ( 758,029,439 ) | ( 417,026,367 ) | ( 49,185,167 ) | ( 4,281,377,258 ) |
| Finance cost and other charges | ( 1,378,661,171 ) | ( 1,342,812,133 ) | ( 157,527,053 ) | ( 263,092,696 ) | ( 107,055,577 ) | ( 3,249,148,630 ) |
| Profit before tax | 11,187,771,197 | 2,839,805,362 | 1,232,507,660 | 7,921,408,378 | 467,578,355 | 23,649,070,952 |
| Tax expense | ( 2,571,452,012 ) | ( 66,665,186 ) | ( 444,026,455 ) | ( 2,074,293,503 ) | ( 112,364,600 ) | ( 5,268,801,756 ) |
| **SEGMENT PROFIT** | P 8,616,319,185 | P 2,773,140,176 | P 788,481,205 | P 5,847,114,875 | P 355,213,755 | P 18,380,269,196 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 169,461,257,482 | P 60,758,944,954 | P 13,202,719,956 | P 35,201,294,060 | P 31,238,285,371 | P 309,862,501,823 |
| Segment Liabilities | 68,494,968,424 | 26,448,067,054 | 7,983,040,586 | 3,187,496,148 | 7,566,385,608 | 113,679,957,820 |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 24,978,901,509 | P 31,077,193,397 | P 13,655,826,010 | P 22,812,319,912 | P 1,190,764,053 | P 93,715,004,881 |
| Intersegment sales | 3,012,151,675 | - | - | - | - | 3,012,151,675 |
| Finance and other revenues | 2,560,375,097 | 772,741,044 | 267,944,216 | 781,970,417 | 193,564,790 | 4,576,595,564 |
| Segment revenues | 30,551,428,281 | 31,849,934,441 | 13,923,770,226 | 23,594,290,329 | 1,384,328,843 | 101,303,752,120 |
| Cost of sales and expenses excluding depreciation and amortization | ( 16,955,606,995 ) | ( 21,863,214,717 ) | ( 12,115,607,504 ) | ( 16,380,766,074 ) | ( 918,668,639 ) | ( 68,233,863,929 ) |
| | 13,595,821,286 | 9,986,719,724 | 1,808,162,722 | 7,213,524,255 | 465,660,204 | 33,069,888,191 |
| Depreciation and amortization | ( 752,581,923 ) | ( 1,709,967,602 ) | ( 658,984,536 ) | ( 329,739,387 ) | ( 40,550,406 ) | ( 3,491,823,854 ) |
| Finance cost and other charges | ( 1,074,095,505 ) | ( 1,370,935,195 ) | ( 124,448,117 ) | ( 6,722,845 ) | ( 106,344,069 ) | ( 2,682,545,731 ) |
| Profit before tax | 11,769,143,858 | 6,905,816,927 | 1,024,730,069 | 6,877,062,023 | 318,765,729 | 26,895,518,606 |
| Tax expense | ( 2,252,723,420 ) | ( 68,154,087 ) | ( 331,072,521 ) | ( 1,829,878,637 ) | ( 54,395,877 ) | ( 4,536,224,542 ) |
| **SEGMENT PROFIT** | P 9,516,420,438 | P 6,837,662,840 | P 693,657,548 | P 5,047,183,386 | P 264,369,852 | P 22,359,294,064 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 144,741,789,488 | P 47,669,993,170 | P 10,760,048,035 | P 12,808,719,356 | P 24,997,149,139 | P 240,977,699,188 |
| Segment Liabilities | 61,439,939,898 | 25,562,806,500 | 6,311,772,206 | 2,854,727,780 | 6,778,219,741 | 102,947,466,125 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 23,433,558,452 | P - | P 11,875,419,798 | P 16,994,657,222 | P 611,091,760 | P 52,914,727,232 |
| Intersegment sales | 2,486,275,793 | - | - | - | - | 2,486,275,793 |
| Finance and other revenues | 2,713,115,127 | - | 221,226,097 | 360,381,612 | 430,737,432 | 3,725,460,268 |
| Segment revenues | 28,632,949,372 | - | 12,096,645,895 | 17,355,038,834 | 1,041,829,192 | 59,126,463,293 |
| Cost of sales and expenses excluding depreciation and amortization | ( 16,963,867,726 ) | - | ( 10,468,348,406 ) | ( 13,914,631,665 ) | ( 652,505,085 ) | ( 41,999,352,882 ) |
| | 11,669,081,646 | - | 1,628,297,489 | 3,440,407,169 | 389,324,107 | 17,127,110,411 |
| Depreciation and amortization | ( 566,641,137 ) | - | ( 537,715,608 ) | ( 206,383,144 ) | ( 25,410,421 ) | ( 1,336,150,310 ) |
| Finance cost and other charges | ( 931,868,458 ) | - | ( 110,075,284 ) | ( 63,423,770 ) | ( 96,007,511 ) | ( 1,201,375,023 ) |
| Profit before tax | 10,170,572,051 | - | 980,506,597 | 3,170,600,255 | 267,906,175 | 14,589,585,078 |
| Tax expense | ( 1,995,607,543 ) | - | ( 332,819,680 ) | ( 865,479,224 ) | ( 47,781,307 ) | ( 3,241,687,754 ) |
| **SEGMENT PROFIT** | P 8,174,964,508 | P - | P 647,686,917 | P 2,305,121,031 | P 220,124,868 | P 11,347,897,326 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 134,353,378,848 | P - | P 8,561,662,554 | P 9,670,291,839 | P 21,338,045,785 | P 173,923,379,026 |
| Segment liabilities | 55,851,336,731 | - | 4,816,015,676 | 2,854,553,196 | 5,045,279,701 | 68,567,185,304 |

## 4.4 *Reconciliations*

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 115,861,874,237** | P 101,303,752,120 | P 59,126,463,293 |
| Unallocated corporate revenue | **7,747,923,359** | 3,842,372,239 | 9,650,729,210 |
| Elimination of intersegment revenues | **( 230,471,593 )** | ( 3,012,151,675 ) | ( 2,486,275,793 ) |
| Revenues as reported in consolidated profit or loss | **P123,379,326,003** | P 102,133,972,684 | P 66,290,916,710 |
| **Profit or loss** | | | |
| Segment operating profit | **P 18,380,269,196** | P 22,359,294,064 | P 11,347,897,326 |
| Unallocated corporate profit | **4,905,682,283** | 1,146,513,784 | 5,881,100,971 |
| Elimination of intersegment revenues | **( 230,471,593 )** | ( 3,012,151,671 ) | ( 2,486,275,793 ) |
| Profit as reported in consolidated profit or loss | **P 23,055,479,886** | P 20,493,656,177 | P 14,742,722,504 |
| **Assets** | | | |
| Segment assets | **P309,862,501,823** | P 240,977,699,188 | P 173,923,379,026 |
| Unallocated corporate assets | **22,537,907,703** | 31,233,323,839 | 46,635,928,782 |
| Total assets reported in the consolidated statements of financial position | **P332,400,409,526** | P 272,211,023,027 | P 220,559,307,808 |
| **Liabilities** | | | |
| Segment liabilities | **P 113,679,957,820** | P 102,947,466,125 | P 68,567,185,304 |
| Unallocated corporate liabilities | **28,498,806,074** | 25,507,516,541 | 26,210,621,455 |
| Total liabilities reported in the consolidated statements of financial position | **P 142,178,763,894** | P 128,454,982,666 | P 94,777,806,759 |

Concentration of revenue is considered when at least 10% of total segment revenue is generated from a single customer. There is no concentration of the Group's revenue in a single customer as the 10% threshold has not been met in any of the years presented.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

| | Note | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|---|
| Cash on hand and in banks | | **P 27,965,296,671** | P 17,143,991,652 |
| Short-term placements | 30.3(a) | **67,012,228,774** | 50,821,125,055 |
| | | **P 94,977,525,445** | P 67,965,116,707 |

Cash in banks generally earn interest at rates based on daily bank deposit rates (see Note 26).

Short-term placements are made for varying periods between 15 to 90 days and earn effective interest per annum ranging from 0.50% to 4.90% in 2013 and 3.00% to 5.00% in 2012. Placements amounting to P111.4 million and P108.4 million as of December 31, 2013 and 2012, respectively, which earns effective interest of 3.5%, and have a term of 360 days, for both years, are shown under Other Current Assets account in the consolidated statements of financial position (see Note 9).

Certain financial assets and financial liabilities are subject to offsetting and similar agreements. A portion of the short-term placements with a foreign bank is partially offset by the amount of bank loan granted by the same foreign bank, with Philippine peso equivalent of P799.35 million.

## 6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Trade receivables | 17(e)(j), 29.5, 29.8 | **P23,737,469,759** | P 17,834,691,839 |
| Advances to contractors and suppliers | | **3,840,435,633** | 3,016,607,852 |
| Due from employees and related parties | 29.10 | **1,239,264,958** | 1,195,325,696 |
| Accrued interest receivable | | **319,639,080** | 185,034,478 |
| Others | | **1,597,606,926** | 1,043,733,391 |
| | | **30,734,416,356** | 23,275,393,256 |
| Allowance for impairment | | **( 659,628,986)** | ( 651,617,594) |
| *Balance brought forward* | | **P30,074,787,370** | P 22,623,775,662 |

| | Note | 2013 | 2012 |
|---|---|---|---|
| *Balance carried forward* | | **P30,074,787,370** | P 22,623,775,662 |
| Non-current: | | | |
| Trade receivables | 29.5 | **24,577,022,253** | 24,254,080,904 |
| Others | | **44,665,600** | 3,825,800 |
| | | **24,621,687,853** | 24,257,906,704 |
| Allowance for impairment | | **( 12,224,936)** | ( 12,224,936) |
| | | **24,609,462,917** | 24,245,681,768 |
| | | **P54,684,250,287** | P 46,869,457,430 |

Most receivables from trade customers, particularly those relating to real estate sales, are covered by postdated checks. In 2013 and 2012, certain trade receivables amounting to P220.0 million and P333.0 million, respectively, have been discounted with recourse basis to a local bank to partially cover a bank loan with outstanding balance of P219.7 million and P332.7 million, respectively [see Note 17(j)]. Further, additional portion of certain trade receivables were also discounted on a with-recourse basis with certain local banks to cover the loan with outstanding balance of P779.2 million and P907.1 million as of December 31, 2013 and 2012, respectively [see Note 17(e)].

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 method based on the interest rate of comparable financial instruments in the market. Interest income from amortization amounted to P1,537.1 million, P1,327.5 million and P1,218.8 million for the years ended December 31, 2013, 2012 and 2011, respectively. These amounts are presented as Interest Income on Real Estate Sales under Revenue from Sale of Goods account in the consolidated statements of comprehensive income (see Note 23).

Advances to contractors and suppliers pertain to noninterest-bearing and unsecured advances to the Group's contractors and suppliers as initial payment or mobilization funds for services to be rendered and goods to be delivered to the Group. These are reduced proportionately upon receipt of progress billings from said suppliers.

Due from employees and related parties pertain to noninterest-bearing, unsecured and immediately demandable advances, settlement of which is generally made in cash, or through deduction from employees' salary or employees' liquidation of business related expenses (see Note 29.10).

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized. 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  as the titles to the real estate properties remain with the Group until the receivables are fully collected.

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

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 663,842,530** | P 627,383,111 |
| Impairment losses during the year | 25, 26 | **8,011,392** | 36,626,512 |
| Write-off of trade receivables previously provided with allowance | | **-** | ( 167,093) |
| Balance at end of year | | **P 671,853,922** | P 663,842,530 |

Impairment losses are presented as part of Other Operating Expenses (see Note 25) and Finance Cost and Other Charges (see Note 26).

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized consist of a large number of receivables from various customers.

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of foreign investments, held for trading, as follows:

| | 2013 | 2012 |
|---|---|---|
| Marketable debt securities | **P 5,082,096,910** | P 5,286,574,221 |
| Equity securities - quoted | **2,280,961,689** | 610,247,257 |
| Derivative assets | **12,684,368** | 665,131,368 |
| | **P 7,375,742,967** | P 6,561,952,846 |

Marketable debt securities, which bear interest ranging from 3.3% to 10.6% and 4.6% to 8.9% per annum as of December 31, 2013 and 2012, respectively, are measured at their fair values determined directly by reference to published prices quoted in an active market. The net changes in fair values of these financial assets are presented as part of either Fair Value Gains – Net or Fair Value Losses – Net under Finance and Other Income or Finance Cost and Other Charges, respectively, in the consolidated statements of comprehensive income (see Note 26). The amount of interest income amounts to P890.0 million, P808.5 million and P1,064.9 million for 2013, 2012 and 2011, respectively and is shown as part of Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

A portion of marketable debt securities placed with certain foreign banks is covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.$53.4 million (P2,368.6 million) as of December 31, 2013 and U.S.$116.9 million (P4,814.7 million) as of December 31, 2012.

Derivative assets represent the fair market value gain of foreign currency forward option contract with certain banks maturing with certain currencies against the U.S. dollar in 2013 and 2012. The derivative asset is valued at U.S.$0.29 million (P12.68 million) and U.S.$16.1 million (P665.1 million) as of December 31, 2013 and 2012, respectively. Changes in foreign currency value arising from such investments are taken up in profit or loss and are recorded as part of Fair Value Gains – Net under Finance and Other Income in the consolidated statements of comprehensive income (see Note 26).

## 8. INVENTORIES

The details of inventories are shown below.

| | Notes | 2013 | 2012 |
|---|---|---|---|
| At cost: | | | |
| Real estate for sale | 17(j) | **P 42,172,338,080** | P 34,623,677,164 |
| Raw materials | 29.4 | **2,188,104,273** | 2,624,056,833 |
| Finished goods | | **1,038,348,332** | 481,706,107 |
| | | **45,398,790,685** | 37,729,440,104 |
| At net realizable value: | | | |
| Golf and resort shares for sale | | **2,089,149,403** | 2,083,086,135 |
| Food, supplies and other consumables | | **1,587,429,345** | 1,094,051,385 |
| | | **3,676,578,748** | 3,177,137,520 |
| | | **P 49,075,369,433** | P 40,906,577,624 |

Real estate for sale mainly pertains to the accumulated costs incurred in developing residential houses, lots and condominium units for sale. Total borrowing costs capitalized amounts to P119.6 million and P183.0 million for the years ended December 31, 2013 and 2012, respectively.

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.

Food, supplies and other consumables include paper and packaging, promotional materials, membership program items, operating supplies, spare parts, fuel and lubricants. These are stated at NRV which is equal or lower than their cost.

The carrying amounts of golf and resort shares for sale and food, supplies and other consumables are net of allowance for inventory write-down of P132.7 million and P140.4 million as of December 31, 2013 and 2012, respectively. A reconciliation of this allowance for inventory write-down at the beginning and end of the reporting periods is shown below.

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | | **P 140,357,186** | P 119,597,534 |
| Additional losses during the year | 25 | **-** | 28,007,639 |
| Reversals of write-down | 26 | **( 7,686,968)** | ( 7,248,987) |
| Balance at end of year | | **P 132,670,218** | P 140,356,186 |

There were no additional losses on inventories recognized during the year. The additional losses on inventories amounting to P28.0 million and P24.4 million for the years ended December 31, 2012 and 2011, respectively, were recognized to reduce the golf and resort shares for sale and promotional materials and supplies to their net realizable values. The reversals of inventory write-down amounting to P7.7 million, P7.2 million and P9.4 million for the years ended December 31, 2013, 2012 and 2011, 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 account (see Note 25) in the 2012 and 2011 consolidated statements of comprehensive income. The reversals of write-down are shown as part of Miscellaneous under Finance and Other Income account in the consolidated statements of comprehensive income (see Note 26).

## 9. OTHER ASSETS

The composition of this account is shown below.

| | Note | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|---|
| Current: | | | |
| Input VAT | | **P 1,899,168,556** | P 1,640,655,540 |
| Creditable withholding tax | | **588,641,046** | 434,862,480 |
| Prepayments | | **560,485,995** | 476,293,417 |
| Advances to suppliers | | **528,865,387** | 328,236,951 |
| Time deposits | 5 | **111,438,992** | 108,403,687 |
| Deferred commissions | | **58,335,362** | 59,998,394 |
| Refundable deposits | | **14,294,652** | 3,538,973 |
| Others | | **450,777,922** | 644,150,423 |
| *Balance brought forward* | | **P 4,212,007,912** | P 3,696,139,865 |

| | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|
| *Balance brought forward* | **P 4,212,007,912** | P 3,696,139,865 |
| Non-current: | | |
| Refundable deposits | **953,536,851** | 682,308,028 |
| Advance payments on assets purchased | **453,493,738** | 556,663,776 |
| Deferred input VAT | **282,471,655** | 186,540,925 |
| Claims for tax refund | **112,861,333** | 112,282,175 |
| Deferred costs | **97,320,104** | - |
| Front-end payment for credit facility | **71,545,250** | 71,545,250 |
| Accumulated jackpot seed money | **57,125,000** | 43,890,128 |
| Rental receivable | **33,323,876** | 41,602,209 |
| Loans receivable | **25,000,000** | 25,000,000 |
| Deposit for future stock subscription | **-** | 22,500,000 |
| Others | **113,751,458** | 188,431,151 |
| | **2,200,429,265** | 1,930,763,642 |
| | **P 6,412,437,177** | P 5,626,903,507 |

Current and non-current Others include prepaid rental and miscellaneous assets.

## 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 (JV) 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 noninterest-bearing, secured cash advances to a number of landowners and joint ventures under the JV agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the JV agreements, the Group, in addition to providing specified portion of total project development costs, 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.

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 and unearned discount and interest, is presented as part of the Advances to Landowners and Joint Ventures account in the consolidated statements of financial position.

The net commitment for construction expenditures of the Group amounts to:

| | **2013** | 2012 |
|---|---|---|
| Total commitment for construction expenditures | **P 14,156,183,501** | P 13,307,544,413 |
| Total expenditures incurred | **( 11,272,848,341)** | ( 10,167,480,277) |
| Net commitment | **P 2,883,335,160** | P 3,140,064,136 |

The Group's interests in jointly-controlled operations and projects, ranging from 55% to 95% in both 2013 and 2012, are as follows:

***Megaworld:***
- Forbeswood Heights
- Forbeswood Parklane 1 & 2
- Greenbelt Excelsior
- Manhattan Parkway Residences
- McKinley Hills
- Newport City
- The Noble Place

***SPI:***
- Adriatico Gardens
- Capitol Plaza
- Governor's Hill
- Mandara
- Sta. Rosa Heights
- Sta. Rosa Hills
- Sentosa
- Asmara

***EELHI:***
- Pioneer Woodlands
- San Lorenzo Place
- Various Metro Manila and Calabarzon projects

***GERI:***
- Caliraya Spring
- Forest Hills
- Kingsborough
- Monte Cielo De Penafrancia
- Mountain Meadows
- Newport Hills
- Parklane Square
- Southwoods Peak

The aggregate amounts of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 related to the Group's interest in joint ventures, presented above, are not presented or disclosed as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.2).

As of December 31, 2013 and 2012, 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 indications of impairment. Based on management's evaluation, no impairment loss is required to be recognized for the years ended December 31, 2013, 2012 and 2011.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

| | **2013** | 2012 |
|---|---|---|
| Marketable debt securities - quoted | **P 4,399,906,888** | P 5,015,803,861 |
| Equity securities: | | |
| Quoted | **117,218,306** | 67,984,065 |
| Unquoted | **245,024,937** | 200,916,139 |
| Allowance for impairment | **( 3,257,940)** | ( 3,257,940) |
| | **241,766,997** | 197,658,199 |
| | **358,985,303** | 265,642,264 |
| | **P 4,758,892,191** | P 5,281,446,125 |

The securities can be further analyzed as follows:

| | **2013** | 2012 |
|---|---|---|
| Local | **P 362,243,243** | P 268,900,204 |
| Allowance for impairment | **( 3,257,940)** | ( 3,257,940 ) |
| | **358,985,303** | 265,642,264 |
| Foreign | **4,399,906,888** | 5,015,803,861 |
| | **P 4,758,892,191** | P 5,281,446,125 |

The reconciliation of the carrying amounts of AFS financial assets are as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **P 5,281,446,125** | P 5,444,323,686 |
| Additions | **676,652,582** | 28,180,000 |
| Disposals | **( 1,053,135,127)** | ( 799,388,951 ) |
| Fair value gains (losses) - net | **( 146,071,389)** | 608,331,390 |
| Balance at end of year | **P 4,758,892,191** | P 5,281,446,125 |

In 2013 and 2012, marketable debt securities bear interests ranging from 5.4% to 10.4% and 5.4% to 11.0% per annum, respectively. As of December 31, 2013 and 2012, there were no permanent decline in value on these securities; therefore, no losses are transferred from equity to profit or loss.

Equity securities consist of local shares of stock and various club shares which are denominated in Philippine pesos. Golf club shares are proprietary membership shares.

The fair values of quoted AFS financial assets have been determined by reference to published prices in an active market. The changes in the fair value arising from these AFS financial assets amounted to P146.0 million loss in 2013, P608.3 million gain in 2012 and P763.8 million loss in 2011 and are presented as Net Unrealized Fair Value Gains (Losses) on AFS Financial Assets in the consolidated statements of comprehensive income.

Upon disposal of various AFS financial assets, the Group realized gains amounting to P128.2 million, P272.1 million and P295.7 million for the years 2013, 2012 and 2011, respectively, and is presented as Gain on Sale of Investment in AFS Financial Assets under Finance and Other Income and Finance Cost and Other Charges in the consolidated statements of comprehensive income (see Note 26).

## 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:

| | **2013** | 2012 |
|---|---|---|
| Investments of Megaworld in associates - | | |
| Acquisition costs: | | |
| LFI | **P 1,442,492,819** | P - |
| SHDI | **875,445,000** | 875,445,000 |
| PTHDC | **64,665,000** | 64,665,000 |
| AGPL | **-** | 2,463,056,417 |
| GPMAI | **-** | 86,830,455 |
| | **2,382,602,819** | 3,489,996,872 |
| Accumulated share in net profits (loss): | | |
| Balance at beginning of year | **( 394,889,263)** | ( 516,168,545) |
| Reversal resulting from disposal of AGPL | **( 394,281,305)** | - |
| Reversal resulting from consolidation of GPMAI | **47,770,162** | - |
| Share in net profits (losses) for the year | **( 10,267,088)** | 121,280,282 |
| Balance at end of year | **( 751,667,494)** | ( 394,888,263) |
| Share in other comprehensive income | **5,807,663** | 1,092,535 |
| *Balance brought forward* | **P 1,636,742,988** | P 3,096,201,144 |

| | 2013 | 2012 |
|---|---|---|
| *Balance carried forward* | **P 1,636,742,988** | P 3,096,201,144 |
| Investments of GERI in associates - | | |
| Acquisition costs: | | |
| NPI | **734,396,258** | 734,258,528 |
| FERC | **28,000,000** | 28,000,000 |
| FENI | **10,000,003** | 10,000,003 |
| FESI | **7,808,360** | 7,808,360 |
| FERSAI | **4,000,000** | 4,000,000 |
| | **784,204,891** | 784,204,891 |
| Accumulated share in net losses: | | |
| Balance beginning of year | **( 43,352,825)** | ( 37,643,672) |
| Share in net losses for the year | **( 728,826)** | ( 5,890,949) |
| Reversal due to consolidation of OPI | **-** | ( 181,796) |
| Balance at end of year | **( 44,081,651)** | ( 43,352,825) |
| | **740,123,240** | 740,852,066 |
| Investment of AG Cayman in AGPL | | |
| Acquisition cost | **-** | 285,460,560 |
| Accumulated share in net profits: | | |
| Balance at beginning of year | **16,208,169** | 16,208,169 |
| Derecognition due to disposal of investment in associate | **( 16,208,169)** | - |
| Balance at end of year | **-** | 16,208,169 |
| | **-** | 301,668,729 |
| Investment in Travellers | | |
| Accumulated share in net profits: | | |
| Balance at beginning of year | **-** | 3,578,625,697 |
| Reversal due to consolidation of Travellers | **-** | ( 3,578,625,697) |
| Balance at end of year | **-** | - |
| Accumulated share in other comprehensive income: | | |
| Balance at beginning of year | **-** | 1,763,175 |
| Reversal due to consolidation of Travellers | **-** | ( 1,763,175) |
| Balance at end of year | **-** | - |
| | **-** | - |
| *Balance brought forward* | **P 2,376,866,225** | P 4,138,721,939 |

| | 2013 | 2012 |
|---|---|---|
| *Balance carried forward* | **P 2,376,866,225** | P 4,138,721,939 |
| 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 | **10,917,947** | 7,846,234 |
| Share in net profits (losses) | **( 2,606,773)** | 3,071,713 |
| Dividends received | **( 10,000,000)** | - |
| Balance at end of year | **( 1,688,826)** | 10,917,947 |
| | **8,311,174** | 20,917,947 |
| Advances to associates and other related parties (see Note 29.9) | **2,713,925,501** | 1,869,121,228 |
| | **P 5,099,102,903** | P 6,028,761,114 |

The total share in net loss amounts to P13.6 million for the year ended December 31, 2013, while total share in net profit amounts to P118.5 million and P2,540.0 million for the years ended December 31, 2012 and 2011, respectively. These amounts are shown as Share in Net Income (Losses) of Associates and Joint Ventures – Net in the consolidated statements of comprehensive income.

The carrying costs of Investments in Associates is lower than the book values of such investments, hence, the management has assessed that the recognition of impairment losses in 2013 and 2012 is not necessary.

### *12.2 GPMAI*

GPMAI became a subsidiary in 2011, through Megaworld's increase in ownership in EELHI, and was consolidated beginning that year. In 2012, EELHI decreased its ownership interest and lost control in GPMAI so the latter ceased to be a subsidiary of Megaworld or EELHI. GPMAI is considered as an associate because EELHI has retained significant influence over it.

In 2013, as a result of Megaworld's increase in ownership interest in EELHI, its ownership interest over GPMAI also increased. Also, Megaworld retains control of GPMAI's BOD as all members of the BOD of GPMAI are also members of Megaworld's BOD; hence, control was re-established and GPMAI becomes a subsidiary of Megaworld.

### *12.3 AGPL*

In 2013, RHGI, a wholly owned subsidiary of Megaworld sold its entire ownership interest in AGPL to a third party. On the same year, AG Cayman also sold its entire ownership interest in AGPL. Due to such disposals, AGPL ceased to be an associate of the Group.

### *12.4 LFI*

In 2013, Megaworld acquired 50% ownership over LFI which is engaged in leasing of real estate properties. Megaworld has not yet established control over LFI; hence, the latter was considered an associate only as of December 31, 2013.

### *12.5 SHDI*

The shares of stock of SHDI are listed in the PSE. The total quoted or market value of investments in this associate amounted to P850.7 million and P516.1 million as of December 31, 2013 and 2012, respectively.

### *12.6 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, 2013 and December 31, 2012 (in thousands):

| | **2013** | | | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Revenues** | **Net Profit (Loss)** |
| NPI | P 5,675,695 | P 1,317,007 | P 35 | (P 85) |
| PTHDC | 1,136,149 | 1,004,802 | 18 | ( 451) |
| LFI | 750,624 | 112,988 | 198,185 | 53,399 |
| SHDI | 398,645 | 273,169 | 282,888 | 17,497 |
| FERC | 297,085 | 227,151 | 248 | ( 4,747) |
| FERSAI | 157,130 | 169,296 | 4,000 | ( 4,706) |
| FESI | 126,533 | 29,917 | 22,420 | ( 2,066) |
| FENI | 98,511 | 93,113 | 20,314 | 7,960 |
| GCFII | 34,939 | 18,316 | 50,453 | ( 5,214) |
| | **P 8,675,311** | **P 3,245,759** | **P 578,561** | **P 61,587** |

| | 2012 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Revenues | Net Profit (Loss) |
| AGPL | P 6,380,453 | P 6,848 | P 431,546 | P 404,976 |
| NPI | 1,329,026 | 1,319,026 | - | - |
| PTHDC | 1,136,627 | 1,004,829 | 71 | ( 328) |
| SHDI | 153,560 | 45,232 | 1,318 | ( 1,839) |
| FERC | 341,189 | 285,550 | 4,043 | ( 8,470) |
| FERSAI | 155,071 | 162,621 | 4,460 | ( 8,858) |
| FESI | 131,507 | 32,824 | 24,693 | ( 2,548) |
| FENI | 100,223 | 108,258 | 6,887 | ( 9,580) |
| GCFII | 51,001 | 11,769 | 78,298 | 6,143 |
| | P 9,778,657 | P 2,976,957 | P 551,316 | P 379,496 |

## 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, 2013 | | | | | | | |
| Cost | P 8,848,556,818 | P 23,253,269,427 | P 9,846,633,145 | P 2,248,791,013 | P 4,694,838,385 | P 5,871,064,336 | P 54,763,153,124 |
| Accumulated depreciation, amortization and impariment | ( 115,976,822 ) | ( 4,412,550,788 ) | ( 4,588,156,757 ) | ( 1,003,810,893 ) | ( 2,980,853,138 ) | - | ( 13,101,348,398 ) |
| **Net carrying amount** | **P 8,732,579,996** | **P 18,840,718,639** | **P 5,258,476,388** | **P 1,244,980,120** | **P 1,713,985,247** | **P 5,871,064,336** | **P 41,661,804,726** |
| December 31, 2012 | | | | | | | |
| Cost | P 7,676,126,272 | P 22,161,584,959 | P 7,870,985,788 | P 2,010,380,647 | P 4,023,148,565 | P 1,218,336,017 | P 44,960,562,248 |
| Accumulated depreciation, amortization and impairment | ( 97,063,452 ) | ( 3,649,628,504 ) | ( 3,296,604,704 ) | ( 787,488,093 ) | ( 2,241,506,240 ) | - | ( 10,072,290,993 ) |
| Net carrying amount | P 7,579,062,820 | P 18,511,956,455 | P 4,574,381,084 | P 1,222,892,554 | P 1,781,642,325 | P 1,218,336,017 | P 34,888,271,255 |
| January 1, 2012 | | | | | | | |
| 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 impariment | ( 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 |

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the reporting periods 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, 2013 net of accumulated depreciation amortization and impairment | P 7,579,062,820 | P 18,511,956,455 | P 4,574,381,084 | P 1,222,892,554 | P 1,781,642,325 | P 1,218,336,017 | P 34,888,271,255 |
| Property, plant and equipment of newly acquired subsidiaries | - | - | - | - | 63,000,110 | - | 63,000,110 |
| Additions | 1,172,374,746 | 1,246,880,141 | 1,739,847,576 | 285,778,028 | 630,523,072 | 5,479,407,519 | 10,554,811,085 |
| Disposals – net | - | (24,128,152) | (46,716,241) | (29,451,243) | (397,838) | (235,567,190) | (336,260,664) |
| Reclassifications – net | 55,800 | 314,962,222 | 85,924,221 | - | 5,530,654 | (591,112,010) | (184,639,113) |
| Impairment loss – reversal | - | 15,000,000 | 3,616,806 | - | - | - | 18,616,806 |
| Depreciation and amortization charges for the year | (18,913,370) | (1,223,952,030) | (1,098,577,058) | (234,239,219) | (766,313,076) | - | (3,341,994,753) |
| Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment | **P 8,732,579,996** | **P 18,840,718,639** | **P 5,258,476,388** | **P 1,244,980,120** | **P 1,713,985,247** | **P 5,871,064,336** | **P 41,661,804,726** |
| Balance at January 1, 2012 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 |
| Property, plant and equipment of newly Consolidated subsidiaries | 4,504,494,240 | 13,167,651,302 | 1,128,038,890 | 1,173,883,404 | 1,255,292,614 | 1,567,670,370 | 22,797,030,820 |
| Additions | 2,195,928,654 | 1,735,095,310 | 2,289,596,531 | 130,105,314 | 838,150,107 | 1,197,006,624 | 8,385,882,540 |
| Disposals – net | (150,000) | (34,112,598) | (38,494,340) | (11,650,806) | (113,743) | - | (84,521,487) |
| Reclassifications – net | (28,524) | 1,580,117,238 | 19,861,911 | 839,375 | 4,937,394 | (1,605,727,394) | - |
| Impairment loss | - | (30,593,000) | | | | | (30,593,000) |
| Depreciation and amortization charges for the year | (14,711,975) | (864,330,619) | (868,941,236) | (267,604,220) | (724,669,667) | - | (2,740,257,717) |
| Balance at December 31, 2012 net of accumulated depreciation, amortization and impairment | P 7,579,062,820 | P 18,511,956,455 | P 4,574,381,084 | P 1,222,892,554 | P 1,781,642,325 | P 1,218,336,017 | P 34,888,271,255 |

Construction in progress includes accumulated costs incurred on the casino and hotel sites and entertainment commercial center being constructed as part of Travellers' investment commitment in accordance with its Provisional License Agreement with PAGCOR [see Note 30.3(a)]. In 2013, Travellers transferred certain potion of construction in progress at cost of P235.5 million to RWBCI, a newly incorporated subsidiary within the Group. RWBCI became a co-licensee of Travellers with respect to the development of Site A of the integrated tourism project covered by the Provisional License Agreement with PAGCOR (see Note 30.3).

The amount of construction in progress includes capitalized borrowing costs amounting to P222.4 million and P282.7 million in 2013 and 2012, respectively, representing the actual borrowing costs, net of related investment income, incurred on loans obtained to fund the construction project [see Note 17(a)].

In 2013 and 2012, the Group recognized impairment loss of P18.6 million and P30.6 million, respectively, to write down to recoverable amount certain property and equipment. In 2013 and 2011, the Group recognized gain on reversal of impairment losses amounting to P18.6 million and P43.9 million, respectively. Impairment loss is presented as Impairment of Property, Plant and Equipment under Other Operating Expenses in the consolidated statements of comprehensive income (see Note 25), while the gain on reversal of the impairment losses are presented as part of Miscellaneous under Finance and Other Income account in the 2013 and 2011 consolidated statements of comprehensive income (see Note 26).

The recoverable amount was based on value in use computed through the discounted cash flows method at the current prevailing interest rate.

The Group recognized a net gain on disposal of various property, plant and equipment totaling P25.7 million in 2013 and P0.2 million in 2012, which is presented as part of Miscellaneous under Finance and Other Income account in the 2013 and 2012 consolidated statements of comprehensive income (see Note 26).

The amount of depreciation is presented as part of Depreciation and Amortization which is presented under cost of goods sold, cost of services and other operating expenses (see Notes 24 and 25).

The Group's aircraft, held by Travellers, with carrying amounts of P828.1 million and P970.1 million as of December 31, 2013 and 2012, respectively, which is presented as part of Transportation Equipment is used as a collateral for Travellers' interest-bearing loan [see Note 17 (l)].

Land and building amounting to P130.0 million is collateralized by GADC to a local bank. As of December 31, 2013 and 2012, the carrying values of the land and building amounted to P112.1 million and P16.4 million, respectively [see Note 17(m)].

The carrying amounts of property, plant and equipment also increased in both years due to the consolidation of property, plant and equipment of newly acquired subsidiaries (see Note 1).

## 14. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, building and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below.

| | Land and Land Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| December 31, 2013 | | | |
| Cost | P 6,982,896,809 | P 24,397,702,795 | P 31,380,599,604 |
| Accumulated depreciation | ( 134,409,248 ) | ( 3,955,761,918 ) | ( 4,090,171,166 ) |
| Net carrying amount | **P 6,848,487,561** | **P 20,441,940,877** | **P 27,290,428,438** |
| December 31, 2012 | | | |
| Cost | P 1,942,749,214 | P 20,033,495,416 | P 21,976,244,630 |
| Accumulated depreciation | ( 134,409,248 ) | ( 3,092,429,182 ) | ( 4,090,171,166 ) |
| Net carrying amount | P 1,810,269,436 | P 16,941,066,284 | P 18,751,335,670 |
| January 1, 2012 | | | |
| Cost | P 1,895,937,099 | P 13,597,646,709 | P 15,493,583,808 |
| Accumulated depreciation | ( 130,550,308 ) | ( 2,329,262,127 ) | ( 2,329,262,127 ) |
| Net carrying amount | P 1,765,386,791 | P 11,268,384,582 | P 13,033,771,373 |

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

| | Land and Land Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2013, net of accumulated depreciation | P 1,810,269,436 | P 16,941,066,234 | P 18,751,335,670 |
| Investment property of newly acquired subsidiaries | 5,020,588,055 | - | 5,020,588,055 |
| Additions | 19,559,540 | 3,677,300,034 | 3,696,859,574 |
| Disposals | - | ( 3,873,468 ) | ( 3,873,468 ) |
| Reclassifications – net | - | 695,129,708 | 695,129,708 |
| Depreciation charges for the year | ( 1,929,470 ) | ( 867,681,631 ) | ( 869,611,101 ) |
| Balance at December 31, 2013, net of accumulated depreciation | **P 6,848,487,561** | **P 20,441,840,877** | **P 27,290,428,438** |
| Balance at January 1, 2012, net of accumulated depreciation | P 1,765,386,791 | P 11,268,384,582 | P 13,033,771,373 |
| Investment property of newly acquired subsidiaries | - | 1,446,111,040 | 1,446,111,040 |
| Additions | 95,067,846 | 4,918,413,361 | 5,013,481,207 |
| Disposals | - | ( 10,137,866 ) | ( 10,137,866 ) |
| Reclassifications – net | ( 48,255,731 ) | ( - | ( 48,255,731 ) |
| Depreciation charges for the year | ( 1,929,470 ) | ( 681,704,883 ) | ( 683,634,353 ) |
| Balance at December 31, 2012, net of accumulated depreciation | P 1,810,269,436 | P 16,941,006,234 | P 18,751,335,671 |

Rental income earned from the investment property amounted to P6.5 billion, P5.5 billion and P3.9 billion for the years ended December 31, 2013, 2012 and 2011, respectively, and shown as Rental Income under Rendering of Services in the consolidated statements of comprehensive income (see Note 23). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P368.8 million, P186.4 million and P150.4 million in 2013, 2012 and 2011, respectively, are presented as part of Cost of Goods Sold and Services in the consolidated statements of comprehensive income (see Note 24). The operating lease commitments of the Group as a lessor are fully disclosed in Note 30.1.

Depreciation charges are presented as part of Depreciation and Amortization under Cost of Services account in the consolidated statements of comprehensive income.

A portion of investment property held for lease is used as collateral for various interest-bearing loans as of December 31, 2013 and 2012 [see Note 17(j),(k) and (p)].

The fair values of these properties amounted to P123.6 billion and P88.0 billion as of December 31, 2013 and 2012, respectively. These are estimated either by reference to current prices for similar properties or by calculation of the present value of the estimated cash inflows anticipated until the end of the life of the investment property.

## 15. INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of the reporting periods are shown below (see Note 2.11).

| | Goodwill | Trademarks | Leasehold Rights | Computer Software | Total |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Cost | P 10,700,039,578 | P 1,028,726,681 | P 57,960,616 | P 23,247,259 | P 11,809,974,134 |
| Accumulated amortization | - | ( 699,668,319) | ( 37,082,426) | ( 23,247,259) | ( 759,998,004) |
| **Net carrying amount** | **P 10,700,039,578** | **P 329,058,362** | **P 20,878,190** | **P -** | **P 11,049,976,130** |
| December 31, 2012 | | | | | |
| Cost | P 10,700,039,578 | P 1,012,572,767 | P 58,835,615 | P 23,247,261 | P 11,794,695,221 |
| Accumulated amortization | - | ( 597,334,115) | ( 35,001,673) | ( 20,664,232) | ( 653,000,020) |
| Net carrying amount | P 10,700,039,578 | P 415,238,652 | P 23,833,942 | P 2,583,029 | P 11,141,695,201 |
| January 1, 2012 | | | | | |
| Cost | P 10,701,998,209 | P 1,012,572,767 | P 63,234,634 | P 23,247,261 | P 11,801,052,871 |
| Accumulated amortization | - | ( 496,076,838) | ( 34,912,366) | ( 12,915,145) | ( 543,904,349) |
| 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 |

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, 2013, net of accumulated amortization | P 10,700,039,578 | P 415,238,652 | P 23,833,943 | P 2,583,029 | P 11,141,695,202 |
| Additions | - | 16,153,914 | - | - | 16,153,914 |
| Amortization for the year | - | ( 102,334,204) | ( 2,955,753) | ( 2,583,029) | ( 107,872,986) |
| Balance at December 31, 2013, net of accumulated amortization | **P 10,700,039,578** | **P 329,058,362** | **P 20,878,190** | **P -** | **P 11,049,976,130** |
| | | | | | |
| Balance at January 1, 2012, 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 |
| Reduction due to deconsolidation | ( 1,958,631) | - | - | - | ( 1,958,631) |
| Disposals | - | - | ( 102,672) | - | ( 102,672) |
| Amortization for the year | - | ( 101,257,277) | ( 4,385,654) | ( 7,749,087) | ( 113,392,018) |
| Balance at December 31, 2012, net of accumulated amortization | P 10,700,039,578 | P 415,238,652 | P 23,833,942 | P 2,583,029 | P 11,141,695,201 |

Trademarks include brand names "Emperador Brandy", "Generoso Brandy" and "The BaR" which were acquired up to 2008. In 2013, the Group registered another trademark under the new brand name "Emperador Deluxe". The amortization of these trademarks amounted to P102.3 million for the year ended December 31, 2013, and P101.3 million for the years ended December 31, 2012 and 2011 and are shown as part of Depreciation and Amortization under Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25).

The remaining useful lives, as of December 31, of the trademarks are as follows:

| | **2013** | 2012 |
|---|---|---|
| Emperador Brandy | **3 years** | 4 years |
| Generoso Brandy | **3 years** | 4 years |
| The BaR | **4.5 years** | 5.5 years |
| Emperador Deluxe | **9.5 years** | - |

Based on the Group's assessment, no impairment loss is required to be recognized on the carrying value of the Group's trademarks as the products that carry such brands are fast moving consumer products that registered topline sales in 2013 for the Group of approximately P28.6 billion, a 25% growth from the previous year. Further, no impairment loss is required to be recognized on the carrying value of the other intangible assets (goodwill, leasehold rights and computer software) as of December 31, 2013, 2012 and 2011.

As of December 31, 2013, the Group has no contractual commitments for the acquisition of any additional trademarks, leasehold rights and computer software.

## 16. TRADE AND OTHER PAYABLES

The breakdown of this account follows:

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Trade payables | 29.2, 29.5 | **P 12,973,517,898** | P 13,051,639,994 |
| Accrued expenses | 18, 29.3, 29.6 | **4,933,423,387** | 3,539,927,649 |
| Retention payable | | **2,352,554,274** | 2,316,658,483 |
| Due to related parties | 25, 29.10 | **1,295,411,359** | 887,770,303 |
| Unredeemed gaming points | | **590,043,790** | 390,747,485 |
| Liabilities for land acquisition | | **586,320,028** | 575,300,558 |
| Gaming license fee payable | | **578,926,247** | 492,994,825 |
| Output VAT payable | | **254,809,111** | 89,880,150 |
| Withholding tax payable | | **183,775,425** | 346,679,878 |
| Others | | **1,082,003,108** | 1,111,976,108 |
| | | **P 24,830,784,627** | P 22,803,575,433 |

Trade payables represent obligations to subcontractors and suppliers of construction materials for the Group's projects and suppliers of inventories. It also includes unredeemed gaming chips determined as the difference between total gaming chips placed in service and the actual inventory of gaming chips under control and custody.

The unredeemed gaming points liability represents the estimated costs of unredeemed casino gaming points issued, which are redeemable for complimentary goods or services of the Group (see Note 2.15).

Accrued expenses include accruals for interest, salaries and wages, utilities, local and overseas travel, training and recruitment, advertising, interest, rentals and other operating expenses of the Group.

Retention payable pertains to amount withheld from payments made to contractors for construction works performed to ensure compliance and completion of contracted projects. Upon completion of the contracted projects, the retained amounts are returned to the contractors. Liabilities for land acquisition represent the unpaid portion of land for future development acquired by the Group.

Others include accrued construction costs, unearned rentals, payables to government and other regulatory agencies, and various unreleased checks which are reverted back to liability.

## 17. INTEREST-BEARING LOANS

The composition of the Group's outstanding bank loans is shown below.

| | 2013 | 2012 |
|---|---|---|
| Current: | | |
| Local | **P 3,653,667,469** | P 4,111,300,559 |
| Foreign | **142,124,800** | 529,655,768 |
| *Balance carried forward* | **P 3,795,792,269** | P 4,640,956,327 |

| | 2013 | 2012 |
|---|---|---|
| *Balance brought forward* | **P 3,795,792,269** | P 4,640,956,327 |
| Non-current: | | |
| Local | **8,695,859,471** | 12,825,378,188 |
| Foreign | **532,724,721** | 624,414,400 |
| | **9,228,584,192** | 13,449,792,588 |
| | **P 13,024,376,461** | P 18,090,748,915 |

The summarized terms and conditions of each availed loan as of December 31, 2013 and 2012 are as follows:

| Outstanding Principal Balance (in Millions of Philippine Pesos) 2013 | 2012 | Explanatory Notes | Interest Rate | Security | Maturity date |
|---|---|---|---|---|---|
| **P 4,429.6** | P 4,392.7 | (a) | Fixed at 2% + benchmark | Unsecured | 2016 |
| **3,000.0** | 3,000.0 | (b) | Variable based on PDST-F plus spread | Secured | 2017 |
| **1,666.7** | 2,619.0 | (c) | Variable based on PDSTF-R plus spread | Unsecured | 2016 |
| **1,000.0** | 400.0 | (d) | Various rates | Unsecured | 2016 to 2019 |
| **779.2** | 907.1 | (e) | Variable prevailing market rate | Secured | Upon collection of related assigned trade receivables |
| **532.7** | 492.6 | (f) | Fixed at 10.0% | Unsecured | 2025 |
| **477.5** | 482.5 | (g) | Variable based on PDSTF-R plus spread | Unsecured | 2016 |
| **241.0** | - | (h) | Non-interest bearing | Unsecured | 30-90 days |
| **229.2** | 330.0 | (i) | Fixed at 5.5% | Unsecured | 2016 |
| **219.7** | 389.9 | (j) | Fixed at range of 7.8% to 10.5% | Secured and unsecured | 2014 |
| **186.7** | 418.7 | (k) | Variable based on 91-day treasury bills | Secured | 2016 |
| **142.1** | 263.6 | (l) | Variable at a minimum of 3.0% | Secured | 2014 |
| **120.0** | 120.0 | (m) | Fixed at 5% | Secured | 2021 |
| **-** | 2,500.0 | (n) | Fixed at 5.8% | Unsecured | 30-180 days |
| **-** | 1,351.0 | (o) | Fixed at 9.0% | Unsecured | 2016 |
| **-** | 397.8 | (p) | Fixed at 0.85% | Unsecured | 28 days |
| **-** | 25.4 | (q) | Fixed at 8% | Secured | 2014 |
| **-** | 0.4 | (r) | Fixed at 15% | Unsecured | 2014 |
| **P 13,024.4** | P 18,090.7 | | | | |

(a) The loan was drawn by Travellers in 2012 from a P11.0 billion loan facility with a local bank, to settle Travellers' secured loans from the same bank. Quarterly principal amortization at P375.0 million starts in March 2014.

(b) Bank loans obtained by AGI and NTLPI to fund the acquisition of Megaworld shares through exercise of their Megaworld warrants. The loan is secured by 2.1 million Megaworld shares owned by NTLPI.

(c) This is the unpaid balance from a P5.0 billion loan availed by Megaworld from a local bank in 2008 and 2009 to fund the development of its various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments.

(d) Loans drawn by GADC from a P1.0 billion credit facility granted by a local bank. Initially, GADC obtained a P400.0 million in December 2012. The loans bear an annual interest rate ranging from 3.85% to 5.15% and shall be payable in quarterly installments starting on various dates, earliest being March 2015.

(e) Loan balance of SPI arising from discounting its trade receivables on a with-recourse basis with local banks.

(f) This is a U.S.$12.0 million loan of GADC from a related party (see Note 29.3).

(g) This is the amount outstanding from a seven-year loan obtained by Megaworld from a local bank in May 2009; interest is payable semi-annually.

(h) Short-term loans acquired by SPI from various financial institutions for working capital purposes.

(i) Pertains to long-term loans availed by SPI in 2012 from a local bank for working capital requirements.

(j) The balance includes local bank loans arising from trade receivable discounted on a with-recourse basis amounting to P219.7 million and P332.7 million as of December 31, 2013 and 2012, respectively (see Note 6). Included in the 2012 balance is the portion of a P400.0 million seven-year loan obtained by EELHI in 2006. Certain residential and condominium units for sale with carrying value of P434.7 million and P528.1 million as of December 31, 2013 and 2012, respectively, were used as collateral for these bank loans (see Note 8).

(k) These are the outstanding portions of ten-year loans obtained by Megaworld from a local bank in 2003, 2005 and 2006, with a three-year grace period on principal payments, payable quarterly thereafter. The loans are collateralized by certain investment property of Megaworld with carrying value of P40.4 million and P43.5 million as of December 31, 2013 and 2012, respectively (see Note 14).

(l) This U.S.$3.2 million (P142.1 million) loan is secured by a mortgage over an aircraft, assignment of receivables and other income from the proposed block charter between Travellers and APEC, assignment of insurance over the aircraft and unconditional and irrevocable guarantee of Travellers (see Note 13). In this regard, Travellers entered into a guarantee contract with the creditor bank whereby it guarantees that the principal amount and related interest will be paid as the payment falls due.

(m) Balance from loan granted to GADC in December 2011 by Planters Development Bank for the purchase of land and building from the latter, payable monthly starting on the third year of the term of the loan. The acquired land and building served as collateral on the loan (see Note 13).

(n) Short-term loans acquired by Travellers from various financial institutions for working capital purposes.

(o) This is the amount outstanding from the seven-year corporate notes issued by Megaworld to several financial institutions in February 2009.

In 2013, Megaworld had early redeemed these outstanding corporate notes. As a result, it recognized P41.1 million penalty charges which is presented as part of Miscellaneous item in Finance Cost and Other Charges section under Other Income and Charges section of the 2013 consolidated statement of comprehensive income.

(p) Short-term loan granted by a foreign bank to fund acquisition of financial assets from the same foreign bank as fund manager of a foreign subsidiary.

(q) Balance from loan obtained by GADC in January 2011 from Goldpath Properties Development Corporation relating to the acquisition of parcels of land amounting to P87.1 million from the latter. Amortization of principal plus interest is payable monthly. The loan was fully paid in 2013.

(r) Loan balance arising from the purchase of property and equipment by AFCMI from a local financial institution, payable on monthly installments. The loan was entirely settled in 2013.

As of December 31, 2013, the Group complied with related loan covenants, including maintaining certain financial ratios, at the reporting dates.

Total interest expense attributable to these loans amounted to P583.6 million, P506.9 million and P320.8 million for the years ended December 31, 2013, 2012 and 2011, respectively, and are presented as part of Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized for the years ended December 31, 2013, 2012 and 2011 amounted to P296.0 million, P465.8 million and P355.6 million, respectively (see Note 13).

## 18. BONDS PAYABLE

This account consists of bonds payable of the Company's subsidiaries as follows:

| | 2013 | 2012 |
|---|---|---|
| AG Cayman | **P 21,976,374,674** | P 20,335,112,081 |
| Megaworld | **21,408,153,620** | 13,556,628,075 |
| Travellers | **13,095,218,012** | 12,098,888,653 |
| | **P 56,479,746,306** | P 45,990,628,809 |

The significant terms of the bonds are discussed below.

| Face Amount | Outstanding Principal Balance 2013 | Outstanding Principal Balance 2012 | Explanatory Notes | Interest Rate | Nature | Maturity |
|---|---|---|---|---|---|---|
| $500.0 million | P 22.0 billion | P 20.3 billion | (a) | Fixed at 6.50% | Unsecured | 2017 |
| $300.0 million | 13.1 billion | 12.1 billion | (b) | Fixed at 6.90% | Unsecured | 2017 |
| $250.0 million | 7.6 billion | - | (c) | Fixed at 4.25% | Unsecured | 2023 |
| $200.0 million | 8.8 billion | 8.6 billion | (d) | Fixed at 6.75% | Unsecured | 2018 |
| P 5.0 billion | 5.0 billion | 5.0 billion | (e) | Fixed at 8.46% | Unsecured | 2015 |
| | P 56.5 billion | P 46.0 billion | | | | |

(a) On August 18, 2010, AG Cayman issued seven-year bonds with interest 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. The net proceeds of the bonds are used to finance capital and project expenditures, refinance certain existing indebtedness of certain subsidiaries, and for general corporate purposes.

Subject to certain exceptions, the bonds may be redeemed by AG Cayman at their principal amount plus any accrued and unpaid interest. The bonds are unconditionally and irrevocably guaranteed by AGI which, together with certain subsidiaries, is required to comply with certain covenants.

(b) On November 3, 2010, Travellers issued seven-year bonds with interest payable semi-annually in arrears every May 3 and November 3 of each year. The bonds are listed in the Singapore Exchange Securities Trading Limited. The net proceeds of the bonds are intended to finance capital and project expenditures, to refinance certain existing indebtedness, and for general corporate purposes of Travellers.

Subject to certain exceptions, Travellers may, at its option, redeem the bonds: (i) in full at a price of 100.0% of the principal if certain changes in laws, treaties, regulations or rulings affecting taxes would require Travellers to pay certain additional amount; and, (ii) at any time prior to November 3, 2014, up to 35.0% of the principal amount at a price of 106.9% of the principal amount with the net cash proceeds of an equity offering. Also, Travellers is required to make an offer to purchase the bonds at a price of 101.0% of the principal amount following a change in control (e.g., a sale or other disposition of all or substantially all of the properties or assets of Travellers to any person or entity).

(c) On April 17, 2013, Megaworld issued 10-year term bonds with semi-annual interest payments every April 10 and October 10. The proceeds of the bond issuance is being used by Megaworld for general corporate purposes.

(d) On April 15, 2011, Megaworld issued seven-year term bonds with interest payable semi-annually in arrears every April 15 and October 15 each year. The proceeds received from this bond are also being used by Megaworld to finance its capital expenditures for its real estate projects.

(e) On November 18, 2009, Megaworld issued bonds with a term of five years and six months. The proceeds received were intended to finance Megaworld's capital expenditures related to real estate development projects for the years 2009 up to 2015.

Interest expense on the bonds payable, including amortization of capitalized transaction costs, amounted to P3.4 billion in 2013, P3.0 billion in 2012 and P2.0 billion in 2011. These amounts are presented as part of Interest expense under Finance and Other Charges in the consolidated statements of comprehensive income (see Note 26). Interest charges capitalized amounted to P423.0 million for 2013, 2012 and 2011. The amounts of outstanding interest payable as at December 31, 2013 and 2012 amounting to P958.7 million and P892.0 million, respectively, are presented as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

## 19. REDEEMABLE PREFERRED SHARES

The Group's redeemable preferred shares pertain to preferred shares issued by subsidiaries as follows:

### *19.1 GADC's Redeemable Preferred Shares*

The shares were 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 (in exact amounts):

| 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 |

Additional features of the preferred shares are as follows:

(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 values on the date of issuance which 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 of 18 years. Based on the terms of subscription and in accordance with PAS 39, the difference between the fair values of the redeemable preferred shares on the date of issuance and the subscription amounts were recognized as APIC.

The accretion of the GADC redeemable preferred shares in 2013, 2012 and 2011 amounted to P58.0 million, P52.4 million and P45.8 million, respectively, and is presented as part of Interest Expense under Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26). As of December 31, 2013 and 2012 , the carrying value of the GADC redeemable preferred shares amounted to P528.1 million and P470.1 million, respectively, shown as part of Redeemable Preferred Shares account in the consolidated statements of financial position. As of December 31, 2013, the fair value of these shares amounted to P947.4 million, as determined by discounting the sum of all future cash flows using prevailing market rates of interest for instrument with similar maturities at a discount rate of 3.59%.

### *19.2 TLC's Redeemable Preferred Shares*

These were issued by TLC in September 2012 consisting of 1,258.0 million shares which are nonvoting, earns dividend at a fixed annual rate of 2.5% and subject to the existence of TLC's unrestricted retained earnings. These were issued in exchange for certain parcels of land with total fair value of P1,338.2 million. The issuance through the exchange of land was approved by SEC on April 17, 2013.

The preferred shares have a maturity of 10 years and shall be redeemed every anniversary date beginning on the sixth anniversary date until expiration of the 10-year period. Only 1/5 of the aggregate face value of preferred shares may be redeemed per year during such redemption period, with all remaining shares to be redeemed on the 10th anniversary date.

## 20. OTHER LIABILITIES

The composition of this account is shown below.

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Reserve for property development | 2.6 | **P 6,940,686,751** | P 6,281,717,914 |
| Customers' deposits | 2.15(b) | **5,196,149,627** | 4,748,505,769 |
| Deferred income on real estate sales | 2.15(b) | **4,509,945,768** | 4,431,527,861 |
| Unearned revenues | | **1,802,882,065** | 1,463,820,018 |
| Dividends payable | | **519,684,000** | - |
| Deposit for future stock subscription | | **423,940,006** | - |
| Deferred rental income | 2.15(i) | **150,792,198** | 246,307,507 |
| Derivative liability | | **38,631,143** | - |
| Others | | **1,595,849,338** | 22,594,675 |
| | | **21,178,560,896** | 17,194,473,744 |
| Non-current: | | | |
| Reserve for property development | 2.6 | **6,096,852,718** | 4,768,078,125 |
| Deferred income on real estate sales | 2.15(b) | **3,857,401,017** | 2,864,335,526 |
| Deferred rental income | 2.15(i) | **1,631,709,613** | 2,058,307,552 |
| Customers' deposit | 2.15(b) | **1,393,589,785** | 1,741,951,677 |
| Derivative liability | | **1,145,961,938** | 1,246,123,668 |
| Guaranty deposits | | **148,218,346** | 113,394,823 |
| Accrued rent | | **77,333,636** | 77,613,012 |
| Asset retirement obligation | | **39,000,431** | 30,569,636 |
| Payable to MRO under stock option plan | 27.3 | **-** | 81,570 |
| Others | | **684,982,165** | 791,503,299 |
| | | **15,075,049,649** | 13,691,958,888 |
| | | **P 36,253,610,545** | P 30,886,432,632 |

The current derivative liability represents the reduction in fair market value as of December 31, 2013 of currency forward options contract entered into with a certain foreign bank. On the other hand, the non-current derivative liability consists of the fair market value of the interest rate swap entered into by Travellers with a certain foreign bank at a notional amount of U.S.$250.0 million. Changes in the fair values of these current derivatives financial liabilities are presented as part of Fair Value Losses while those for non-current financial liability are presented under Unrealized Loss on Interest Rate Swap under Finance Cost and Other Charges account in the consolidated statements of comprehensive income (see Note 26).

Current Others pertains to accounts payable to various parties including liabilities on stocks purchases which amounted to P1.4 billion in 2013, and commissions payable to the Group's real estate agents and SPI's liability on assigned receivables in 2012.

Non-current Others include advances to officers and employees amounting to P121.74 million in 2013 and P65.23 million in 2012, and dividend payable to preferred shareholders amounting to P31.2 million and P10.5 million in 2013 and 2012, respectively.

## 21. EQUITY

### *21.1 Capital Stock*

Capital stock consists of:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | **2013** | 2012 | 2011 |
| Common shares – P1 par value | | | | | | |
| Authorized | **12,950,000,000** | 12,950,000,000 | 12,950,000,000 | **P 12,950,000,000** | P 12,950,000,000 | P12,950,000,000 |
| Issued and outstanding: | **10,269,827,979** | 10,269,827,979 | 10,269,827,979 | **P 10,269,827,979** | P 10,269,827,979 | P 10,269,827,979 |
| Treasury stock – at cost | **( 155,296,400)** | ( 160,317,400) | ( 163,317,400) | **( 955,217,410)** | ( 984,512,637) | ( 1,018,752,369) |
| Total outstanding | **10,114,531,579** | 10,109,510,579 | 10,106,510,579 | **P 9,314,610,569** | P 9,285,315,342 | P 9,251,075,610 |

On March 12, 1999, the SEC approved the initial public offering of the Company's 336.1 million shares (248.1 million then outstanding and 88.0 million new issues) at P1.27 per share. The shares were initially listed in the PSE on April 19, 1999.

A 10% stock dividend was approved by the SEC and listed in September 1999. Three private placements ensued up to January 2011, of which 1.5 billion shares were listed in 2006. Then, a 10% rights offering of 200.47 million shares and 1:1 stock rights of 2.2 billion shares were approved and listed in 2005 and 2007, respectively. In 2007, there were also a share-swap transaction and a follow-on international offering wherein 4.1 billion and 1.8 billion shares, respectively, were issued and listed.

As of December 31, 2013 and 2012, the quoted closing price per share was P25.8 and P16.76, respectively. There are 1,243 holders, which include nominees, of the Company's total issued and outstanding shares. The percentage of the Company's shares of stock owned by the public is 40.14% as of December 31, 2013 and 2012.

### *21.2 Additional Paid-in Capital*

APIC consists mainly of P21.9 billion from the stock rights offering, share swap transaction and international offering in 2007. In 2013 and 2011, the Group reissued treasury shares, resulting to an increase in APIC by P109.9 million and P6.3 billion, respectively.

### *21.3 Dilution Gain*

The movement in dilution gain is a direct result of dilution in the Company's ownership interest in certain subsidiaries when such subsidiaries offer pre-emptive stock rights, underwent international stock offering, and acquire additional shares, in years prior to 2011.

In 2013, the movement is due to changes in ownership interest in certain subsidiaries.

### *21.4 Dividends*

On August 23, 2013 and June 5, 2012, the BOD approved the declaration of cash dividends of P0.38 and P0.36 per share, respectively. Total dividends for 2013 and 2012, amounting P3,902.53 million and P3,697.1 million, were payable to stockholders of record as of September 9, 2013 and June 26, 2012, respectively. The said dividends were fully paid on September 24, 2013 and July 20, 2012, respectively. The amounts presented in the consolidated statements of changes in equity is net of dividends paid to subsidiaries.

### *21.5 Share Options*

*(a) Of the Company*

On July 27, 2011, the BOD approved an Executive Stock Option Plan (ESOP) for the Company's key executive officers, which was subsequently ratified by the stockholders on September 20, 2011. 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.

On December 19, 2011, pursuant to this ESOP, 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. As of December 31, 2013, options for 31.0 million shares have vested and none has been exercised yet.

On March 14, 2013, the Company granted additional 59.1 million stock options to certain key executives at an exercise price of P12.9997, none of which has vested at year-end.

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:

| | | March 2013 Grant | | December 2011 Grant |
|---|---|---|---|---|
| Option life | | 7 years | | 7 years |
| Share price at grant date | P | 21.65 | P | 10.28 |
| Exercise price at grant date | P | 12.999 | P | 9.175 |
| Average fair value at grant date | P | 9.18 | P | 2.70 |
| Average standard deviation of share price returns | | 37.77% | | 37.75% |
| Average dividend yield | | 2.57% | | 1.70% |
| Average risk-free investment rate | | 2.92% | | 2.87% |

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

*(b)* *Of Megaworld*

On April 26, 2012, Megaworld's BOD approved an ESOP for its key executive officers, and on June 15, 2012, the stockholders adopted it.

The options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his/her retirement from the Megaworld. The exercise price shall be at a 15% discount from the volume weighted average closing price of Megaworld's shares for nine months immediately preceding the date of grant.

Pursuant to this ESOP, on November 6, 2012, Megaworld granted stock options to certain key executives to subscribe to 245.0 million of its common shares, at an exercise price of ranging from P1.77 per share.

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:

| | | |
|---|---|---|
| Average option life | | 15.52 years |
| Average share price at grant date | P | 2.71 |
| Average exercise price at grant date | P | 1.86 |
| Average standard deviation of share price returns | | 9.60% |
| Average dividend yield | | 0.48% |
| Average risk-free investment rate | | 3.60% |

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

*(c) Of GERI*

On September 23, 2011, the BOD of GERI approved an ESOP for its key executive officers. This was approved on November 8, 2011 by stockholders holding at least 2/3 of the outstanding capital stock. The purpose of the ESOP is to enable the key executives and senior officers of GERI, who are largely responsible for its further growth and development, to obtain an ownership interest and thereby encourage long-term commitment to GERI. The ESOP is being administered by the Executive Compensation Committee of GERI's BOD.

Under the ESOP, GERI shall initially reserve for exercise of stock options up to 500.0 million common shares of its outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares. Stock options may be granted within 10 years from the adoption of the ESOP and 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 GERI's shares for twelve months immediately preceding the date of grant. The options shall vest within three years from date of grant and the holder of an option may exercise only a third of the option at the end of each year of the three-year period. GERI shall receive cash for the stock options.

Pursuant to this ESOP, on February 16, 2012, key executive officers were granted options to subscribe to 100.0 million GERI shares, at an exercise price of P1.93. An option holder may exercise in whole or in part his vested option provided, that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. On February 16, 2013, a total of 16.4 million options have vested but none of these have been exercised yet by any of the option holders as of December 31, 2013.

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:

| | | |
|---|---|---|
| Grant date | | February 16, 2012 |
| Vesting period ends | | February 15, 2015 |
| Option life | | 7 years |
| Share price at grant date | P | 2.10 |
| Exercise price at grant date | P | 1.93 |
| Average fair value at grant date | P | 2.27 |
| Average standard deviation of share price returns | | 57.10% |
| Average risk-free investment rate | | 2.46% |

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

A total of P156.8 million, P105.8 million and P1.9 million share-based executive compensation is recognized and presented as part of Salaries and Employee Benefits under Other Operating Expenses account in the consolidated statements of comprehensive income for the years 2013, 2012 and 2011, respectively (see Note 25), and correspondingly credited to Share Options account.

### *21.6 Appropriated Retained Earnings*

In December 2013, the BOD of GADC appropriated P2.15 billion for the continuing business expansion. Such business expansion projects include construction of new stores, renovation of existing stores and construction of a distribution center. The construction and renovation projects are expected to be completed until the third quarter of 2014.

The P1.4 billion appropriation made in December 2012, which is for business expansion projects, has been fully utilized in 2013. Moreover, the BOD of AWGI reversed in full the balance of its appropriation amounting to P300.0 million, since the planned capital expenditure was already completed in 2012.

### *21.7 Subsidiaries with Material Non-controlling Interest*

The Group includes five subsidiaries – Megaworld, Travellers, GADC, GERI and Emperador – with material non-controlling interest (NCI) with details shown below (in thousands).

| | **Proportion of Ownership Interest and Voting Rights Held by NCI** | | **Subsidiary's Profit Allocated to NCI** | |
|---|---|---|---|---|
| **Name** | **2013** | **2012** | **2013** | **2012** |
| Megaworld | 35% | 37% | P 3,139,732 | P 2,692,971 |
| Travellers | 58% | 54% | 1,595,926 | 3,367,108 |
| GADC | 51% | 51% | 402,434 | 347,874 |
| GERI | 35% | 36% | 111,744 | 106,149 |
| Emperador | 12% | - | 575,723 | - |

Dividends paid to NCI during the year amounts to P2.9 billion.

The summarized financial information of the subsidiaries, before intragroup elimination, is shown below (in thousands).

| | **December 31, 2013** | | | | |
|---|---|---|---|---|---|
| | **Megaworld** | **Travellers** | **GADC** | **GERI** | **Emperador** |
| Profit for the year attributable to | | | | | |
| owners of Parent | P 5,895,252 | P 1,143,590 | P 386,047 | P 229,123 | P 5,255,087 |
| NCI | 3,139,732 | 1,595,926 | 402,434 | 111,744 | 575,723 |
| Profit fot the year | 9,034,984 | 2,739,516 | 788,481 | 340,867 | 5,830,810 |
| Other comprehensive income (loss) attributable | | | | | |
| to owners of Parent | 1,159,054 | 36,216 | ( 11,451) | ( 7,516) | 121,211 |
| NCI | ( 12,518) | - | - | - | - |
| Other comprehensive income for the year | 1,146,536 | 36,216 | ( 11,451) | ( 7,516) | 121,211 |
| **Total comprehensive income for the year** | **P 10,181,520** | **P 2,775,732** | **P 777,030** | **P 333,351** | **P 5,952,021** |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | GERI | Emperador |
| Profit for the year attributable to | | | | | |
| owners of Parent | P 4,718,853 | P 3,367,108 | P 345,784 | P 158,221 | P - |
| NCI | 2,692,971 | 3,367,108 | 347,874 | 106,149 | - |
| Profit fot the year | 7,411,824 | 6,734,216 | 693,658 | 264,370 | - |
| Other comprehensive income (loss) attributable | | | | | |
| to owners of Parent | 398,169 | 12,390 | 2,444 | 9,964 | - |
| NCI | ( 555) | - | - | - | - |
| Other comprehensive income for the year | 398,724 | 12,390 | 2,444 | 9,964 | - |
| Total comprehensive income for the year | P 7,810,548 | P 6,746,606 | P 696,102 | P 274,334 | P - |

## 22. EARNINGS PER SHARE

Earnings per share is computed (full amounts are used and not truncated) as follows:

| | **2013** | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| Basic: | | | |
| Net profit attributable to owners of the parent company | **P17,218,460,867** | P13,909,991,637 | P11,607,286,356 |
| Divided by the weighted average number of outstanding common shares | **10,109,928,996** | 10,109,214,787 | 9,857,383,542 |
| | **P 1.7031** | P 1.3760 | P 1.1775 |
| Diluted: | | | |
| Net profit attributable to owners of the parent company | **P17,218,460,867** | P13,909,991,637 | P11,607,286,356 |
| Divided by the weighted average number of outstanding common shares | **10,155,705,560** | 10,115,754,423 | 9,859,676,692 |
| | **P 1.6954** | P 1.3751 | P 1.1772 |

As of December 31, 2012 and 2011, there are 20.8 million and 5.24 million potentially dilutive shares, respectively, from the Company's ESOP (see Note 21.6). However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, has little effect on the 2013 and 2012 diluted EPS.

## 23. REVENUES

The breakdown of revenues is presented below.

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Sale of Goods: | | | | |
| Real estate (RE) sales | 2.15(b,d) | **P 22,159,368,696** | P 16,757,139,591 | P 16,360,035,889 |
| Realized gross profit on RE sales | | **3,234,397,459** | 2,295,102,401 | 1,999,416,035 |
| Interest income on RE sales | 6 | **1,537,113,091** | 1,327,541,711 | 1,218,788,823 |
| Revenues from RE sales | | **26,930,879,246** | 20,379,783,703 | 19,578,240,747 |
| Sales of consumer goods | | **29,588,090,458** | 23,702,847,323 | 18,135,255,450 |
| | | **P 56,518,969,704** | P 44,082,631,026 | P 37,713,496,197 |
| Rendering of Services: | | | | |
| Gaming | 2.15(e) | **P 30,003,598,507** | P 28,058,258,093 | P - |
| Sales by company operated quick-service restaurants | 2.15(g) | **14,554,160,085** | 12,622,396,286 | 11,028,662,705 |
| Rental income | 14 | **6,396,131,339** | 5,350,764,337 | 3,862,807,616 |
| Franchise revenues | 2.15(h) | **1,256,044,080** | 1,033,429,724 | 846,757,093 |
| Others | | **4,477,048,438** | 3,458,052,826 | 605,311,251 |
| | | **P 56,686,982,449** | P 50,522,901,266 | P 16,343,538,665 |

Individual sublicense arrangements granted to franchisees and joint venturers 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 there upon also be terminated.

Others include the Group's revenue from hotel operations amounting to P3,284.31 million, P2,731.87million and P392.17 million for 2013, 2012 and 2011, respectively. Others also include income from commissions, construction, cinema operations, parking, laundry, arcade, and production shows.

## 24. COST OF GOODS SOLD AND SERVICES

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

| | Notes | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|---|
| Cost of Goods Sold: | | | | |
| Cost of consumer goods sold: | | | | |
| Direct materials used | | **P 17,585,498,788** | P 12,509,498,483 | P 11,172,300,427 |
| Change in work in process and finished goods | 8 | **1,014,637,574** | 1,850,911,570 | 1,586,753,847 |
| Indirect materials and other consumables | | **322,508,207** | 187,538,112 | 163,220,742 |
| Depreciation and amortization | 13, 15 | **303,827,323** | 179,839,440 | 115,833,216 |
| Salaries and employee benefits | 27.1 | **151,363,069** | 143,857,763 | 47,270,434 |
| Supplies | | **182,647,176** | 130,123,336 | 48,772,251 |
| Repairs and maintenance | | **85,297,398** | 61,571,202 | 41,145,620 |
| Utilities | | **188,647,176** | 61,515,306 | 55,950,827 |
| Outside services | | **138,672,761** | 48,385,674 | 39,664,849 |
| Taxes and licenses | | **25,303,245** | 15,922,445 | 2,457,279 |
| Other direct and overhead costs | | **72,388,425** | 71,301,250 | 38,564,201 |
| | | **20,070,791,142** | 15,260,464,581 | 13,311,933,693 |
| Cost of RE sales | 2.15 | **13,014,651,866** | 9,654,880,549 | 10,315,106,663 |
| Deferred gross profit on RE sales | 2.6 | **4,446,675,079** | 3,472,095,346 | 3,091,703,036 |
| | | **P 37,532,118,088** | P 28,387,440,476 | P 26,718,743,392 |
| Cost of Services: | | | | |
| Food, supplies and other consumables | | **P 7,099,121,197** | P 6,249,176,648 | P 4,262,498,143 |
| Gaming license fees | 30.3(b) | **6,506,213,809** | 6,185,726,261 | - |
| Salaries and employee benefits | 27.1 | **4,251,992,658** | 2,681,587,989 | 1,508,886,936 |
| Rental | | **2,668,711,373** | 2,369,692,411 | 1,985,759,486 |
| Promotional allowance | 2.15 | **2,533,628,373** | 1,687,446,005 | - |
| Depreciation and amortization | 13, 14, 15 | **1,439,960,917** | 1,274,911,262 | 517,637,794 |
| Outside services | | **755,934,220** | 279,367,492 | 270,161,457 |
| Entertainment, amusement and recreation | | **472,324,723** | 279,287,919 | - |
| Other direct and overhead costs | | **1,608,984,819** | 1,644,913,451 | 891,073,499 |
| | | **P 27,336,872,089** | P 22,652,109,438 | P 9,436,017,315 |

Cost of real estate sales pertain to actual costs of real projects incurred to date plus estimated costs to complete (see Note 2.6).

Deferred gross profit on real estate sales pertains to the unrealized portion of gross profit on a year's real estate sales.

Other direct and overhead costs include costs incurred for flight operations, air fare, hotel accommodation and operations and various other costs.

## 25. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

| | Notes | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|---|
| Advertising and promotions | | **P 9,827,324,537** | P 8,203,105,082 | P 1,581,032,899 |
| Salaries and employee benefits | 27.1 | **3,457,351,569** | 3,239,601,285 | 1,498,487,525 |
| Depreciation and amortization | 13, 15 | **2,575,690,600** | 2,082,533,386 | 784,918,016 |
| Utilities | | **1,037,089,984** | 1,131,603,614 | 339,378,559 |
| Commissions | | **938,974,577** | 962,851,090 | 934,994,239 |
| Freight and handling | | **822,268,286** | 784,233,562 | 460,232,574 |
| Management fees | 29.6 | **615,688,637** | 685,417,587 | - |
| Royalty | 29.10 | **743,892,966** | 646,450,272 | 559,245,358 |
| Taxes and licenses | | **684,837,466** | 578,274,271 | 319,299,545 |
| Rental | | **805,334,658** | 495,014,368 | 261,269,083 |
| Professional fees and outside services | | **691,241,478** | 471,549,008 | 234,302,711 |
| Transportation and travel | | **461,097,810** | 421,475,634 | 259,746,657 |
| Repairs and maintenance | | **393,252,254** | 244,182,189 | 42,082,597 |
| Representation and entertainment | | **150,295,427** | 171,864,087 | 96,993,406 |
| Communication and office expenses | | **43,904,963** | 41,762,608 | 48,124,234 |
| Insurance | | **5,732,814** | 7,072,922 | 6,630,699 |
| Impairment of property, plant and equipment | 13 | **-** | 30,593,000 | - |
| Impairment of receivables | 6 | **1,852,173** | 36,626,512 | 23,247,378 |
| Write-down of inventories | 8 | **-** | 28,008,639 | 24,432,059 |
| Others | | **1,819,886,263** | 1,463,286,982 | 746,346,482 |
| | | **P 25,075,716,462** | P 21,725,506,098 | P 8,220,764,021 |

These other operating expenses are classified by function as follows:

| | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| General and administrative expenses | **P 11,913,108,043** | P 10,276,757,684 | P 4,633,673,275 |
| Selling and marketing expenses | **13,162,608,419** | 11,448,748,414 | 3,587,090,746 |
| | **P 25,075,716,462** | P 21,725,506,098 | P 8,220,764,021 |

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in its 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, 2013 and 2012 amounted to P119.4 million and P112.1 million, respectively, and is shown as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Notes 16 and 29.10).

Other operating expenses include expenses incurred for security services, used materials, supplies and other consumables, donations, training and development, membership dues, and various other expenses.

## 26. OTHER INCOME AND CHARGES

Other income and charges provide details of Finance and Other Income account and Finance Cost and Other Charges account as presented in the statement of comprehensive income.

| | Notes | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|---|
| Finance income: | | | | |
| Interest income on cash and cash equivalents and others | 5, 7 | **P 3,099,675,804** | P 3,922,992,079 | P 3,897,975,086 |
| Other income: | | | | |
| Fair value gains – net | 7 | **-** | 1,433,951,500 | - |
| Gain on divestment of interest in a subsidiary | | **2,905,304,542** | - | - |
| Foreign currency gains – net | | **2,336,779,018** | 711,154,150 | 1,569,197,047 |
| Income from acquisition of a subsidiary | | **763,834,597** | - | 3,131,993,894 |
| Gain on reversal of liabilities | | **160,666,483** | - | - |
| Gain on sale of investment in AFS financial assets | | **128,177,128** | 272,103,283 | 295,737,916 |
| Dividend income | | **14,178,074** | 10,515,804 | 6,334,455 |
| Preacquisition income | 12 | **6,315,710** | - | - |
| Gain on refunds | | **4,100,270** | - | - |
| Miscellaneous | 6, 8, 13 | **754,342,224** | 1,059,262,530 | 792,596,798 |
| | | **P 10,173,373,850** | P 7,409,979,346 | P 9,693,835,196 |
| Finance cost and other charges: | | | | |
| Interest expense | 17, 18 19, 28 | **P 4,285,500,975** | P 3,751,269,989 | P 2,654,422,604 |
| Unrealized loss on interest rate swap | 20 | **112,842,001** | 368,646,466 | - |
| Fair value losses – net | 7, 20 | **429,371,099** | - | 1,143,963,462 |
| Day-one loss on non-current installment contract receivable | | **49,995,897** | - | - |
| Loss on write-off of property development costs | | **27,945,739** | 61,518,212 | - |
| Preacquisition loss | 12 | **-** | - | 17,326,952 |
| Miscellaneous | 6 | **103,123,984** | 70,346,876 | 5,119,257 |
| | | **P 5,008,779,695** | P 4,251,781,543 | P 3,820,832,275 |

A gain on acquisition of subsidiary amounting to P763.8 million was recognized in 2013 from the acquisition of 100% interest in WGPI by Megaworld in August 2013. The transaction was settled in cash amounting to P3.3 billion, while fair value of the net identifiable assets acquired amounted to P4.1 billion. A gain on acquisition of subsidiary amounting to P3.1 billion was recognized in 2011 from AGI's acquisition of 62% ownership in GERI.

## 27. SALARIES AND EMPLOYEE BENEFITS

### *27.1 Salaries and Employee Benefits*

Expenses recognized for salaries and employee benefits are presented below.

| | Notes | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|---|
| Short-term employee benefits | | **P 7,437,580,212** | P 5,762,362,586 | P 2,912,226,585 |
| Post-employment defined benefit | 27.2 | **266,310,249** | 196,921,984 | 140,266,202 |
| Stock option benefit expense | 27.3, 29.12 | **156,816,832** | 105,762,467 | 2,152,108 |
| | | **P 7,860,707,293** | P 6,065,047,037 | P 3,054,644,895 |

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

| | Notes | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|---|
| Cost of goods sold | 24 | **P 151,363,069** | P 143,857,763 | P 47,270,434 |
| Cost of services | 24 | **4,251,992,658** | 2,681,587,989 | 1,508,886,936 |
| Other operating expenses | 25 | **3,457,351,569** | 3,239,601,285 | 1,498,487,525 |
| | | **P 7,860,707,293** | P 6,065,047,037 | P 3,054,644,895 |

### *27.2 Post-employment Defined Benefit*

*(a) Characteristics of the Defined Benefit Plan*

Except for Megaworld, GERI, and GADC, the Company and all other subsidiaries have no established corporate retirement plans. Travellers, EDI, AWGI and TEI compute its retirement obligation based on the provisions of Republic Act (R.A) No. 7641, *The Retirement Pay Law*. The amounts of retirement benefit expense and obligation were actuarially determined using the projected unit credit method for those with corporate retirement plans and those retirement plans following R.A. 7641. Whereas, the Company and the other subsidiaries within the Group have not accrued any retirement benefit obligation as each entity has less than 10 employees, except for Travellers, EDI, AWGI, and TEI. The Group's management believes that the nonaccrual of the estimated retirement benefits will not have any material effect on the Group's consolidated financial statements.

Megaworld maintains a funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee bank covering all regular and full-time employees. GERI has an unfunded, noncontributory defined benefit plan covering all regular employees. GERI's plan provides for a lump-sum benefit equal to 85% to 150% of the employees monthly salary for every year of qualified duration of service. GADC has a funded, defined contribution retirement plan covering all regular and full-time employees, which allows voluntary employee contribution. Actuarial valuations for Megaworld, GERI and GADC are made annually to update the retirement benefit costs and the amount of accruals.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(i).

The amounts of retirement benefit obligation as of the end of the reporting periods, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

| | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|
| Present value of the obligation | **P 1,801,290,300** | P 1,555,759,023 |
| Fair value of plan assets | **( 373,197,625)** | ( 347,280,123) |
| | **P 1,428,092,675** | P 1,208,478,900 |

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

| | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|
| Balance at beginning of year | **P 1,555,909,468** | P 1,234,874,976 |
| Current service and interest costs | **296,199,518** | 257,217,845 |
| Additions due to consolidation of new subsidiaries | **37,021,023** | 21,761,432 |
| Re-measurement gain (loss) | **( 57,123,176)** | 54,134,799 |
| Benefits paid by the plan | **( 30,716,534)** | ( 12,230,029) |
| Balance at end of year | **P 1,801,290,300** | P 1,555,759,023 |

The movements in the fair value of plan assets of funded retirement plans of Megaworld and GADC are presented below.

| | 2013 | 2012 (As Restated – see Note 2.3) |
|---|---|---|
| Balance at beginning of year | **P 347,280,123** | P 279,126,463 |
| Contributions paid into the plan | **54,493,850** | 49,686,053 |
| Actual return on plan assets | **( 8,203,292)** | 31,472,895 |
| Actuarial gain | **-** | ( 1,610,760) |
| Benefits paid by the plan | **( 20,373,056)** | ( 11,394,528) |
| Balance at end of year | **P 373,197,625** | P 347,280,123 |

The Group expects to contribute in 2013, P12.0 million and P40.0 million to the retirement plan maintained for Megaworld and GADC, respectively. GERI has yet to decide the amount of future contributions to its existing unfunded retirement plan.

The plan assets of Megaworld (pertaining only to cash and equivalents amounted to P89.8 million) and GADC consist of the following:

| | **2013** | 2012 |
|---|---|---|
| Investments in: | | |
| Unit investment trust fund | **72.0%** | 81.0% |
| Other securities and debt instruments | **27.2%** | 6.5% |
| Long-term equity investments | **-** | 10.2% |
| Cash and cash equivalents | **0.4%** | 1.9% |
| Loans and receivables | **0.4%** | 0.4% |
| | **100.0%** | 100.0% |

In 2013, there is no return from GADC's plan assets, while actual returns amounts to P31.5 million and P16.8 million in 2012 and 2011, respectively.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for loans and receivables which are at Level 3.

The amounts of retirement benefits expense recognized as part of Salaries and Employee Benefits (see Note 27.1) in the consolidated statements of comprehensive income are as follows:

| | **2013** | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| Current service cost | **P 255,590,445** | P 196,921,984 | P 129,219,066 |
| Past service cost | **10,719,804** | - | 199,580 |
| Effects of settlement/curtailment | **-** | - | 10,847,556 |
| | **P 266,310,249** | P 196,921,984 | P 140,266,202 |

The amounts of retirement benefit expense are allocated as follows:

| | **2013** | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| Cost of goods sold and services | **P 148,721,619** | P 91,051,139 | P 38,770,284 |
| Other operating expenses | **117,588,630** | 105,870,845 | 101,495,918 |
| | **P 266,310,249** | P 196,921,984 | P 140,266,202 |

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

| | **2013** | 2012 |
|---|---|---|
| Discount rates | **4.37% - 6.23%** | 5.02% - 7.30% |
| Expected rate of salary increases | **3.00% - 7.00%** | 3.00% - 7.00% |

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.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Risks*

Discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

*(i) Sensitivity Analysis*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

| | | **Maximum Impact on Post-employment Obligation** | |
|---|---|---|---|
| | **Change in Assumption** | **Increase in Assumption** | **Decrease in Assumption** |
| Discount rate | +/- 1% | P 547,000,764 | (P 655,699,929) |
| Salary increase rate | +/- 1% | 788,268,145 | ( 655,699,929) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Asset-liability Matching Strategies*

The Group, through its BOD, envisions that the investment positions shall be managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This aims to match the plan assets to the retirement obligations by investing in equities and maintaining cash and cash equivalents that match the benefit payments as they fall due and in the appropriate currency.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P1,428.1 million based on the Group's latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 23 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan as at December 31, 2013 are as follows:

| | |
|---|---|
| Within one year | P 47,698,754 |
| More than one year to 5 years | 79,432,185 |
| More than five years to 10 years | 572,089,311 |
| More than ten years to 15 years | 771,595,916 |
| More than 15 years to 20 years | 1,355,722,396 |
| More than 20 years | 30,934,762,708 |
| | P 33,761,301,270 |

### *27.3 Stock Option Benefits*

The Group's stock option benefit expense includes the amounts recognized by the Company, Megaworld and GERI over the vesting period of the options granted by them (see Note 21.5). Options for 31.0 million shares have vested as of December 31, 2013. Stock option benefits expense, included as part of Salaries and Employee Benefits amounted to P156.8 million in 2013, P105.8 in 2012 and P1.9 million in 2011 (see Note 27.1).

GADC's stock options already fully vested as of December 31, 2011. The related payable, amounting to P82.0 million and P3,164.0 million as of December 31, 2012 and 2011, respectively, is presented as Payable to MRO Under Stock Option Plan which is part of the Non-current portion of Other Liabilities in the consolidated statements of financial position (see Note 20).

## 28. TAXES

### *28.1 Current and Deferred Taxes*

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

| | 2013 | 2012 (As Restated – see Note 2.3) | 2011 As Restated – see Note 2.3) |
|---|---|---|---|
| *Reported in consolidated profit or loss* | | | |
| Current tax expense: | | | |
| RCIT at 30% | **P 4,030,414,576** | P 3,536,607,270 | P 2,322,589,115 |
| Final tax at 20% and 7.5% | **225,256,736** | 287,702,318 | 270,007,575 |
| Minimum corporate income tax (MCIT) at 2% | **29,429,810** | 26,568,346 | 10,076,534 |
| Preferential tax rate at 5% | **27,592,034** | - | 18,802,816 |
| Others | **75,941,268** | 74,566,986 | 18,328,041 |
| | **4,388,634,424** | 3,925,444,920 | 2,639,804,081 |
| Deferred tax expense relating to origination and reversal of temporary differences | **968,122,673** | 706,666,186 | 713,200,408 |
| | **P 5,356,757,097** | P 4,623,478,952 | P 3,351,837,203 |
| *Reported in consolidated other comprehensive income -* | | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **(P 22,204,044)** | (P 83,187,376) | P 85,226,726 |

ECOC and SEDI, which are subsidiaries of Megaworld, are PEZA- registered entities which are covered by the 5% preferential tax rate on gross income from registered activities in lieu of all local and national taxes and to other tax privileges.

In November 2011, the Board of Investments approved SPI's application for registration on a certain project. SPI is entitled to income tax holiday for three years from November 2011 or actual start of commercial operations/selling, whichever is earlier but in no case earlier than the date of registration, with certain terms.

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

| | 2013 | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| Tax on consolidated pretax income at 30% | **P 8,523,671,095** | P 7,535,140,539 | P 5,428,367,912 |
| Adjustment for income subjected to different tax rates | **( 1,598,765,848)** | ( 845,041,085) | ( 361,619,505) |
| Tax effects of: | | | |
| Income not subject to RCIT | **( 9,233,947,881)** | ( 9,979,739,392) | ( 1,944,509,400) |
| Nondeductible expenses | **7,106,788,376** | 6,993,144,567 | 194,042,858 |
| Tax benefit arising from unrecognized deferred tax asset | **572,841,777** | 785,150,505 | 31,645,338 |
| Additional deduction with the use of Optional Standard Deduction (OSD) | **( 38,707,207)** | ( 20,338,447) | ( 14,097,571) |
| Gross income generated from PEZA-registered activities | **( 2,025,971)** | ( 969,310) | ( 1,513,964) |
| Increase in remeasurement gains on Retirement liability | **39,012,060** | - | - |
| Others | **( 12,109,304)** | 164,763,729 | ( 20,688,821) |
| Tax expense reported in consolidated profit or loss | **P 5,356,757,097** | P 4,623,478,952 | P 3,353,004,489 |

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

| | 2013 | 2012 ( As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
|---|---|---|---|
| Deferred tax assets: | | | |
| Retirement benefit obligation | **P 389,030,740** | P 314,796,003 | P 294,368,394 |
| Allowance for impairment losses | **177,764,052** | 181,298,846 | 157,263,520 |
| Net Operating Loss Carry-over (NOLCO) | **48,333,454** | 185,389,015 | 174,154,490 |
| Accrued rent | **35,755,872** | 48,115,007 | 39,396,892 |
| MCIT | **23,317,621** | 15,808,652 | 11,004,011 |
| Allowance for inventory write-down | **13,183,799** | 15,394,757 | 9,206,605 |
| Unrealized income – net | **4,635,851** | 3,304,102 | 2,988,344 |
| Gross profit for tax purposes | **-** | 17,446,954 | - |
| Share based employee compensation | **-** | 11,554,581 | - |
| Unrealized foreign currency losses | **-** | 127,032 | 1,903,411 |
| Others | **36,538,273** | 15,803,589 | 15,198,094 |
| | **P 728,559,662** | P 809,038,538 | P 705,483,761 |
| Deferred tax liabilities – net: | | | |
| Uncollected gross profit | **P 6,305,622,637** | P 5,072,458,458 | P 4,184,468,051 |
| Capitalized interest | **1,160,842,521** | 1,135,379,776 | 953,496,771 |
| Unrealized foreign currency (gains) losses | **( 262,572,657)** | 52,847,842 | 39,281,721 |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | **198,812,638** | 200,166,619 | 143,527,885 |
| Uncollected rental income | **91,493,961** | 143,687,644 | 96,614,243 |
| Translation adjustments | **( 87,005,067)** | ( 102,276,919 ) | ( 31,481,851) |
| Accrued retirement cost for tax purposes | **-** | ( 188,131,869 ) | ( 116,022,532) |
| Others | **( 164,714,655)** | 19,971,460 | 259,462,413 |
| | **P 7,242,479,378** | P 6,334,103,011 | P 5,529,346,701 |

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

| | Consolidated Profit or Loss | | | Consolidated Other Comprehensive Income | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) | **2013** | 2012 (As Restated – see Note 2.3) | 2011 (As Restated – see Note 2.3) |
| Deferred tax expense (income): | | | | | | |
| Uncollected gross profit | **P 1,233,164,179** | P 887,990,407 | P 1,487,033,750 | **P -** | P - | P - |
| NOLCO | **( 137,055,561)** | ( 11,234,525) | 1,041,573 | **-** | - | - |
| Retirement benefit obligation | **104,000,889** | ( 87,071,501) | ( 64,742,722) | **6,932,192** | ( 12,392,308) | ( 81,384,090) |
| Capitalized interest | **25,462,745** | 181,883,005 | 341,878,304 | **-** | - | - |
| Uncollected rental income | **( 52,193,683)** | 47,073,401 | 73,592,570 | **-** | - | - |
| Accrued rent | **( 12,359,135)** | ( 8,718,115) | 5,130,979 | **-** | - | - |
| MCIT | **7,508,969** | ( 4,804,641) | 142,921 | **-** | - | - |
| Allowance for impairment losses | **( 3,534,794)** | ( 24,035,326) | 10,240,751 | **-** | - | - |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | **( 1,353,981)** | 56,638,734 | ( 38,378,062) | **-** | - | - |
| Unrealized foreign currency gains - net | **( 127,032)** | 11,789,742 | ( 5,170,963) | **-** | - | - |
| Translation adjustments | **-** | - | - | **15,211,852** | ( 70,795,068) | ( 3,842,636) |
| Fair value adjustments on AFS | **-** | - | - | **-** | - | |
| Others | **( 195,390,923)** | ( 342,844,995) | 55,626,558 | **-** | - | - |
| | **968,122,673** | 706,666,186 | 1,866,395,659 | **22,204,044** | ( 83,187,376) | ( 85,226,726) |
| 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 (income) | **P 968,122,673** | P 706,666,186 | P 713,200,408 | **P 22,204,044** | (P 83,187,376) | (P 85,226,726) |

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** | **Original Amount** | **Applied in Current Year** | **Expired Balance** | **Remaining Balance** | **Valid Until** |
|---|---|---|---|---|---|
| 2013 | P 2,698,274,684 | P - | P - | P 2,698,274,684 | 2016 |
| 2012 | 1,852,489,020 | ( 1,337,144.00) | - | 1,851,151,876 | 2015 |
| 2011 | 415,740,232 | ( 3,814,389) | - | 411,925,843 | 2014 |
| 2010 | 1,591,750,423 | ( 54,512,812) | ( 1,537,237,611) | - | 2013 |
| | P 6,558,254,359 | (P 59,664,345) | (P 1,537,237,611) | P 4,961,352,403 | |

Certain companies of 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** |
|---|---|---|---|---|
| 2013 | P 32,246,693 | P - | P 32,246,693 | 2016 |
| 2012 | 20,660,215 | - | 20,660,215 | 2015 |
| 2011 | 27,852,997 | - | 27,852,997 | 2014 |
| 2010 | 15,267,510 | ( 15,267,510) | - | 2013 |
| | P 96,027,415 | (P 15,267,510) | P 80,759,905 | |

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2013, 2012 and 2011 for which the related deferred tax assets – net have not been recognized by certain subsidiaries within the Group based on their assessments that the related tax benefits may not be realized within the provided period.

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Tax Effect** | Amount | Tax Effect | Amount | Tax Effect |
| NOLCO | **P4,961,352,403** | **P1,488,405,721** | P3,725,565,135 | P 1,117,669,541 | P 216,828,440 | P 65,048,532 |
| Unrealized loss on interest rate swap | **1,137,998,386** | **341,399,516** | 1,325,831,385 | 397,749,416 | - | - |
| Share-based compensation | **264,469,448** | **79,340,834** | 20,174,162 | 6,052,249 | 1,890,150 | 567,045 |
| MCIT | **65,098,838** | **65,098,838** | 43,808,507 | 43,808,507 | 3,023,416 | 907,025 |
| Retirement benefit obligation | **49,435,000** | **14,830,500** | 32,448,290 | 9,734,487 | 657,761 | 197,328 |
| Allowance for impairment | **24,385,645** | **7,315,694** | 23,653,124 | 7,095,937 | 65,175,745 | 19,552,724 |
| Unrealized foreign currency losses – net | **( 12,578,916 )** | **( 3,773,675 )** | ( 536,950,652) | ( 161,085,196) | - | - |
| Accrued rent | **6,627,877** | **1,988,363** | 2,101,002 | 630,301 | 7,290,233 | 2,187,069 |
| Allowance for inventory write-down | **312,718** | **93,815** | 352,036 | 105,611 | 458,815 | 137,645 |
| ARO | **-** | **-** | 323,254 | 96,976 | 546,532 | 163,959 |
| | **P6,497,101,399** | **P1,994,699,606** | P4,637,306,243 | P1,421,857,829 | P 295,871,092 | P 88,761,327 |

### *28.2 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 2013, 2012 and 2011, the companies within the Group opted to continue claiming itemized deductions, except for AWGI and MDC which opted to use OSD, in computing for its income tax due.

## 29. RELATED PARTY TRANSACTIONS

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

The summary of the Group's transactions with its related parties as of and for the years ended December 31, 2013 and 2012 are as follows:

| Related Party Category | Notes | Amount of Transaction 2013 | Amount of Transaction 2012 | Amount of Transaction 2011 | Outstanding Balance 2013 | Outstanding Balance 2012 |
|---|---|---|---|---|---|---|
| **Parent Company and subsidiaries' stockholders:** | | | | | | |
| Accounts payable | 29.1 | **P -** | (P 1,500,000,000) | P - | **P -** | P - |
| Loan payable | 29.3 | **-** | - | ( 33,480,000) | **532,724,721** | 492,600,000 |
| Interest expense on Loan payable | 29.3 | **51,198,700** | 50,562,700 | 51,900,000 | **13,378,621** | 10,747,946 |
| Redeemable preferred shares | 19 | **-** | - | - | **528,133,002** | 470,098,561 |
| Casino transactions | 29.5 | **9,911,409,089** | 8,722,105,033 | 14,611,122,743 | **329,046,155** | 847,048,733 |
| Incidental rebate charges | 29.5 | **2,653,102,036** | 2,522,926,974 | 2,166,770,132 | **331,528,281** | 80,777,594 |
| Management fees | 29.6 | **562,848,779** | 631,335,697 | 624,475,469 | **23,996,555** | 127,590,957 |
| **Related party under common ownership** | | | | | | |
| Purchase of raw materials | 29.2 | **418,361,736** | 7,820,858,350 | 7,687,228,540 | **451,648,340** | 789,565,615 |
| Purchase of imported goods | 29.2 | **146,501,368** | 488,803,326 | 484,858,067 | **35,270,647** | 119,069,000 |
| Acquisition of assets | 29.4 | **897,569,335** | - | - | **196,597,811** | - |
| Rental expense | 29.7 | **6,345,773** | 3,320,328 | - | **-** | - |
| **Associates** | | | | | | |
| Rental income | 29.7 | **747,495** | 1,174,635 | 5,075,000 | **603,436** | 580,028 |
| Advances granted | 29.9 | **844,804,273** | ( 278,710,723) | 183,463,451 | **2,713,925,501** | 1,869,121,228 |
| **Others** | | | | | | |
| Rental income | 29.7 | **1,443,364** | 134,018 | 473,184 | **171,104** | 948,580 |
| Receivable from joint venture | 29.8 | **22,797,613** | 32,822,342 | ( 1,000,000) | **17,711,146** | 15,811,782 |
| Advances granted | 29.10 | **43,939,262** | 178,057,833 | 418,078,000 | **1,239,264,958** | 1,195,325,696 |
| Advances obtained | 29.10 | **407,641,062** | 190,721,030 | 309,940,000 | **1,295,411,359** | 887,770.297 |
| Advances from joint venture partners and others | 29.11 | **( 502,295,497)** | 632,225,121 | 224,177,805 | **354,107,249** | 856,402,926 |
| Other liabilities | 29.13 | **159,814,099** | 21,552,014 | - | **161,969,303** | 21,552,014 |

### *29.1 Due to a Stockholder*

As of December 31, 2011, the Company has outstanding noninterest-bearing, unsecured and payable on demand, liability to The Andresons Group, Inc. (TAGI) amounting to P1.5 billion which is presented as part of Trade and Other Payables account (see Note 16). The Company fully paid the entire liability in 2012.

### *29.2 Purchase of Goods*

Prior to the acquisition of the distillery plant in 2013, Emperador sources its alcohol requirements from Consolidated Distillers, Inc. (Condis). Emperador imports raw materials such as alcohol, flavorings and other items through Andresons Global, Inc. (AGL). There are also finished goods purchased from Condis and through AGL. These transactions are payable within 30 days. The outstanding liability related to such purchases is presented as part of Trade Payables under current Trade and Other Payables in the consolidated statements of financial position (see Note 16).

### *29.3 Loan from MRO*

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 (see Note 17). Accrued interest payable as of December 31, 2013 and 2012 is included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### *29.4 Acquisition of Assets*

In 2013, GADC acquired building and leasehold improvements from McDonald's Philippines Realty Corporation (MPRC), with outstanding liability amounting to P196,597,811 as of December 31, 2013.

In 2013, Emperador acquired the distillery facilities of Condis, which include the following assets:

| | Notes | |
|---|---|---|
| Property, plant and equipment | 13 | P 756,990,993 |
| Inventories | 8 | 140,578,342 |
| | | **P 897,569,335** |

The acquisition was fully settled in cash in 2013.

### *29.5 International Marketing and Joint Co-operation Agreement with Genting Hongkong, Ltd. (GHL)*

In 2009, Travellers entered into an international marketing agreement with GHL whereby GHL will handle the promotion of the Travellers' casinos and will bring in foreign patrons to play in its casinos. As a consideration for such service, Travellers shall pay GHL an amount equivalent to a certain percentage of gross gaming revenues recognized by Travellers from foreign patrons brought in by GHL.

In 2012, the Travellers and GHL terminated the international marketing agreement and executed a joint co-operation agreement to revise the consideration for the services of GHL to Travellers from a certain percentage of gross gaming revenues to a certain percentage of net turnovers.

Incidental rebate charges arising from this transaction are presented as part of General Marketing under the General and Administrative Expenses account in the consolidated statements of comprehensive income (see Note 16). The outstanding balances of payables are presented as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

Travellers also recognized outstanding receivables from GHL representing show money received by GHL from foreign patrons which GHL will later remit to the Travellers. The outstanding balances of receivables are presented as part of Trade Receivables under Trade and Other Receivables in the consolidated statements of financial position (see Note 6).

### *29.6 Operations and Management Agreement with GHL*

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. Management fees are presented as part of Management fees under the Other Operating Expenses account in the consolidated statements of comprehensive income (see Note 25). The outstanding liability arising from this transaction is presented as part of Accrued Expenses in the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

### *29.7 Rental Income from Associates*

GERI leases its investment property to certain related parties with rental payments mutually agreed before the commencement of the lease. The revenue earned from leases to related parties are included as part of Rental Income under Rendering of Services account in the consolidated statements of comprehensive income (see Note 23). The outstanding receivable is short-term, unsecured, noninterest-bearing, and are generally settled in cash upon demand.

As of December 31, 2013 and 2012, based on management's assessment, the outstanding balance of rental income receivable from associate is not impaired; hence, no impairment losses were recognized.

### *29.8 Receivable from a Joint Venture*

Receivables from GCFII are unsecured, interest free and normally settled in cash. These are included in Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

As of December 31, 2013 and 2012, based on management's assessment, the outstanding balance of the receivable from joint venture is not impaired; hence, no impairment losses were recognized.

### *29.9 Advances to Associates and Other Related Parties*

Entities within the Group grant to or obtain advances from 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 are shown as part of Investments in Associates and Other Related Parties account in the consolidated statements of financial position, are presented as follows (these mainly represent advances granted by Megaworld) (see Note 12.1):

| | **2013** | 2012 |
|---|---|---|
| Advances to: | | |
| Associates | **P 1,004,507,999** | P 1,063,503,674 |
| Other related parties | **1,709,417,502** | 805,617,554 |
| | **P 2,713,925,501** | P 1,869,121,228 |

The movements of the Advances to Associates and Other Related Parties account are as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **P 1,869,121,228** | P 2,147,830,751 |
| Cash advances granted | **903,799,948** | 5,731,527 |
| Collections | **( 58,995,675)** | ( 284,441,050) |
| Balance at end of year | **P 2,713,925,501** | P 1,869,121,228 |

As of December 31, 2013 and 2012, 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.

### *29.10 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. As of December 31, 2013 and 2012, 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.

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:

| | 2013 | 2012 |
|---|---|---|
| ***Due from Related Parties*** | | |
| Associates | **P 149,076,863** | P 246,293,062 |
| Officers and employees | **270,968,418** | 230,939,000 |
| Other related parties | **819,219,677** | 718,093,634 |
| | **P 1,239,264,958** | P 1,195,325,696 |
| ***Due to Related Parties*** | | |
| Stockholder | **P 453,645,207** | P 195,470,510 |
| Other related parties | **841,766,152** | 692,299,787 |
| | **P 1,295,411,359** | P 887,770,297 |

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

| | 2013 | 2012 |
|---|---|---|
| ***Due from Related Parties*** | | |
| Balance at beginning of year | **P 1,195,324,696** | P 1,017,267,863 |
| Additions | **567,411,271** | 365,112,833 |
| Collections | **( 524,057,941)** | ( 187,055,000) |
| Balance at end of year | **P 1,239,264,958** | P 1,195,325,696 |
| ***Due to Related Parties*** | | |
| Balance at beginning of year | **P 887,770,297** | P 697,049,267 |
| Additions | **577,290,766** | 190,721,030 |
| Repayments | **( 169,649,704)** | - |
| Balance at end of year | **P 1,295,411,359** | P 887,770,297 |

McDonald's granted GADC the nonexclusive rights to adopt and use the McDonald's System in its restaurant operations in the Philippines. In March 2005, the license agreement was renewed for another 20 years, and provides for a royalty fee based on certain percentage of net sales from the operations of GADC's restaurants, including those operated by the franchisees.

GADC recognized royalty expenses amounting to P743.9 million and P646.5 million for 2013 and 2012, respectively (see Note 25). The outstanding payable to McDonald's relating to royalty expenses amounted to P332.3 million and P120.8 million December 31, 2013 and 2012, respectively, and presented as part of Due to Related Parties under Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

GADC leases a warehouse and nine restaurant premises from 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 P30.6 million and P42.5 million in 2013 and 2012, respectively. There was no outstanding balance pertaining to the said transaction as of December 31, 2013, while the outstanding balance amounted to P4.1 million as of December 31, 2012.

As of December 31, 2013 and 2012, based on management's assessment, the outstanding balances of Due from Related Parties are not impaired, hence, no impairment losses were recognized.

### *29.11 Non-current Advances from Related Parties*

Certain expenses of unconsolidated entities within the Group are paid by other related parties on behalf of the former. The advances are unsecured, non-interest bearing and generally payable on cash. Due to JV partners pertain to the share of JV partners in the proceeds from the sale in accordance with various JV agreements entered into by GERI. Total outstanding balance of the accounts is presented as Advances from Related Parties account in the consolidated statements of financial position.

Details of Advances from Related Parties are presented as follows:

| | **2013** | 2012 |
|---|---|---|
| Advances from related parties | **P 120,487,829** | P 642,005,550 |
| Advances from joint venture partners | **233,619,420** | 214,397,376 |
| | **P 354,107,249** | P 856,402,926 |

### *29.12 Key Management Personnel Compensation*

The compensation of key management personnel is broken down as follows (see Note 27.1):

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Short-term employee benefits | **P 625,867,278** | P 548,585,664 | P 249,387,673 |
| Stock-option benefit expense | **156,816,832** | 105,762,467 | 2,152,108 |
| Retirement benefits expense | **35,289,335** | 31,226,762 | 18,554,113 |
| | **P 817,973,445** | P 685,574,893 | P 270,093,894 |

### *29.13 Other Liabilities*

In the normal course of business, Travellers obtains from certain related parties unsecured non-interest bearing, cash advances for working capital requirements and other purposes which is presented as part of Other Current liabilities.

### *29.14 Transactions with the Retirement Plans*

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI and GADC. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for GERI which is still an unfunded plan). The carrying amount and the composition of the plan assets as of December 31, 2013 and 2012 are shown in Note 27.2.

Unit investment trust fund and equity and debt securities, which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Group's shares of stock.

## 30. COMMITMENTS AND CONTINGENCIES

### *30.1 Operating Lease Commitments – Group as Lessor*

The Group is a lessor under non-cancellable operating lease agreements covering certain office and commercial spaces. The leases have terms ranging from 3 to 33 years, with renewal options, and include annual escalation rate of 5% to 10%.

Future minimum lease receivables under these leases as of December 31 are as follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 6,158,808,873** | P 5,547,717,964 | P 4,290,693,154 |
| After one year but not more than five years | **30,278,029,365** | 26,563,815,242 | 21,620,883,329 |
| More than five years | **9,897,419,368** | 8,989,364,762 | 6,872,890,522 |
| | **P 46,334,257,606** | P 41,100,897,968 | P 32,784,467,005 |

### *30.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 40 years, with renewal options, and include a 5% to 10% annual escalation rate.

The future minimum rental payables under these non-cancellable leases as of the end of the reporting periods are as follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Within one year | **P 326,051,985** | P 310,187,797 | P 197,468,251 |
| After one year but not more than five years | **666,739,701** | 581,833,312 | 467,964,160 |
| More than five years | **440,589,644** | 299,994,297 | 249,599,590 |
| | **P 1,433,381,330** | P 1,192,015,406 | P 915,032,001 |

### *30.3 Provisional License Agreement of Travellers with PAGCOR*

On June 2, 2008, PAGCOR issued a Provisional License (License) authorizing Travellers to participate in the integrated tourism development project in two sites and to establish and operate casinos, and engage in gaming activities in the two sites. The term of Travellers' License shall be co-terminus with PAGCOR's franchise which will expire on July 11, 2033, and shall be renewed subject to the terms of the PAGCOR Charter.

*(a) Investment Commitments*

Under the terms of the License, Travellers is required to complete its U.S.$1.3 billion (about P58.6 billion) investment commitment in phases, which amount is divided into Site A and Site B with the minimum investment of U.S.$1.1 billion (about P48.9 billion) and U.S.$216.0 million (about P9.6 billion), respectively (collectively, the Project).

As a requirement in developing the aforementioned Project, Travellers transferred U.S.$100.0 million (about P4.4 billion) to an escrow account with a local bank mutually agreed by PAGCOR and Travellers. At any given time, the escrow account shall have a maintaining balance of not lower than U.S.$50.0 million (about P2.2 billion)(see Note 5). For failure to comply with such maintaining balance requirement, Travellers shall be charged by PAGCOR an amount equal to P2.5 million for every 15 days until the noncompliance is corrected. Travellers is authorized to withdraw from the escrow deposit for the construction costs and other fees for the development of the investment commitment. The investment amount shall be exhausted for each phase of the Project.

As at December 31, 2013, Travellers has spent P33.5 billion for its casino projects pursuant to its investment commitment under the License. It has short-term placements amounting to U.S.$65.4 million (P2.9 billion) as at December 31, 2013 and 2012 to meet its requirements with PAGCOR in relation to this investment commitments (see Note 5).

(b) *Taxation of Travellers' Casino Operations*

Under the Travellers' License with the PAGCOR, Travellers is subject to the 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues. The gaming license fees are directly remitted by Travellers to PAGCOR as required under the License (see Note 24).

The PAGCOR Charter grants PAGCOR an exemption from taxes, income or otherwise, as well as exemption from any form of charges, fees, or levies, except for the 5% franchise tax on gross revenue or earnings derived by PAGCOR on its casino operations. On February 29, 2012, the BIR issued a circular which affirmed the nonexemption from corporate income taxation of PAGCOR by virtue of the amendment of R.A. 9337 of Section 27(c) of the National Internal Revenue Code of 1997.

Considering the provisions of the License, the Group's management believes that no provision for income taxes is necessary to be recognized in the consolidated financial statements.

(c) *Requirement to Establish a Foundation*

Travellers, in compliance with the requirement of PAGCOR to incorporate and register a foundation for the restoration of cultural heritage, incorporated Manila Bayshore Heritage Foundation, Inc. (or the Foundation) on September 7, 2011 primarily to engage in various activities for charitable, educational, cultural and artistic purposes, and to promote, perpetuate, preserve and encourage Filipino culture.

The foundation shall be funded by Travellers by setting aside funds on a monthly basis. The funds set aside shall be remitted to the foundation on or before the 10th day of the succeeding month. Travellers has recognized accrual, based on 2% of total gross gaming revenues from non-junket tables. In 2013, it remitted a total of P1 billion representing donations for the current and prior years and the foundation has started to undertake certain construction and school projects in Pasay and Paranaque cities in partnership with the Philippine Department of Education, Culture and Sports.

### *30.4 Others*

As at December 31, 2013, EELHI and Travellers have unused lines of credit from certain banks and financial institutions totaling to P18.2 billion.

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 its consolidated financial statements.

## 31. 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, 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.

### *31.1 Market Risk*

*(a) Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange risk arises from the U.S. dollar-denominated cash and cash equivalents, FVTPL, loans and bonds which have been used to fund new projects.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **U.S. Dollars** | **HK Dollars** | U.S. Dollars | HK Dollars |
| Financial assets | **P 34,766,824,958** | **P 1,347,307,562** | P 37,937,643,171 | 2,461,548,380 |
| Financial liabilities | **( 59,074,985,969 )** | **( 642,724,055)** | ( 44,194,216,461) | ( 875,795,282) |
| | **(P 24,308,161,011 )** | **P 704,583,507** | (P 6,256,573,290) | P 1,585,753,098 |

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the US dollar – Philippine peso exchange rate assumes +/- 23% and +/- 14% changes of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2013 and 2012, respectively. The HK dollar – Philippine peso exchange rate assumes +/- 20% and +/- 13% change for the year ended December 31, 2013 and 2012. 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 increased by P5.5 billion and P0.6 billion for the years ended December 31, 2013 and 2012, respectively. If in 2013 and 2012, the Philippine peso had strengthened against the HK dollar, with all other variables held constant, consolidated income before tax would have decreased by P0.1 billion and P0.2 billion, respectively.

However, if the Philippine peso had weakened against the U.S. dollar and the HK dollar by the same percentages; then consolidated income before tax would have changed at the opposite direction 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 placements 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 variable interest rates. All other financial assets are subject to variable interest rates.

The sensitivity of the consolidated income before tax for the period to a reasonably possible change in interest rates of +/- 1.44% for Philippine peso and +/- 0.14% and U.S. dollar in 2013 and +/-2.43% for Philippine peso and +/-0.56% for U.S. dollar in 2012 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, 2013 and 2012, 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 P1.2 billion for the years ended December 31, 2013 and 2012, respectively. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

### *31.2 Credit Risk*

Generally, the Group's credit risk is attributable to trade and other 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 32.1.

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 that are past due but not impaired are as follows:

| | **2013** | 2012 |
|---|---|---|
| Not more than 30 days | **P 549,092,678** | P 267,577,242 |
| 31 to 60 days | **2,289,013,027** | 1,754,101,477 |
| Over 60 days | **747,543,582** | 1,229,152,308 |
| | **P 3,585,649,287** | P 3,250,831,027 |

### *31.3 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, bonds, and preferred shares.

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, 2013, 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 15,356,683,282 | P 7,826,578,063 | P - | P - |
| Interest-bearing loans | 1,603,279,826 | 2,192,512,443 | 8,795,031,294 | 433,552,898 |
| Bonds payable | 1,181,347,400 | 1,181,347,400 | 55,449,496,930 | 7,625,297,602 |
| Advances from related parties | - | - | 354,107,249 | - |
| Redeemable preferred shares | - | - | 1,352,336,993 | 1,574,159,348 |
| Security deposits | - | - | 86,286,060 | 61,932,286 |
| Derivative liability | 38,631,143 | - | - | 1,145,961,938 |
| Other liabilities | 519,684,000 | - | - | - |
| | **P 18,699,625,651** | **P 11,200,437,906** | **P 66,037,258,526** | **P 10,840,904,072** |

As at December 31, 2012, 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 12,529,113,451 | P 9,978,367,724 | P - | P - |
| Interest-bearing loans | 2,849,991,987 | 1,390,790,216 | 13,584,594,409 | 930,621,429 |
| Bonds payable | 1,092,700,950 | 1,092,700,950 | 46,460,595,200 | 8,556,628,075 |
| Advances from related parties | 1,067,405,540 | 120,754,889 | 856,402,926 | - |
| Redeemable preferred shares | - | - | 1,352,336,993 | 1,584,6432,681 |
| Security deposits | - | 57,911,357 | 26,693,587 | 60,577,037 |
| Payable to MRO stock option | - | 81,570 | - | - |
| Derivative liability | - | - | 1,246,123,668 | - |
| Other liabilities | - | - | 665,820,307 | - |
| | P 17,539,211,928 | P 12,640,606,706 | P 64,192,567,090 | P11,132,469,222 |

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.

### *31.4 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, 2013 and 2012 are summarized as follows:

| | Observed Volatility Rates | | Impact on Equity | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| 2013 - Investment in equity securities | **+18.12%** | **-18.12%** | **P 480,595,059** | **(P 480,595,059)** |
| 2012 - Investment in equity securities | +23.34% | -23.34% | P 659,310,557 | (P 659,310,557 ) |

The maximum additional estimated loss in 2013 and 2012 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 listed companies at the PSE for the past 12 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.

## 32. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

| | | **2013** | | 2012 | |
|---|---|---|---|---|---|
| | Notes | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | **P 94,977,525,445** | **P 94,977,525,445** | P 67,965,116,707 | P 67,965,116,707 |
| Trade and other receivables | 6 | **46,763,700,664** | **46,763,700,664** | 43,869,129,166 | 43,869,129,166 |
| Other financial assets | 9 | **1,322,462,800** | **1,322,462,800** | 832,313,924 | 832,313,924 |
| | | **P 266,432,156,772** | **P 266,432,156,772** | P112,666,559,797 | P 112,666,559,797 |
| Financial assets at FVTPL: | | | | | |
| Marketable debt and equity securities | 7 | **P 7,363,058,599** | **P 7,363,058,599** | P 5,896,821,479 | P 5,896,821,479 |
| Derivative asset | 7 | **12,684,368** | **12,684,368** | 665,131,3687 | 665,131,367 |
| | | **P 7,375,742,967** | **P 7,375,742,967** | P 6,561,952,846 | P 6,561,952,846 |
| AFS Financial Assets: | | | | | |
| Debt securities | 11 | **P 4,399,906,888** | **P 4,399,906,888** | P 5,015,803,861 | P 5,015,803,861 |
| Equity securities | 11 | **358,985,303** | **358,985,303** | 265,642,264 | 265,642,264 |
| | | **P 4,758,892,191** | **P 4,758,892,191** | P 5,281,446,125 | P 5,281,446,125 |
| ***Financial Liabilities*** | | | | | |
| Financial liabilities at FVTPL - | | | | | |
| Derivative liabilities | 20 | **P 1,184,593,081** | **P 1,184,593,081** | P 1,246,123,668 | P 1,246,123,668 |
| Financial liabilities at amortized cost | | | | | |
| Current | | | | | |
| Trade and other payables | | **P 23,183,261,345** | **P 23,183,261,345** | P 22,166,172,363 | P 22,166,172,363 |
| Interest-bearing loans and borrowings | | **3,795,792,269** | **3,795,792,269** | 4,640,955,327 | 4,640,955,327 |
| Other current liabilities | | **2,113,418,300** | **2,113,418,300** | 1,004,440,514 | 1,004,440,514 |
| | | **P 29,092,471,914** | **P 29,092,471,914** | P 27,811,568,204 | P 27,811,568,204 |

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| Non-current | | | | |
| Notes and bonds payable | **P 56,479,746,306** | **P 56,479,746,306** | P 45,990,628,809 | P 45,990,628,809 |
| Interest-bearing loans and borrowings | **9,228,584,192** | **9,228,584,192** | 13,449,792,588 | 13,449,792,588 |
| Redeemable preference shares | **1,786,120,902** | **1,786,120,902** | 1,728,086,461 | 1,728,086,461 |
| Due to related parties | **354,107,249** | **354,107,249** | 856,402,926 | 856,402,926 |
| Security deposits | **148,218,346** | **148,218,346** | 148,218,346 | 148,218,346 |
| | **P 67,996,776,995** | **P 67,996,776,995** | P 62,173,129,130 | P 62,173,129,130 |

See Notes 2.4 and 2.12 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 31.

## 33. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *33.1 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.

For purposes of determining the market value of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *33.2 Financial Instruments Measurements at Fair Value*

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2013 and 2012.

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 7,363,058,599 | P - | P - | P 7,363,058,599 |
| Derivative assets | 12,684,368 | - | - | 12,684,368 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 4,399,906,888 | - | - | 4,399,906,888 |
| Equity securities | 117,218,306 | 49,880,000 | 191,886,997 | 358,985,303 |
| | **P 11,892,868,161** | **P 49,880,000** | **P 191,886,997** | **P 12,134,635,158** |
| ***Financial liability:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Derivative liabilities | **P 1,184,593,081** | **P -** | **P -** | **P 1,184,593,081** |

| | 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 5,896,821,479 | P - | P - | P 5,896,821,479 |
| Derivative assets | 665,131,367 | - | - | 665,131,367 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 5,015,803,861 | - | - | 5,015,803,861 |
| Equity securities | 67,984,065 | 40,570,000 | 157,088,199 | 265,642,264 |
| | P 11,645,740,772 | P 40,570,000 | P 157,088,199 | P 5,281,446,125 |
| ***Financial liability:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Derivative liabilities | P 1,246,123,668 | P - | P - | P 1,246,123,668 |

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

a) Equity securities

As of December 31, 2013 and 2012, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL or AFS financial assets. These securities were valued based on their market prices quoted in various stock exchanges at the end of each reporting period.

Golf club shares classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period. Moreover, equity security held in a private company is included in Level 3 since its market value is not quoted in an active market, hence, measured by reference to the fair value of a comparable instrument adjusted for inputs internally developed by management to consider the differences in corporate profile and historical performance of the entity.

b) Debt securities

The fair value of the Company's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., Stock Exchange) at the end of the reporting period and is categorized within Level 1.

### *33.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed*

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2013 and 2012.

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Cash and cash equivalents | P 94,977,525,445 | P - | P - | P 94,977,525,445 |
| Trade and other receivables | - | - | 51,086,163,464 | 51,086,163,464 |
| | **P 94,977,525,445** | **P -** | **P51,086,163,464** | **P 146,063,688,909** |

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 3,795,792,269 | P 3,795,792,269 |
| Trade and other payables | - | - | 23,183,261,345 | 23,183,261,345 |
| Other current liabilities | - | - | 2,113,418,300 | 2,113,418,300 |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | - | - | 9,228,584,192 | 9,228,584,192 |
| Bonds payable | 56,479,746,306 | - | - | 56,479,746,306 |
| Due to related parties | - | - | 354,107,249 | 354,107,249 |
| Redeemable preferred shares | - | - | 1,786,120,902 | 1,786,120,902 |
| Security deposits | - | - | 148,218,346 | 148,218,346 |
| | **P 56,479,746,306** | **P -** | **P 40,609,502,603** | **P 97,089,248,909** |

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Current: | | | | |
| Cash and cash equivalents | P 67,965,116,707 | P - | P - | P 67,965,116,707 |
| Trade and other receivables | - | - | 43,852,849,578 | 43,852,849,578 |
| Trade and other payables | - | - | 832,313,924 | 832,313,924 |
| | P 67,965,116,707 | P - | P 44,685,163,502 | P 112,650,280,209 |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 4,640,955,327 | P 4,640,955,327 |
| Trade and other payables | - | - | 22,166,172,363 | 22,166,172,363 |
| Other current liabilities | - | - | 1,004,440,514 | 1,004,440,514 |
| ***Financial liabilities:*** | | | | |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 13,449,792,588 | P 13,449,792,588 |
| Bonds payable | 45,990,628,809 | - | - | 45,990,628,809 |
| Due to related parties | - | - | 354,107,249 | 354,107,249 |
| Redeemable preferred shares | - | - | 1,786,120,902 | 1,786,120,902 |
| Security deposits | - | - | 148,218,346 | 148,218,346 |
| | P 45,990,628,809 | P - | P 43,549,807,289 | P 89,540,436,098 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *33.4 Investment Property Measured at Cost for which Fair Value is Disclosed*

The fair value of the Megaworld's investment property, except for investment properties of WGPI, and GERI's building and improvements was determined by calculating the present value of the cash inflows anticipated until the life of the investment property using a discount rate of 10%. The fair value of WGPI was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Megaworld's investment property is their current use.

GERI's land developments and improvements were derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

As at December 31, 2013, the fair value of the Group's investment property is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. The income approach uses future free cash flow projections and discounts them to arrive at a present value. The discount rate is based on the level of risk of the business opportunity and costs of capital. The most significant inputs into this valuation approach are the estimated annual cash inflow and outgoing expenses, anticipated increase in market rental, discount rate and terminal capitalization rate.

Also, there were no transfers into or out of Level 3 fair value hierarchy in 2013.

## 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.

| | **2013** | 2012 |
|---|---|---|
| Total liabilities | **P 142,178,763,894** | P 128,454,982,666 |
| Equity attributable to owners of the parent company | **107,692,727,038** | 83,908,308,510 |
| Debt-to-equity ratio | **P 1.32:1** | P 1.53:1 |

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

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**LIST OF SUPPLEMENTARY INFORMATION**
**DECEMBER 31, 2013**

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

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



**Others Required Information (SEC Circular 11)**

Punongbayan & Araullo

An instinct for growth™

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

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**The Board of Directors and the 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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group) for the year ended December 31, 2013, on which we have rendered our report dated April 28, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Mailene Sigue-Bisnar**
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4225004, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 28, 2014

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule A - Financial Assets (Marketable Securities)**
**December 31, 2013**

| Financial Asset/Name of Banks | Amount Shown in Statement of Financial Position | Income Received and Accrued |
|---|---|---|
| **Financial Assets at Fair Value Through Profit or Loss** | | |
| HSBC Private Bank | P 3,709,777,823 | P 226,209,224 |
| Bank of Singapore | 2,214,413,844 | 161,774,493 |
| Citi Private Bank | 1,451,551,300 | 143,016,774 |
| | 7,375,742,967 | 531,000,491 |
| **Available-for-sale Securities** | | |
| Bank of Singapore | 2,073,623,562 | 151,489,028 |
| HSBC Private Bank | 1,139,545,317 | 69,485,472 |
| Citi Private Bank | 1,186,738,009 | 116,925,555 |
| Various unquoted equity instruments | 191,886,997 | - |
| Various quoted equity instruments | 117,218,306 | - |
| Various club shares | 49,880,000 | - |
| | 4,758,892,191 | 337,900,055 |
| **Total Financial Assets** | **P 12,134,635,158** | **P 868,900,546** |

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**
**December 31, 2013**

| | | | Deductions | | Ending Balance | | |
|---|---|---|---|---|---|---|---|
| *Name and Designation of Debtor* | *Balance at the Beginning of Period* | *Additions* | *Amounts Collected* | *Amounts Written off* | *Current* | *Not current* | *Balance at the End of Period* |
| **Advances to Officers and Employees:** | | | | | | | |
| Philipps Cando<br>VP for Operations, Megaworld | P 350,600 | P - | ( P 135,716 ) | P - | P 214,884 | P - | P 214,884 |
| Garry V. De Guzman<br>VP for Legal Affairs, Megaworld | - | 662,919 | - | - | 662,919 | - | 662,919 |
| Monica V. Solomon<br>VP for Corporate Management, Megaworld | 65,404 | - | ( 65,404 ) | - | - | - | - |
| Rolando D. Siatela<br>Assistant Corporate Secretary, Megaworld | 463,210 | 1,841 | ( 108,991 ) | - | 356,060 | - | 356,060 |
| Edgardo Pinga<br>VP for Project Development and Property Management, GERI<br>(resigned as of December 31, 2012) | 462,073 | 10,000 | ( 472,073 ) | - | - | - | - |
| Catherine Marcelo<br>VP for Human Resource and Corporate Services, GERI | 721,227 | 141,541 | ( 193,353 ) | - | 669,415 | - | 669,415 |
| Abraham Mercado<br>VP for Sales and Marketing, GERI | 2,395,654 | 4,134,803 | ( 1,836,143 ) | - | 4,694,314 | - | 4,694,314 |
| Jennifer Romualdez<br>VP for Contracts, Procurement and Project Management, GERI | 747,220 | 1,634,429 | ( 1,466,568 ) | - | 915,081 | | 915,081 |
| Melody Macaraig-Binag<br>Junior Legal Counsel, Titling, Permits<br>and Taxation Department, GERI | 724,287 | 62,884 | ( 223,981 ) | - | 563,190 | - | 563,190 |
| Chia Darvin<br>Officer, GERI | - | 1,375,000 | - | - | 1,375,000 | - | 1,375,000 |
| Salving Globio<br>Officer, GERI | - | 559,459 | ( 100,480 ) | - | 458,979 | - | 458,979 |
| Federico Artuz<br>Officer, GERI | - | 457,958 | ( 47,693 ) | - | 410,265 | - | 410,265 |
| Lailani Villanueva<br>CFO and Compliance Officer, GERI | - | 511,435 | ( 149,542 ) | - | 361,893 | - | 361,893 |
| Carmen Villanueva<br>Officer, GERI | - | 1,351,901 | - | - | 1,351,901 | - | 1,351,901 |
| Travellers - Officers and employees | 65,225,143 | 160,243,187 | ( 103,729,940 ) | - | 121,738,390 | - | 121,738,390 |
| | **P 71,154,818** | **P 171,147,357** | **( P 108,529,884 )** | **-** | **P 133,772,291** | **-** | **P 133,772,291** |

**Legend:**

Megaworld - Megaworld Corporation
GERI - Global Estate Resorts, Inc.
Travellers - Travellers International Hotel Group, Inc.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements**
**December 31,2013**

| | | | *Deductions* | | *Ending Balance* | | |
|---|---|---|---|---|---|---|---|
| ***Name and Designation of Debtor*** | ***Balance at Beginning of Period*** | ***Additions*** | ***Amounts Collected*** | ***Amounts Written off*** | ***Current*** | ***Not current*** | ***Balance at End of Period*** |
| ***Due from Related Parties*** | | | | | | | |
| Newtown Land Partners, Inc. | 4,156,168,601.00 | - | 870,811,693.00 | - | 3,285,356,908.00 | | 3,285,356,908.00 |
| Emperador International, Ltd. | 4,384,582,659.00 | 342,532,214.00 | 3,826,442,931.00 | - | 900,671,942.00 | | 900,671,942.00 |
| Venezia Universal, Ltd. | 3,704,180,549.00 | - | 529,474,611.00 | - | 3,174,705,938.00 | | 3,174,705,938.00 |
| Greenspring Investment Property Holdings, Inc. | 5,405,307,375.00 | 2,862,917,383.00 | - | - | 8,268,224,758.00 | | 8,268,224,758.00 |
| First Centro, Inc. | 585,283,335.00 | | 381,158,602.00 | - | 204,124,733.00 | | 204,124,733.00 |
| Tradewind Estates, Inc. | 1,365,342,033.00 | | 161,760,000.00 | - | 1,203,582,033.00 | | 1,203,582,033.00 |
| Alliance Global Brands, Inc. | 1,059,406,479.00 | - | - | - | 1,059,406,479.00 | | 1,059,406,479.00 |
| Megaworld | 55,066,520.00 | - | 42,568,112.00 | - | 12,498,408.00 | | 12,498,408.00 |
| Alliance Global Group Cayman Islands, Inc. | 16,246,550.00 | - | - | - | 16,246,550.00 | | 16,246,550.00 |
| Emperador Distillers, Inc. | 251,148,594.00 | 100,205,912.00 | 303,224,506.00 | - | 48,130,000.00 | | 48,130,000.00 |
| McKester Pik-Nik International, Ltd. | 13,855,070,955.00 | | 361,079,517.00 | - | 13,493,991,438.00 | | 13,493,991,438.00 |
| Global Estate Resorts, Inc. | 607,119,349.00 | 192,810,787.00 | 707,119,349.00 | - | 92,810,787.00 | | 92,810,787.00 |
| Anglo Watsons Glass, Inc. | 405,576.00 | 8,950,000.00 | 400,000.00 | - | 8,955,576.00 | | 8,955,576.00 |
| Travellers International Hotel Group, Inc. | 1,167,080,053.00 | 1,299,210,000.00 | 596,781,803.00 | - | 1,852,445,750.00 | 17,062,500.00 | 1,869,508,250.00 |

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule D - Intangible Assets - Other Assets**
**December 31, 2013**

| | | | Deduction | | | |
|---|---|---|---|---|---|---|
| *Description* | *Beginning Balance* | *Additions at Cost* | *Charged to Cost and Expenses* | *Charged to Other Accounts* | *Other Changes Additions (Deductions)* | *Ending Balance* |
| **Intangible Assets** | | | | | | |
| Goodwill | **P 10,700,039,578** | P - | P - | P - | P - | **P 10,700,039,578** |
| Trademarks | **415,238,652** | **16,153,914** | **( 102,334,204 )** | **-** | **-** | **329,058,362** |
| Leasehold Rights | **23,833,943** | - | **( 2,955,753 )** | - | - | **20,878,190** |
| Computer Software | **2,583,029** | - | **( 2,583,029 )** | - | - | - |
| | **P 11,141,695,202** | P 16,153,914 | ( P 107,872,986 ) | P - | P - | **P 11,049,976,130** |

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule E - Long-Term Debt**
**December 31, 2013**

| *Title of Issue and Type of Obligation* | *Amount Authorized by Indenture* | *Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Statement of Financial Position* | *Amount Shown Under Caption "Long-Term Debt" in Related Statement of Financial Position* | |
|---|---|---|---|---|
| **Loans:** | | | | |
| Interest bearing loans | P 16,913,000,000 | P 3,653,667,469 | P 8,695,859,471 | a, b, c, d, e, f |
| Foreign borrowings | $ 3,200,000 | 142,124,800 | - | g |
| Related party | $ 12,000,000 | - | 532,724,721 | h |
| | | 3,795,792,269 | 9,228,584,192 | |
| **Bonds Payable:** | | | | |
| ***Issuer:*** | | | | |
| AG Cayman | $ 500,000,000 | - | 21,976,374,674 | i |
| Travellers | $ 300,000,000 | - | 13,095,218,012 | j |
| Megaworld Corporation | $ 200,000,000 | - | 8,782,856,018 | k |
| | $ 250,000,000 | - | 7,625,297,602 | l |
| | P 5,000,000,000 | - | 5,000,000,000 | m |
| | | - | 56,479,746,306 | |
| | | **P 3,795,792,269** | **P 65,708,330,498** | |

a *Interest-bearing loans include loans obtained by Megaworld pertaining to the following:*

*1.) Unpaid balance of the P5.0 billion loan availed from a local bank in 2008 and 2009 to fund the development various real estate projects.*

*2.) Amount outstanding from a seven-year loan obtained for working capital purposes.*

*3.) Outstanding portion of a ten-year loan obtained from a local bank in 2003, 2005 and 2006, with a three-year grace period on principal payments, payable quarterly thereafter. The loan is secured by a certain investment property with a carrying amount of P40.4 million as of December 31, 2013.*

b *Interest-bearing loans obtained by EELHI arising from trade receivable discounted on a with-recourse basis.*

c *Interest-bearing loans obtained by SPI include the following:*

*1.) Interest-bearing loans obtained by SPI arising from trade receivable discounting (on a with recourse basis) and for purposes of obtaining additional working capital.*

*2.) Short-term loans acquired by SPI from various financial institutions for working capital requirements.*

d *Loan drawn by Travellers in 2012 from an P11.0 billion loan facility with a local bank, to settle Travellers' secured loans from the same bank.*

e *Interest-bearing loans also include loans obtained by GADC which includes the following:*

*1.) 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.*

*2.) On December 2012, GADC entered into a loan facility agreement with BDO for a credit line amounting to P1.0 million. GADC already availed from the facility amounting to P400.0 million. The loan is payable in 20 quarterly installments, with interest rates of 5.15%.*

**f** *Bank loan obtained by AGI and NTLPI, secured by 2.1 million Megaworld shares held by NTLPI, and covereed by a Deed of Pledge co-signed by AGI and NTLPI. Principal loan balance obtained by AGI and NTLPI amounts to P2.5 billion and 488.8 million, respectively.*

**g** *A $3.2 million loan, with annual minimum variable rate of 3%, was obtained to finance the acquisition of Travellers' of an aircraft. The loan is secured by a mortgage over the aircraft, assignment of receivables and other icnome from the proposed block charter between Travellers and APEC, one of Travellers' subsidiary, assignment of insurance over the aircraft and unconditional and irrevocable guarantee of Travellers.*

**h** *GADC has a loan agreement with MRO. The principal amount of the loan of U.S.$12.0 million is payable in full on March 17, 2025, and bears annual interest at 10.0% or U.S.$1.2 million, payable every six months.*

**i** *Alliance Global Group Cayman Islands, Inc. issued seven-year bonds with interest of 6.50% per annum payable semi-annually every February 18 and August 18 each year, which are listed in Singapore Exchange Securities Trading Limited. The bonds will mature on 2017.*

**j** *Travellers issued $300.0 million face value note, with nominal annual interest of 6.9% per, payable semi-annually. The notes bear annual effective effective interest of 7.2%.*

**k** *On April 15, 2011, Megaworld issued seven-year term bonds which bear interest of 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.*

**l** *On April 2013, Megaworld issued a 10-year term bonds which bears interest of 4.25% per annum payable semi-annually every Apirl 10 and April 10 and October 10 each year. The bond will mature on 2023*

**m** *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.*

**Legend:**

AGI - Alliance Global Group, Inc.
Megaworld - Megaworld Corporation
AG Cayman - Alliance Global Group Cayman Islands, Inc.
NTLPI - Newtown Land Partners, Inc.
EELHI - Empire East Land Holdings, Inc.
SPI - Suntrust Properties, Inc.
GADC - Golden Arches Development Corporation
MRO - McDonald's Restaurant Operations, Inc.

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule F - Indebtedness to Related Parties (Long-Term Loans from Related Companies)**
**December 31, 2013**

| *Title of issue and type of obligation* | *Amount authorized by indenture* | *Balance at the beginning of year* | *Balance at the end* |
|---|---|---|---|
| **Loans:** | | | |
| McDonald's Restaurant Operations, Inc. | $ 12,000,000 | P 492,600,000 | P 532,724,721 |

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule G - Guarantees of Securities of Other Issues**
**December 31, 2013**

| *Name of Issuing Entity of Securities Guaranteed by the Company for which this statement is Filed* | *Title of Issue of Each Class of Securities Guaranteed* | *Total Amount Guaranteed and Outstanding* | *Amount Owned by Person for which this Statement is Filed* | *Nature of Guarantee* |
|---|---|---|---|---|
| APEC Assets Limited by Travellers International Hotel Group, Inc. | Loans Payable to Maybank International (L) Ltd | P 142,124,800 | P 142,124,800 | Guarantee of Principal and Interest |
| Alliance Global Group Cayman Islands, Inc. by Alliance Global Group, Inc. | US$ 500.0 million, 7-year, 6.5% note listed in the Singapore Exchange Securities Trading Limited | 21,976,374,674 | 21,976,374,674 | Guarantee of Principal and Interest |
| | | P 22,118,499,474 | P 22,118,499,474 | |

**Alliance Global Group, Inc. and Subsidiaries**
**Schedule H - Capital Stock**
**December 31, 2013**

| | | | | Number of shares held by | | |
|---|---|---|---|---|---|---|
| *Title of Issue* | *Number of shares authorized* | *Number of shares issued and outstanding as shown under the related balance sheet caption* | *Number of shares reserved for options, warrants, conversion and other rights* | *Related parties* | *Directors, officers and employees* | *Others* |
| Common shares - P1 par value | 12,950,000,000 | 10,269,827,979 | - | 5,801,338,832 | 346,690,940 | 4,121,798,207 |

**ALLIANCE GLOBAL GROUP, INC.**
**7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark,**
**188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City**

**SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2013**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings at Beginning of Year** | P | 4,863,744,080 |
| **Effect of Prior Period Adjustments** | | - |
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted** | | 4,863,744,080 |
| **Net Profit Realized during the Year** | | |
| Net profit per audited financial statements | | 8,445,435,971 |
| **Other Transactions During the Year** | | |
| Cash dividends declared | ( | 3,902,534,632 ) |
| **Retained Earnings Restricted for Treasury Shares** | | - |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | **P** | **9,406,645,419** |

# ALLIANCE GLOBAL GROUP, INC.
## SCHEDULE J - FINANCIAL SOUNDNESS INDICATORS
## DECEMBER 31, 2013 and 2012

| | 12/31/13 | 12/31/12 |
|---|---|---|
| Current ratio | 3.91 | 3.37 |
| Quick ratio | 2.62 | 2.15 |
| Liabilities-to-equity ratio | 0.75 | 0.89 |
| Interest-bearing debt to total capitalization ratio | 0.39 | 0.43 |
| Asset -to-equity ratio | 1.75 | 1.89 |
| Interest rate coverage ratio | 677% | 770% |
| Net profit margin | 18.69% | 20.07% |
| Return on assets | 6.94% | 7.53% |
| Return on equity/investment | 12.12% | 14.26% |
| Return on equity/investment of owners | 15.99% | 16.58% |

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

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

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

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

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

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**

**SCHEDULE K - Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2013**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters** | ✓ | | |
| | Amendment to PFRS 1: Government Loans** | ✓ | | |
| **PFRS 2** | Share-based Payment | ✓ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ✓ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions** | ✓ | | |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(deferred application)* | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments* | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendment to PFRS 10: Transition Guidance | ✓ | | |
| | Amendment to PFRS 10: Investment Entities | ✓ | | |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendment to PFRS 11: Transition Guidance | ✓ | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendment to PFRS 12: Transition Guidance | ✓ | | |
| | Amendment to PFRS 12: Investment Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |

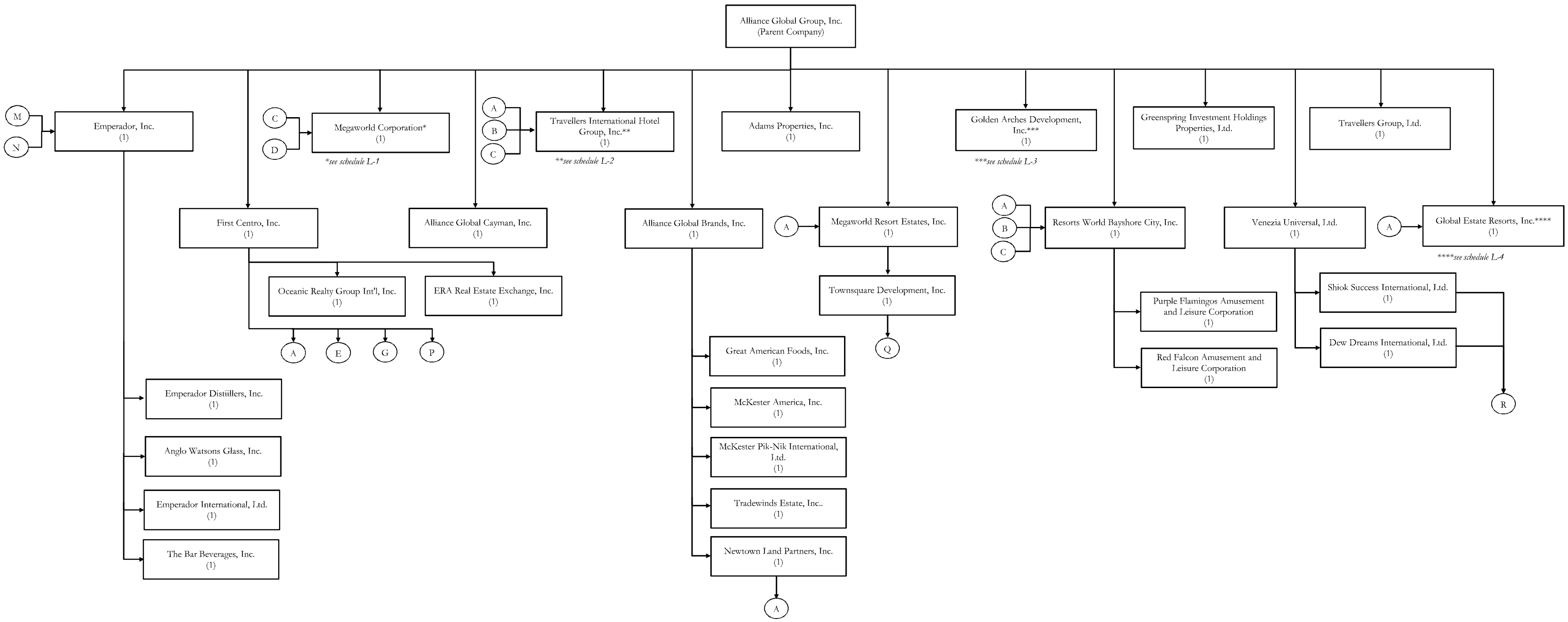
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Revised)** | Separate Financial Statements | ✓ | | |
| | Amendment to PAS 27: Investment Entities | ✓ | | |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)* | | | ✓ |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* *(effective January 1, 2014)* | | | ✓ |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* *(effective January 1, 2014)* | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | ✓ | | |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives** | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction** | ✓ | | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓ |
| ***Philippine Interpretations - Standing Interpretations Committee (SIC)*** | | | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | ✓ | | |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services** | ✓ | | |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

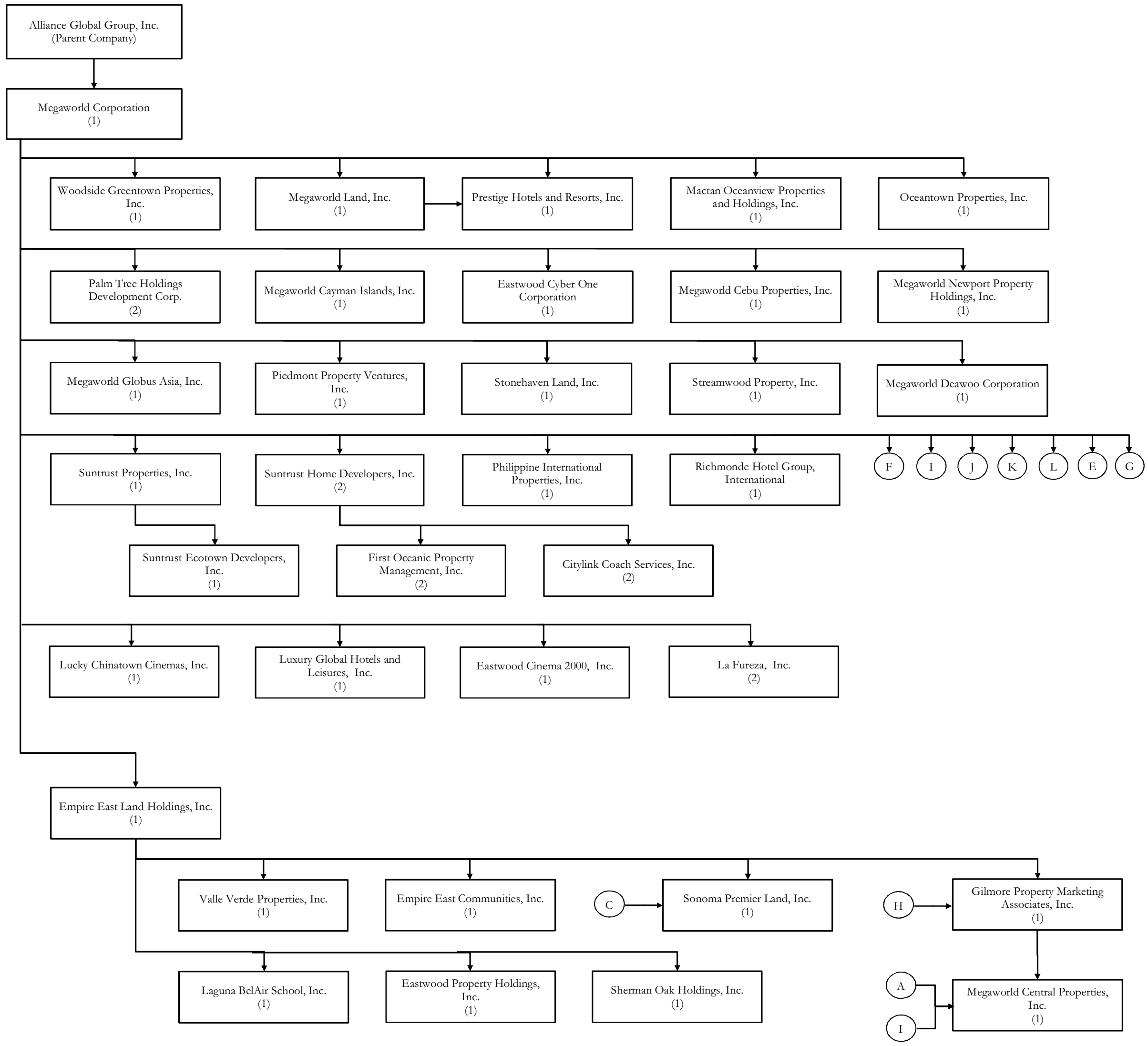
**ALLIANCE GLOBAL GROUP, INC.**
**Schedule L - Map Showing the Relationship Between and Among the Company and Its Related Parties**
**December 31, 2013**




**Legend**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | Subsidiary | A | Megaworld Corporation | F | Manila Bayshore Property Holdings, Inc. | K | Megaworld Global Estates, Inc. | P | Sonoma Premier Land, Inc. |
| (2) | Associate | B | Adams Properties, Inc. | G | ResortsWorld Bayshore City, Inc. | L | Megaworld Central Properties, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| (3) | Jointly Controlled Entity | C | First Centro, Inc. | H | Townsquare Development, Inc. | M | Shiok Success International, Ltd. | R | Emperador Inc. |
| | | D | Newtown Land Partners, Inc. | I | Megaworld Resort Estates, Inc. | N | Dew Dreams International, Ltd. | | |
| | | E | Travellers International Hotel Group, Inc. | J | Twin Lakes, Corp. | O | File-Estate Properties, Inc. | | |

**ALLIANCE GLOBAL GROUP, INC.**
**Schedule L-1 - Map Showing the Relationship Between and Among the Company and Megaworld Corporation Group**
**December 31, 2013**

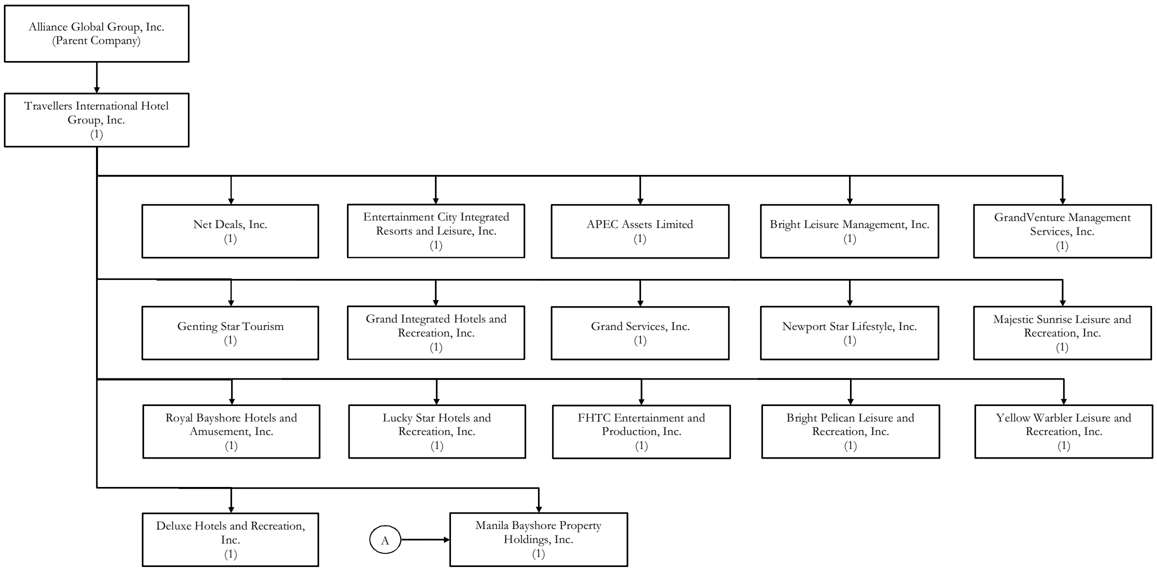



**Legend**

(1) Subsidiary
(2) Associate
(3) Jointly Controlled Entity

| | | | |
|---|---|---|---|
| A | Megaworld Corporation | J | Twin Lakes, Corp. |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | File-Estate Properties, Inc. |
| G | ResortsWorld Bayshore City, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

**ALLIANCE GLOBAL GROUP, INC.**
**Schedule L-2 - Map Showing the Relationship Between and Among the Company and Travellers Group**
**December 31, 2013**

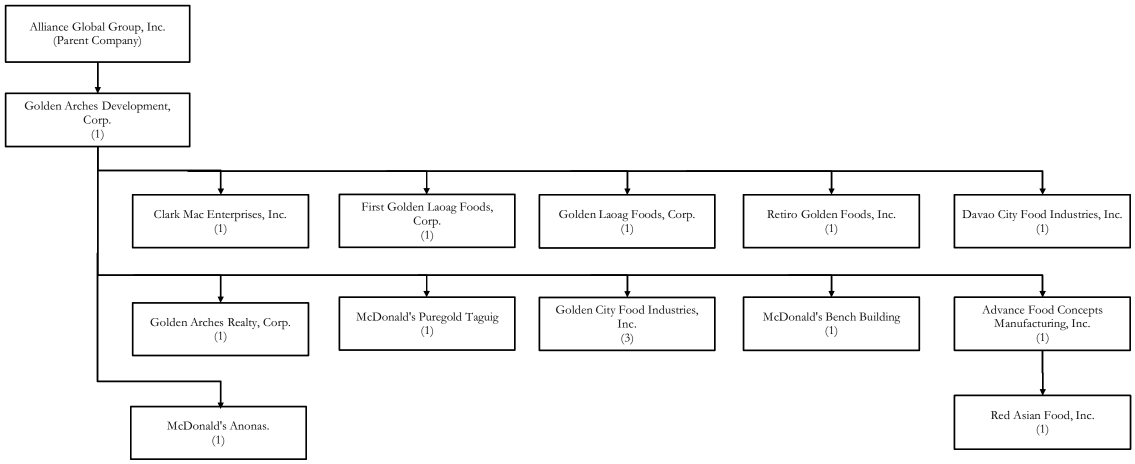



**Legend**

(1) Subsidiary
(2) Associate
(3) Jointly Controlled Entity

| | | | |
|---|---|---|---|
| A | Megaworld Corporation | J | Twin Lakes, Corp. |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | File-Estate Properties, Inc. |
| G | ResortsWorld Bayshore City, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

**ALLIANCE GLOBAL GROUP, INC.**
**Schedule L-3 - Map Showing the Relationship Between and**
**Among the Company and Golden Arches Development Corporation Group**
**December 31, 2013**

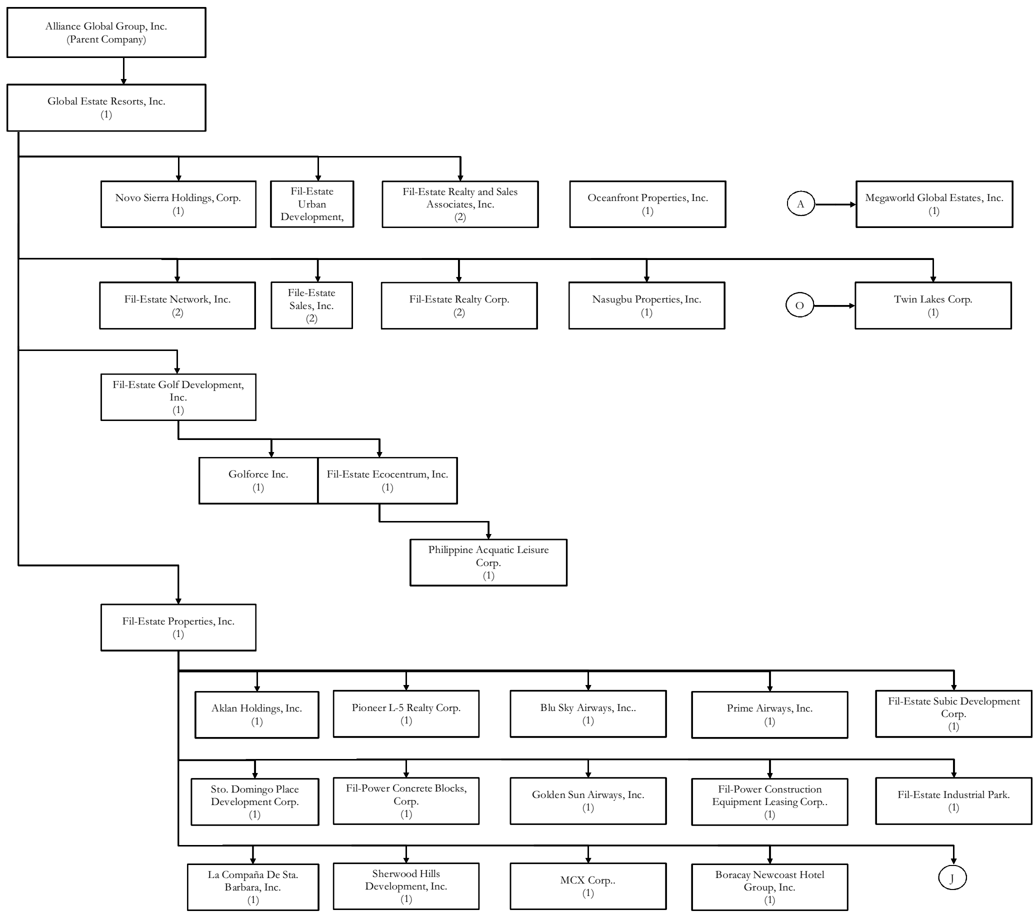



**Legend**

(1) Subsidiary
(2) Associate
(3) Jointly Controlled Entity

| | | | |
|---|---|---|---|
| A | Megaworld Corporation | J | Twin Lakes, Corp. |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | File-Estate Properties, Inc. |
| G | ResortsWorld Bayshore City, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

**ALLIANCE GLOBAL GROUP, INC.**
**Schedule L-4 - Map Showing the Relationship Between and Among the Company and Global Estate Resorts Inc. Group**
**December 31, 2013**




**Legend**

| | | | |
|---|---|---|---|
| (1) | Subsidiary | | |
| (2) | Associate | | |
| (3) | Jointly Controlled Entity | | |
| A | Megaworld Corporation | J | Twin Lakes, Corp. |
| B | Adams Properties, Inc. | K | Megaworld Global Estates, Inc. |
| C | First Centro, Inc. | L | Megaworld Central Properties, Inc. |
| D | Newtown Land Partners, Inc. | M | Shiok Success International, Ltd. |
| E | Travellers International Hotel Group, Inc. | N | Dew Dreams International, Ltd. |
| F | Manila Bayshore Property Holdings, Inc. | O | File-Estate Properties, Inc. |
| G | ResortsWorld Bayshore City, Inc. | P | Sonoma Premier Land, Inc. |
| H | Townsquare Development, Inc. | Q | Gilmore Property Marketing Associates, Inc. |
| I | Megaworld Resort Estates, Inc. | R | Emperador Inc. |

# ALLIANCE GLOBAL GROUP, INC.

# INTERIM FINANCIAL STATEMENTS

# AS OF 31 MARCH 2014

| A | S | 0 | 9 | 3 | - | 7 | 9 | 4 | 6 |
|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

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

(Company's Full Name)

| 7 | / | F | | 1 | 8 | 8 | 0 | | E | A | S | T | W | O | O | D | | A | V | E | N | U | E | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E | A | S | T | W | O | O | D | | C | I | T | Y | | C | Y | B | E | R | P | A | R | K | | |
| B | A | G | U | M | B | A | Y | A | N | | Q | U | E | Z | O | N | | C | I | T | Y | | | |

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

**DINA D.R. INTING**
Contact Person

**709-2038 to 41**
Company Telephone Number

**1 2** Month **3 1** Day
Fiscal Year

**1 7 - Q**
FORM TYPE
**(QUARTERLY REPORT FOR MARCH 31, 2014)**

**O 9** Month **3rd Tues.** Day

**Certificate of Permit to Offer Securities for Sale**
Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. *For the quarterly period ended* **March 31, 2014**

2. *SEC Identification Number* **AS093-7946**

3. *BIR Tax Identification No*. **003-831-302-000**

4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**

5. **METRO MANILA, PHILIPPINES**
   *Province, country or other jurisdiction of incorporation or organization*

6. (*SEC Use Only)*
   *Industry classification code*

7. **7th Floor, 1880 Eastwood Avenue, EastwoodCity CyberPark**
   **188 E. Rodriguez Jr. Ave., Bagumbayan, 1110 Quezon City**
   *Address of principal office*

8. **(632) 70920-38 to -41**
   *Registrant's telephone number, including area code*

9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

| *Title of Each Class* | *Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding* |
|---|---|
| **Common** | **10,269,827,979** |

10. *Are any or all of these securities listed on a Stock Exchange?* **Yes, on the Philippine Stock Exchange.**

11. *(a) AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.*

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

# PART I – FINANCIAL INFORMATION

## 1. FINANCIAL STATEMENTS

Consolidated Statements of Financial Position
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
Notes to Interim Consolidated Financial Statements
Schedule of Financial Soundness Indicators
Aging Schedule of Trade and Other Receivables Under Current Assets

The interim consolidated financial statements (ICFS) have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standard 34, *Interim Financial Reporting*. As such, they do not include all of the information and disclosures required for full annual consolidated financial statements, and thus should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2013 (ACFS). The accounting policies and methods used in the ICFS are consistent with those applied in ACFS, except for changes brought about by the adoption of new standards that become effective on January 1, 2014 (see Note 2 to the ICFS).

Accounting estimates, assumptions and judgments are used in preparing these statements; and while these are believed to be reasonable under the circumstances, actual results may ultimately differ from such estimates (see Note 3).

The ICFS comprise the financial statements of the Company and its subsidiaries, after elimination of material intercompany transactions. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented at cost as a deduction in the consolidated statements of changes in equity. 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 (APIC).

*Business Segments*

The Group is organized into five major business segments, which aptly correspond to its operating subsidiaries, namely Megaworld, Travellers, Emperador, GADC and GERI, which in turn represent the main products and services provided by the Group and the lines of business in which the Group operates, i.e. community township development and leasing, tourism-entertainment and gaming, manufacture and distribution of distilled spirits, integrated tourism estate development (see Note 4).

Please refer to Note 1 to the ICFS and ACFS for a comprehensive list of subsidiaries, associates and joint venture.

## 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Key Performance Indicators*

Presented below are the top five (5) key performance indicators:

| *Amounts In Million Philippine Pesos* | 2014 | 2013 | Growth |
|---|---|---|---|
| REVENUES | 31,230 | 30,266 | 3.2% |
| NET PROFIT | 6,255 | 4,905 | 27.5% |
| NET PROFIT ATTRIBUTABLE TO OWNERS | 3,943 | 3,566 | 10.6% |
| Net profit rate | 20.0% | 16.2% | |
| Attributable to owners of parent | 12.6% | 11.8% | |
| | 3/31/14 | 12/31/13 | |
| TOTAL ASSETS | 336,366 | 332,400 | |
| CURRENT ASSETS | 194,393 | 197,690 | |
| CURRENT LIABILITIES | 49,071 | 50,585 | |
| Return on investment/assets | 0.02 | .07 | |
| Current ratio | 3.96 | 3.91 | |
| Quick ratio | 2.55 | 2.62 | |

- Revenue growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on investment [or capital employed] – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

*Results of Operations – First Three Months*

The consolidated net profit for the first quarter climbed 28% year-on-year to P6.25 billion from P4.90 billion a year ago, while the portion net of minority interest improved by 11% to P3.94 billion from P3.57 billion a year ago.

| | MEG[a] | EMP[c] | RWM[b] | GADC | GERI | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| **Revenues** | 9,946 | 7,694 | 8,052 | 4,361 | 640 | | |
| Intercompany | -203 | 0 | 0 | 0 | 0 | | |
| Consolidated | **9,743** | **7,694** | **8,052** | **4,361** | **640** | **740** | **31,230** |
| % contribution | 31% | 25% | 26% | 14% | 2% | 2% | 100% |
| **Costs and expenses** | **6,614** | **5,467** | **6,324** | **4,141** | **494** | **670** | **23,710** |
| **Tax expense** | **640** | **510** | **10** | **49** | **44** | **13** | **1,266** |
| **Net profit** | 2,692 | 1,717 | 1,718 | 171 | 102 | | |
| Intercompany | -203 | 0 | 0 | 0 | 0 | | |
| Consolidated | **2,489** | **1,717** | **1,718** | **171** | **103** | **57** | **6,254** |
| % contribution | 40% | 27% | 27% | 3% | 2% | 1% | 100% |
| **Net profit to owners** | **1,518** | **1,503** | **717** | **85** | **58** | **62** | **3,943** |
| % contribution | 38% | 38% | 18% | 2% | 2% | 2% | 100% |
| **2013** | | | | | | | |
| **Revenues** | 8,107 | 6,456 | 10,386 | 3,845 | 436 | | |
| Intercompany/reclassify | -109 | 0 | 0 | 0 | 0 | | |
| Consolidated | **7,998** | **6,456** | **10,386** | **3,845** | **436** | **1,145** | **30,266** |
| % contribution | 27% | 21% | 34% | 13% | 1% | 4% | 100% |

| | MEG[a] | EMP[c] | RWM[b] | GADC | GERI | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **Costs and expenses** | 5,725 | 4,603 | 9,366 | 3,515 | 322 | | |
| Intercompany | 44 | -3 | 0 | 0 | 0 | | |
| Consolidated | **5,769** | **4,600** | **9,366** | **3,515** | **322** | **647** | **24,219** |
| **Tax expense** | **570** | **411** | **25** | **96** | **33** | **7** | **1,142** |
| **Net profit** | 1,812 | 1,442 | 995 | 234 | 81 | | |
| Intercompany | -153 | 3 | 0 | 0 | 0 | | |
| Consolidated | **1,659** | **1,445** | **995** | **234** | **81** | **490** | **4,905** |
| % contribution | 34% | 29% | 20% | 5% | 2% | 10% | 100% |
| **Net profit to owners** | **967** | **1,445** | **498** | **113** | **53** | **490** | **3,566** |
| % contribution | 27% | 40% | 14% | 3% | 2% | 14% | 100% |
| | | | | | | | |
| **Year-on-year Change** | | | | | | | |
| Revenues | 21.8% | 19.2% | -22.5% | 13.4% | 46.6% | -35.3% | 3.2% |
| Costs and expenses | 14.6% | 18.8% | -32.5% | 17.8% | 53.0% | 3.4% | -2.1% |
| Tax expense | 12.3% | 24.0% | -59.2% | -49.5% | 32.8% | 85.7% | 10.9% |
| Net profit | 50.0% | 18.8% | 72.6% | -26.7% | 26.8% | -88.3% | 27.5% |
| Net profit to owners | 57.0% | 4.0% | 44.0% | -24.7% | 10.2% | -87.3% | 10.6% |

Amounts are in million Pesos. Numbers may not add up due to rounding off. The above follows grouping of accounts at AGI consolidated level, so revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs at AGI consolidated level (which is the case for the 2013 numbers for MEG, EMP and GERI). Net profit presented is after consolidation adjustments.

[a]MEG also excluded the fair value gain it recorded for AGI shares and its share in net profits of Travellers and GERI. In 2014, it reported P603.8 million gain on acquisition of a subsidiary.

[b]RWM revenues are presented before taking out promotional allowance of P472 million and P710 million in 2014 and 2013, respectively; these are included under costs and expenses at AGI conso level.

**Megaworld** posted a net profit of P2.69 billion (including P604 million non-recurring gain) for the first quarter of 2014, 49% higher than the P1.81 billion for the same period in 2013 due to strong residential sales in its various townships, particularly in Newport City, Uptown Bonifacio, McKinley Hill and Eastwood City; and higher leasing income from its office and retail portfolio. Sales were also generated from The Sonoma, The Cambridge Village, The Rochester Gardens, Kasara Urban Resort Residences and Laguna Bel-Air projects of Empire East. Megaworld's rental income from office developments and lifestyle malls surged to a record of P1.7 billion, up 23% from P1.39 billion a year ago. Total revenues of the Megaworld, which include the Empire East and Suntrust brands, amounted to P9.94 billion this year, 22% higher than a year ago. The group posted P19.6 billion in reservation sales this year, which is 9% better than a year ago.

**Emperador** ended the first quarter of the year with net profit of P1.72 billion, a 19% jump from P1.45 billion a year ago, on the back of strong sales growth. Emperador reported revenues of P7.69 billion, up 17% from P6.60 billion a year ago, primarily due to growth in cases sold during the period. Costs and expenses, on the other hand, had a slower expansion of 15%. Advertising and promotions contracted from a year ago when Emperador Deluxe was introduced in the market.

**Travellers** posted a strong net profit of P1.72 billion for the first quarter, 73% higher that the P995 million it reported for the same period last year, as a result of its cost management initiatives. Gross gaming revenues contracted by 23% to P7.21 billion this quarter. All segments generally improved in volume except for VIP Overseas, which was affected by the difference in international calendar of activities. While the win rate had improved from fourth quarter 2013, it remained lower than a year ago. Total tables remained the same at 287, while slot machines increased to 1,853 (from 1,699) and ETG rose to 210 (from 100). Travellers recently got approval of additional gaming capacity based on its Phase 1 room count, which will bring the total gaming capacity to 420 tables and 4,148 combined gaming machines. Meanwhile, its hotel and food and beverage (F&B) also declined from a year ago, largely due to the strategy of using its hotel and F&B to increase customer engagement. Hotel occupancy rates for the first three months this year remained solid at a minimum of 85% in all three hotels (Maxims, Marriott and Remington). Remington had additional 12 rooms this year, which bring its total rooms to 712; rooms at Marriott and Maxims remain the same at 342 and 172, respectively.

**GADC** ended the first quarter with total revenues of P4.36 billion, up 13% from P3.85 billion for the same period last year. This is primarily due to the opening of 37 new restaurants (23 company-owned, 13 franchised, 1 joint venture), reimaging of 45 existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (McSpicy chicken burger and rice meal, McDouble, re-launch of Cheeseburger Deluxe), and aggressive advertising and promotional campaigns to support Fries, Desserts, McSavers (Coffee and Sundae), McDelivery, McSaver Meals, and Breakfast. The 38 new restaurants contributed 8% to total system sales while business extensions comprise 22% of the total. There were 412 restaurants operating by the end of the quarter, as compared to 375 restaurants a year ago. Price increases were also strategically implemented in order to mitigate rising costs and to maintain the level of product quality. Impact of price adjustment to gross profit is an increase of 0.07% for 2014. Cost of sales and services went up by 19%, primarily due to cost of inventory which increased by 19% from higher foreign exchange rates and higher prices of raw materials. Supplies, transportation and crew labor costs also expanded from a year ago. As a result, net profit shrank to P171 million from P234 a year ago.

**GERI** reported net profit of P103 million for the first quarter of the year, up 27% from P81 million a year ago. Real estate sales came mainly from sale of lots in Newcoast Shophouse District, Newcoast Boutique Hotel and Newcoast Village in Boracay; Sta. Barbara Heights in Iloilo City; and Twin Lakes Domaine Le Jardin in Laurel, Batangas. Hotel revenues also grew from a year ago due to expansion of hotel operations in Boracay. Income from golf course maintenance provided incremental revenue.

The results of operations are further shown in the profit and loss accounts, as follows:

| | 2014 | 2013 | Growth |
|---|---|---|---|
| REVENUES | 31,230 | 30,266 | 3% |
| Sale of goods | 15,006 | 12,639 | 19% |
| Consumer goods | 7,762 | 6,402 | 21% |
| Revenues from real estate (RE) sales | 7,245 | 6,237 | 16% |
| RE sales | 5,865 | 5,023 | 17% |
| Interest income on RE sales | 389 | 355 | 9% |
| Realized gross profit on RE sales | 991 | 859 | 15% |
| Rendering of services | 14,298 | 15,737 | -9% |
| Gaming | 7,210 | 9,409 | -23% |
| Sales by company-operated quick-service restaurant | 3,993 | 3,527 | 13% |
| Franchise revenues | 311 | 285 | 9% |
| Rental income | 1,720 | 1,509 | 14% |
| Other services | 1,064 | 1,006 | 6% |
| Share in net profits of associates and joint ventures | 1 | 0.5 | 156% |
| Finance and other income | 1,925 | 1,889 | 2% |
| COSTS AND EXPENSES | 23,710 | 24,219 | -2% |
| Cost of goods sold | 9,683 | 8,560 | 13% |
| Consumer goods sold | 4,885 | 4,153 | 18% |
| RE sales | 3,479 | 3,038 | 14% |
| Deferred gross profit on RE sales | 1,319 | 1,369 | -4% |
| Cost of services | 6,286 | 7,062 | -11% |
| Gaming | 2,168 | 3,609 | -40% |
| Company-operated quick-service restaurants | 3,303 | 2,770 | 19% |
| Franchised restaurants | 153 | 138 | 11% |
| Other services | 662 | 545 | 21% |
| Other operating expenses | 5,877 | 7,456 | -21% |

| | | | |
|---|---|---|---|
| Finance costs and other charges | 1,864 | 1,140 | 63% |
| TAX EXPENSE | 1,266 | 1,142 | 11% |
| NET PROFIT | 6,254 | 4,905 | 28% |

Amounts in million pesos; numbers may not add up due to rounding off.

**Revenues** expanded by 3% because sale of goods (real estate, alcoholic beverages and snack products) jumped 19% while rendering of services (gaming, hotel, quick-service restaurants, rentals) dwindled by 9%, primarily due to 23% contraction of gaming revenues from where more than half of service revenues come from.

**Costs and expenses** decelerated by 2%, because costs of sales and services escalated at a slower rate of 2% and other operating expenses dropped by 21%, primarily from the effective cost management especially at RWM.

**Finance and other income** this year included the P604 million non-recurring gain from acquisition of a subsidiary by Megaworld and fair value gains of the Group on marked-to-market securities, which offset the effect of the reversal in foreign currency exchange gains; thus finance and other income increased by 2% year-on-year. **Finance costs and other charges** swelled by 63% as compared to a year ago due to the foreign currency losses incurred by Megaworld, Travellers and Emperador plus the additional interest expended by Megaworld this year for the $250 million bond issued in April 2013, which carries a coupon of 4.25%.

**Income tax** increased by 11% this year as compared to a year ago, which is attributed to higher taxable income resulting in the higher tax expended by Emperador, Megaworld and GERI.

Earnings before interest, taxes, depreciation and amortizations (EBITDA), computed as net profit before non-recurring income, share in net profits of associates and joint ventures, income taxes, interest expense, depreciation, amortizations and impairment provisions, amounted to P9.0 billion as compared to P8.2 billion a year ago, or 11% improvement year-on-year.

*Financial Condition*

Consolidated total assets amounted to P336.4 billion at end of the interim period from P332.4 billion at beginning of year. The Group is strongly liquid with current assets exceeding current liabilities 4.0times. Current assets amounted to P194.4 billion while current liabilities amounted to P49.1 billion at end of the interim period.

Cash and cash equivalents dipped by P8.6 billion or 9% to end at P86.4 billion from P95.0 billion at the beginning of the year, primarily due to Travellers' loan payments of P4.3 billion and US$3.2 million, Emperador's investment in a Spanish associate, and Megaworld's capital expenditure and business expansion activities. Cash flows from operating, financing and investing activities during the period were presented in the interim consolidated statements of cash flows.

Current trade and other receivables went up by P4.5 billion or 15% primarily due to higher real estate sales during the period and the additional downpayments paid by Travellers and Emperador to its suppliers/contractors in connection with the ongoing expansion works at RWM and new distillery plant in Batangas. Noncurrent trade and other receivables increased by P1.5 billion or 6% due to higher real estate reservations/sales booked during the period.

Inventories rose by P1.9 billion or 4% due to additional real estate lots, condominium units and resort shares completed and put up for sale. There was also higher brandy inventory in preparation for the coming summer months, which is a season of festivities when demand is stronger. New casino operating supplies such as gaming cards, dice and seals were purchased during the period.

Financial assets at fair value through profit or loss dropped by P3.0 billion or 40% due to disposal of investments in marketable debt securities during the interim period.

Property development costs went up by P1.6 billion of 14% due to new real estate development projects.

Land for future development went down by P1.5 billion or 12% due to reclassification to ongoing development costs.

Investment property enlarged by P4.4 billion or 16% from property owned by La Fuerza Inc., a former associate and now a newly-acquired subsidiary of Megaworld, and the completion of additional properties for lease.

Investments in and advances to associates and other related parties surged by P2.7 billion or 52% due primarily to the acquisition of 50% equity in an Spanish associate by Emperador, which in turn is reduced by the amount of investment in a former associate of Megaworld which becomes a subsidiary during the period (the investment is closed).

Deferred tax assets decreased by P0.2 billion or 26% as a result of changes in taxable temporary differences at GERI.

Other current assets increased by P0.2 billion or 5% due to Emperador's prepaid advertising cost of P0.2 billion. Other non-current assets went up by P0.3 billion or 13% primarily due to additional deferred input vat of Emperador and guarantee deposits of Megaworld.

Both current and non-current interest-bearing loans dipped by P2.2 billion or 58% and P3.1 billion or 33%, respectively, due to loan settlements made by Travellers and principal payments by AGI and Megaworld. After its payments, Travellers now has P0.2 billion loan balance in its balance sheet, which is not yet due within a year

Income tax payable increased by P0.6 billion or 72% due to higher tax liabilities of Emperador and GADC.

*Liquidity and Capital Resources*

The consolidated balance sheet showed strong liquidity with current assets exceeding current liabilities 4.0times. Total-liabilities-to-equity ratio is at 0.71:1 while debt-to-equity ratio is at 0.33:1. Assets exceeded liabilities 2.4 times, and equity 1.7times.

Working capital was sourced internally from operations during the period. In addition, the Group has net cash position that will enable it to pursue strategic activities. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financings, depending on its financing requirement and market conditions.

| *Amounts in Million Pesos* | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Cash and equivalents | 86,367 | 94,977 |
| Interest-bearing debt | 64,668 | 69,504 |
| Net cash | 21,698 | 25,473 |
| Cash and cash equivalents to interest-bearing debt | 134% | 137% |
| Interest-bearing debt to total equity | 33% | 37% |

*Prospects for the future*

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

In 2014, all the business segments are expected to grow revenues and profits in line with targets.

*Others*

Events that occurred after the end of the interim period were summarized in Note 16 to the ICFS, *Subsequent Events*.

There were no other known material events subsequent to the end of the interim period that would have a material impact in the interim period.

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 year. 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.

There were no other material issuances, repurchases or repayments of debt and equity securities.

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

***SIGNATURE***

Pursuant to the requirements of Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Alliance Global Group, Inc.**
*Issuer*
By:

DINA D.R. INTING
*First Vice President for Finance*
*Corporate Information Officer/*
*Chief Financial Officer/*
*Principal Accounting Officer*
May 20, 2014

**ALLIANCE GLOBAL GROUP, INC.**
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**
**March 31, 2014**

| | 3/31/14 | 12/31/13 |
|---|---|---|
| Current ratio | 3.96 | 3.91 |
| Quick ratio | 2.55 | 2.62 |
| Liabilities-to-equity ratio | 0.71 | 0.75 |
| Interest-bearing debt to total capitalization ratio | 0.37 | 0.39 |
| Asset -to-equity ratio | 1.71 | 1.75 |
| Interest rate coverage ratio | 719% | 749% |
| Net profit margin | 20.03% | 16.20% |
| Return on assets | 1.86% | 1.48% |
| Return on equity/investment | 3.17% | 2.58% |
| Return on equity/investment of owners | 3.53% | 3.31% |

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

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

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

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

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

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**MARCH 31, 2014 AND DECEMBER 31, 2013**
***(Amounts in Philippine Pesos)***

| | March 31, 2014 (UNAUDITED) | December 31, 2013 (AUDITED) |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **P 86,366,609,262** | P 94,977,525,445 |
| Trade and other receivables - net | **34,582,201,488** | 30,074,787,370 |
| Financial assets at fair value through profit or loss | **4,390,330,658** | 7,375,742,967 |
| Inventories - net | **51,008,939,576** | 49,075,369,433 |
| Property development costs | **13,619,751,048** | 11,974,519,471 |
| Other current assets | **4,425,123,158** | 4,212,007,912 |
| Total Current Assets | **194,392,955,190** | 197,689,952,598 |
| **NON-CURRENT ASSETS** | | |
| Trade and other receivables - net | **26,088,482,114** | 24,609,462,917 |
| Advances to landowners and joint ventures | **4,790,135,574** | 4,787,412,854 |
| Available-for-sale financial assets | **4,557,296,195** | 4,758,892,191 |
| Land for future development | **11,052,027,098** | 12,524,387,842 |
| Investments in and advances to associates and other related parties | **7,769,963,846** | 5,099,102,903 |
| Property, plant and equipment - net | **41,997,076,878** | 41,661,804,726 |
| Investment property - net | **31,654,312,870** | 27,290,428,438 |
| Intangible assets - net | **11,027,373,535** | 11,049,976,130 |
| Deferred tax assets | **541,782,872** | 728,559,662 |
| Other non-current assets | **2,494,679,018** | 2,200,429,265 |
| Total Non-current Assets | **141,973,130,000** | 134,710,456,928 |
| **TOTAL ASSETS** | **P 336,366,085,190** | P 332,400,409,526 |

| | | March 31, 2014 (UNAUDITED) | | December 31, 2013 (AUDITED) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | **P** | **24,190,423,287** | P | 24,830,784,627 |
| Interest-bearing loans | | **1,610,638,691** | | 3,795,792,269 |
| Income tax payable | | **1,338,410,716** | | 779,445,751 |
| Other current liabilities | | **21,931,624,199** | | 21,178,560,896 |
| Total Current Liabilities | | **49,071,096,893** | | 50,584,583,543 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | | **6,137,657,238** | | 9,228,584,192 |
| Bonds payable | | **56,919,953,114** | | 56,479,746,306 |
| Advances from related parties | | **358,541,219** | | 354,107,249 |
| Retirement benefit obligation | | **1,494,091,399** | | 1,428,092,675 |
| Redeemable preferred shares | | **1,801,057,369** | | 1,786,120,902 |
| Deferred tax liabilities | | **7,253,590,195** | | 7,242,479,378 |
| Other non-current liabilities | | **16,138,184,526** | | 15,075,049,649 |
| Total Non-current Liabilities | | **90,103,075,060** | | 91,594,180,351 |
| Total Liabilities | | **139,174,171,953** | | 142,178,763,894 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company | | **111,579,824,143** | | 107,692,727,038 |
| Non-controlling interest | | **85,612,089,094** | | 82,528,918,594 |
| Total Equity | | **197,191,913,237** | | 190,221,645,632 |
| **TOTAL LIABILITIES AND EQUITY** | **P** | **336,366,085,190** | P | 332,400,409,526 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THREE MONTHS ENDED MARCH 31, 2014 AND 2013**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2014 | 2013 (As Restated) |
|---|---|---|
| **REVENUES** | | |
| Sale of goods | **P 15,006,417,388** | P 12,639,320,545 |
| Rendering of services | **14,297,943,896** | 15,736,764,355 |
| Share in net profits of associates and joint ventures - net | **1,303,801** | 508,133 |
| Finance and other income | **1,924,578,580** | 1,889,237,188 |
| | **31,230,243,665** | 30,265,830,221 |
| **COSTS AND EXPENSES** | | |
| Cost of goods sold | **9,682,790,519** | 8,560,441,552 |
| Cost of services | **6,285,863,280** | 7,062,018,972 |
| Other operating expenses | **5,877,020,632** | 7,456,209,039 |
| Finance cost and other charges | **1,863,919,057** | 1,140,222,728 |
| | **23,709,593,488** | 24,218,892,291 |
| **PROFIT BEFORE TAX** | **7,520,650,177** | 6,046,937,930 |
| **TAX EXPENSE** | **1,266,663,326** | 1,142,387,224 |
| **NET PROFIT** | **6,253,986,851** | 4,904,550,706 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Items that will be reclassified subsequently to profit or loss** | | |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | **( 15,268,767 )** | ( 2,504,369 ) |
| Translation adjustments | **( 54,673,663 )** | ( 38,103,995 ) |
| | **( 69,942,430 )** | ( 40,608,364 ) |
| **TOTAL COMPREHENSIVE INCOME** | **P 6,184,044,421** | P 4,863,942,342 |
| **Net profit attributable to:** | | |
| Owners of the parent company | **P 3,942,854,247** | P 3,566,171,508 |
| Non-controlling interest | **2,311,132,604** | 1,338,379,198 |
| | **P 6,253,986,851** | P 4,904,550,706 |
| **Total comprehensive income attributable to:** | | |
| Owners of the parent company | **P 3,872,911,817** | P 3,528,120,283 |
| Non-controlling interest | **2,311,132,604** | 1,335,822,059 |
| | **P 6,184,044,421** | P 4,863,942,342 |
| **Earnings Per Share for the Net Income Attributable to Owners of the Parent Company :** | | |
| **Basic** | **P 0.3900** | P 0.3528 |
| **Diluted** | **P 0.3882** | P 0.3525 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THREE MONTS ENDED MARCH 31, 2014 AND 2013**
***(Amounts in Philippine Peso)***
***(UNAUDITED)***

| | 2014 | 2013 (As Restated) |
|---|---|---|
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY** | | |
| **Capital Stock** | **P 10,269,827,979** | P 10,269,827,979 |
| **Additional Paid-in Capital** | **33,611,840,432** | 33,501,908,751 |
| **Treasury Shares - at cost** | **( 955,217,410 )** | ( 984,512,637 ) |
| **Net Actuarial Gains (Losses) on Retirement Benefit Plan** | | |
| Balance at beginning of year | | |
| As previously reported | **( 207,484,076 )** | - |
| Effect of adoption of PAS 19 (Revised) | **-** | ( 240,822,140 ) |
| As restated | **( 207,484,076 )** | ( 240,822,140 ) |
| Actuarial gains (losses) for the year, net of tax | **-** | - |
| Balance at end of year | **( 207,484,076 )** | ( 240,822,140 ) |
| **Net Unrealized Gains (Losses) on Available-for-Sale Securities** | | |
| Balance at beginning of year | **( 906,447,446 )** | ( 764,407,369 ) |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | **( 15,268,767 )** | ( 2,504,369 ) |
| Balance at end of year | **( 921,716,213 )** | ( 766,911,738 ) |
| **Accumulated Translation Adjustments** | | |
| Balance at beginning of year | **( 903,939,309 )** | ( 903,342,498 ) |
| Currency translation adjustments during the year | **( 54,673,663 )** | ( 38,103,995 ) |
| Balance at end of year | **( 958,612,972 )** | ( 941,446,493 ) |
| *Balance carried forward* | **P 40,838,637,740** | P 40,838,043,722 |

| | 2014 | 2013 (As Restated) |
|---|---|---|
| *Balance brought forward* | **P 40,838,637,740** | P 40,838,043,722 |
| **Dilution Gain** | **10,974,217,660** | 1,277,846,433 |
| **Share Options** | | |
| Balance at beginning of year | **264,469,448** | 107,652,616 |
| Share-based compensation expense recognized during the year | **14,185,288** | 32,467,469 |
| Balance at end of year | **278,654,736** | 140,120,085 |
| **Retained Earnings** | | |
| Appropriated | **2,145,000,000** | 1,400,000,000 |
| Unappropriated | | |
| Balance at beginning of year | | |
| As previously reported | **53,400,459,760** | 40,237,045,058 |
| Effect of adoption of PAS 19 (Revised) | **-** | 7,112,315 |
| As restated | **53,400,459,760** | 40,244,157,373 |
| Net profit for the year | **3,942,854,247** | 3,566,171,508 |
| Balance at end of year | **57,343,314,007** | 43,810,328,881 |
| Total Retained Earnings | **59,488,314,007** | 45,210,328,881 |
| Total | **111,579,824,143** | 87,466,339,121 |
| **NON-CONTROLLING INTEREST** | | |
| Balance at beginning of year | | |
| As previously reported | **82,528,918,594** | 59,870,536,020 |
| Effect of adoption of PAS 19 (Revised) | **-** | ( 22,804,167 ) |
| As restated | **82,528,918,594** | 59,847,731,853 |
| Non-controlling interest in additional investments | **878,679,749** | 777,009,534 |
| Share in consolidated comprehensive income | **2,311,132,604** | 1,335,822,059 |
| Dividend from investee | **( 106,641,853 )** | ( 5,250,000 ) |
| Balance at end of year | **85,612,089,094** | 61,955,313,446 |
| **TOTAL EQUITY** | **P 197,191,913,237** | P 149,421,652,567 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THREE MONTHS ENDED MARCH 31, 2014 AND 2013**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2014 | 2013 (As Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | **P 7,520,650,177** | P 6,046,937,930 |
| Adjustments for: | | |
| Interest expense | **1,118,166,714** | 931,559,608 |
| Depreciation and amortization | **988,423,714** | 1,180,389,303 |
| Interest income | **( 631,137,501 )** | ( 675,774,833 ) |
| Income from acquisition of a subsidiary | **( 603,798,026 )** | |
| Fair value losses (gains) | **( 293,148,017 )** | 168,046,766 |
| Unrealized foreign currency losses | **193,033,753** | 620,872,827 |
| Gain on sale of investment in available-for-sale financial assets | **( 120,858,951 )** | ( 36,745,251 ) |
| Stock option benefit expense | **14,185,288** | 32,467,469 |
| Unrealized loss on interest rate swap | **10,030,630** | 35,652,440 |
| Impairment and other losses | **2,909,313** | 3,340,726 |
| Dividend income | **( 2,283,293 )** | ( 60,270 ) |
| Net losses (gains) on disposal of property, plant and equipment, investment property and intangible assets | **( 1,605,457 )** | - |
| Share in net loss (profits) of associates and joint ventures | **( 1,303,801 )** | ( 508,133 ) |
| Preacquisition loss | **5,203,508** | - |
| Operating income before working capital changes | **8,198,468,051** | **8,306,178,582** |
| Increase in trade and other receivables | **( 6,027,739,350 )** | ( 4,655,883,436 ) |
| Decrease in financial assets at fair value through profit or loss | **2,728,687,985** | 219,341,611 |
| Increase in inventories | **( 1,823,265,170 )** | ( 2,111,403,499 ) |
| Decrease (increase) in property development costs | **126,453,118** | ( 465,703,338 ) |
| Increase in other current assets | **( 92,383,547 )** | ( 92,601,924 ) |
| Increase (decrease) in trade and other payables | **( 32,828,448 )** | 1,551,483,448 |
| Increase in other current liabilities | **702,286,100** | 3,300,835 |
| Increase in retirement benefit obligation | **52,531,027** | 57,815,656 |
| Increase in other non-current liabilities | **1,084,129,274** | 1,602,498,878 |
| Cash generated from operations | **4,916,339,040** | 4,415,026,813 |
| Cash paid for taxes | **( 707,698,361 )** | ( 517,765,875 ) |
| Net Cash From Operating Activities | **4,208,640,679** | 3,897,260,938 |
| *Balance carried forward* | **P 4,208,640,679** | P 3,897,260,938 |

| | 2014 | 2013 (As Restated) |
|---|---|---|
| *Balance brought forward* | **P 4,208,640,679** | P 3,897,260,938 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Property, plant and equipment and investment property | **( 2,280,054,765 )** | ( 2,976,268,769 ) |
| Investment in and advances to associates | **( 4,688,970,417 )** | ( 146,253,614 ) |
| Land for future development | **( 299,323,951 )** | ( 129,689,347 ) |
| Other non-current assets | **( 291,240,024 )** | ( 277,334,346 ) |
| Intangible assets | **( 4,204,918 )** | ( 3,000,000 ) |
| Advances to landowners and joint ventures | **( 2,722,720 )** | |
| Proceeds from: | | |
| Sale of available for sale financial assets | **316,719,453** | 532,136,539 |
| Disposal of property, plant and equipment | **54,975,470** | - |
| Interest received | **608,419,040** | 653,777,867 |
| Cash dividends received | **2,283,293** | 60,270 |
| Net Cash Used in Investing Activities | **( 6,584,119,539 )** | ( 2,346,571,400 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from interest-bearing loans and bonds | - | 220,172,082 |
| Payment of interest-bearing loans | **( 5,287,028,847 )** | ( 824,564,131 ) |
| Interest paid | **( 963,287,182 )** | ( 978,236,179 ) |
| Advances paid to related parties | **( 428,635,336 )** | ( 376,781,911 ) |
| Advances received from related parties | **314,220,686** | |
| Dividends paid by a subsidiary | **( 106,641,853 )** | - |
| Net Cash Used in Financing Activities | **( 6,471,372,532 )** | ( 1,959,410,139 ) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **( 8,846,851,392 )** | ( 408,720,601 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **94,977,525,445** | 68,301,336,097 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARIES** | **235,935,209** | - |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **P 86,366,609,262** | P 67,892,615,496 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Cost or Investment Property as the property goes through its various stages of development.

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 2014**
***(With Comparative Figures as of December 31, 2013)***
***(Amounts in Philippine Pesos)***
***(Unaudited)***

## 1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries and associates (collectively referred to as the Group) operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick service restaurant under the following entities (see Note 4):

| | | | Percentage of Effective Ownership of AGI | | |
|---|---|---|---|---|---|
| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | **March 2014** | December 2013 | December 2012 |
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Megaworld Corporation | Megaworld | (a) | **65%** | 65% | 63% |
| Megaworld Land, Inc. | | | **65%** | 65% | 63% |
| Prestige Hotels and Resorts, Inc. | | | **65%** | 65% | 63% |
| Mactan Oceanview Properties and Holdings, Inc. | | | **65%** | 65% | 63% |
| Megaworld Cayman Islands, Inc. | MCII | (b) | **65%** | 65% | 63% |
| Richmonde Hotel Group International | RHGI | (c) | **65%** | 65% | 63% |
| Eastwood Cyber One Corporation | ECOC | | **65%** | 65% | 63% |
| Megaworld Cebu Properties, Inc. | | | **65%** | 65% | 63% |
| Megaworld Newport Property Holdings, Inc. (formerly Forbes Town Properties and Holdings, Inc.) | | | **65%** | 65% | 63% |
| Oceantown Properties, Inc. | | | **65%** | 65% | 63% |
| Piedmont Property Ventures, Inc. | | | **65%** | 65% | 63% |
| Stonehaven Land, Inc. | | | **65%** | 65% | 63% |
| Streamwood Property, Inc. | | | **65%** | 65% | 63% |
| Suntrust Properties, Inc. | SPI | | **65%** | 65% | 56% |
| Lucky Chinatown Cinemas, Inc. | | (d) | **65%** | 65% | - |
| Luxury Global Hotels and Leisures, Inc. | | (d) | **65%** | 65% | - |
| Suntrust Ecotown Developers, Inc. | SEDI | (d) | **65%** | 65% | - |
| Woodside Greentown Properties, Inc. | WGPI | (d) | **65%** | 65% | - |
| Townsquare Development, Inc. | | | **49%** | 49% | 49% |
| Megaworld Central Properties, Inc. | | | **50%** | 50% | 48% |
| Megaworld-Daewoo Corporation | MDC | | **39%** | 39% | 38% |
| Eastwood Cinema 2000, Inc. | | (d) | **35%** | 35% | - |
| Megaworld Globus Asia, Inc. | | | **33%** | 33% | 32% |
| Philippine International Properties, Inc. | | | **32%** | 32% | 32% |
| Empire East Land Holdings, Inc. | EELHI | | **53%** | 53% | 50% |
| Valle Verde Properties, Inc. | | (e) | **53%** | 53% | 50% |
| Empire East Communities, Inc. | | (e) | **53%** | 53% | 50% |
| Sherman Oak Holdings, Inc. | | (e) | **53%** | 53% | 50% |
| Eastwood Property Holdings, Inc. | | (e) | **53%** | 53% | 50% |
| Laguna Bel-Air School, Inc. | | (e) | **38%** | 38% | 36% |

| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | Percentage of Effective Ownership of AGI March 2014 | December 2013 | December 2012 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Megaworld Resort Estates, Inc. | MREI | (f) | **82%** | 82% | 81% |
| Sonoma Premiere Land, Inc. | | (g) | **62%** | 62% | 70% |
| Gilmore Property Marketing Associates Inc. | GPMAI | (h) | **55%** | 47% | 45% |
| La Fuerza, Inc. | LFI | (w) | **43%** | - | - |
| **Emperador and subsidiaries** | | | | | |
| Emperador Inc. | EMP or Emperador | (x) | **88%** | 88% | - |
| Emperador Distillers, Inc. | EDI | (x) | **88%** | 88% | 100% |
| Emperador International Ltd. | EIL | (c) | **88%** | 88% | 100% |
| Anglo Watsons Glass, Inc. | AWGI | | **88%** | 88% | 100% |
| The Bar Beverage, Inc. | | | **88%** | 88% | 100% |
| **GERI and subsidiaries** | | | | | |
| Global Estate Resorts, Inc. | GERI | (i) | **66%** | 65% | 64% |
| Fil-Estate Properties, Inc. | | | **66%** | 65% | 64% |
| Aklan Holdings Inc. | | | **66%** | 65% | 64% |
| Blu Sky Airways, Inc. | | | **66%** | 65% | 64% |
| Fil-Estate Subic Development Corp. | | | **66%** | 65% | 64% |
| Fil-Power Construction Equipment Leasing Corp. | | | **66%** | 65% | 64% |
| Golden Sun Airways, Inc. | | | **66%** | 65% | 64% |
| La Compaña De Sta. Barbara, Inc. | | | **66%** | 65% | 64% |
| MCX Corporation | | | **66%** | 65% | 64% |
| Pioneer L-5 Realty Corp. | | | **66%** | 65% | 64% |
| Prime Airways, Inc. | | | **66%** | 65% | 64% |
| Sto. Domingo Place Development Corp. | | | **66%** | 65% | 64% |
| Fil-Power Concrete Blocks Corp. | | | **66%** | 65% | 64% |
| Fil-Estate Golf and Development, Inc | | | **66%** | 65% | 64% |
| Golforce, Inc. | | | **66%** | 65% | 64% |
| Fil-Estate Urban Development Corp. | | | **66%** | 65% | 64% |
| Novo Sierra Holdings Corp. | | | **66%** | 65% | 64% |
| Boracay Newcoast Hotel Group, Inc. | | | **66%** | 65% | 64% |
| Megaworld Global-Estate, Inc. | | (j) | **75%** | 65% | 63% |
| Twin Lakes Corp. | TLC | | **57%** | 45% | 44% |
| Fil-Estate Industrial Park, Inc. | | | **52%** | 51% | 51% |
| Sherwood Hills Development Inc. | SHDI | | **36%** | 36% | 35% |
| Fil-Estate Ecocentrum Corp. | | | **37%** | 36% | 36% |
| Philippine Aquatic Leisure Corp. | | | **37%** | 36% | 36% |
| Oceanfront Properties, Inc. | OPI | (u) | **33%** | 32% | 32% |
| **GADC and subsidiaries** | | | | | |
| Golden Arches Development Corporation | GADC | | **49%** | 49% | 49% |
| Golden Arches Realty Corporation | | | **49%** | 49% | 49% |
| Clark Mac Enterprises, Inc. | | | **49%** | 49% | 49% |
| Advance Food Concepts Manufacturing, Inc. | AFCMI | | **46%** | 46% | 37% |
| Davao City Food Industries, Inc. | | | **37%** | 37% | 37% |
| Golden Laoag Foods Corporation | | | **38%** | 38% | 38% |
| First Golden Laoag Ventures | | | **34%** | 34% | 34% |
| Retiro Golden Foods, Inc. | | | **34%** | 34% | 34% |
| Red Asian Food Solutions | | (k) | **34%** | 34% | - |
| McDonald's Anonas City Center | | (l) | **34%** | 34% | - |
| McDonald's Puregold Taguig | | (l) | **29%** | 29% | 29% |
| Golden City Food Industries, Inc. | GCFII | (l) | **29%** | - | - |
| McDonald's Bench Building | | (l) | **27%** | 27% | 27% |

| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | Percentage of Effective Ownership of AGI March 2014 | December 2013 | December 2012 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Travellers and subsidiaries** | | | | | |
| Travellers International Hotel Group, Inc. | Travellers | (m) | **42%** | 42% | 46% |
| APEC Assets Limited | APEC | | **42%** | 42% | 46% |
| Bright Leisure Management, Inc. | | | **42%** | 42% | 46% |
| Deluxe Hotels and Recreation, Inc. | | | **42%** | 42% | 46% |
| Entertainment City Integrated Resorts & Leisure, Inc. | | | **42%** | 42% | 46% |
| Grand Integrated Hotels and Recreation, Inc. | | | **42%** | 42% | 46% |
| Grand Services, Inc. | | | **42%** | 42% | 46% |
| Grand Venture Management Services, Inc. | | | **42%** | 42% | 46% |
| Lucky Star Hotels and Recreation, Inc. | | | **42%** | 42% | 46% |
| Majestic Sunrise Leisure & Recreation, Inc. | | | **42%** | 42% | 46% |
| Net Deals, Inc. | | | **42%** | 42% | 46% |
| Newport Star Lifestyle, Inc. | | | **42%** | 42% | 46% |
| Royal Bayshore Hotels & Amusement, Inc. | | | **42%** | 42% | 46% |
| FHTC Entertainment and Production, Inc. | | | **42%** | 42% | - |
| Bright Pelican Leisure and Production, Inc. | | | **42%** | 42% | - |
| Yellow Warbler Leisure and Recreation, Inc. | | | **42%** | 42% | - |
| **Corporate and Others** | | | | | |
| New Town Land Partners, Inc. | NTLPI | | **100%** | 100% | 100% |
| Tradewind Estates, Inc. | | | **100%** | 100% | 100% |
| Great American Foods, Inc. | GAFI | (n) | **100%** | 100% | 100% |
| McKester America, Inc. | McKester | (n) | **100%** | 100% | 100% |
| Alliance Global Brands, Inc. | | | **100%** | 100% | 100% |
| McKester Pik-nik International Limited | MPIL | (c) | **100%** | 100% | 100% |
| Venezia Universal Ltd. | VUL | (c) | **100%** | 100% | 100% |
| Travellers Group Ltd. | TGL | (c) | **100%** | 100% | 100% |
| Alliance Global Group Cayman Islands, Inc. | AG Cayman | (b) | **100%** | 100% | 100% |
| Greenspring Investment Holdings Properties Ltd. | Greenspring | (b) | **100%** | 100% | 100% |
| Shiok Success International, Ltd. | SSI | (c) | **100%** | 100% | - |
| Dew Dreams International, Ltd. | DDI | (c) | **100%** | 100% | - |
| First Centro, Inc. | FCI | | **75%** | 75% | 100% |
| Oceanic Realty Group International, Inc. | | (o) | **75%** | 75% | 100% |
| ERA Real Estate Exchange, Inc. | | (o) | **75%** | 75% | 100% |
| Adams Properties, Inc. | Adams | | **60%** | 60% | 60% |
| Manila Bayshore Property Holdings, Inc. | | (p) | **52%** | 52% | 55% |
| Resorts World Bayshore City, Inc. | RWBCI | (q) | **45%** | 45% | - |
| Purple Flamingos Amusement and Leisure Corporation | | (r) | **45%** | 45% | - |
| Red Falcon Amusement and Leisure Corporation | | (r) | **45%** | 45% | - |
| ***Associates*** | | | | | |
| Bodega Las Copas | | (y) | **50%** | - | - |
| Suntrust Home Developers, Inc. | SHDI | (s) | **27%** | 27% | 27% |
| First Oceanic Property Management | FOPMI | (t) | **27%** | 27% | 27% |
| Citylink Coach Services, Inc. | CCSI | (t) | **27%** | 27% | 27% |
| Palm Tree Holdings and Development Corporation | PTHDC | (t) | **26%** | 26% | 25% |
| Genting Star Tourism Academy, Inc. | | | **20%** | 20% | 23% |
| Fil-Estate Network, Inc. | FENI | (u) | **13%** | 13% | 13% |
| Fil-Estate Sales, Inc. | FESI | (u) | **13%** | 13% | 13% |
| Fil-Estate Realty and Sales Associates, Inc. | FERSAI | (u) | **13%** | 13% | 13% |
| Fil-Estate Realty Corp. | FERC | (u) | **13%** | 13% | 13% |
| Nasugbu Properties, Inc. | NPI | (u) | **9%** | 9% | 9% |
| Alliance Global Properties, Inc. | AGPL | (v) | **-** | - | 30% |
| LFI | | (w) | **-** | 32% | - |
| ***Jointly Controlled Entity*** | | | | | |
| GCFII | | (l) | **-** | 25% | 24% |

Explanatory notes:

(a) Megaworld is 44% directly owned by AGI and 21% owned through other subsidiaries (NTLPI and FCI). Effective ownership over Megaworld increased due to additional subscription by AGI
(b) Foreign subsidiaries operating under the laws of the Cayman Islands
(c) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI)
(d) Newly acquired subsidiaries of Megaworld in 2013
(e) Subsidiaries of EELHI
(f) AGI and Megaworld directly owns 49% and 51%, respectively
(g) A subsidiary of AGI through 60% and 40% direct ownership of EELHI and FCI, respectively
(h) A subsidiary of Megaworld in 2011 and became an associate in 2012; Became a subsidiary in 2013, through Megaworld's increase in ownership interest in EELHI
(i) Effective ownership over GERI increased due to additional subscription by Megaworld
(j) A subsidiary of AGI through 60% and 40% direct ownership of GERI and Megaworld, respectively
(k) Newly acquired subsidiary of GADC
(l) Unincorporated joint ventures of GADC in 2013; Became a subsidiary in 2014 through additional investment by GADC
(m) Formerly a jointly-controlled entity. As of the beginning of 2012, AGI has the power to govern the financial and operating policies of Travellers. As such, after considering the provisions of applicable accounting standards, Travellers qualified as a subsidiary in 2012 and, accordingly, the accounts of Travellers have been consolidated into the Group's financial statements beginning 2012.
Travellers is 18% directly owned by AGI and 22%, 9%, and 5% through Adams, Megaworld and FCI, respectively.
(n) Foreign subsidiaries operating under the laws of United States of America
(o) Subsidiaries of FCI
(p) A subsidiary of AGI through 50/50 ownership of Travellers and Megaworld
(q) Incorporated in 2013. Effective ownership is through 20% direct ownership, 6% through 10% ownership of Megaworld, 4% through 5% ownership of FCI and 15% through 25% ownership of Adams
(r) Incorporated in 2013; Wholly owned subsidiaries of RWBCI
(s) Associates of Megaworld
(t) Subsidiaries of SHDI, an associate of Megaworld
(u) Associates of GERI; GERI gained control over OPI in 2012, hence OPI was consolidated beginning 2012
(v) A foreign associate operating in the BVI; AGPL was disposed in 2013
(w) An associate of Megaworld in 2013; Became a subsidiary through additional stock subscription by Megaworld
(x) Became a subsidiary of AGI in 2013 through subscription in the increase in the subsidiary's capital stock; and as a condition to the subscription, AGI sold its 100% interest in EDI to EMP
(y) A foreign associate under EIL's Grupo Emperador Spain, S.L. and operating under the laws of Spain

The Company, its subsidiaries, associates and jointly-controlled entity are incorporated and operating in the Philippines, except for such foreign subsidiaries as identified in the preceding table (see explanatory notes b,c,n,v and y above).

AGI's shares of stock and those of Megaworld, EMP, Travellers, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

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 Board of Directors (BOD) approved on May 20, 2014, the release of the interim consolidated financial statements (ICFS) of the Group for the three months ended March 31, 2014 (including the comparative financial statements as of December 31, 2013 and for the three months ended March 31, 2013).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *2.1 Basis of Preparation of Interim Consolidated Financial Statements*

*(a) Compliance with Interim Financial Reporting Standard*

These interim consolidated financial statements (ICFS) have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the Group's audited consolidated financial statements (ACFS) as of and for the year ended December 31, 2013.

*(b) Application of PFRS*

The significant accounting policies and methods of computation used in the preparation of these ICFS are consistent with those applied in the ACFS as of and for the year ended December 31, 2013, except for the application of standards that became effective on January 1, 2014 as discussed in Note 2.3.

There are new PFRS, annual improvements and interpretations to the existing standards that are effective for periods subsequent to 2014 but were not adopted early for the preparation of the ICFS. The ICFS, therefore, do not reflect the impact of any adoption of these new PFRS, annual improvements and interpretations to existing standards effective for periods subsequent to 2014.

*(c) Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency (see Note 2.18).

*(d) Presentation of Interim Consolidated Financial Statements*

The presentation of the ICFS is consistent with the most recent ACFS presentation, except for the amendments introduced by the new accounting standards mentioned in Note 2.3. Regrouping of certain accounts in the comparative prior period presented was made to conform to the current period's presentation so that comparability is not impaired.

The Group presents all items of income and expense in a single consolidated statement of comprehensive income.

### *2.2 Basis of Consolidation*

The Company obtains and exercises control through voting rights. The Group's ICFS comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1, as of March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, 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 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 interim 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 (APIC).

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 entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases. The acquisition method is applied to account for acquired subsidiaries (see Note 2.10).

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of 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 Note 2.11).

*(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.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the interim consolidated statements of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associate's assets and liabilities.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in the interim consolidated other comprehensive income or equity of the Group, as applicable.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(c) Interests in Joint Ventures*

Interest in a joint venture is accounted using the equity method. Under the equity method, the interest is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company'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 Company'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 is also recognized in consolidated equity.

### *2.3 Adoption of New and Amended PFRS*

*(a) Effective in 2014 that are Relevant to the Group*

In 2014, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after January 1, 2014:

| | | |
|---|---|---|
| PAS 19 (Amendment) | : | Employee Benefits: Defined Benefit Plans – Employee Contributions |
| PAS 32 (Amendment) | : | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| PAS 36 (Amendment) | : | Impairment of Asset – Recoverable Amount Disclosures for Non-financial Assets |
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting |
| PFRS 10, 12 and PAS 27 (Amendments) | : | Investment Entities |

Discussed below are relevant information about these amended standards.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has determined that this amendment has no significant impact on the Group's ICFS.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The Group determined that the amendment has no significant impact on its ICFS as the Group is not setting off its financial assets and financial liabilities.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. Management has determined that this amendment has no significant impact on the Group's ICFS.

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group does not apply hedge accounting on its derivative transactions, hence the amendment does not impact the ICFS.

(iv) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss. Management assessed that these amendments have no material impact on the Group's ICFS.

*(b) Effective in 2014 that is not Relevant to the Group*

The International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, which is mandatory for accounting periods beginning on or after January 1, 2014 is determined not relevant to the Group's ICFS.

*(c) Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2014. Management has initially determined the following pronouncements to be relevant to its ICFS, and which the Group will apply in accordance with their transitional provision, but not adopted early:

(i) PFRS 9, *Financial Instruments: Clarification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

In November 2013, the International Accounting Standards Board (IASB) has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the interim consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(ii) Philippine 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 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.

(iii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets* (effective July 1, 2014). The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures* (effective July 1, 2014). The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the consolidated financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, though a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40, in determining the classification of property as an investment property or owner-occupied property, and explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

### *2.4 Financial Assets*

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

The financial asset categories currently relevant to the Group are financial assets at FVTPL, loans and receivables and AFS financial assets.

*(a) Financial Assets at FVTPL*

Financial assets at fair value through profit or loss (FVTPL) are measured at fair value, and changes therein are recognized in consolidated profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity 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. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to Contractors and Suppliers), Advances to Associates and Other Related Parties (included under Investments in and Advances to Associates and Other Related Parties account), Time Deposits (included under Other Current Assets account) and Refundable Security Deposits (included under Other Non-current Assets account).

(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. 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 consolidated equity.

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

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 consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reported net of financial liability in the interim consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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 (NRV). Cost is determined using weighted average method, except for food, paper, and promotional items which use the first-in, first-out method.

NRV 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. NRV of raw materials, spare parts and other operating supplies is the current replacement cost.

Cost of Real Estate includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.16). Accounting policies for real estate development transactions are discussed in more detail in Note 2.6.

### *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 occurs on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate for Sale classified under Inventories account (see Note 2.5) in the consolidated statement of financial position.

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 presented as part of Cost of Goods Sold in the interim consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for Property Development account.

Costs of properties and projects accounted for as Land for Future Development Costs, Property Development Costs and Real Estate for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and NRV. NRV 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 Other Assets*

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the ICFS when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

### *2.8 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, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value.

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 10 years |
| Transportation equipment | 3 to 10 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.

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).

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.

### *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 are carried at cost less 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.

### *2.10 Business Combinations*

Business acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at the date of acquisition.

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, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.11).

### *2.11 Intangible Assets*

Intangible assets include goodwill, trademarks, leasehold rights and computer software. Except goodwill, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. The costs of trademarks and computer software are amortized over the estimated useful life of 10 and 3 years, respectively, while leasehold rights are over the term of the lease. Intangible assets are subject to impairment testing at least annually. Any impairment loss is recognized immediately in consolidated profit or loss and is not subsequently 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 recognized directly to income. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

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

### *2.12 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 and interest rate swaps. 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. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, which are presented under the Other Assets or Other Liabilities (current and non-current) account in the consolidated statements of financial position.

*(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, Bonds Payable, Trade and Other Payables (except tax related payables), Advances from Related Parties, Redeemable Preferred Shares, Security Deposits and Payable to McDonald's Restaurant Operations, Inc. (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 interim consolidated statement of comprehensive income.

Dividend distributions to shareholders, if any, 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 end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

### *2.13 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 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 consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.14 Equity*

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

APIC includes any premiums received on the 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 but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at acquisition cost (see Note 2.2).

Revaluation reserves represent unrealized fair value gains or losses on AFS financial assets pertaining to cumulative mark-to-market valuations [see Note 2.4(c)], share in other comprehensive income of associates and joint ventures attributable to the Group, and actuarial gains or losses from remeasurement of retirement benefit obligations.

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 represents the difference between the book value per share in an investee versus the investee's offer price at the time pre-emptive 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. Dilution gain or loss is recognized on investments of which the Company continues to exercise control.

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

Retained earnings represent all current and prior period results of operations as reported in the profit and loss section of the interim consolidated statement of comprehensive income, reduced by the amount of dividends declared.

### *2.15 Revenue and Expense Recognition*

Revenue is recognized to the extent that the revenue can be reliably measured by reference to the fair value of consideration received or receivable by the Group; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Sale of goods* – Revenue, net of rebates and trade discounts, is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer acknowledged delivery of goods.

*(b)* *Sale of residential and condominium units [included under Real Estate (RE) Sales]* – 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 (under Cost of Goods Sold) in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (under Other 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 Customers' Deposits and presented as part of Other Liabilities (current and non-current) 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 real estate sales is used by the Group.

*(c)* *Interest income on real estate sales* - considered in the determination of total revenue for real estate sales. It is recognized when interest accrues taking into account the underlying sale of real estate under installment method through in-house financing (not through externally financed home loans obtained by customers).

*(d)* *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – 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.

*(e)* *Gaming revenues* – Revenue is recognized from net wins from gaming activities which represent the difference between coins and currencies deposited into the gaming machines and the payments to customers and, for other games, the difference between gaming wins and losses.

*(f)* *Revenue from hotel operations* – Revenue from hotel operations is recognized when services are rendered. This is presented as part of the item Others under Revenue from Rendering of Services.

*(g)* *Sales from Company-operated quick-service restaurants* – Revenue from restaurant sales operations are recognized when the services are rendered, that is, food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

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

*(i)* *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms. For tax purposes, rental income is recognized based on the contractual terms of the lease. Advance rentals and refundable rental deposits, if any, are recorded as deferred rental. Deferred rental, specifically the refundable rental deposit, is measured at amortized cost using the effective interest rate method.

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

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

Revenue and expenses are recognized excluding the amount of value-added tax (VAT).

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as rooms, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

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 consolidated 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, as follows:

*(a) Group as Lessee*

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

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

### *2.18 Foreign Currency Transactions and Translation*

*(a) 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.

*(b) Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, their functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;

(iii) Income and expenses for each profit or loss account are translated at the 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,

(iv) All resulting exchange differences are recognized in consolidated other comprehensive income and in a separate component of consolidated 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.

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, Intangible Assets, Investment Property, Property, Plant and Equipment and Other Non-financial assets are subject to impairment testing. 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 are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### *2.20 Employee Benefits*

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan. In addition, the Group also grants share options to key officers and employees eligible under stock option plans.

### *2.21 Income Taxes*

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in consolidated other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated 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 consolidated profit or loss.

Deferred tax is accounted for 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.

Travellers is subject to 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues as provided under its license. On May 7, 2014, Philippine Amusement and Gaming Corporation (PAGCOR) and its Entertainment City licensees, which include Travellers, agreed to reduce the license fees by 10% of gross gaming revenues effective April 1, 2014 (see Note 16.3).

### *2.22 Earnings per Share*

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares (e.g. vested share options – see Note 8).

### *2.23 Segment Reporting*

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

### *2.24 Related Party Transactions and Relationships*

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual and, (d) certain funded retirement plans, administered by trustee banks, of two significant subsidiaries.

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

### *2.25 Events After the End of 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 (see Note 15).

## 3. USE OF JUDGMENT AND ESTIMATES

The preparation of the ICFS in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group is organized into five major business segments, namely Megaworld, Travellers, Emperador, GADC and GERI, which are the major subsidiaries of the Group, and that represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.23). Presented below is the basis of the Group in reporting its primary segment information.

*(a)* The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries.

*(b)* The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.

*(c)* The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and its subsidiaries.

*(d)* The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between Golden Arches Development Corporation and McDonald's Corporation, USA.

*(e)* The *GERI* segment relates to development of integrated tourism estates, leisure-related properties and mixed used towers which is primarily undertaken by Global Estate Resorts, Inc. and subsidiaries.

### *4.2 Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they 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 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.

### *4.4 Analysis of Segment Information*

Segment information can be analyzed as follows for three months ended March 31, 2014 and 2013.

| | For the three months ended March 31, 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 8,652,526,059 | P 8,001,397,475 | P 4,304,300,576 | P 7,478,663,762 | P 584,145,635 | P 29,021,033,507 |
| Intersegment sales | 203,882,776 | - | - | - | - | 203,882,776 |
| Finance and other revenues | 1,090,015,637 | 51,013,768 | 55,756,599 | 215,969,169 | 55,764,795 | 1,468,519,968 |
| Segment revenues | 9,946,424,472 | 8,052,411,243 | 4,360,057,175 | 7,694,632,931 | 639,910,430 | 30,693,436,251 |
| Cost of sales and expenses excluding depreciation and amortization | ( 5,731,114,568 ) | ( 5,390,006,789 ) | ( 3,882,092,250 ) | ( 5,177,236,155 ) | ( 465,865,785 ) | ( 20,646,315,547 ) |
| | 4,215,309,904 | 2,662,404,454 | 477,964,925 | 2,517,396,776 | 174,044,645 | 10,047,120,704 |
| Depreciation and amortization | ( 252,707,515 ) | ( 396,429,928 ) | ( 212,174,088 ) | ( 106,874,912 ) | ( 11,403,529 ) | ( 979,589,972 ) |
| Finance cost and other charges | ( 630,294,885 ) | ( 538,087,338 ) | ( 45,978,429 ) | ( 183,065,946 ) | ( 16,338,933 ) | ( 1,413,765,531 ) |
| Profit before tax | 3,332,307,504 | 1,727,887,188 | 219,812,408 | 2,227,455,918 | 146,302,183 | 7,653,765,201 |
| Tax expense | ( 640,022,764 ) | ( 10,047,698 ) | ( 48,615,383 ) | ( 510,460,932 ) | ( 43,665,808 ) | ( 1,252,812,585 ) |
| **SEGMENT PROFIT** | P 2,692,284,740 | P 1,717,839,490 | P 171,197,025 | P 1,716,994,986 | P 102,636,375 | P 6,400,952,616 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 176,135,182,604 | P 57,056,069,272 | P 11,843,036,517 | P 38,814,083,076 | P 31,165,299,519 | P 315,013,670,988 |
| Segment liabilities | 74,396,019,001 | 22,066,635,534 | 7,818,943,577 | 2,592,301,417 | 7,476,116,319 | 114,350,015,848 |

| | For the three months ended March 31, 2013 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 7,485,077,242 | P 10,299,285,810 | P 3,812,682,626 | P 6,603,061,629 | P 377,709,652 | P 28,577,816,959 |
| Intersegment sales | 3,099,152 | - | - | - | - | 3,099,152 |
| Finance and other revenues | 515,884,092 | 86,549,243 | 32,610,599 | 305,707,419 | 60,122,893 | 1,000,874,246 |
| Segment revenues | 8,004,060,486 | 10,385,835,053 | 3,845,293,225 | 6,908,769,048 | 437,832,545 | 29,581,790,357 |
| Cost of sales and expenses excluding depreciation and amortization | ( 5,338,273,480 ) | ( 8,312,897,256 ) | ( 3,297,967,474 ) | ( 4,927,896,551 ) | ( 301,135,290 ) | ( 22,178,170,051 ) |
| | 2,665,787,006 | 2,072,937,797 | 547,325,751 | 1,980,872,497 | 136,697,255 | 7,403,620,306 |
| Depreciation and amortization | ( 215,626,729 ) | ( 689,077,091 ) | ( 182,753,504 ) | ( 59,468,408 ) | ( 8,336,873 ) | ( 1,155,262,605 ) |
| Finance cost and other charges | ( 206,438,892 ) | ( 363,872,981 ) | ( 34,733,818 ) | ( 64,855,314 ) | ( 11,578,133 ) | ( 681,479,138 ) |
| Profit before tax | 2,243,721,385 | 1,019,987,725 | 329,838,429 | 1,856,548,775 | 116,782,249 | 5,566,878,563 |
| Tax expense | ( 570,124,201 ) | ( 24,649,740 ) | ( 96,272,737 ) | ( 411,657,617 ) | ( 32,882,643 ) | ( 1,135,586,938 ) |
| **SEGMENT PROFIT** | P 1,673,597,184 | P 995,337,985 | P 233,565,692 | P 1,444,891,158 | P 83,899,606 | P 4,431,291,625 |

The following presents the segment assets and liabilities of the Group as at December 31, 2013 (audited):

| | | | | | | |
|---|---|---|---|---|---|---|
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 169,461,257,482 | P 60,758,944,954 | P 13,202,719,956 | P 35,201,294,060 | P 31,238,285,371 | P 309,862,501,823 |
| Segment liabilities | 68,494,968,424 | 26,448,067,054 | 7,983,040,586 | 3,187,496,148 | 7,566,385,608 | 113,679,957,820 |

### *4.5 Reconciliations*

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its ICFS.

| | **March 31, 2014 (Unaudited)** | March 31, 2013 (Unaudited) |
|---|---|---|
| **Revenues** | | |
| Total segment revenues | **P 30,693,436,251** | P 29,581,790,357 |
| Unallocated corporate revenue | **740,690,190** | 687,139,016 |
| Elimination of intersegment revenues | **( 203,882,776 )** | ( 3,099,152) |
| Revenues as reported in interim consolidated profit or loss | **P 31,230,243,665** | P 30,265,830,221 |
| **Profit or loss** | | |
| Segment operating profit | **P 6,400,952,616** | P 4,431,291,625 |
| Unallocated corporate profit | **56,917,011** | 476,358,233 |
| Elimination of intersegment revenues | **( 203,882,776 )** | ( 3,099,152) |
| Profit as reported in interim consolidated profit or loss | **P 6,253,986,851** | P 4,904,550,706 |

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 315,013,670,988** | P 309,862,501,823 |
| Unallocated corporate assets | **21,352,414,202** | 22,537,907,703 |
| Total assets reported in the interim consolidated statements of financial position | **P 336,366,085,190** | P 332,400,409,526 |
| **Liabilities** | | |
| Segment liabilities | **P 114,350,015,848** | P 113,679,957,820 |
| Unallocated corporate liabilities | **24,824,156,105** | 28,498,806,074 |
| Total liabilities reported in the interim consolidated statements of financial position | **P 139,174,171,953** | P 142,178,763,894 |

Concentration of revenue is considered when at least 10% of total segment revenue is generated from a single customer. There is no concentration of the Group's revenue in a single customer as the 10% threshold has not been met in any of the years presented.

## 5. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment as of March 31, 2014 and December 31, 2013 are shown below.

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Cost | **P 55,787,090,746** | P 54,763,153,124 |
| Accumulated depreciation | **( 13,790,013,868)** | ( 13,101,348,398) |
| Net carrying amount | **P 41,997,076,878** | P 41,661,804,726 |

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

| | March 31, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation | P 41,661,804,726 | P 34,888,271,255 |
| Property, plant and equipment of newly acquired subsidiary | 9,224,063 | 63,000,110 |
| Additions | 1,061,917,764 | 10,554,881,085 |
| Disposals | ( 47,204,205) | ( 336,260,664) |
| Reclassifications | - | ( 184,639,113) |
| Impairment loss – reversal | - | 18,616,806 |
| Depreciation charges for the period | ( 688,665,470) | ( 3,341,994,753) |
| Balance at end of period net of accumulated depreciation | P 41,997,076,878 | P 41,667,874,726 |

## 6. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, building and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below.

| | March 31, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Cost | P 36,017,434,765 | P 31,380,599,604 |
| Accumulated depreciation | ( 4,363,121,895) | ( 4,090,171,166) |
| Net carrying amount | P 31,654,312,870 | P 27,290,428,438 |

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

| | March 31, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation | P 27,290,428,438 | P 18,751,335,670 |
| Investment property of newly acquired subsidiary | 3,424,863,968 | 5,020,588,055 |
| Additions | 1,218,137,001 | 3,696,859,574 |
| Disposals | ( 6,165,808) | ( 3,873,468) |
| Reclassifications – net | - | 695,129,708 |
| Depreciation charges for the period | ( 272,950,729) | ( 869,611,101) |
| Balance at end of period net of accumulated depreciation | P 31,654,312,870 | P 27,290,428,438 |

## 7. DIVIDENDS

There were no dividends declared and paid by the Company for the three months period ended March 31, 2014.

## 8. EARNINGS PER SHARE

Earnings per share is computed as follows:

| | **March 31, 2014 (Unaudited)** | March 31, 2013 (Unaudited) |
|---|---|---|
| Basic: | | |
| Net profit attributable to owners of the parent company | **P 3,942,854,247** | P 3,566,171,508 |
| Divide by the weighted average number of outstanding common shares | **10,109,928,996** | 10,109,510,579 |
| | **P 0.3900** | P 0.3528 |
| Diluted: | | |
| Net profit attributable to owners of the parent company | **P 3,942,854,247** | P 3,566,171,508 |
| Divide by the weighted average number of outstanding common shares | **10,155,705,560** | 10,133,550,063 |
| | **P 0.3882** | P 0.3519 |

As of March 31, 2014 and 2013, there are 24.0 million potentially dilutive shares from the Company's ESOP. However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently, has little effect on the 2014 and 2013 diluted EPS.

## 9. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Group's key management personnel and retirement fund, and others as described below. The summary of the Group's transactions with its related parties for the periods ended March 31, 2014 and 2013, and the related outstanding balances as of March 31, 2014 and December 31, 2013 are as follows:

| | | **Amount of Transaction** | | **Outstanding Balance** | |
|---|---|---|---|---|---|
| **Related Party Category** | Notes | **March 31, 2014 (Unaudited)** | March 31, 2013 (Unaudited) | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
| **Subsidiaries' stockholders:** | | | | | |
| Loan payable | 9.2 | **-** | - | **537,780,000** | 532,724,721 |
| Interest expense on loan payable | 9.2 | **13,481,500** | 12,226,600 | **3,250,007** | 13,378,621 |
| Redeemable preferred shares | 9.10 | **-** | - | **543,069,469** | 528,133,002 |
| Casino transactions | 9.4 | **2,396,312,490** | 3,039,108,415 | **508,292,056** | 329,046,155 |
| Incidental rebate charges | 9.4 | **633,568,631** | 1,188,148,552 | **332,110,346** | 331,528,281 |
| Management fees | 9.5 | **35,218,101** | 160,655,030 | **28,687,148** | 23,996,555 |

| Related Party Category | Notes | Amount of Transaction March 31, 2014 (Unaudited) | Amount of Transaction March 31, 2013 (Unaudited) | Outstanding Balance March 31, 2014 (Unaudited) | Outstanding Balance December 31, 2013 (Audited) |
|---|---|---|---|---|---|
| **Related party under common ownership:** | | | | | |
| Purchase of raw materials | 9.1 | **13,449,033** | 394,046,048 | **447,127,312** | 451,648,340 |
| Purchase of imported goods | 9.1 | **833,612** | 45,465,616 | **82,768** | 35,270,647 |
| Acquisition of assets | 9.3 | **-** | 897,569,335 | **197,055,943** | 196,597,811 |
| **Associates:** | | | | | |
| Advances granted | 9.6 | **315,211,253** | 844,804,273 | **3,029,136,754** | 2,713,925,501 |
| **Others:** | | | | | |
| Receivable from joint venture | 9.7 | **( 17,711,146)** | 17,711,146 | - | 17,711,146 |
| Advances granted | 9.8 | **( 180,457,080)** | 24,142,000 | **1,058,807,878** | 1,239,264,958 |
| Advances obtained | 9.8 | **23,098,265** | 12,051,000 | **1,318,509,624** | 1,295,411,359 |
| Advances from joint venture partners and others | 9.9 | **4,433,970** | ( 168,660,000) | **358,541,219** | 354,107,249 |
| Other liabilities | 9.11 | **11,989,406** | 45,714,180 | **173,882,074** | 161,969,303 |

### *9.1 Purchase of Goods*

Prior to the acquisition of the distillery plant in 2013, Emperador sources its alcohol requirements from Consolidated Distillers, Inc. (Condis). Emperador imports raw materials such as alcohol, flavorings and other items through Andresons Global, Inc. (AGL). There are also finished goods purchased from Condis and through AGL. These transactions are payable within 30 days. The outstanding liability related to such purchases is presented as part of Trade Payables under current Trade and Other Payables in the consolidated statements of financial position.

### *9.2 Loan from MRO*

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. Accrued interest payable as of March 31, 2014 and December 31, 2013 is included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position.

### *9.3 Acquisition of Assets*

In 2013, GADC acquired building and leasehold improvements from McDonald's Philippines Realty Corporation (MPRC), with outstanding liability amounting to P197,055,943 and P196,597,811 as of March 31, 2014 and December 31, 2013, respectively.

Also in 2013, Emperador acquired the distillery facilities of Condis, which include property, plant and equipment and inventories amounting to P756,990,993 and P140,578,342, respectively. The acquisition was fully settled in cash in 2013.

### *9.4 Joint Co-operation Agreement with Genting Hongkong, Ltd. (GHL)*

Travellers and GHL have a joint co-operation agreement whereby GHL handles the promotion of Travellers' casinos and will bring patrons to play in the casinos. As a consideration for such services, Travellers pays GHL an amount equivalent to a certain percentage of net turnovers.

Incidental rebate charges arising from this transaction are presented as part of General Marketing under the Other Operating Expenses account in the consolidated statements of comprehensive income. The outstanding balances of payables are presented as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position.

Travellers also recognized outstanding receivables from GHL representing show money received by GHL from foreign patrons which GHL will later remit to the Travellers. The outstanding balances of receivables are presented as part of Trade Receivables under Trade and Other Receivables in the consolidated statements of financial position.

### *9.5 Operations and Management Agreement with GHL*

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. Management fees are presented as part of Management fees under the Other Operating Expenses account in the interim consolidated statements of comprehensive income. The outstanding liability arising from this transaction is presented as part of Accrued Expenses in the Trade and Other Payables account in the consolidated statements of financial position.

### *9.6 Advances to Associates and Other Related Parties*

Entities within the Group grant to or obtain advances from 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 are shown as part of Investments in Associates and Other Related Parties account in the consolidated statements of financial position, and movement of the account are presented as follows (these mainly represent advances granted by Megaworld):

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of year | **P 2,713,925,501** | P 1,869,121,228 |
| Cash advances granted | **315,211,253** | 903,799,948 |
| Collections | **-** | ( 58,995,675) |
| Balance at end of year | **P 3,029,136,754** | P 2,713,925,501 |

As of March 31, 2014 and December 31, 2013, 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.

### *9.7 Receivable from a Joint Venture*

As of March 31, 2014, GCFII became a subsidiary of the GADC, accordingly, the amount of receivable was eliminated in the process of consolidation (see Note 1).

### *9.8 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. As of March 31, 2014 and December 31, 2013, 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.

The details of the Due from/to Related Parties are presented under Trade and Other Receivables and Trade and Other Payables accounts, respectively, in the consolidated statements of financial position as follows:

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| ***Due from Related Parties*** | | |
| Balance at beginning of year | **P 1,239,264,958** | P 1,195,324,696 |
| Additions | **-** | 567,411,271 |
| Collections | **( 180,457,080)** | ( 524,057,941) |
| Balance at end of year | **P 1,058,807,878** | P 1,239,264,958 |
| ***Due to Related Parties*** | | |
| Balance at beginning of year | **P 1,295,411,359** | P **887,770,297** |
| Additions | **133,763,606** | **577,290,766** |
| Repayments | **( 110,665,340)** | **169,649,704** |
| Balance at end of year | **P 1,318,509,625** | P **1,295,411,359** |

### *9.9 Non-current Advances from Related Parties*

Certain expenses of unconsolidated entities within the Group are paid by other related parties on behalf of the former. The advances are unsecured, non-interest bearing and generally payable on cash. Due to JV partners pertain to the share of JV partners in the proceeds from the sale in accordance with various JV agreements entered into by GERI. Total outstanding balance of the accounts is presented as Advances from Related Parties account in the consolidated statements of financial position.

Details of Advances from Related Parties are presented as follows:

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Advances from related parties | **P 119,959,799** | P 120,487,829 |
| Advances from joint venture partners | **238,581,420** | 233,619,420 |
| | **P 358,541,219** | P 354,107,249 |

### *9.10 Redeemable Preferred Shares*

This pertains to preferred shares issued by GADC in March 2005 to MRO.

### *9.11 Other Liabilities*

In the normal course of business, Travellers obtains from certain related parties unsecured non-interest bearing, cash advances for working capital requirements and other purposes which is presented as part of Other Current liabilities.

### *9.12 Retirement Plans*

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI and GADC. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Group's shares of stock.

## 10. COMMITMENTS AND CONTINGENCIES

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

In addition, there are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

## 11. 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, 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.

### *11.1 Market Risk*

*(a) Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange risk arises from the U.S. dollar-denominated cash and cash equivalents, FVTPL, loans and bonds which have been used to fund new projects.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

| | **March 31, 2014 (Unaudited)** | | December 31, 2013 (Audited) | |
|---|---|---|---|---|
| | **U.S. Dollars** | **HK Dollars** | U.S. Dollars | HK Dollars |
| Financial assets | **P 32,971,277,117** | **P 1,464,871,327** | P 34,766,824,958 | 1,347,307,562 |
| Financial liabilities | **( 65,327,286,616 )** | **( 569,067,102)** | ( 59,074,985,969) | ( 642,724,055) |
| | **(P 32,356,009,499 )** | **P 985,804,225** | (P 24,308,161,011) | P 704,583,507 |

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the US dollar – Philippine peso exchange rate assumes +/- 20% and +/- 23% changes of the Philippine peso/U.S. dollar exchange rate for the three months ended March 31, 2014 and for the year ended December 31, 2013. The HK dollar – Philippine peso exchange rate assumes +/- 21% and +/- 20% change for the three months ended March 31, 2014 and for the year ended December 31, 2013. 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 (or weakened) against the U.S. dollar, with all other variables held constant, consolidated income before tax would have increased (or decreased) by P6.6 billion for the three-month period ended March 31, 2014 and billion and P5.5 billion for the year ended December 31, 2013. If in 2014 and 2013, the Philippine peso had strengthened (or weakened) against the HK dollar, with all other variables held constant, consolidated income before tax would have decreased (or increased) by P0.2 billion and P0.1 billion, respectively.

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 placements 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 variable interest rates. All other financial assets 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 +/- 2.55% for Philippine peso and +/- 0.23% and U.S. dollar in 2014 and +/-1.44% for Philippine peso and +/-0.14% for US dollar in 2013 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 March 31, 2014 and December 31, 2013, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P0.3 billion for the three-month period ended March 31, 2014 and P0.4 billion for the year ended December 31, 2013. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

### *11.2 Credit Risk*

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets.

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 that are past due but not impaired are as follows:

| | March 13, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Not more than 30 days | P 7,092,052,188 | P 549,092,678 |
| 31 to 60 days | 1,006,489,473 | 2,289,013,027 |
| Over 60 days | 2,425,695,365 | 747,543,582 |
| | P 10,524,237,026 | P 3,585,649,287 |

***11.3 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, bonds, and preferred shares.

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 March 31, 2014, 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 13,143,053,351 | P 6,585,951,198 | P 16,884,396,414 | P 1,401,622,714 |
| Interest-bearing loans | 6,929,229,255 | 764,949,545 | 2,002,400,591 | - |
| Bonds payable | - | - | 13,903,058,417 | 11,047,341,866 |
| Advances from related parties | 980,872,653 | - | 358,541,219 | - |
| Redeemable preferred shares | - | - | 390,479,444 | 2,615,270,134 |
| Security deposits | - | - | 86,286,060 | 61,932,286 |
| Derivative liability | - | - | - | 1,171,079,105 |
| Other liabilities | 51,582,965 | 10,683,217 | 193,,584,383 | 99,803,050 |
| | **P 21,104,738,224** | **P 7,361,583,960** | **P 33,818,746,528** | **P 16,397,049,155** |

As at December 31, 2013, 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 15,356,683,282 | P 7,826,578,063 | P - | P - |
| Interest-bearing loans | 1,603,279,826 | 2,192,512,443 | 8,795,031,294 | 433,552,898 |
| Bonds payable | 1,181,347,400 | 1,181,347,400 | 55,449,496,930 | 7,625,297,602 |
| Advances from related parties | - | - | 354,107,249 | - |
| Redeemable preferred shares | - | - | 1,352,336,993 | 1,574,159,348 |
| Security deposits | - | - | 86,286,060 | 61,932,286 |
| Derivative liability | 38,631,143 | - | - | 1,145,961,938 |
| Other liabilities | 519,684,000 | - | - | - |
| | **P 18,699,625,651** | **P 11,200,437,906** | **P 66,037,258,526** | **P 10,840,904,072** |

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.

### *11.4 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 March 31, 2014 and December 31, 2013 are summarized as follows:

| | Observed Volatility Rates | | Impact on Equity | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| 2014 - Investment in equity securities | **+17.75%** | **-17.75%** | **P 48,299,589** | **(P 48,299,589)** |
| 2013 - Investment in equity securities | +18.12% | -18.12% | P 480,595,059 | (P 480,595,059) |

The maximum additional estimated loss in 2014 and 2013 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 listed companies at the PSE for the past 3 months in 2014 and 12 months in 2013 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.

## 12. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

| | March 31, 2014 (Unaudited) | | December 31, 2013 (Audited) | |
|---|---|---|---|---|
| | Carrying Values | Fair Values | Carrying Values | Fair Values |
| ***Financial assets*** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **P 86,366,609,262** | **P 86,366,609,262** | P 94,977,525,445 | P 94,977,525,445 |
| Trade and other receivables | **60,670,683,602** | **60,670,683,602** | 51,086,163,464 | 51,086,163,464 |
| Other financial assets | **818,451,972** | **818,451,972** | 1,322,462,800 | 1,322,462,800 |
| | **P 147,855,744,836** | **P 147,855,744,836** | P147,386,151,709 | P147,386,151,709 |
| Financial assets at FVTPL: | | | | |
| Marketable debt and equity securities | **P 4,368,790,592** | **P 4,368,790,592** | P 7,363,058,599 | P 7,363,058,599 |
| Derivative asset | **21,540,066** | **21,540,066** | 12,684,368 | 12,684,368 |
| | **P 4,390,330,658** | **P 4,390,330,658** | P 7,375,742,967 | P 7,375,742,967 |
| AFS Financial Assets: | | | | |
| Debt securities | **P 4,168,565,321** | **P 4,168,565,321** | P 4,399,906,888 | P 4,399,906,888 |
| Equity securities | **388,730,874** | **388,730,874** | 358,985,303 | 358,985,303 |
| | **P 4,557,296,195** | **P 4,557,296,195** | P 4,758,892,191 | P 4,758,892,191 |
| ***Financial Liabilities*** | | | | |
| Financial liabilities at FVTPL - | | | | |
| Derivative liabilities | **P 1,255,317,925** | **P 1,255,317,925** | P 1,184,593,081 | P 1,184,593,081 |
| Financial liabilities at amortized cost | | | | |
| Current | | | | |
| Trade and other payables | **P 24,190,423,287** | **P 24,190,423,287** | P 23,183,261,345 | P 23,183,261,345 |
| Interest-bearing loans and borrowings | **1,610,638,691** | **1,610,638,691** | 3,795,792,269 | 3,795,792,269 |
| Other current liabilities | **1,859,719,089** | **1,859,719,089** | 2,113,418,300 | 2,113,418,300 |
| | **P 27,660,781,067** | **P 27,660,781,067** | P 29,092,471,914 | P 29,092,471,914 |
| Non-current | | | | |
| Notes and bonds payable | **P 56,919,953,114** | **P 56,919,953,114** | P 56,479,746,306 | P 56,479,746,306 |
| Interest-bearing loans and borrowings | **6,137,657,238** | **6,137,657,238** | 9,228,584,192 | 9,228,584,192 |
| Redeemable preference shares | **1,801,057,369** | **1,801,057,369** | 1,786,120,902 | 1,786,120,902 |
| Due to related parties | **358,541,219** | **358,541,219** | 354,107,249 | 354,107,249 |
| Security deposits | **157,516,693** | **157,516,693** | 148,218,346 | 148,218,346 |
| | **P 65,374,725,633** | **P 65,374,725,633** | P 67,996,776,995 | P 67,996,776,995 |

See Notes 2.4 and 2.12 for a description of the accounting policies for each category of financial instrument.

## 13. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *13.1 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 or 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.

For purposes of determining the market value of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *13.2 Fair Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as of March 31, 2014 and December 31, 2013.

| | March 31, 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 4,368,790,592 | P - | P - | P 4,368,790,592 |
| Derivative assets | 21,540,066 | - | - | 21,540,066 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 4,168,565,321 | - | - | 4,168,565,321 |
| Equity securities | 336,205,214 | 49,880,000 | 2,645,660 | 388,730,874 |
| | **P 8,895,101,193** | **P 49,880,000** | **P 2,645,660** | **P 8,947,626,853** |
| ***Financial liability:*** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative liabilities | **P 1,255,317,925** | **P -** | **P -** | **P 1,255,317,925** |

| | December 31, 2013 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 7,363,058,599 | P - | P - | P 7,363,058,599 |
| Derivative assets | 12,684,368 | - | - | 12,684,368 |
| Available-for-sale financial assets: | | | | |
| Debt securities | P 4,399,906,888 | P - | P - | P 4,399,906,888 |
| Equity securities | 117,218,306 | 49,880,000 | 191,886,997 | 358,985,303 |
| | P 11,892,868,161 | P 49,880,000 | P 191,886,997 | P 12,134,635,158 |
| ***Financial liability:*** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative liabilities | P 1,184,593,081 | P - | P - | P 1,184,593,081 |

### *13.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the interim consolidated statements of financial position on a recurring basis as of March 31, 2014 and December 31, 2013.

| | March 31, 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets:*** | | | | |
| Cash and cash equivalents | P 86,366,609,262 | P - | P - | P 86,366,609,262 |
| Trade and other receivables and other financial assets | - | - | 60,670,683,602 | 60,670,683,602 |
| | **P 86,366,609,262** | **P -** | **P 60,670,683,602** | **P 147,037,292,864** |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 1,610,638,691 | P 1,610,638,691 |
| Trade and other payables | - | - | 24,201,507,025 | 24,201,507,025 |
| Other current liabilities | - | - | 1,859,719,089 | 1,859,719,089 |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | - | - | 6,137,657,238 | 6,137,657,238 |
| Bonds payable | 56,919,953,114 | - | - | 56,919,953,114 |
| Due to related parties | - | - | 358,541,219 | 358,541,219 |
| Redeemable preferred shares | - | - | 1,801,057,369 | 1,801,057,369 |
| Security deposits | - | - | 157,516,693 | 157,516,693 |
| | **P 56,919,953,114** | **P -** | **P 36,126,637,324** | **P 93,046,590,483** |

| | December 31, 2013 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Current: | | | | |
| Cash and cash equivalents | P 94,977,525,445 | P - | P - | P 94,977,525,445 |
| Trade and other receivables and other financial assets | - | - | 51,086,163,464 | 51,086,163,464 |
| | P 94,977,525,445 | P - | P 51,086,163,464 | P 146,063,688,909 |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 3,795,792,269 | P 3,795,792,269 |
| Trade and other payables | - | - | 23,183,261,345 | 23,183,261,345 |
| Other current liabilities | - | - | 2,113,418,300 | 2,113,418,300 |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 9,228,584,192 | P 9,228,584,192 |
| Bonds payable | 56,479,746,306 | - | - | 56,479,746,306 |
| Due to related parties | - | - | 354,107,249 | 354,107,249 |
| Redeemable preferred shares | - | - | 1,786,120,902 | 1,786,120,902 |
| Security deposits | - | - | 148,218,346 | 148,218,346 |
| | P 56,479,746,306 | P - | P 40,609,502,603 | P 97,089,248,909 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *13.4 Investment Property Measured at Cost for which Fair Value is Disclosed*

As at December 31, 2013, the fair value of the Group's investment property amounting to P123.6 billion is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. Also, there were no transfers into or out of Level 3 fair value hierarchy. There was no valuation update made for the current period.

## 14. 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.

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

| | **March 31, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Total liabilities | **P 139,174,171,953** | P 142,178,763,894 |
| Equity attributable to owners of the parent company | **111,579,824,143** | 107,692,727,038 |
| Debt-to-equity ratio | **P 1.25:1** | P 1.32:1 |

## 15. SEASONAL FLUCTUATIONS

For Travellers, casino operations tend to experience seasonality in visitations during public holidays, festivals in the Philippines and around South East Asian region.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

## 16. SUBSEQUENT EVENTS

### *16.1 Sale of AGI's GERI Shares to Megaworld*

On May 8, 2014, the Company has agreed to sell to Megaworld all its direct stake in GERI for a total price of P10.43 billion, or a price of P1.93 per share which is based on the 30-day volume weighted average price (VWAP) of GERI shares as of April 30, 2014. The acquisition will consolidate under Megaworld all the real estate businesses of the Group, which will enable the Group to capture the growth in tourism sector through GERI's projects.

### *16.2 Issuance of Megaworld's Additional Stock Options*

On April 11, 2014, Megaworld has issued additional stock options to its employees giving them the right to subscribe to an aggregate of 20.0 million common shares of the Megaworld at an exercise price of P2.9558 per share. The options shall generally vest on the $60^{th}$ birthday of the employee and may be exercised until the date of his retirement from Megaworld.

### *16.3 Tax Contingencies of Travellers' Casino Operations*

Recognizing that Article IV, Section 20 of the Provisional Licenses expressly provides that the license fees paid to PAGCOR are "in lieu of all taxes," PAGCOR and the Entertainment City licensees (with includes Travellers) have entered into an agreement dated May 7, 2014 to reduce the license fees commencing April 1, 2014 by ten percent (10%) of gross gaming revenues. This adjustment will address RMC 33-2013 dated April 17, 2013 which imposes income tax on the Entertainment City licensees. The 10% license fee adjustment is a temporary measure to address the unilateral BIR action and is not intended to modify, amend or revise the Provisional License/s. For taxable periods prior to April 1, 2014, PAGCOR and the Licensees agreed to mutually cooperate to, and in good faith, carry out and accomplish the commercial objectives of the Provisional License/s, specifically Article IV, Section 20 thereof, insofar as the license fees paid to PAGCOR are in lieu of all taxes with reference to the income component of the gross gaming revenues, through equitable arrangements acceptable to the parties.

### *16.4 Agreement between EMP and United Spirits*

On May 9, 2014, the Group signed an agreement with United Spirits (Great Britain) Ltd., a wholly owned subsidiary of United Spirits Ltd. (USL) of India, to acquire the Whyte & Mackay whiskey business for an enterprise value of £430.0 million and subject to India's and Britain's regulatory approvals as well as USL's shareholders' approval. The principal activities of Whyte and Mackay and its subsidiaries are the production, marketing and distribution of Scotch whiskey and other alcoholic drinks. It has a global distribution network in over 50 countries.

The acquisition will put the Group in two fastest growing spirits segments in the world, the brandy and whiskey (the Scotch whiskey).

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**AGING SCHEDULE OF CURRENT TRADE AND OTHER RECEIVABLES**
**MARCH 31, 2014**
***(Amounts in Philippine Pesos)***

| | | |
|---|---|---|
| Current | P | 25,196,714,150 |
| 1 to 30 days | | 4,894,494,620 |
| 31 to 60 days | | 1,006,489,473 |
| Over 60 days | | 2,425,695,366 |
| Total | | 33,523,393,609 |
| Due to other related parties | | 1,058,807,879 |
| **Balance as of March 31, 2014** | **P** | **34,582,201,488** |

# ALLIANCE GLOBAL GROUP, INC.

# INTERIM FINANCIAL STATEMENTS

# AS OF 30 JUNE 2014

| A | S | 0 | 9 | 3 | - | 7 | 9 | 4 | 6 |
|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

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

(Company's Full Name)

| 7 | / | F | | 1 | 8 | 8 | 0 | | E | A | S | T | W | O | O | D | | A | V | E | N | U | E | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E | A | S | T | W | O | O | D | | C | I | T | Y | | C | Y | B | E | R | P | A | R | K | | |
| B | A | G | U | M | B | A | Y | A | N | | Q | U | E | Z | O | N | | C | I | T | Y | | | |

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

**DINA D.R. INTING**
Contact Person

**709-2038 to 41**
Company Telephone Number

| 1 | 2 | | 3 | 1 |
|---|---|---|---|---|

Month Day
Fiscal Year

| | | 1 | 7 | - | Q | | |
|---|---|---|---|---|---|---|---|

FORM TYPE
(**QUARTERLY REPORT FOR JUNE 30, 2014)**

| O | 9 | | 3rd Tues. |
|---|---|---|---|

Month Day

**Certificate of Permit to Offer Securities for Sale**
Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. *For the quarterly period ended* **June 30, 2014**

2. *SEC Identification Number* **AS093-7946**

3. *BIR Tax Identification No*. **003-831-302-000**

4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**

5. **METRO MANILA, PHILIPPINES**
   *Province, country or other jurisdiction of incorporation or organization*

6. (*SEC Use Only)*
   *Industry classification code*

7. **7th Floor, 1880 Eastwood Avenue, EastwoodCity CyberPark**
   **188 E. Rodriguez Jr. Ave., Bagumbayan, 1110 Quezon City**
   *Address of principal office*

8. **(632) 70920-38 to -41**
   *Registrant's telephone number, including area code*

9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

| *Title of Each Class* | *Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding* |
|---|---|
| **Common** | **10,269,827,979** |

10. *Are any or all of these securities listed on a Stock Exchange?* **Yes, on the Philippine Stock Exchange.**

11. *(a) AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.*

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

# PART I – FINANCIAL INFORMATION

## 1. FINANCIAL STATEMENTS

Consolidated Statements of Financial Position
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
Notes to Interim Consolidated Financial Statements
Schedule of Financial Soundness Indicators
Aging Schedule of Trade and Other Receivables Under Current Assets

The interim consolidated financial statements (ICFS) have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standard 34, *Interim Financial Reporting*. As such, they do not include all of the information and disclosures required for full annual consolidated financial statements, and thus should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2013 (ACFS). The accounting policies and methods used in the ICFS are consistent with those applied in ACFS, except for changes brought about by the adoption of new standards that become effective on January 1, 2014 (see Note 2 to the ICFS).

Accounting estimates, assumptions and judgments are used in preparing these statements; and while these are believed to be reasonable under the circumstances, actual results may ultimately differ from such estimates (see Note 3).

The ICFS comprise the financial statements of the Company and its subsidiaries, after elimination of material intercompany transactions. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury shares and these are presented at cost as a deduction in the consolidated statements of changes in equity. 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 (APIC).

*Business Segments*

The Group is organized into four major business segments, which aptly correspond to its operating subsidiaries, namely Megaworld, Travellers, Emperador and GADC, which in turn represent the main products and services provided by the Group and the lines of business in which the Group operates, i.e. real estate development and leasing, tourism-entertainment and gaming, and manufacture and distribution of distilled spirits (see Note 4).

GERI, which used to be presented as a separate segment up to the first quarter, is now consolidated in Megaworld after the latter acquired all the shares held by AGI in June. In return, Megaworld sold a big portion of its Travellers shares to AGI.

Please refer to Note 1 to the ICFS and ACFS for a comprehensive list of subsidiaries, associates and joint venture.

## 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Key Performance Indicators*

Presented below are the top five (5) key performance indicators:

| *Amounts In Million Philippine Pesos* | Jan-Jun 2014 | Jan-Jun 2013 | Quarter 2 2014 | Quarter 2 2013 | Quarter 1 2014 | 舥 Quarter 1 2013 |
|---|---|---|---|---|---|---|
| REVENUES | 59,608 | 60,798 | 28,378 | 30.532 | 31,230 | 30,266 |
| Growth year-on-year | -1.9% | | -7.1% | | 3.2% | |
| NET PROFIT | 11,376 | 11,245 | 5,122 | 6,340 | 6,255 | 4,905 |
| Growth year-on-year | 1.2% | | -19.2% | | 27.5% | |
| NET PROFIT TO OWNERS | 7,490 | 8,239 | 3,547 | 4,673 | 3,943 | 3,566 |
| Growth year-on-year | -9.1% | | -24.1% | | 10.6% | |
| Net profit rate | 19.1% | 18.5% | 18.1% | 20.8% | 20.0% | 16.2% |
| Net profit rate to owners | 12.6% | 13.6% | 12.5% | 15.3% | 12.6% | 11.8% |
| Return on assets | 3.4% | 3.74% | | | 1.86% | 1.75% |
| | Jun 30 2014 | Jun 30, 2013 | | Mar 31, 2014 | Mar 31, 2013 | Dec 31, 2013 |
| Current ratio | 3.50x | 3.38x | | 3.96x | 3.33x | 3.91x |
| Quick ratio | 2.19x | 2.22x | | 2.55x | 2.10x | 2.62x |

- Revenue growth – measures the percentage change in sales/revenues over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net profit growth – measures the percentage change in net profit over a designated period of time
- Net profit rate– computed as percentage of net profit to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on investment [or capital employed] – the ratio of net profit to total assets - measures the degree of efficiency in the use of resources to generate net income
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

*Results of Operations – First Half*

The consolidated net profit for the first half edged up 1.2% year-on-year to P11.37 billion from P11.24 billion a year ago, while net profit rate improved to 19.1% from 18.5% a year ago.

| | MEG[a] | EMP | RWM[b] | GADC | GERI[c] | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| **Revenues** | 31,957 | 13,235 | 15,543 | 8,982 | | | |
| Intercompany | -11,522 | | | | | | |
| Consolidated | **20,435** | **13,235** | **15,543** | **8,982** | | **1,413** | **59,608** |
| **% contribution** | **34%** | **22%** | **26%** | **15%** | | **2%** | **100%** |
| **Costs and expenses** | **13,855** | **9,470** | **12,006** | **8,541** | | **1,225** | **45,097** |
| **Tax expense** | **1,577** | **707** | **656** | **119** | | **76** | **3,135** |
| **Net profit** | 16,441 | 3,058 | 2,881 | 322 | | | |
| Intercompany | -11,438 | 0 | 0 | 0 | | | |
| Consolidated | **5,003** | **3,058** | **2,881** | **322** | | **112** | **11,376** |
| **% contribution** | **44%** | **27%** | **25%** | **3%** | | **1%** | **100%** |
| **Net profit to owners** | **3,204** | **2,677** | **1,276** | **159** | | **174** | **7,490** |
| **% contribution** | **43%** | **36%** | **17%** | **2%** | | **2%** | **100%** |

| | MEG[a] | EMP | RWM[b] | GADC | GERI[c] | Others | TOTAL |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| **Revenues** | 17,210 | 13,861 | 18,831 | 7,541 | 903 | | |
| Intercompany/reclassify | -222 | | | 0 | 0 | | |
| Consolidated | **16,988** | **13,861** | **18,831** | **7,541** | **903** | **2,675** | **60,798** |
| **% contribution** | **28%** | **23%** | **31%** | **12%** | **1%** | **4%** | **100%** |
| **Costs and expenses** | 11,701 | 9,680 | 16,471 | 6,996 | 698 | | |
| Intercompany | 66 | | | | 0 | | |
| Consolidated | **11,767** | **9,680** | **16,471** | **6,996** | **698** | **1,365** | **46,977** |
| **Tax expense** | **1,280** | **1,007** | **50** | **165** | **56** | **18** | **2,576** |
| **Net profit** | 4,229 | 3,174 | 2,310 | 380 | 148 | | |
| Intercompany | -288 | | 0 | 0 | 0 | | |
| Consolidated | **3,941** | **3,174** | **2,310** | **380** | **148** | **1,293** | **11,245** |
| **% contribution** | **35%** | **28%** | **21%** | **5%** | **1%** | **12%** | **100%** |
| **Net profit to owners** | **2,346** | **3,174** | **1,155** | **182** | **89** | **1,293** | **8,239** |
| **% contribution** | **28%** | **39%** | **14%** | **2%** | **1%** | **16%** | **100%** |
| **Year-on-year Change** | | | | | | | |
| Revenues | 20.3% | -4.5% | -17.5% | 19.1% | | -47.2% | -2.0% |
| Costs and expenses | 17.8% | -2.2% | -27.1% | 22.1% | | -10.3% | -4.0% |
| Tax expense | 23.2% | -29.8% | 1204.7% | -28.3% | | 358.5% | 21.7% |
| Net profit | 27.0% | -3.6% | 24.7% | -15.2% | | -91.3% | 1.2% |
| Net profit to owners | 36.5% | 15.6% | 10.5% | -12.8% | | -86.5% | -9.1% |

Amounts are in million Pesos. Numbers may not add up due to rounding off. The above follows grouping of accounts at AGI consolidated level, so revenues and costs and expenses may not tally the totals as separately reported by subsidiaries as there may be items reclassified from/to revenues to/from costs at AGI consolidated level (which is the case for the MEG, EMP and RWM).
[a]MEG's gains on Travellers and GERI were eliminated in consolidation, but included the P468 million gain on acquisition of a La Fuerza.
[b]RWM revenues are presented gross of promotional allowance of P776 million and P1,170 million in 2014 and 2013, respectively; these promotional allowances are included under costs and expenses above.
[c] GERI is consolidated in MEG in 2014.

**Megaworld** posted a record high net profit of P16.44 billion which included P11.69 billion non-recurring gains from acquisition and sale of shares in subsidiaries and in an associate for the first half of 2014. Net profit minus these one-time gains amounted to P4.75 billion which is 12.24% higher than P4.23 billion a year ago. Revenues from recurring operations, including those from GERI this year, totaled P20.26 billion, 17.3% higher than the P17.28 billion for the same period in 2013, due to strong property sales in the group's various projects, particularly in McKinley Hill, Makati CBD, Eastwood City, Uptown Bonifacio, Newport City and McKinley West; and Empire East's San Lorenzo Place, California Garden Square, The Cambridge Villege, The Rochester Place; sale of lots in GERI's Boracay Newcoast projects, Twin Lakes in Batangas and Sta. Barbara Heights in Ilo-Ilo; and higher leasing income from its office and retail portfolio. Rental income from office developments and lifestyle malls surged to P3.44 billion, up 21.7% from P2.83 billion a year ago. These operating results translated to P20.43 billion in revenues and P5.00 billion in net profit brought into the AGI consolidated level, which represent 34% and 44% of respective totals.

In the first half of the year, Megaworld consolidated new subsidiaries – property lessor La Fuerza, Inc. (an associate in 2013) and property management companies of Citywalk, Forbestown Center and Paseo Center.

**Emperador** ended the first half of the year with net profit of P3.06 billion versus P3.17 billion for same period last year. Gross profit margin went up by 6% year-on-year although sales of goods were slightly down by 2% because cost of sales improved by 5% due to favorable cost efficiencies. Revenues amounted to P13.25 billion this year as compared to P13.99 billion a year ago, primarily because other revenues decreased during the year. Costs and expenses contracted to P9.48 billion from P9.81 billion a year ago because of the improved cost of sales. Operating expenses expanded by 10% due to salary increases, rent escalation and freight out. Net profit rate was slightly up at 23.1% this year as compared to

22.7% last year. EMP contributed 22% and 27% of AGI consolidated revenues and net profit, respectively.

**Travellers** or RWM posted a strong net profit of P2.88 billion for the first half of the year which is 24.73% higher that the P2.31 billion it reported a year ago, as a result of its cost management initiatives. Gross gaming revenues amounted to P13.58 billion. Drops volume improved at an average of 4.4% across all segments; this however was offset by a decline in win rate. Meanwhile, its hotel and food and beverage (F&B) also declined from a year ago, largely due to the strategy of using its hotel and F&B facilities to increase gaming patronage. Hotel occupancy rates in the first half this year remained solid at a minimum of 87% in all three hotels (Maxims, Marriott and Remington). RWM contributed 26% and 25% to total consolidated revenues and net profit of AGI and subsidiaries.

**GADC** ended the first half with total revenues of P8.98 billion, up 19.1% from P7.54 billion for the same period last year. This is primarily due to the opening of 47 new restaurants (34 company-owned, 12 franchised, 1 joint venture), reimaging of 33 existing restaurants, expansion of business extensions (delivery service, drive-thru, dessert centers, midnight hours and breakfast daypart), the introduction of new products (BFF Burger and Chicken Bundles, McSpicy chicken burger and rice meal, McDouble, re-launch of Cheeseburger Deluxe and Shake Shake Fries), and aggressive advertising and promotional campaigns to support Everyday McSavers (Fries, Float and Sundae), McSaver Meals, Desserts and Breakfast. The 47 new restaurants contributed 8% to total system sales while business extensions comprise 22% of the total. There were 422 restaurants operating by the end of the semester, as compared to 377 restaurants a year ago. Price increases were also strategically implemented in order to mitigate rising costs and to maintain the level of product quality. Impact of price adjustment to gross profit is an increase of 0.22% for 2014. Cost of sales and services went up by 23.0%, primarily due to cost of inventory which increased by 25.7% brought about by higher prices of imported raw materials and the shift in product mix. Rentals and utilities, operating supplies, transportation and crew labor costs also expanded from a year ago. Advertising has been aggressive also to drive customer patronage. As a result, net profit shrank to P322 million from P380 a year ago. GADC contributed 15% and 3% to consolidated revenues and net profit of AGI and subsidiaries.

The results of operations are further shown in the profit and loss accounts, as follows:

| | 2014 | 2013 | 2014Q2 | 2013Q2 | Growth H1 | Q2 |
|---|---|---|---|---|---|---|
| REVENUES | 59,608 | 60,798 | 28,378 | 30,532 | -1.96% | -7.06% |
| Sale of goods | 28,092 | 27,124 | 13,086 | 14,485 | 3.57% | -9.66% |
| Consumer goods | 13,476 | 13,680 | 5,714 | 7,278 | -1.50% | -21.49% |
| Revenues from real estate (RE) sales | 14,616 | 13,444 | 7,372 | 7,207 | 8.72% | 2.29% |
| RE sales | 12,010 | 11,051 | 6,146 | 6,028 | 8.68% | 1.94% |
| Interest income on RE sales | 786 | 727 | 397 | 372 | 8.17% | 6.94% |
| Realized gross profit on RE sales | 1,820 | 1,666 | 829 | 807 | 9.24% | 2.75% |
| Rendering of services | 28,230 | 29,988 | 13,932 | 14,251 | -5.86% | -2.24% |
| Gaming | 13,581 | 17,415 | 6,370 | 8,006 | -22.02% | -20.43% |
| Sales by company-operated quick-service restaurant | 8,175 | 6,960 | 4,182 | 3,433 | 17.45% | 21.81% |
| Franchise revenues | 694 | 586 | 383 | 301 | 18.43% | 27.26% |
| Rental income | 3,434 | 3,007 | 1,715 | 1498 | 14.21% | 14.49% |
| Other services | 2,346 | 2,019 | 1,283 | 1,013 | 16.19% | 26.55% |
| Share in net profits of associates and JVs | 57 | 6 | 56 | 5 | 896.38% | 936.60% |
| Finance and other income | 3,229 | 3,680 | 1,304 | 1,791 | -12.26% | -27.17% |
| COSTS AND EXPENSES | 45,097 | 46,977 | 21,388 | 22,758 | -4% | -6.02% |
| Cost of goods sold | 18,552 | 18,379 | 8,869 | 9,818 | 0.94% | -9.66% |
| Consumer goods sold | 8,797 | 9,218 | 3,913 | 5,065 | -4.56% | -22.75% |
| RE sales | 7,143 | 6,578 | 3,664 | 3,539 | 8.59% | 3.52% |
| Deferred gross profit on RE sales | 2,612 | 2,583 | 1,293 | 1,214 | 1.12% | 6.49% |
| Cost of services | 12,653 | 13,534 | 6,368 | 6,472 | -6.51% | -1.62% |
| Gaming | 3,722 | 6,698 | 1,555 | 3,089 | -44.43% | -49.67% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Company-operated quick-service restaurants | 6,805 | 5,512 | 3,501 | 2,742 | 23.45% | 27.71% |
| Franchised restaurants | 318 | 279 | 165 | 141 | 14.10% | 17.09% |
| Other services | 1,808 | 1,045 | 1,146 | 500 | 73.07% | 129.31% |
| Other operating expenses | 11,700 | 12,886 | 5,823 | 5,430 | -9.21% | 7.23% |
| Finance costs and other charges | 2,192 | 2,178 | 328 | 1,038 | 0.63% | -68.41% |
| TAX EXPENSE | 3,135 | 2,576 | 1,868 | 1,433 | 21.70% | 30.32% |
| NET PROFIT | 11,376 | 11,245 | 5,122 | 6,340 | 1.17% | -19.21% |

Amounts in million pesos; numbers may not add up due to rounding off.

**Revenues** from sale of goods (real estate, alcoholic beverages and snack products) increased by 3.6% while rendering of services (gaming, hotel, quick-service restaurants, rentals) dwindled by 5.9%, primarily due to 22% contraction of gaming revenues from where almost half of service revenues come from. Real estate sales increased by 8.7% and quick-service restaurants sales were up 17.5% year-on-year.

**Costs and expenses** decelerated by 4.0%, because of cost saving measures initiated by the subsidiaries. Costs of sales and services were down 2% while other operating expenses dropped by 9%.

**Finance and other income** this year included the P468 million non-recurring gain from acquisition of a subsidiary by Megaworld and fair value gains of the Group on marked-to-market securities, which offset the effect of the reversal in foreign currency exchange gains. **Finance costs and other charges** were at almost at same level as a year ago.

**Income tax** increased by 21.7% this year as compared to a year ago, which is attributed to higher taxable income resulting in the higher tax expended by Travellers and Megaworld.

Earnings before interest, taxes, depreciation and amortizations (EBITDA), computed as net profit before non-recurring income, share in net profits of associates and joint ventures, income taxes, interest expense, depreciation, amortizations and impairment provisions, amounted to P18.09 billion as compared to P18.00 billion a year ago, or slight improvement of 0.5% year-on-year.

*Financial Condition*

Consolidated total assets amounted to P336.1 billion at end of the interim period from P332.4 billion at beginning of year. The Group is strongly liquid with current assets exceeding current liabilities 3.5times. Current assets amounted to P184.7 billion while current liabilities amounted to P52.8 billion at end of the interim period.

Cash and cash equivalents dipped by P17.5 billion or 18% to end at P77.5 billion from P95.0 billion at the beginning of the year, primarily due to Travellers' loan payments of P4.3 billion and US$3.2 million, Emperador's investment in a Spanish joint venture, and Megaworld's capital expenditure and business expansion activities. Cash flows from operating, financing and investing activities during the period were presented in the interim consolidated statements of cash flows.

Current trade and other receivables went up by P3.3 billion or 11% primarily due to higher real estate sales during the period and the additional downpayments paid by Travellers and Emperador to its suppliers/contractors in connection with the ongoing expansion works at RWM and new distillery plant in Batangas. Noncurrent trade and other receivables increased by P2.7 billion or 11% due to higher real estate reservations/sales booked during the period.

Inventories rose by P4.9 billion or 10% due to additional real estate lots, condominium units and resort shares completed and put up for sale. New casino operating supplies such as gaming cards, dice and seals were purchased during the period.

Financial assets at fair value through profit or loss dropped by P2.6 billion or 35% due to disposal of investments in marketable debt securities during the interim period. It is for the same reason that available-for-sale financial assets were reduced by P0.7 billion or 14%.

Property development costs went down by P1.7 billion or 14% due to reclassifications to inventory and investment property of completed projects.

Investment property swelled by P8.0 billion or 29% from property owned by La Fuerza Inc., a former associate and now a newly-acquired subsidiary of Megaworld, and the completion of additional properties for lease.

Property, plant and equipment increased by P2.1 billion or 5% due to the construction in progress in RWM and Emperador. RWM is expanding Marriott Hotel and Maxims Hotel and building two new hotels, the Hilton Manila and the Sheraton Manila, while EMP, on the other hand, is building a new distillery plant in Batangas.

Investments in and advances to associates and other related parties surged by P3.6 billion or 70% due primarily to the acquisition of 50% equity in an Spanish joint venture by Emperador, which in turn is reduced by the amount of investment in a former associate of Megaworld which becomes a subsidiary during the period (the investment is closed).

Deferred tax assets decreased by P0.2 billion or 28% as a result of changes in taxable temporary differences at GERI.

Other current assets increased by P0.4 billion or 10% due to Megaworld's new subsidiary. Other non-current assets went up by P0.8 billion or 36% primarily due to additional deferred input vat of Emperador, guarantee deposits of Megaworld and Travellers.

Both current and non-current interest-bearing debt dipped by P8.8 billion or 13% due to loan settlements made by Travellers and principal payments by AGI and Megaworld. After its payments, Travellers has no more loan due within a year

Income tax payable decreased by P0.5 billion or 69% due to lower tax liabilities of Emperador, GADC and Megaworld.

*Liquidity and Capital Resources*

The consolidated balance sheet showed strong liquidity with current assets exceeding current liabilities 3.5times. Total-liabilities-to-equity ratio is at 0.67:1 while debt-to-equity ratio is at 0.30:1. Assets exceeded liabilities 2.5 times, and equity 1.7times.

Working capital was sourced internally from operations during the period. In addition, the Group has net cash position that will enable it to pursue strategic activities. It may also from time to time seek other sources of funding, if necessary, which may include debt or equity financings, depending on its financing requirement and market conditions.

| *Amounts in Million Pesos* | June 30, 2014 | March 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Cash and equivalents | 77,529 | 86,367 | 94,977 |
| Interest-bearing debt | 60,727 | 64,668 | 69,504 |
| Net cash | 16,802 | 21,698 | 25,473 |
| Cash and cash equivalents to interest-bearing debt | 128% | 134% | 137% |
| Interest-bearing debt to total equity | 30% | 33% | 37% |

*Prospects for the future*

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

In 2014, all the business segments are expected to grow revenues and profits in line with targets.

*Others*

Events that occurred after the end of the interim period were summarized in Note 16 to the ICFS, *Subsequent Events*.

There were no other known material events subsequent to the end of the interim period that would have a material impact in the interim period.

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 year. 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.

There were no other material issuances, repurchases or repayments of debt and equity securities.

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

## *SIGNATURE*

Pursuant to the requirements of Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Alliance Global Group, Inc.**
*Issuer*
By:

DINA D.R. INTING
*First Vice President for Finance*
*Corporate Information Officer/*
*Chief Financial Officer/*
*Principal Accounting Officer*
August 18, 2014

# ALLIANCE GLOBAL GROUP, INC.
## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
## June 30, 2014

| | 6/30/14 | 3/31/14 | 12/31/13 |
|---|---|---|---|
| Current ratio | 3.50 | 3.96 | 3.91 |
| Quick ratio | 2.19 | 2.55 | 2.62 |
| Liabilities-to-equity ratio | 0.67 | 0.71 | 0.75 |
| Interest-bearing debt to total capitalization ratio | 0.35 | 0.37 | 0.39 |
| Asset -to-equity ratio | 1.67 | 1.71 | 1.75 |
| Interest rate coverage ratio | 786% | 719% | 749% |
| Net profit margin | 19.08% | 20.03% | 16.20% |
| Return on assets | 3.38% | 1.86% | 1.48% |
| Return on equity/investment | 5.67% | 3.17% | 2.58% |
| Return on equity/investment of owners | 9.89% | 3.53% | 3.31% |

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

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

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

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

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

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2014 AND DECEMBER 31, 2013**
***(Amounts in Philippine Pesos)***

| | June 30, 2014 (UNAUDITED) | December 31, 2013 (AUDITED) |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **P 77,528,712,042** | P 94,977,525,445 |
| Trade and other receivables - net | **33,425,845,599** | 30,074,787,370 |
| Financial assets at fair value through profit or loss | **4,798,483,892** | 7,375,742,967 |
| Inventories - net | **53,998,486,444** | 49,075,369,433 |
| Property development costs | **10,284,625,495** | 11,974,519,471 |
| Other current assets | **4,642,564,628** | 4,212,007,912 |
| Total Current Assets | **184,678,718,100** | 197,689,952,598 |
| **NON-CURRENT ASSETS** | | |
| Trade and other receivables - net | **27,317,243,863** | 24,609,462,917 |
| Advances to landowners and joint ventures | **4,775,001,233** | 4,787,412,854 |
| Available-for-sale financial assets | **4,080,731,415** | 4,758,892,191 |
| Land for future development | **12,976,427,869** | 12,524,387,842 |
| Investments in and advances to associates and other related parties | **8,666,268,197** | 5,099,102,903 |
| Property, plant and equipment - net | **43,790,922,033** | 41,661,804,726 |
| Investment property - net | **35,315,810,684** | 27,290,428,438 |
| Intangible assets - net | **11,000,476,037** | 11,049,976,130 |
| Deferred tax assets | **522,189,032** | 728,559,662 |
| Other non-current assets | **2,994,625,258** | 2,200,429,265 |
| Total Non-current Assets | **151,439,695,621** | 134,710,456,928 |
| **TOTAL ASSETS** | **P 336,118,413,721** | P 332,400,409,526 |

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| | | June 30, 2014 (UNAUDITED) | | December 31, 2013 (AUDITED) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | **P** | **24,027,623,619** | P | 24,830,784,627 |
| Interest-bearing loans | | **1,763,482,279** | | 3,795,792,269 |
| Bonds payable | | **5,000,000,000** | | - |
| Income tax payable | | **239,297,155** | | 779,445,751 |
| Other current liabilities | | **21,740,331,331** | | 21,178,560,896 |
| Total Current Liabilities | | **52,770,734,384** | | 50,584,583,543 |
| **NON-CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | | **3,348,311,305** | | 9,228,584,192 |
| Bonds payable | | **50,615,203,431** | | 56,479,746,306 |
| Advances from related parties | | **741,481,286** | | 354,107,249 |
| Retirement benefit obligation | | **1,510,359,965** | | 1,428,092,675 |
| Redeemable preferred shares | | **1,820,327,036** | | 1,786,120,902 |
| Deferred tax liabilities | | **7,648,972,063** | | 7,242,479,378 |
| Other non-current liabilities | | **16,898,927,130** | | 15,075,049,649 |
| Total Non-current Liabilities | | **82,583,582,216** | | 91,594,180,351 |
| Total Liabilities | | **135,354,316,600** | | 142,178,763,894 |
| **EQUITY** | | | | |
| Equity attributable to owners of the parent company | | **114,746,545,928** | | 107,692,727,038 |
| Non-controlling interest | | **86,017,551,193** | | 82,528,918,594 |
| Total Equity | | **200,764,097,121** | | 190,221,645,632 |
| **TOTAL LIABILITIES AND EQUITY** | **P** | **336,118,413,721** | P | 332,400,409,526 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR SIX MONTHS ENDED JUNE 30, 2014 AND 2013**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2014 | | 2013 (As Restated) | |
|---|---|---|---|---|
| | **Year-to-Date** | **Quarter** | Year-to-Date | Quarter |
| **REVENUES** | | | | |
| Sale of goods | **P 28,092,212,407** | **P 13,085,795,019** | P 27,124,240,368 | P 14,484,919,823 |
| Rendering of services | **28,229,829,726** | **13,931,885,830** | 29,987,783,231 | 14,251,018,876 |
| Share in net profits of associates and joint ventures | **57,153,861** | **55,850,060** | 5,895,932 | 5,387,799 |
| Finance and other income | **3,228,675,061** | **1,304,096,481** | 3,679,927,944 | 1,790,690,756 |
| | **59,607,871,055** | **28,377,627,390** | 60,797,847,475 | 30,532,017,254 |
| **COSTS AND EXPENSES** | | | | |
| Cost of goods sold | **18,552,162,975** | **8,869,372,456** | 18,378,701,060 | 9,818,259,508 |
| Cost of services | **12,653,341,429** | **6,367,478,149** | 13,534,096,228 | 6,472,077,256 |
| Other operating expenses | **11,699,845,669** | **5,822,825,037** | 12,886,449,660 | 5,430,240,621 |
| Finance cost and other charges | **2,191,795,522** | **327,876,465** | 2,178,119,357 | 1,037,896,629 |
| | **45,097,145,595** | **21,387,552,107** | 46,977,366,305 | 22,758,474,014 |
| **PROFIT BEFORE TAX** | **14,510,725,460** | **6,990,075,283** | 13,820,481,170 | 7,773,543,240 |
| **TAX EXPENSE** | **3,134,731,340** | **1,868,068,014** | 2,575,828,600 | 1,433,441,376 |
| **NET PROFIT** | **11,375,994,120** | **5,122,007,269** | 11,244,652,570 | 6,340,101,864 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Actuarial gain (loss) on remeasurement of retirement benefit obligation | **(1,474,441)** | **(1,474,441)** | 13,498,399 | 6,749,199 |
| Tax income (expense) | **442,332** | **442,332** | (4,049,520) | (2,024,760) |
| | **(1,032,109)** | **(1,032,109)** | 9,448,879 | 4,724,439 |
| **Items that will be reclassified subsequently to profit or loss** | | | | |
| Net unrealized fair value gains (losses) on available-for-sale financial assets | **43,701,285** | **58,970,052** | (54,567,543) | (52,063,174) |
| Translation adjustments | **(207,203,331)** | **(152,529,668)** | 289,643,818 | 327,747,813 |
| | **(169,661,344)** | **(93,559,616)** | 235,076,275 | 275,684,639 |
| **TOTAL COMPREHENSIVE INCOME** | **P 11,205,300,667** | **P 5,027,415,544** | P 11,489,177,724 | P 6,620,510,942 |
| **Net profit attributable to:** | | | | |
| Owners of the parent company | **P 7,490,204,510** | **P 3,547,350,263** | P 8,239,229,449 | P 4,673,057,941 |
| Non-controlling interest | **3,885,789,610** | **1,574,657,006** | 3,005,423,121 | 1,667,043,923 |
| | **P 11,375,994,120** | **P 5,122,007,269** | P 11,244,652,570 | P 6,340,101,864 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent company | **P 7,319,511,057** | **P 3,452,758,538** | P 8,483,754,603 | P 4,953,467,019 |
| Non-controlling interest | **3,885,789,610** | **1,574,657,006** | 3,005,423,121 | 1,667,043,923 |
| | **P 11,205,300,667** | **P 5,027,415,544** | P 11,489,177,724 | P 6,620,510,942 |
| **Earnings Per Share for the Net Income Attributable to Owners of the Parent Company:** | | | | |
| **Basic** | **P 0.7405** | **P 0.3507** | P 0.8150 | P 0.4622 |
| **Diluted** | **P 0.7374** | **P 0.3493** | P 0.8130 | P 0.4611 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR SIX MONTHS ENDED JUNE 30, 2014 AND 2013**
***(Amounts in Philippine Peso)***
***(UNAUDITED)***

| | 2014 | 2013 (As Restated) |
|---|---|---|
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY** | | |
| **Capital Stock** | P 10,269,827,979 | P 10,269,827,979 |
| **Additional Paid-in Capital** | 33,611,840,432 | 33,501,908,751 |
| **Treasury Shares - at cost** | ( 955,217,410 ) | ( 984,512,637 ) |
| **Net Actuarial Losses on Retirement Benefit Plan** | | |
| Balance at beginning of year | | |
| As previously reported | ( 207,484,076 ) | - |
| Effect of adoption of PAS 19 (Revised) | - | ( 240,822,140 ) |
| As restated | ( 207,484,076 ) | ( 240,822,140 ) |
| Actuarial gains (losses) for the year, net of tax | ( 1,032,109 ) | 9,448,879 |
| Balance at end of year | ( 208,516,185 ) | ( 231,373,261 ) |
| **Net Unrealized Losses on Available-for-Sale Securities** | | |
| Balance at beginning of year | ( 906,447,446 ) | ( 764,407,369 ) |
| Net unrealized fair value gains (losses) during the year | 43,701,285 | ( 54,567,543 ) |
| Share in other comprehensive loss of associates and joint venture | ( 6,159,298 ) | - |
| Balance at end of year | ( 868,905,459 ) | ( 818,974,912 ) |
| **Accumulated Translation Adjustments** | | |
| Balance at beginning of year | ( 903,939,309 ) | ( 903,342,498 ) |
| Currency translation adjustments during the year | ( 207,203,331 ) | 289,643,818 |
| Balance at end of year | ( 1,111,142,640 ) | ( 613,698,680 ) |
| *Balance carried forward* | P 40,737,886,717 | P 41,123,177,240 |

*- 2 -*

| | 2014 | 2013 (As Restated) |
|---|---|---|
| *Balance brought forward* | **P 40,737,886,717** | P 41,123,177,240 |
| **Dilution Gain** | **10,974,217,660** | 1,277,846,433 |
| **Share Options** | | |
| Balance at beginning of year | **264,469,448** | 107,652,616 |
| Share-based compensation expense recognized during the year | **26,586,345** | 50,029,425 |
| Balance at end of year | **291,055,793** | 157,682,041 |
| **Retained Earnings** | | |
| Appropriated | **2,145,000,000** | 1,400,000,000 |
| Unappropriated | | |
| Balance at beginning of year | | |
| As previously reported | **53,400,459,760** | 40,237,045,058 |
| Effect of adoption of PAS 19 (Revised) | - | 7,112,315 |
| As restated | **53,400,459,760** | 40,244,157,373 |
| Net profit for the year | **7,490,204,510** | 8,239,229,449 |
| Effect of change in percentage ownership | **( 292,278,512 )** | - |
| Balance at end of year | **60,598,385,758** | 48,483,386,822 |
| Total Retained Earnings | **62,743,385,758** | 49,883,386,822 |
| Total | **114,746,545,928** | 92,442,092,536 |
| **NON-CONTROLLING INTEREST** | | |
| Balance at beginning of year | | |
| As previously reported | **82,528,918,594** | 59,870,536,020 |
| Effect of adoption of PAS 19 (Revised) | - | ( 22,804,167 ) |
| As restated | **82,528,918,594** | 59,847,731,853 |
| Non-controlling interest in additional investments | **( 178,234,893 )** | 846,381,107 |
| Share in consolidated net profit for the year | **3,885,789,610** | 3,005,423,121 |
| Effect of change in percentage ownership | **293,278,295** | - |
| Dividend from investee | **( 512,200,413 )** | ( 3,076,716,905 ) |
| Balance at end of year | **86,017,551,193** | 60,622,819,176 |
| **TOTAL EQUITY** | **P 200,764,097,121** | P 153,064,911,712 |

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR SIX MONTHS ENDED JUNE 30, 2014 AND 2013**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2014 | 2013 (As Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | P 14,510,725,460 | P 13,820,481,170 |
| Adjustments for: | | |
| Interest expense | 2,041,613,923 | 2,035,779,332 |
| Depreciation and amortization | 2,055,722,059 | 2,198,166,872 |
| Interest income | ( 1,206,813,541 ) | ( 1,365,814,487 ) |
| Fair value losses (gains) | ( 598,416,336 ) | 56,836,387 |
| Unrealized foreign currency gains | ( 178,023,798 ) | 483,073,752 |
| Net gains on disposal of property, plant and equipment, investment property and intangible assets | ( 37,570,250 ) | - |
| Gain on sale of investment in available-for-sale financial assets | ( 133,253,573 ) | ( 37,231,517 ) |
| Income from acquisition of a subsidiary | ( 77,223,885 ) | |
| Share in net profits of associates and joint ventures | ( 57,153,861 ) | ( 5,895,932 ) |
| Stock option benefit expense | 26,586,345 | 50,029,425 |
| Unrealized loss on interest rate swap | 6,332,043 | ( 67,236,448 ) |
| Impairment and other losses | 6,159,404 | 21,567,487 |
| Dividend income | ( 74,596,018 ) | ( 95,288 ) |
| Operating income before working capital changes | 16,284,087,972 | 17,189,660,753 |
| Increase in trade and other receivables | ( 5,789,195,687 ) | ( 6,829,393,416 ) |
| Increase (decrease) in trade and other payables | ( 1,439,116,489 ) | 2,735,450,684 |
| Decrease (Increase) in financial assets at fair value through profit or loss | 2,518,678,641 | ( 1,199,227,571 ) |
| Increase in inventories | ( 3,398,678,609 ) | ( 3,035,713,227 ) |
| Decrease (increase) in property development costs | 472,679,164 | ( 1,310,416,588 ) |
| Increase in other current assets | ( 393,003,189 ) | ( 219,964,980 ) |
| Increase in retirement benefit obligation | 71,596,271 | 71,323,539 |
| Increase (Decrease) in other current liabilities | 523,675,080 | ( 452,833,244 ) |
| Increase in other non-current liabilities | 1,762,725,299 | 2,911,658,031 |
| Cash generated from operations | 10,613,448,453 | 9,860,543,981 |
| Cash paid for taxes | ( 2,342,413,960 ) | ( 1,868,331,725 ) |
| Net Cash From Operating Activities | 8,271,034,493 | 7,992,212,256 |
| *Balance carried forward* | P 8,271,034,493 | P 7,992,212,256 |

*- 2 -*

| | 2014 | 2013 (As Restated) |
|---|---|---|
| *Balance brought forward* | P 8,271,034,493 | P 7,992,212,256 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Investment in and advances to associates | ( 6,117,220,073 ) | ( 6,366,905 ) |
| Property, plant and equipment and investment property | ( 8,773,805,627 ) | ( 5,543,537,029 ) |
| Other non-current assets | ( 791,768,234 ) | ( 298,599,174 ) |
| Land for future development | ( 539,957,705 ) | ( 463,027,227 ) |
| Intangible assets | ( 4,204,919 ) | ( 19,153,915 ) |
| Advances to landowners and joint ventures | 12,411,621 | 18,719,074 |
| Receipt of payment of advances to associates | - | - |
| Proceeds from: | | |
| Sale of available for sale financial assets | 117,919,493 | 539,178,529 |
| Disposal of property, plant and equipment | 43,810,234 | - |
| Interest received | 1,158,905,082 | 1,209,382,376 |
| Cash dividends received | 74,596,018 | 95,288 |
| Net Cash Used in Investing Activities | ( 14,819,314,110 ) | ( 4,563,308,983 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payment of interest-bearing loans | ( 7,910,903,404 ) | ( 1,263,364,154 ) |
| Interest paid | ( 2,447,490,924 ) | ( 2,119,893,252 ) |
| Advances received from related parties | 581,523,276 | 220,172,082 |
| Advances paid to related parties | ( 1,434,751,751 ) | ( 493,041,089 ) |
| Dividends paid by a subsidiary | ( 76,641,853 ) | - |
| Proceeds from interest-bearing loans and bonds | - | 10,718,000,000 |
| Net Cash Used in (Provided by) Financing Activities | ( 11,288,264,656 ) | 7,061,873,587 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | ( 17,836,544,273 ) | 10,490,776,860 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 94,977,525,445 | 68,301,336,097 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF NEW SUBSIDIARIES** | 387,730,870 | - |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | P 77,528,712,042 | P 78,792,112,957 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Cost or Investment Property as the property goes through its various stages of development.

***See Notes to Interim Consolidated Financial Statements.***

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2014**
***(With Comparative Figures as of December 31, 2013)***
***(Amounts in Philippine Pesos)***
***(Unaudited)***

## 1. CORPORATE INFORMATION

Alliance Global Group, Inc. (the Company, Parent Company, or AGI) was registered with the Philippine Securities and Exchange Commission (SEC) on October 12, 1993 and began operations in 1994 as a glass-container manufacturer. On March 12, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. Given a wider scope of business, AGI immediately diversified its investment holdings and on April 19, 1999, AGI listed its shares in the Philippine Stock Exchange (PSE). Currently, the Company and its subsidiaries and associates (collectively referred to as the Group) operate businesses in real estate development, tourism-entertainment and gaming, food and beverage, and quick service restaurant under the following entities (see Note 4):

| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | Percentage of Effective Ownership of AGI: June 2014 | December 2013 | December 2012 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Megaworld Corporation | Megaworld | (a) | **65%** | 65% | 63% |
| Megaworld Resort Estates, Inc. | | (b) | **82%** | 82% | 81% |
| Megaworld Land, Inc. | MLI | | **65%** | 65% | 63% |
| Prestige Hotels and Resorts, Inc. | | | **65%** | 65% | 63% |
| Mactan Oceanview Properties and Holdings, Inc. | | | **65%** | 65% | 63% |
| Megaworld Cayman Islands, Inc. | MCII | (c) | **65%** | 65% | 63% |
| Richmonde Hotel Group International | RHGI | (d) | **65%** | 65% | 63% |
| Eastwood Cyber One Corporation | | | **65%** | 65% | 63% |
| Megaworld Cebu Properties, Inc. | | | **65%** | 65% | 63% |
| Megaworld Newport Property Holdings, Inc. (formerly Forbes Town Properties and Holdings, Inc.) | | | **65%** | 65% | 63% |
| Oceantown Properties, Inc. | | | **65%** | 65% | 63% |
| Piedmont Property Ventures, Inc. | | | **65%** | 65% | 63% |
| Stonehaven Land, Inc. | | | **65%** | 65% | 63% |
| Streamwood Property, Inc. | | | **65%** | 65% | 63% |
| Suntrust Properties, Inc. | | | **65%** | 65% | 56% |
| Lucky Chinatown Cinemas, Inc. | | (e) | **65%** | 65% | - |
| Luxury Global Hotels and Leisures, Inc. | | (e) | **65%** | 65% | - |
| Suntrust Ecotown Developers, Inc. | | (e) | **65%** | 65% | - |
| Woodside Greentown Properties, Inc. | | (e) | **65%** | 65% | - |
| Citywalk Building Administration, Inc. | | (f) | **65%** | - | - |
| Forebestown Commercial Center Administration, Inc. | | (f) | **65%** | - | - |
| Paseo Center Building Administration, Inc. | | (f) | **65%** | - | - |
| Sonoma Premiere Land, Inc. | | (g) | **62%** | 62% | 70% |
| Megaworld Global-Estate, Inc. | | (h) | **57%** | 65% | 63% |
| Empire East Land Holdings, Inc. | EELHI | | **53%** | 53% | 50% |
| Valle Verde Properties, Inc. | | (i) | **53%** | 53% | 50% |
| Empire East Communities, Inc. | | (i) | **53%** | 53% | 50% |
| Sherman Oak Holdings, Inc. | | (i) | **53%** | 53% | 50% |

| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | Percentage of Effective Ownership of AGI June 2014 | December 2013 | December 2012 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Megaworld and subsidiaries** | | | | | |
| Eastwood Property Holdings, Inc. | | (i) | **53%** | 53% | 50% |
| Global Estate Resorts, Inc. | GERI | (j) | **52%** | 65% | 64% |
| Fil-Estate Properties, Inc. | | | **52%** | 65% | 64% |
| Aklan Holdings Inc. | | | **52%** | 65% | 64% |
| Blu Sky Airways, Inc. | | | **52%** | 65% | 64% |
| Fil-Estate Subic Development Corp. | | | **52%** | 65% | 64% |
| Fil-Power Construction Equipment Leasing Corp. | | | **52%** | 65% | 64% |
| Golden Sun Airways, Inc. | | | **52%** | 65% | 64% |
| La Compaña De Sta. Barbara, Inc. | | | **52%** | 65% | 64% |
| MCX Corporation | | | **52%** | 65% | 64% |
| Pioneer L-5 Realty Corp. | | | **52%** | 65% | 64% |
| Prime Airways, Inc. | | | **52%** | 65% | 64% |
| Sto. Domingo Place Development Corp. | | | **52%** | 65% | 64% |
| Fil-Power Concrete Blocks Corp. | | | **52%** | 65% | 64% |
| Fil-Estate Golf and Development, Inc | | | **52%** | 65% | 64% |
| Golforce, Inc. | | | **52%** | 65% | 64% |
| Fil-Estate Urban Development Corp. | | | **52%** | 65% | 64% |
| Novo Sierra Holdings Corp. | | | **52%** | 65% | 64% |
| Boracay Newcoast Hotel Group, Inc. | | | **52%** | 65% | 64% |
| Megaworld Central Properties, Inc. | | | **50%** | 50% | 48% |
| La Fuerza, Inc. | LFI | (k) | **43%** | - | - |
| Fil-Estate Industrial Park, Inc. | | | **41%** | 51% | 51% |
| Twin Lakes Corp. | | | **40%** | 45% | 44% |
| Megaworld-Daewoo Corporation | | | **39%** | 39% | 38% |
| Laguna Bel-Air School, Inc. | | (i) | **39%** | 38% | 36% |
| Eastwood Cinema 2000, Inc. | | (e) | **36%** | 35% | - |
| Gilmore Property Marketing Associates Inc. | | (i) | **34%** | 47% | 45% |
| Megaworld Globus Asia, Inc. | | | **33%** | 33% | 32% |
| Philippine International Properties, Inc. | | | **33%** | 32% | 32% |
| Sherwood Hills Development Inc. | | | **29%** | 36% | 35% |
| Fil-Estate Ecocentrum Corp. | | | **29%** | 36% | 36% |
| Philippine Aquatic Leisure Corp. | | | **29%** | 36% | 36% |
| Oceanfront Properties, Inc. | | | **26%** | 32% | 32% |
| Townsquare Development, Inc. | | | **20%** | 49% | 49% |
| **Emperador and subsidiaries** | | | | | |
| Emperador Inc. | EMP or Emperador | (m) | **88%** | 88% | - |
| Emperador Distillers, Inc. | EDI | (m) | **88%** | 88% | 100% |
| Emperador International Ltd. | EIL | (d) | **88%** | 88% | 100% |
| Anglo Watsons Glass, Inc. | | | **88%** | 88% | 100% |
| The Bar Beverage, Inc. | | | **88%** | 88% | 100% |
| **GADC and subsidiaries** | | | | | |
| Golden Arches Development Corporation | GADC | | **49%** | 49% | 49% |
| Golden Arches Realty Corporation | | | **49%** | 49% | 49% |
| Clark Mac Enterprises, Inc. | | | **49%** | 49% | 49% |
| Advance Food Concepts Manufacturing, Inc. | | | **46%** | 46% | 37% |
| Golden Laoag Foods Corporation | | | **38%** | 38% | 38% |
| Davao City Food Industries, Inc. | | | **37%** | 37% | 37% |
| First Golden Laoag Ventures | | | **34%** | 34% | 34% |
| Retiro Golden Foods, Inc. | | | **34%** | 34% | 34% |
| Red Asian Food Solutions | | (n) | **34%** | 34% | - |
| McDonald's Anonas City Center | | (o) | **34%** | 34% | - |
| McDonald's Puregold Taguig | | (o) | **29%** | 29% | 29% |
| Golden City Food Industries, Inc. | | (o) | **29%** | - | - |
| McDonald's Bench Building | | (o) | **27%** | 27% | 27% |

| Subsidiaries/Associates/Jointly Controlled Entity | Short Name | Notes | Percentage of Effective Ownership of AGI June 2014 | December 2013 | December 2012 |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| **Travellers and subsidiaries** | | | | | |
| Travellers International Hotel Group, Inc. | Travellers | (p) | **44%** | 42% | 46% |
| APEC Assets Limited | | | **44%** | 42% | 46% |
| Bright Leisure Management, Inc. | | | **44%** | 42% | 46% |
| Deluxe Hotels and Recreation, Inc. | | | **44%** | 42% | 46% |
| Entertainment City Integrated Resorts & Leisure, Inc. | | | **44%** | 42% | 46% |
| Grand Integrated Hotels and Recreation, Inc. | | | **44%** | 42% | 46% |
| Grand Services, Inc. | | | **44%** | 42% | 46% |
| Grand Venture Management Services, Inc. | | | **44%** | 42% | 46% |
| Lucky Star Hotels and Recreation, Inc. | | | **44%** | 42% | 46% |
| Majestic Sunrise Leisure & Recreation, Inc. | | | **44%** | 42% | 46% |
| Net Deals, Inc. | | | **44%** | 42% | 46% |
| Newport Star Lifestyle, Inc. | | | **44%** | 42% | 46% |
| Royal Bayshore Hotels & Amusement, Inc. | | | **44%** | 42% | 46% |
| FHTC Entertainment and Production, Inc. | | | **44%** | 42% | - |
| Bright Pelican Leisure and Production, Inc. | | | **44%** | 42% | - |
| Yellow Warbler Leisure and Recreation, Inc. | | | **44%** | 42% | - |
| **Corporate and Others** | | | | | |
| New Town Land Partners, Inc. | NTLPI | | **100%** | 100% | 100% |
| Tradewind Estates, Inc. | | | **100%** | 100% | 100% |
| Great American Foods, Inc. | | (q) | **100%** | 100% | 100% |
| McKester America, Inc. | | (q) | **100%** | 100% | 100% |
| Alliance Global Brands, Inc. | | | **100%** | 100% | 100% |
| McKester Pik-nik International Limited | | (d) | **100%** | 100% | 100% |
| Venezia Universal Ltd. | | (d) | **100%** | 100% | 100% |
| Travellers Group Ltd. | | (d) | **100%** | 100% | 100% |
| Alliance Global Group Cayman Islands, Inc. | | (c) | **100%** | 100% | 100% |
| Greenspring Investment Holdings Properties Ltd. | | (c) | **100%** | 100% | 100% |
| Shiok Success International, Ltd. | | (d) | **100%** | 100% | - |
| Dew Dreams International, Ltd. | | (d) | **100%** | 100% | - |
| First Centro, Inc. | FCI | | **75%** | 75% | 100% |
| Oceanic Realty Group International, Inc. | | (r) | **75%** | 75% | 100% |
| ERA Real Estate Exchange, Inc. | | (r) | **75%** | 75% | 100% |
| Adams Properties, Inc. | Adams | | **60%** | 60% | 60% |
| Manila Bayshore Property Holdings, Inc. | | (s) | **55%** | 52% | 55% |
| Resorts World Bayshore City, Inc. | RWBCI | (t) | **45%** | 45% | - |
| Purple Flamingos Amusement and Leisure Corporation | | (u) | **45%** | 45% | - |
| Red Falcon Amusement and Leisure Corporation | | (u) | **45%** | 45% | - |
| ***Associates*** | | | | | |
| Bonifacio West Developers, Inc. | | | **30%** | | |
| Suntrust Home Developers, Inc. | SHDI | (w) | **28%** | 27% | 27% |
| First Oceanic Property Management | | (x) | **28%** | 27% | 27% |
| Citylink Coach Services, Inc. | | (x) | **28%** | 27% | 27% |
| Palm Tree Holdings and Development Corporation | | (x) | **26%** | 26% | 25% |
| Genting Star Tourism Academy, Inc. | | | **22%** | 20% | 23% |
| Fil-Estate Network, Inc. | | (l) | **10%** | 13% | 13% |
| Fil-Estate Sales, Inc. | | (l) | **10%** | 13% | 13% |
| Fil-Estate Realty and Sales Associates, Inc. | | (l) | **10%** | 13% | 13% |
| Fil-Estate Realty Corp. | | (l) | **10%** | 13% | 13% |
| Nasugbu Properties, Inc. | | (l) | **7%** | 9% | 9% |
| Alliance Global Properties, Inc. | | (y) | **-** | - | 30% |
| LFI | | (k) | **-** | 32% | - |
| ***Jointly Controlled Entities*** | | | | | |
| Bodega Las Copas | | (v) | 44% | - | - |
| GCFII | | (o) | **-** | 25% | 24% |

Explanatory notes:

- (a) Megaworld is 44% directly owned by AGI and 21% owned through other subsidiaries (NTLPI and FCI). Effective ownership over Megaworld increased due to additional subscription by AGI in 2013
- (b) AGI and Megaworld directly owns 49% and 51%, respectively
- (c) Foreign subsidiaries operating under the laws of the Cayman Islands
- (d) Foreign subsidiaries operating under the Business Companies Act of the British Virgin Islands (BVI)
- (e) Newly acquired subsidiaries of Megaworld in 2013
- (f) Became subsidiaries of Megaworld in 2014 through MLI, their parent company.
- (g) A subsidiary of AGI through 60% and 40% direct ownership of EELHI and FCI, respectively
- (h) A subsidiary of AGI through 88% effective ownership of Megaworld
- (i) Subsidiaries of EELHI
- (j) In June 2014, AGI sold all of its stake in GERI to Megaworld thereby increasing Megaworld's ownership to 80%. GERI thus becomes a subsidiary of Megaworld.
- (k) An associate in 2013 and subsidiary in 2014 through Megaworld's ownership of 50% and 66.67% in respective periods.
- (l) Associates of GERI
- (m) Became a subsidiary of AGI in 2013 through subscription in the increase in the subsidiary's capital stock; and as a condition to the subscription, AGI sold its 100% interest in EDI to EMP
- (n) Newly acquired subsidiary of GADC in 2013
- (o) Unincorporated joint ventures of GADC in 2013; Became a subsidiary in 2014 through additional investment by GADC
- (p) In June 2014, Megaworld sold its 7% ownership interest in Travellers to AGI. As of June 30, 2014, AGI, Adams, FCI and Megaworld respectively own 25%, 22%, 5% and 2% of Travellers.
- (q) Foreign subsidiaries operating under the laws of United States of America
- (r) Subsidiaries of FCI
- (s) A subsidiary of AGI through 50/50 ownership of Travellers and Megaworld
- (t) Incorporated in 2013. Effective ownership is through 20% direct ownership, 6% through 10% ownership of Megaworld, 4% through 5% ownership of FCI and 15% through 25% ownership of Adams
- (u) Incorporated in 2013; Wholly owned subsidiaries of RWBCI
- (v) A foreign jointly-controlled entity under EIL's Grupo Emperador Spain, S.A. and operating under the laws of Spain
- (w) Associates of Megaworld
- (x) Subsidiaries of SHDI, an associate of Megaworld
- (y) A foreign associate operating in the BVI; AGPL was disposed in 2013

The Company, its subsidiaries, associates and jointly-controlled entities are incorporated and operating in the Philippines, except for such foreign subsidiaries as identified in the preceding table (see explanatory notes c, d, r, w and z above).

AGI's shares of stock and those of Megaworld, EMP, Travellers, GERI, EELHI and SHDI are listed in and traded through the PSE.

The principal activities of the Group are further described in Note 4.

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 Board of Directors (BOD) approved on August 18, 2014, the release of the interim consolidated financial statements (ICFS) of the Group for the six months ended June 30, 2014 (including the comparative financial statements as of December 31, 2013 and for the six months ended June 30, 2013).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *2.1 Basis of Preparation of Interim Consolidated Financial Statements*

*(a) Compliance with Interim Financial Reporting Standard*

These ICFS have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the Group's audited consolidated financial statements (ACFS) as of and for the year ended December 31, 2013.

*(b) Application of PFRS*

The significant accounting policies and methods of computation used in the preparation of these ICFS are consistent with those applied in the ACFS as of and for the year ended December 31, 2013, except for the application of standards that became effective on January 1, 2014 as discussed in Note 2.3.

There are new PFRS, annual improvements and interpretations to the existing standards that are effective for periods subsequent to 2014 but were not adopted early for the preparation of the ICFS. The ICFS, therefore, do not reflect the impact of any adoption of these new PFRS, annual improvements and interpretations to existing standards effective for periods subsequent to 2014.

*(c) Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency (see Note 2.18).

*(d) Presentation of Interim Consolidated Financial Statements*

The presentation of the ICFS is consistent with the most recent ACFS presentation, except for the amendments introduced by the new accounting standards mentioned in Note 2.3. Regrouping of certain accounts in the comparative prior period presented was made to conform to the current period's presentation so that comparability is not impaired.

The Group presents all items of income and expense in a single consolidated statement of comprehensive income.

## *2.2 Basis of Consolidation*

The Company obtains and exercises control through voting rights. The Group's ICFS comprise the financial statements of the Company and its subsidiaries, as enumerated in Note 1, as of June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, 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 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 interim 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 (APIC).

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 entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases. The acquisition method is applied to account for acquired subsidiaries (see Note 2.10).

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of 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 Note 2.11).

*(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.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Share in Net Profits (Losses) of Associates and Joint Ventures account in the interim consolidated statements of comprehensive income. These changes include subsequent depreciation, amortization and impairment of the fair value adjustments of the associate's assets and liabilities.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associates or items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale (AFS) financial assets, are recognized in the interim consolidated other comprehensive income or equity of the Group, as applicable.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(c)* *Interests in Joint Ventures*

Interest in a joint venture is accounted using the equity method. Under the equity method, the interest is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company'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 Company'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 is also recognized in consolidated equity.

## *2.3 Adoption of New and Amended PFRS*

*(a) Effective in 2014 that are Relevant to the Group*

In 2014, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after January 1, 2014:

| | | |
|---|---|---|
| PAS 19 (Amendment) | : | Employee Benefits: Defined Benefit Plans – Employee Contributions |
| PAS 32 (Amendment) | : | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| PAS 36 (Amendment) | : | Impairment of Asset – Recoverable Amount Disclosures for Non-financial Assets |
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting |
| PFRS 10, 12 and PAS 27 (Amendments) | : | Investment Entities |

Discussed below are relevant information about these amended standards.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has determined that this amendment has no significant impact on the Group's ICFS.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The Group determined that the amendment has no significant impact on its ICFS as the Group is not setting off its financial assets and financial liabilities.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. Management has determined that this amendment has no significant impact on the Group's ICFS.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group does not apply hedge accounting on its derivative transactions, hence the amendment does not impact the ICFS.

(v) PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term "investment entities," provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss. Management assessed that these amendments have no material impact on the Group's ICFS.

*(b) Effective in 2014 that is not Relevant to the Group*

The International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, which is mandatory for accounting periods beginning on or after January 1, 2014 is determined not relevant to the Group's ICFS.

(c) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2014. Management has initially determined the following pronouncements to be relevant to its ICFS, and which the Group will apply in accordance with their transitional provision, but not adopted early:

(i) PFRS 9, *Financial Instruments: Clarification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

In November 2013, the International Accounting Standards Board (IASB) has published amendments to International Financial Reporting Standard (IFRS) 9 which includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the interim consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(ii) Philippine 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 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.

(iii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets* (effective July 1, 2014). The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures* (effective July 1, 2014). The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the consolidated financial statements and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, though a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40, in determining the classification of property as an investment property or owner-occupied property, and explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

### *2.4 Financial Assets*

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

The financial asset categories currently relevant to the Group are financial assets at fair value through profit or loss (FVTPL), loans and receivables and AFS financial assets.

*(a) Financial Assets at FVTPL*

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in consolidated profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group's financial assets included in this category consist mainly of investments in marketable debt and equity 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. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to Contractors and Suppliers), Advances to Associates and Other Related Parties (included under Investments in and Advances to Associates and Other Related Parties account), Time Deposits (included under Other Current Assets account) and Refundable Security Deposits (included under Other Non-current Assets account).

*(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. 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 consolidated equity.

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

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 consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

A financial asset is reported net of financial liability in the interim consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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 (NRV). Cost is determined using weighted average method, except for food, paper, and promotional items which use the first-in, first-out method. NRV 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. NRV of raw materials, spare parts and other operating supplies is the current replacement cost.

Cost of Real Estate includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction (see Note 2.16). Accounting policies for real estate development transactions are discussed in more detail in Note 2.6.

### *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 occurs on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Real Estate for Sale classified under Inventories account (see Note 2.5) in the consolidated statement of financial position.

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 presented as part of Cost of Goods Sold in the interim consolidated statement of comprehensive income with a corresponding credit to the liability account, Reserve for Property Development account.

Costs of properties and projects accounted for as Land for Future Development, Property Development Costs and Real Estate for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and NRV. NRV 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 Other Assets*

Other assets presented either under current or non-current assets classification in the consolidated statement of financial position pertain to other resources controlled by the Group as a result of past events. They are recognized in the ICFS when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

### *2.8 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, the related carrying amount is not depreciated. Land held for use in production or administration is stated at cost less any impairment in value.

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 10 years |
| Transportation equipment | 3 to 10 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.

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).

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.

### *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 are carried at cost less 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.

### *2.10 Business Combinations*

Business acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at the date of acquisition.

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, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of the related goodwill (see Note 2.11).

### *2.11 Intangible Assets*

Intangible assets include goodwill, trademarks, leasehold rights and computer software. Except goodwill, all other intangible assets have finite lives and are carried at cost less accumulated amortization and any impairment in value. The costs of trademarks and computer software are amortized over the estimated useful life of 10 and 3 years, respectively, while leasehold rights are over the term of the lease. Intangible assets are subject to impairment testing at least annually. Any impairment loss is recognized immediately in consolidated profit or loss and is not subsequently 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 recognized directly to income. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the consolidated profit or loss on disposal.

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

### *2.12 Financial Liabilities*

The categories of financial liabilities relevant to the Group are 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 and interest rate swaps. 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. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, which are presented under the Other Assets or Other Liabilities (current and non-current) account in the consolidated statements of financial position.

*(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, Bonds Payable, Trade and Other Payables (except tax related payables), Advances from Related Parties, Redeemable Preferred Shares, Security Deposits and Payable to McDonald's Restaurant Operations, Inc. (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 interim consolidated statement of comprehensive income.

Dividend distributions to shareholders, if any, 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 end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

### *2.13 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 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 consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.14 Equity*

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

APIC includes any premiums received on the 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 but not cancelled or AGI shares held by subsidiaries for investment purposes. These are carried at acquisition cost (see Note 2.2).

Revaluation reserves represent unrealized fair value gains or losses on AFS financial assets pertaining to cumulative mark-to-market valuations [see Note 2.4(c)], share in other comprehensive income of associates and joint ventures attributable to the Group, and actuarial gains or losses from remeasurement of retirement benefit obligations.

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 represents the difference between the book value per share in an investee versus the investee's offer price at the time pre-emptive 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. Dilution gain or loss is recognized on investments of which the Company continues to exercise control.

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

Retained earnings represent all current and prior period results of operations as reported in the profit and loss section of the interim consolidated statement of comprehensive income, reduced by the amount of dividends declared.

### *2.15 Revenue and Expense Recognition*

Revenue is recognized to the extent that the revenue can be reliably measured by reference to the fair value of consideration received or receivable by the Group; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Sale of goods* – Revenue, net of rebates and trade discounts, is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer acknowledged delivery of goods.

*(b)* *Sale of residential and condominium units [included under Real Estate (RE) Sales]* – 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 (under Cost of Goods Sold) in the consolidated statement of comprehensive income; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (under Other 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 Customers' Deposits and presented as part of Other Liabilities (current and non-current) 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 real estate sales is used by the Group.

*(c)* *Interest income on real estate sales* - considered in the determination of total revenue for real estate sales. It is recognized when interest accrues taking into account the underlying sale of real estate under installment method through in-house financing (not through externally financed home loans obtained by customers).

*(d)* *Sale of undeveloped land and golf and resort shares (included under RE Sales)* – 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.

*(e)* *Gaming revenues* – Revenue is recognized from net wins from gaming activities which represent the difference between coins and currencies deposited into the gaming machines and the payments to customers and, for other games, the difference between gaming wins and losses.

*(f)* *Revenue from hotel operations* – Revenue from hotel operations is recognized when services are rendered. This is presented as part of the item Others under Revenue from Rendering of Services.

*(g)* *Sales from Company-operated quick-service restaurants* – Revenue from restaurant sales operations are recognized when the services are rendered, that is, food and beverage products or promotional items purchased by customers have been delivered and accepted by the customers.

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

*(i)* *Rentals* – Rental income is recognized on a straight-line basis over the duration of the lease terms. For tax purposes, rental income is recognized based on the contractual terms of the lease. Advance rentals and refundable rental deposits, if any, are recorded as deferred rental. Deferred rental, specifically the refundable rental deposit, is measured at amortized cost using the effective interest rate method.

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

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

Revenue and expenses are recognized excluding the amount of value-added tax (VAT).

The Group provides a membership card for its gaming patrons (i.e., of Travellers). Members earn points on gaming activity and such points are redeemable for complimentary goods and services such as rooms, food, beverages and others. Members may also earn special coupons or awards as determined during marketing promotions. The Group records revenue for the original transaction and a provision (and a corresponding recognition of promotional allowances in profit or loss) for the value of the points earned by members by reference to the relative fair values of the complimentary goods or services.

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 consolidated 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, as follows:

*(a) Group as Lessee*

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

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

### *2.18 Foreign Currency Transactions and Translation*

*(a) 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.

*(b) Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of foreign subsidiaries (see Note 1) which are measured using the United States (U.S.) dollars, their functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Non-monetary assets and liabilities for each statement of financial position presented, which are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities which are measured at fair value are translated using the exchange rates at the date when the fair value was determined;

(iii) Income and expenses for each profit or loss account are translated at the 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,

(iv) All resulting exchange differences are recognized in consolidated other comprehensive income and in a separate component of consolidated 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.

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, Intangible Assets, Investment Property, Property, Plant and Equipment and Other Non-financial assets are subject to impairment testing. 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 are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### *2.20 Employee Benefits*

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan. In addition, the Group also grants share options to key officers and employees eligible under stock option plans.

### *2.21 Income Taxes*

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in consolidated other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated 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 consolidated profit or loss.

Deferred tax is accounted for 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.

Travellers is subject to 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues as provided under its license. On May 7, 2014, Philippine Amusement and Gaming Corporation (PAGCOR) and its Entertainment City licensees, which include Travellers, agreed to reduce the license fees by 10% of gross gaming revenues effective April 1, 2014 (see Note 16.3).

### *2.22 Earnings per Share*

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares (e.g. vested share options – see Note 8).

### *2.23 Segment Reporting*

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

### *2.24 Related Party Transactions and Relationships*

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Group and close members of the family of any such individual and, (d) certain funded retirement plans, administered by trustee banks, of two significant subsidiaries.

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

### *2.25 Events After the End of 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 (see Note 17).

## 3. USE OF JUDGMENT AND ESTIMATES

The preparation of the ICFS in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group is organized into major business segments, which are the major subsidiaries of the Group, and that represent the main products and services provided by the Group and the line of business in which the Group operates (see Note 2.23). Presented below is the basis of the Group in reporting its primary segment information.

*(a)* The *Megaworld* segment consists of development of real estate, integrated resorts, leasing of properties and hotel operations business which is primarily undertaken by Megaworld Corporation and subsidiaries. As of June 30, 2014, the *GERI* segment has already been consolidated in this segment (see Note 1). All the real estate businesses are now consolidated under this segment, which will enable it to capture the growth in the tourism sector through GERI.

*(b)* The *Travellers* segment relates to tourism-oriented business that integrates entertainment, hospitality and leisure, including gaming, as that of Resorts World Manila, which is operated by Travellers International Hotel Group, Inc. and subsidiaries.

*(c)* The *Emperador* segment refers to the manufacture and distribution of distilled spirits, including the production of glass containers, which is undertaken by Emperador Inc. and its subsidiaries.

*(d)* The *GADC* segment refers to operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement between Golden Arches Development Corporation and McDonald's Corporation, USA.

*(e)* The *GERI* segment relates to development of integrated tourism estates, leisure-related properties and mixed used towers which is primarily undertaken by Global Estate Resorts, Inc. and subsidiaries. This segment is consolidated with *Megaworld* segment in 2014, when, in a strategic move, MEG acquired all the GERI shares owned by AGI. Thus, *GERI* has ceased to be presented as a separate business segment.

### *4.3 Segment Assets and Liabilities*

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they 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 bonds payable.

### *4.4 Intersegment Transactions*

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

### *4.4 Analysis of Segment Information*

Segment information can be analyzed as follows for six months ended June 30, 2014 and 2013.

| | For six months ended June 30, 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 18,708,757,598 | P 15,268,882,252 | P 8,868,814,094 | P 12,920,241,049 | P - | P 55,766,694,993 |
| Intersegment sales | 11,521,998,501 | - | - | - | - | 11,521,998,501 |
| Finance and other revenues | 1,726,726,890 | 273,833,319 | 113,036,220 | 314,522,231 | - | 2,428,118,660 |
| Segment revenues | 31,957,482,989 | 15,542,715,571 | 8,981,850,314 | 13,234,763,280 | - | 69,716,812,154 |
| Cost of sales and expenses excluding depreciation and amortization | ( 12,573,418,284 ) | ( 10,582,458,588 ) | ( 8,011,388,445 ) | ( 9,253,769,329 ) | - | ( 40,421,034,646 ) |
| | 19,384,064,705 | 4,960,256,983 | 970,461,869 | 3,980,993,951 | - | 29,295,777,508 |
| Depreciation and amortization | ( 571,978,015 ) | ( 792,784,969 ) | ( 439,288,158 ) | ( 216,169,232 ) | - | ( 2,020,220,374 ) |
| Finance cost and other charges | ( 710,158,498 ) | ( 630,426,743 ) | ( 90,674,608 ) | ( 215,316 ) | - | ( 1,431,475,165 ) |
| Profit before tax | 18,101,928,192 | 3,537,045,271 | 440,499,103 | 3,764,609,403 | - | 25,844,081,969 |
| Tax expense | ( 1,577,250,807 ) | ( 655,950,044 ) | ( 118,503,225 ) | ( 706,749,593 ) | - | ( 3,058,453,669 ) |
| **SEGMENT PROFIT** | P 16,524,677,385 | P 2,881,095,227 | P 321,995,878 | P 3,057,859,810 | P - | P 22,785,628,300 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 208,191,708,673 | P 57,354,309,021 | P 12,225,414,485 | P 37,302,963,261 | P - | P 315,074,395,440 |
| Segment liabilities | 78,494,653,495 | 21,264,117,239 | 8,067,207,319 | 2,134,348,336 | - | 109,960,328,696 |

| | For six months ended June 30, 2013 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
| **REVENUES** | | | | | | |
| Sales to external customers | P 15,921,722,810 | P 19,164,722,154 | P 7,547,406,392 | P 13,839,981,473 | P 793,234,230 | P 56,615,442,978 |
| Intersegment sales | 222,082,464 | - | - | - | - | 222,082,464 |
| Finance and other revenues | 1,066,410,271 | ( 333,828,200 ) | ( 6,519,235 ) | 20,829,395 | 109,320,413 | 1,507,836,725 |
| Segment revenues | 17,210,215,545 | 18,830,893,954 | 7,540,887,157 | 13,860,810,868 | 902,554,643 | 58,345,362,167 |
| Cost of sales and expenses excluding depreciation and amortization | ( 10,732,830,944 ) | ( 14,640,217,507 ) | ( 6,556,385,531 ) | ( 9,716,996,519 ) | ( 653,298,088 ) | ( 42,240,763,190 ) |
| | 6,477,384,601 | 4,190,676,447 | 984,501,626 | 4,143,814,349 | 249,256,555 | 16,104,598,977 |
| Depreciation and amortization | ( 442,579,682 ) | ( 1,153,732,927 ) | ( 367,811,588 ) | ( 91,795,995 ) | ( 9,071,404 ) | ( 2,123,956,995 ) |
| Finance cost and other charges | ( 591,813,883 ) | ( 676,844,450 ) | ( 71,769,801 ) | 128,586,586 | ( 36,071,391 ) | ( 1,247,912,939 ) |
| Profit before tax | 5,442,991,036 | 2,360,099,070 | 544,920,237 | 4,180,604,940 | 204,113,760 | 12,732,729,043 |
| Tax expense | ( 1,280,278,149 ) | ( 50,276,024 ) | ( 165,345,293 ) | ( 1,007,029,019 ) | ( 56,263,725 ) | ( 2,559,192,210 ) |
| **SEGMENT PROFIT** | P 4,162,712,887 | P 2,309,823,046 | P 379,574,944 | P 3,173,575,921 | P 147,850,035 | P 10,173,536,833 |

The following presents the segment assets and liabilities of the Group as at December 31, 2013 (audited):

| | Megaworld | Travellers | GADC | Emperador | GERI | Total |
|---|---|---|---|---|---|---|
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Segment assets | P 169,461,257,482 | P 60,758,944,954 | P 13,202,719,956 | P 35,201,294,060 | P 31,238,285,371 | P 309,862,501,823 |
| Segment liabilities | 68,494,968,424 | 26,448,067,054 | 7,983,040,586 | 3,187,496,148 | 7,566,385,608 | 113,679,957,820 |

### 4.5 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its ICFS.

| | June 30, 2014 (Unaudited) | June 30, 2013 (Unaudited) |
|---|---|---|
| **Revenues** | | |
| Total segment revenues | **P 69,233,711,403** | P 58,345,362,167 |
| Unallocated corporate revenue | **1,896,158,153** | 2,674,630,958 |
| Elimination of intersegment revenues | **( 11,521,998,501)** | ( 222,082,464) |
| Revenues as reported in interim consolidated profit or loss | **P 59,607,871,055** | P 60,797,910,661 |
| **Profit or loss** | | |
| Segment operating profit | **P 22,785,628,300** | P 10,173,536,833 |
| Unallocated corporate profit | **112,364,321** | 1,293,198,201 |
| Elimination of intersegment revenues | **( 11,521,998,501)** | ( 222,082,464) |
| Profit as reported in interim consolidated profit or loss | **P 11,375,994,120** | P 11,244,652,570 |

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 315,074,395,440** | P 309,862,501,823 |
| Unallocated corporate assets | **21,044,018,281** | 22,537,907,703 |
| Total assets reported in the interim consolidated statements of financial position | **P 336,118,413,721** | P 332,400,409,526 |
| **Liabilities** | | |
| Segment liabilities | **P 109,960,328,696** | P 113,679,957,820 |
| Unallocated corporate liabilities | **25,393,987,904** | 28,498,806,074 |
| Total liabilities reported in the interim consolidated statements of financial position | **P 135,354,316,600** | P 142,178,763,894 |

Concentration of revenue is considered when at least 10% of total segment revenue is generated from a single customer. There is no concentration of the Group's revenue in a single customer as the 10% threshold has not been met in any of the years presented.

## 5. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment as of June 30, 2014 and December 31, 2013 are shown below.

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Cost | **P 58,395,532,888** | P 54,763,153,124 |
| Accumulated depreciation | **( 14,604,610,855)** | ( 13,101,348,398) |
| Net carrying amount | **P 43,790,922,033** | P 41,661,804,726 |

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

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation | **P 41,661,804,726** | P 34,888,271,255 |
| Property, plant and equipment of newly acquired subsidiary | **43,245,885** | 63,000,110 |
| Additions | **3,777,579,936** | 10,554,811,085 |
| Disposals | **( 190,377,798)** | ( 336,260,664) |
| Reclassifications | **1,931,741** | ( 184,639,113) |
| Impairment loss – reversal | **-** | 18,616,806 |
| Depreciation charges for the period | **( 1,503,262,457)** | ( 3,341,994,753) |
| Balance at end of period net of accumulated depreciation | **P 43,790,922,033** | P 41,661,804,726 |

## 6. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, building and improvements which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of the reporting periods are shown below.

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Cost | **P 39,904,736,440** | P 31,380,599,604 |
| Accumulated depreciation | **( 4,588,925,756)** | ( 4,090,171,166) |
| Net carrying amount | **P 35,315,810,684** | P 27,290,428,438 |

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

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation | **P 27,290,428,438** | P 18,751,335,670 |
| Investment property of newly acquired subsidiary | **3,431,392,000** | 5,020,588,055 |
| Additions | **5,100,842,385** | 3,696,859,574 |
| Disposals | **( 6,165,808)** | ( 3,873,468) |
| Reclassifications – net | **( 1,931,741)** | 695,129,708 |
| Depreciation charges for the period | **( 498,754,590)** | ( 869,611,101) |
| Balance at end of period net of accumulated depreciation | **P 35,315,810,684** | P 27,290,428,438 |

## 7. DIVIDENDS

There were no dividends declared and paid by the Company for the six months period ended June 30, 2014.

## 8. EARNINGS PER SHARE

Earnings per share is computed as follows:

| | June 30, 2014 (Unaudited) | June 30, 2013 (Unaudited) |
|---|---|---|
| Basic: | | |
| Net profit attributable to owners of the parent company | **P 7,490,204,510** | P 8,239,229,449 |
| Divide by the weighted average number of outstanding common shares | **10,114,531,579** | 10,109,510,579 |
| | **P 0.7405** | P 0.8150 |
| Diluted: | | |
| Net profit attributable to owners of the parent company | **P 7,490,204,510** | P 8,239,229,449 |
| Divide by the weighted average number of outstanding common shares | **10,157,023,246** | 10,134,805,932 |
| | **P 0.7374** | P 0.8131 |

As of June 30, 2014 and 2013, there are 42.5 million and 25.0 million, respectively, potentially dilutive shares from the Company's ESOP. However, such number of dilutive shares has no significant effect on the weighted average number of outstanding common shares and, consequently has no material effect on the 2014 and 2013 diluted EPS.

## 9. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, associates, jointly controlled entities, the Group's key management personnel and retirement fund, and others as described below. The summary of the Group's transactions with its related parties for the periods ended June 30, 2014 and 2013, and the related outstanding balances as of June 30, 2014 and December 31, 2013 are as follows:

| | | Amount of Transaction | | Outstanding Balance | |
|---|---|---|---|---|---|
| Related Party Category | Notes | June 30, 2014 (Unaudited) | June 30, 2013 (Unaudited) | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
| **Subsidiaries' stockholders:** | | | | | |
| Loan payable | 9.2 | **-** | - | **523,800,000** | 532,724,721 |
| Interest expense on loan payable | 9.2 | **26,683,500** | 24,892,800 | **14,741,707** | 13,378,621 |
| Casino transactions | 9.4 | **5,209,655,212** | 6,244,774,187 | **767,954,646** | 329,046,155 |
| Incidental rebate charges | 9.4 | **( 1,216,927,727)** | ( 1,690,504,691 ) | **578,415,315** | 331,528,281 |
| Management fees | 9.5 | **( 197,619,568)** | ( 362,890,126 ) | **11,204,281** | 23,996,555 |
| Redeemable preferred shares | 9.9 | **-** | - | **562,339,136** | 528,133,002 |

| | | Amount of Transaction | | Outstanding Balance | |
|---|---|---|---|---|---|
| Related Party Category | Notes | **June 30, 2014 (Unaudited)** | June 30, 2013 (Unaudited) | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
| **Related party under common ownership:** | | | | | |
| Purchase of raw materials | 9.1 | **23,900,165** | 360,606,172 | **399,246,784** | 451,648,340 |
| Purchase of imported goods | 9.1 | **2,162,415** | 143,198,615 | **82,768** | 35,270,647 |
| Acquisition of assets | 9.3 | **-** | 897,569,335 | **278,466** | 196,597,811 |
| **Associates:** | | | | | |
| Advances granted | 9.6 | **( 1,188,112,709)** | ( 83,712,000 ) | **3,902,038,210** | 2,713,925,501 |
| **Others:** | | | | | |
| Receivable from joint venture | | **( 17,711,146)** | 17,711,146 | - | 17,711,146 |
| Advances granted | 9.7 | **( 119,437,373)** | 11,168,000 | **1,119,827,585** | 1,239,264,958 |
| Advances obtained | 9.7 | **( 171,927,176)** | 12,051,000 | **1,123,484,183** | 1,295,411,359 |
| Advances from joint venture partners and others | 9.8 | **387,374,037** | 5,397,000 | **741,481,286** | 354,107,249 |
| Other liabilities | 9.10 | **34,454,676** | 77,949,909 | **181,347,687** | 161,969,303 |

### *9.1 Purchase of Goods*

Prior to the acquisition of the distillery plant in 2013, Emperador sources its alcohol requirements from Consolidated Distillers, Inc. (Condis). Emperador imports raw materials such as alcohol, flavorings and other items through Andresons Global, Inc. (AGL). There are also finished goods purchased from Condis and through AGL. These transactions are payable within 30 days. The outstanding liability related to such purchases is presented as part of Trade Payables under current Trade and Other Payables in the consolidated statements of financial position.

### *9.2 Loan from MRO*

GADC has a loan agreement with MRO. The principal amount of the loan amounting to U.S.$12.0 million is payable in full on March 17, 2025. Accrued interest payable as of June 30, 2014 and December 31, 2013 is included as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position.

### *9.3 Acquisition of Assets*

In 2013, GADC acquired building and leasehold improvements from McDonald's Philippines Realty Corporation (MPRC).

Also in 2013, Emperador acquired the distillery facilities of Condis, which include property, plant and equipment and inventories amounting to P756,990,993 and P140,578,342, respectively. The acquisition was fully settled in cash in 2013.

### *9.4 Joint Co-operation Agreement with Genting Hongkong, Ltd. (GHL)*

Travellers and GHL have a joint co-operation agreement, whereby GHL handles the promotion of Travellers' casinos and will bring patrons to play in the casinos. As a consideration for such services, Travellers pays GHL an amount equivalent to a certain percentage of net turnovers.

Incidental rebate charges arising from this transaction are presented as part of General Marketing under the Other Operating Expenses account in the interim consolidated statements of comprehensive income. The outstanding balances of payables are presented as part of Trade Payables under the Trade and Other Payables account in the consolidated statements of financial position.

Travellers also recognized outstanding receivables from GHL representing show money received by GHL from foreign patrons which GHL will later remit to Travellers. The outstanding balances of receivables are presented as part of Trade Receivables under Trade and Other Receivables in the consolidated statements of financial position.

### *9.5 Operations and Management Agreement with GHL*

Some of Travellers' administrative functions are being handled by certain key officers and employees under the management of GHL as agreed by both parties under the Operations and Management Agreement. Management fees are presented as part of Management fees under the Other Operating Expenses account in the interim consolidated statements of comprehensive income. The outstanding liability arising from this transaction is presented as part of Accrued Expenses under the Trade and Other Payables account in the interim consolidated statements of financial position.

### *9.6 Advances to Associates and Other Related Parties*

Entities within the Group grant to or obtain advances from 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 are shown as part of Investments in Associates and Other Related Parties account in the interim consolidated statements of financial position, and movement of the account are presented as follows (these mainly represent advances granted by Megaworld):

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Balance at beginning of year | **P 2,713,925,501** | P 1,869,121,228 |
| Cash advances granted | **1,188,112,709** | 903,799,948 |
| Collections | **-** | ( 58,995,675) |
| Balance at end of year | **P 3,902,038,210** | P 2,713,925,501 |

As of June 30, 2014 and December 31, 2013, 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.

### *9.7 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 anytime. Settlement is generally made in cash. As of June 30, 2014 and December 31, 2013, 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.

The details of the Due from/to Related Parties are presented under Trade and Other Receivables and Trade and Other Payables accounts, respectively, in the consolidated statements of financial position as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| ***Due from Related Parties*** | | |
| Balance at beginning of year | **P 1,239,264,958** | P 1,195,324,696 |
| Additions | **34,404,357** | 567,411,271 |
| Collections | **( 153,841,730)** | ( 524,057,941 ) |
| Balance at end of year | **P 1,119,827,585** | P 1,239,264,958 |
| ***Due to Related Parties*** | | |
| Balance at beginning of year | **P 1,295,411,359** | P 887,770,297 |
| Additions | **40,307,509** | 577,290,766 |
| Repayments | **( 212,234,685)** | ( 169,649,704 ) |
| Balance at end of year | **P 1,123,484,183** | P 1,295,411,359 |

### *9.8 Non-current Advances from Related Parties*

Certain expenses of unconsolidated entities within the Group are paid by other related parties on behalf of the former. The advances are unsecured, non-interest bearing and generally payable in cash. Due to Joint Venture (JV) partners pertain to the share of JV partners in the proceeds from the sale in accordance with various JV agreements entered into by GERI. Total outstanding balance of the accounts is presented as Advances from Related Parties account in the consolidated statements of financial position.

Details of Advances from Related Parties are presented as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Advances from related parties | **P 497,937,864** | P 120,487,829 |
| Advances from JV partners | **243,543,422** | 233,619,420 |
| | **P 741,481,286** | P 354,107,249 |

### *9.9 Redeemable Preferred Shares*

This pertains to preferred shares issued by GADC in March 2005 to MRO.

### *9.10 Other Liabilities*

In the normal course of business, Travellers obtains from certain related parties unsecured non-interest bearing, cash advances for working capital requirements and other purposes which is presented as part of Other Current Liabilities.

### *9.11 Retirement Plans*

The Group has a formal retirement plan established separately for each significant subsidiary, particularly Megaworld, GERI and GADC. The retirement fund neither provides any guarantee or surety for any obligation of the Group.

## 10. COMMITMENTS AND CONTINGENCIES

### *10.1 Tax Contingencies of Travellers' Casino Operations*

Under the Provisional License Agreement with PAGCOR, Travellers is subject to 25% and 15% license fees, in lieu of all taxes, with reference to the income component of the gross gaming revenues.

In May 2014, PAGCOR issued Guidelines for a 10% Income Tax Allocation (ITA) measure whereby, effective April 1, 2014, the 25% and 15% license fees were effectively reduced to 15% and 5% respectively, inasmuch as 10% of the license fees was allocated for income tax on gaming, subject to quarterly and annual true-up mechanisms obliging the licensees to remit to PAGCOR any savings from the excess of the 10% ITA over the actual income tax paid on the gaming revenues.

The 10% ITA measure is in keeping with the true spirit and intent of the terms of the Provisional License Agreement insofar as the license fees are intended and contemplated to be in lieu of all taxes with reference to the income component of the gross gaming revenues while preserving at the same time the financial benefits neither intended to modify, amend or revise the Provisional License Agreement, specifically Article IV Section 20 on License Fees, nor is it an admission by PAGCOR or Travellers of the validity of a BIR memorandum or a waiver of any of the remedies available to PAGCOR or its licensees against any assessment on income tax on gaming revenues pursued by BIR. Meanwhile, a resolution of the issue on whether PAGCOR licensees are subject to income tax is pending with the Philippine Supreme Court.

### *10.2 Agreement Between EMP and United Spirits*

On May 9, 2014, the Group signed an agreement with United Spirits (Great Britain) Ltd., a wholly owned subsidiary of United Spirits Ltd. (USL) of India, to acquire the Whyte & Mackay whiskey business for an enterprise value of £430.0 million and subject to India's and Britain's regulatory approvals as well as USL's shareholders' approval. The principal activities of Whyte and Mackay and its subsidiaries are the production, marketing and distribution of Scotch whiskey and other alcoholic drinks. It has a global distribution network in over 50 countries.

The acquisition will put the Group in two fastest growing spirits segments in the world, the brandy and whiskey (the Scotch whiskey).

### *10.3 Other Commitments and Contingencies*

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 ICFS. The management is of the opinion that losses, if any, from these items will not have any material impact on the ICFS.

In addition, there are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

## 11. 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, 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.

### *11.1 Market Risk*

*(a) Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange risk arises from the U.S. dollar-denominated cash and cash equivalents, FVTPL, loans and bonds which have been used to fund new projects.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at period-end closing rate are as follows:

| | June 30, 2014 (Unaudited) | | December 31, 2013 (Audited) | |
|---|---|---|---|---|
| | U.S. Dollars | HK Dollars | U.S. Dollars | HK Dollars |
| Financial assets | **P 25,987,268,324** | **P 1,060,965,753** | P 34,766,824,958 | 1,347,307,562 |
| Financial liabilities | **( 62,021,953,020 )** | **( 586,620,809)** | ( 59,074,985,969) | ( 642,724,055) |
| | **(P 36,034,684,696 )** | **P 474,344,944** | (P 24,308,161,011) | P 704,583,507 |

The sensitivity of the consolidated income before tax for the period with regard to the Group's financial assets and the US dollar – Philippine peso exchange rate assumes +/- 11% and +/- 23% changes of the Philippine peso/U.S. dollar exchange rate for the six months ended June 30, 2014 and for the year ended December 31, 2013, respectively. The HK dollar – Philippine peso exchange rate assumes +/-11% and +/- 20% change for the six months ended June 30, 2014 and for the year ended December 31, 2013, 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 (or weakened) against the U.S. dollar, with all other variables held constant, consolidated income before tax would have increased (or decreased) by P3.9 billion for the six-month period ended June 30, 2014 and and P5.5 billion for the year ended December 31, 2013. If in 2014 and 2013, the Philippine peso had strengthened (or weakened) against the HK dollar, with all other variables held constant, consolidated income before tax would have decreased (or increased) by P0.1 billion in both years.

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 placements 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's 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 variable interest rates. All other financial assets 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 +/- 0.58% for Philippine peso and +/- 0.09% for U.S. dollar in 2014, and +/-1.44% for Philippine peso and +/-0.14% for US dollar in 2013 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 June 30, 2014 and December 31, 2013, with effect estimated from the beginning of the period. All other variables held constant, the consolidated income before tax would have increased by P0.2 billion for the six-month period ended June 30, 2014 and P0.4 billion for the year ended December 31, 2013. Conversely, if the interest rates decreased by the same percentage, consolidated income before tax would have been lower by the same amount.

### *11.2 Credit Risk*

Generally, the Group's credit risk is attributable to trade and other receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets.

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 that are past due but not impaired are as follows:

| | **June 30, 2014 (Unaudited)** | December 31, 2013 (Audited) |
|---|---|---|
| Not more than 30 days | **P 3,039,435,508** | P 549,092,678 |
| 31 to 60 days | **735,590,815** | 2,289,013,027 |
| Over 60 days | **1,718,797,554** | 747,543,582 |
| | **P 5,493,823,877** | P 3,585,649,287 |

### *11.3 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, bonds, and preferred shares.

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 of June 30, 2014, 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 18,733,425,009 | P 14,181,064,981 | P - | P - |
| Interest-bearing loans | 936,775,539 | 935,440,090 | 5,015,256,285 | 1,217,127,143 |
| Bonds payable | 453,123,000 | 5,453,123,000 | 54,852,445,060 | - |
| Advances from related parties | 301,397,999 | - | 741,481,286 | - |
| Redeemable preferred shares | - | - | - | 1,574,159,348 |
| Security deposits | 75,569,074 | 2,072,913 | 27,920,992 | 94,734,988 |
| Derivative liability | 49,220,044 | - | 993,894,544 | - |
| Other liabilities | - | 1,953,474,473 | 111,503,631 | - |
| | **P 20,549,510,665** | **P 22,525,175,457** | **P 61,742,501,798** | **P 2,886,021,479** |

As of December 31, 2013, 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 15,356,683,282 | P 7,826,578,063 | P - | P - |
| Interest-bearing loans | 1,603,279,826 | 2,192,512,443 | 8,795,031,294 | 433,552,898 |
| Bonds payable | 1,181,347,400 | 1,181,347,400 | 55,449,496,930 | 7,625,297,602 |
| Advances from related parties | - | - | 354,107,249 | - |
| Redeemable preferred shares | - | - | 1,352,336,993 | 1,574,159,348 |
| Security deposits | - | - | 86,286,060 | 61,932,286 |
| Derivative liability | 38,631,143 | - | - | 1,145,961,938 |
| Other liabilities | 519,684,000 | - | - | - |
| | P 18,699,625,651 | P 11,200,437,906 | P 66,037,258,526 | P 10,840,904,072 |

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.

### *11.4 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 June 30, 2014 and December 31, 2013 are summarized as follows:

| | Observed Volatility Rates | | Impact on Equity | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| 2014 - Investment in equity securities | **+8.25%** | **-8.25%** | **P 20,545,046** | **(P 20,545,046)** |
| 2013 - Investment in equity securities | +18.12% | -18.12% | P 480,595,059 | (P 480,595,059) |

The maximum additional estimated loss in 2014 and 2013 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 listed companies at the PSE for the past 6 months in 2014 and 12 months in 2013.

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.

## 12. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

| | **June 30, 2014 (Unaudited)** | | December 31, 2013 (Audited) | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | **P 77,528,712,042** | **P 77,528,712,042** | P 94,977,525,445 | P 94,977,525,445 |
| Trade and other receivables | **55,092,068,083** | **55,092,068,083** | 51,086,163,464 | 51,086,163,464 |
| Other financial assets | **1,168,214,135** | **1,168,214,135** | 1,322,462,800 | 1,322,462,800 |
| | **P 133,788,994,260** | **P 133,788,994,260** | P147,386,151,709 | P147,386,151,709 |
| Financial assets at FVTPL: | | | | |
| Marketable debt and equity securities | **P 4,798,483,892** | **P 4,798,483,892** | P 7,363,058,599 | P 7,363,058,599 |
| Derivative asset | - | **-** | 12,684,368 | 12,684,368 |
| | **P 4,798,483,892** | **P 4,798,483,892** | P 7,375,742,967 | P 7,375,742,967 |
| AFS Financial Assets: | | | | |
| Debt securities | **P 3724,935,697** | **P 3724,935,697** | P 4,399,906,888 | P 4,399,906,888 |
| Equity securities | **355,795,718** | **355,795,718** | 358,985,303 | 358,985,303 |

| | June 30, 2014 (Unaudited) | | December 31, 2013 (Audited) | |
|---|---|---|---|---|
| | Carrying Values | Fair Values | Carrying Values | Fair Values |
| | **P 4,080,731,415** | **P 4,080,731,415** | P 4,758,892,191 | P 4,758,892,191 |
| ***Financial Liabilities*** | | | | |
| Financial liabilities at FVTPL - | | | | |
| Derivative liabilities | **P 1,212,622,147** | **P 1,212,622,147** | P 1,184,593,081 | P 1,184,593,081 |
| Financial liabilities at amortized cost | | | | |
| Current | | | | |
| Trade and other payables | **P 22,370,939,054** | **P 22,370,939,054** | P 23,183,261,345 | P 23,183,261,345 |
| Bonds payable | **5,000,000,000** | **5,000,000,000** | - | - |
| Interest-bearing loans and borrowings | **1,763,482,279** | **1,763,482,279** | 3,795,792,269 | 3,795,792,269 |
| Other current liabilities | **2,027,796,022** | **2,027,796,022** | 2,113,418,300 | 2,113,418,300 |
| | **P 31,162,217,355** | **P 31,162,217,355** | P 29,092,471,914 | P 29,092,471,914 |
| Non-current | | | | |
| Bonds payable | **P 50,615,203,431** | **P 50,615,203,431** | P 56,479,746,306 | P 56,479,746,306 |
| Interest-bearing loans and borrowings | **3,348,311,305** | **3,348,311,305** | 9,228,584,192 | 9,228,584,192 |
| Redeemable preference shares | **1,820,327,036** | **2,216,350,574** | 1,786,120,902 | 1,786,120,902 |
| Due to related parties | **741,481,286** | **741,481,286** | 354,107,249 | 354,107,249 |
| Security deposits | **168,196,638** | **168,196,638** | 148,218,346 | 148,218,346 |
| | **P 56,693,519,696** | **P 56,693,519,696** | P 67,996,776,995 | P 67,996,776,995 |

See Notes 2.4 and 2.12 for a description of the accounting policies for each category of financial instrument.

## 13. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *13.1 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 or 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.

For purposes of determining the market value of Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *13.2 Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as of June 30, 2014 and December 31, 2013.

| | June 30, 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 4,798,483,892 | P - | P - | P 4,798,483,892 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 3,724,935,697 | - | - | 3,724,935,697 |
| Equity securities | 110,774,381 | 49,880,000 | 195,141,337 | 355,795,718 |
| | **P 8,634,193,970** | **P 49,880,000** | **P 195,141,337** | **P 8,879,215,307** |
| ***Financial liability:*** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative liabilities | **P 1,212,622,147** | **P -** | **P -** | **P 1,212,622,147** |

| | December 31, 2013 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Financial assets at FVTPL: | | | | |
| Debt and equity securities | P 7,363,058,599 | P - | P - | P 7,363,058,599 |
| Derivative assets | 12,684,368 | - | - | 12,684,368 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 4,399,906,888 | - | - | 4,399,906,888 |
| Equity securities | 117,218,306 | 49,880,000 | 191,886,997 | 358,985,303 |
| | P 11,892,868,161 | P 49,880,000 | P 191,886,997 | P 12,134,635,158 |
| ***Financial liability:*** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Derivative liabilities | P 1,184,593,081 | P - | P - | P 1,184,593,081 |

### *13.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the interim consolidated statements of financial position on a recurring basis as of June 30, 2014 and December 31, 2013.

| | June 30, 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Cash and cash equivalents | P 77,528,712,042 | P - | P - | P 77,528,712,042 |
| Trade and other receivables and other financial assets | - | - | 36,720,585,553 | 36,720,585,553 |
| | **P 77,528,712,042** | **P -** | **P 36,720,585,553** | **P 114,249,297,595** |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Trade and other payables | P - | P - | P 22,370,939,054 | P 22,370,939,054 |
| Interest-bearing loans and borrowings | - | - | 1,763,482,279 | 1,763,482,279 |
| Bonds payable | 5,000,000,000 | - | - | 5,000,000,000 |
| Other current liabilities | - | - | 2,027,796,022 | 2,027,796,022 |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | - | - | 3,348,311,305 | 3,348,311,305 |
| Bonds payable | 50,615,203,431 | - | - | 50,615,203,431 |
| Due to related parties | - | - | 741,481,286 | 741,481,286 |
| Redeemable preferred shares | - | - | 1,820,327,036 | 1,820,327,036 |
| Security deposits | - | - | 168,196,638 | 1168,196,638 |

| | | | | |
|---|---|---|---|---|
| | **P 55,615,203,431** | **P -** | **P 32,240,533,620** | **P 88,855,737,051** |

| | December 31, 2013 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets:*** | | | | |
| Current: | | | | |
| Cash and cash equivalents | P 94,977,525,445 | P - | P - | P 94,977,525,445 |
| Trade and other receivables and other financial assets | - | - | 51,086,163,464 | 51,086,163,464 |
| | P 94,977,525,445 | P - | P 51,086,163,464 | P 146,063,688,909 |
| ***Financial liabilities:*** | | | | |
| Current: | | | | |
| Interest-bearing loans and borrowings | P - | P - | P 3,795,792,269 | P 3,795,792,269 |
| Trade and other payables | - | - | 23,183,261,345 | 23,183,261,345 |
| Other current liabilities | - | - | 2,113,418,300 | 2,113,418,300 |
| Non-current: | | | | |
| Interest-bearing loans and borrowings | - | - | 9,228,584,192 | 9,228,584,192 |
| Bonds payable | 56,479,746,306 | - | - | 56,479,746,306 |
| Due to related parties | - | - | 354,107,249 | 354,107,249 |
| Redeemable preferred shares | - | - | 1,786,120,902 | 1,786,120,902 |
| Security deposits | - | - | 148,218,346 | 148,218,346 |
| | P 56,479,746,306 | P - | P 40,609,502,603 | P 97,089,248,909 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *13.4 Investment Property Measured at Cost for which Fair Value is Disclosed*

As at December 31, 2013, the fair value of the Group's investment property amounting to P123.6 billion is classified within Level 3 of the fair value hierarchy. The Level 3 fair value of the investment property was determined using the income approach which is performed with values derived using a discounted cash flow model. Also, there were no transfers into or out of Level 3 fair value hierarchy. There was no valuation update made for the current period.

## 14. 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.

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

| | June 30, 2014 (Unaudited) | December 31, 2013 (Audited) |
|---|---|---|
| Total liabilities | P 135,354,316,600 | P 142,178,763,894 |
| Equity attributable to owners of the parent company | 114,746,545,928 | 107,692,727,038 |
| Debt-to-equity ratio | P 1.18:1 | P 1.32:1 |

## 15. SEASONAL FLUCTUATIONS

For Travellers, casino operations tend to experience seasonality in visitations during public holidays, festivals in the Philippines and around South East Asian region.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

## 16. SUBSEQUENT EVENT

On August 6, 2014, EMP declared cash dividends of 16 centavos per share, for a total of P2.4 billion, payable on September 9, 2014 to stockholders on record as of August 22, 2014.

**ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES**
**AGING SCHEDULE OF CURRENT TRADE AND OTHER RECEIVABLES**
**JUNE 30, 2014**
***(Amounts in Philippine Pesos)***

| | | |
|---|---|---|
| Current | P | 26,812,194,137 |
| 1 to 30 days | | 3,039,435,508 |
| 31 to 60 days | | 735,590,815 |
| Over 60 days | | 1,718,797,554 |
| Total | | 32,306,018,014 |
| Due to other related parties | | 1,119,827,585 |
| **Balance as of June 30, 2014** | **P** | **33,425,845,599** |

MINUTES OF THE ANNUAL MEETING OF STOCKHOLDERS OF
ALLIANCE GLOBAL GROUP, INC.
17 September 2013
Grand Ballroom, Eastwood Richmonde Hotel, 17 Orchard Road
Eastwood City, Bagumbayan, Quezon City, Metro Manila

## I. CALL TO ORDER

The presiding officer, Mr. **KINGSON U. SIAN**, called the meeting to order at 9:50 a.m.

## II. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary, **DOMINIC V. ISBERTO**, informed the body that, based on the certification of the Corporation's stock transfer agent, all notices of the Annual Meeting had been sent to all stockholders of the Corporation as of 13 August 2013 the record date of the Annual Meeting. The Corporate Secretary likewise certified that there exists a quorum for the transaction of business for the Annual Meeting, there being present, as of 8:45 a.m., stockholders holding 7,425,962,106 shares of common stock of the Corporation representing 72.31% of the subscribed and outstanding capital stock of the Corporation.

## III. APPROVAL OF MINUTES OF PREVIOUS ANNUAL MEETING

Upon motion made and duly seconded, the reading of the Minutes of the Annual Stockholders' Meeting held last 18 September 2012 was dispensed with as copies thereof had earlier been furnished to all stockholders of record of the Company. Thereafter, upon motion made and duly seconded, the Minutes of the Annual Stockholders' Meeting held last 18 September 2012 were approved.

## IV. REPORT OF MANAGEMENT

The Chairman of the Board, Mr. **ANDREW L. TAN**, delivered the management report for the year 2013:

The year 2012 was a favorable one not only for your Company but for the Philippines as a whole. The year saw the Philippine's GDP growing by 6.6%, on the back of the active trade, services, real estate, and construction sectors, even exceeding expectations of economists and market analysts.

Contributing to the country's sterling economic growth, AGI continues to improve on past record performances. Our major business segments—real estate through Megaworld Corporation (Megaworld) and Global- Estate Resorts, Inc. (GERI); 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 turned in exceptional figures for the year.

Our total revenues grew by a record 63.1% to P102.72 billion in 2012 from P62.97 billion the previous year, primarily due to revenues contributed by Resorts World Manila which amounted to P32.5 billion. Also contributing substantially to our revenue growth are the 17% growth in the sale of goods such as consumer products and real estate and the 220% increase in the rendering of services due to revenues added from Travellers.

With the consolidation of Travellers in 2012, AGI's tourism entertainment and gaming business became the biggest contributor to total revenues for the year, putting in 31.6%. The real estate business, through Megaworld, was the second highest contributor with 26.8%. This was followed by EDI's food and beverage business with 23%, and GADC's quick-service restaurant business with 13.6%.

Our net income increased by 76% to P20.5 billion in 2012 from P11.6 billion the previous year, before the P3.1 billion non-recurring income from the acquisition of a subsidiary. The portion attributable to owners of the parent company grew by 64% to P13.9 billion from P8.5 billion in 2011, propelled by the strong results from our real estate, tourism-entertainment and gaming, and food and beverage segments.

As the biggest contributor to our bottom line in 2012, Travellers turned in an impressive performance for the year. Travellers' flagship project, Resorts World Manila, registered an average foot traffic of 17,200 per day and a total of 6.3 million visits by the year end, a 4% increase from 2011 figures. The increase in foot traffic was due to a series of new promotional events and services and the production of the award-winning musical The King and I. Moreover, Resorts World Manila's membership reached 1.7 million by end-2012.

On the other hand, Megaworld continued to lead the real estate industry as it sold more than 12,000 residential units worth roughly P63.5 billion in 2012, maintaining its distinction as the biggest residential developer in the country. The company launched 11 new projects for the year while continuing its work on existing ones. Prior to the consolidation of Travellers, Megaworld had consistently been our best achiever and our biggest revenue contributor. Megaworld's share in the achievement of our financial objectives for 2012, however, remains substantial.

EDI remained a strong player in the local distilled spirits industry as Emperador Brandy and The BaR flavored alcoholic drinks continued to benefit from continuously growing customer patronage. The demand for Emperador Light also remained very strong. In 2012 alone, Emperador sold 31 million cases, making it the 2nd largest consumed brand spirit globally and the world's largest-selling brandy.

EDI expanded its production capacity and technical capabilities through the acquisition of the Sta. Rosa plant of Diageo Philippines Inc. that increased the total bottling capacity of the company by about 20%. This acquisition helps boost the company's competitiveness in promoting Emperador as a strong global brand.

In turn, GADC continued its strong showing in the quick-service restaurant business as its revenues substantially grew. As in previous years, the company owed its revenue growth to the opening of new McDonald's company-owned and franchised restaurants.

GERI, our newest subsidiary, is now deep into the development of two major projects—Boracay Newcoast and Twin Lakes. We have allotted a total of P20 billion for these two flagship projects which will feature integrated master-planned layouts that include world-class resorts and first-rate facilities and amenities. Moreover, through GERI, we will be developing over 1,300 hectares of prime land in Boracay, Tagaytay and Nasugbu, Batangas into world-class tourism estates.

Taking into account everything that happened in 2012, I am happy and proud to say that your Company outdid itself again, and in grand fashion. Our efforts in building strong brands that will weather any kind of economic storm or take advantage of beneficial socio-economic climates paid off quite well.

In the face of unpredictable global economic conditions, we remain upbeat on our prospects for continued growth and increased profitability. Allow me to assure you that we will not rest on our laurels but will continually aspire to outdo ourselves every single year. We are committed to do even better than before, and to reach greater levels of achievement in the spirit of excellence.

## V. OPEN FORUM

Question 1: What is the transaction among AGI, TSI, and EDI about?

Mr. Sian: AGI among other investors and Touch Solutions, Inc (TSI). have agreed that AGI and other investors will subscribe to an aggregate of up to 15 billion shares of TSI at par value, to be issued out of the proposed increase in the authorized capital stock of TSI. As part of the transaction, AGI will transfer, and TSI will receive, shares of Emperador Distillers, Inc. The transaction is subject to the required regulatory approvals. The Philippine Stock Exchange deems that the above-mentioned transactions and corporate actions are covered by the PSE's rules on backdoor listing.

Question 2: What is the latest development on the planned IPO of Travellers International?

Mr. Sian: The IPO has been deferred indefinitely due to market volatility. We are not pressured; we are waiting for the right timing.

Question 3: Why is AGI subscribing to Megaworld Corporation shares for a total investment of PHP10.725B?

Mr. Sian: AGI believes that Megaworld Corporation is undervalued and we remain confident about the growth prospects of the real estate sector.

## VI. APPOINTMENT OF INDEPENDENT AUDITORS

Upon motion made and duly seconded, the stockholders approved the following resolution:

***"RESOLVED, that the Punongbayan and Araullo be appointed as the independent auditors of the Corporation for the year 2012."***

## VII. RATIFICATION OF ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT FOR THE YEAR 2012

Upon motion made and duly seconded, the stockholders approved the following resolution:

***"RESOLVED, that all acts of the Board of Directors and Management for the year 2012 be ratified."***

## VIII. ELECTION OF DIRECTORS

Upon motion made and duly seconded, the following were nominated to the Board of Directors: **Andrew L. Tan, Kingson U. Sian, Winston S. Co, Katherine L. Tan, Kevin Andrew L. Tan,** and **Sergio R. Ortiz-Luis, Jr., Alejo L. Villanueva, Jr.** as the independent directors.

Upon motion made and duly seconded, the Presiding Officer declared the nominations closed. Since there were only seven nominees to the Board, the Presiding Officer declared all seven nominees elected as directors.

## IX. ADJOURNMENT

The meeting was adjourned at 11:30 A.M.

CERTIFIED CORRECT:

**DOMINIC V. ISBERTO**
Corporate Secretary

ATTESTED BY:

**ANDREW L. TAN**
Chairman

**SECRETARY'S CERTIFICATE**

I, **DOMINIC V. ISBERTO**, of legal age, Filipino, with office address at 28th Floor, The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, Philippines, after having been sworn in accordance with law, depose and state that:

1. I am the Corporate Secretary of **ALLIANCE GLOBAL GROUP, INC.** (the "Corporation"), a corporation duly organized under Philippine laws with office address at 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City, Metro Manila, Philippines.

2. I hereby certify that none of the following directors and/or officers of the Corporation currently works in any government institution or entity:

| | |
|---|---|
| ANDREW L. TAN | Chairman and CEO |
| SERGIO R. ORTIZ-LUIS, JR. | Vice Chairman and Independent Director |
| KINGSON U. SIAN | President |
| KATHERINE L. TAN | Director and Treasurer |
| WINSTON S. CO | Director |
| KEVIN ANDREW L. TAN | Director |
| ALEJO L. VILLANUEVA, JR. | Independent Director |
| DINA D. INTING | FVP Finance and Corporate Information Officer |
| DOMINIC V. ISBERTO | Corporate Secretary |
| ROLANDO D. SIATELA | Assistant Corporate Secretary |

IN WITNESS WHEREOF, I have hereunto set my hand this __ day of August 2014 at Makati City, Philippines.

**DOMINIC V. ISBERTO**
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 22 AUG 2014 at PASIG CITY, Philippines, affiant exhibiting to me his Social Security System Identification No. 33-1952824-1.

Doc. No. 365;
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Book No. CCLXVI;
Series of 2014.

NOTARY PUBLIC

ATTY. RAMON L. CAMPIO
NOTARY PUBLIC
UNTIL DEC. 31, 2014
ROLL NO. 22172 TIN 106-918-897
MCLE NO. IV-0006300, IBP NO. 954262
PTR NO. 992927, JAN 3, 2014 PASIG CITY